BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. AVISTA CORPORATION d/b/a AVISTA UTILITIES, Respondent.	DOCKETS UE-120436 and UG-120437 (Consolidated)
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. AVISTA CORPORATION d/b/a AVISTA UTILITIES, Respondent.	DOCKETS UE-110876 and UG-110877 (Consolidated)

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RCC-7T	Prefiled Cross-Answering Testimony of Ralph C. Cavanagh (13 pp.) (9/19/12)
RCC-8	Joseph B. Wharton, Michael J. Vilbert, Richard E. Goldberg, and Toby Brown, The Impact of Decoupling on the Cost of Capital, The Brattle Group, March 2011 (16 pp.) (9/19/12)
RCC-9	Pamela G. Lesh, Rate Impacts and Key Design Elements of Gas and Electric Utility Decoupling: A Comprehensive Review, The Electricity Journal, Vol. 22, Issue 8, October 2009, pp. 65-71 (7 pp.) (9/19/12)

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CME-3		Demographic Data for Five Counties in Avista Service Territory (1 pg.) (9/19/12)
CME-4		Neal Walters, Can Advanced Metering Help Reduce Electricity Costs for Residential Consumers? AARP Public Policy Institute: INSIGHT on the Issues (8 pp.) (9/19/12)
CME-5		Julie Nepveu and Nicole M. Diaz, What is the Smart Grid and Why Should We Care? Clearinghouse REVIEW Journal of Poverty Law and Policy 302-311 (Sept-Oct 2010) (11 pp.) (9/19/12)

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CME-6		AARP, National Consumer Law Center, National Association of State Utility Consumer Advocates, Consumers Union, and Public Citizen, The Need for Essential Consumer protections: Smart Metering Proposals and the Move to Time-Based Pricing, August 2010 (28 pp.) (9/19/12)
CME-7		The National Association of State Utility Consumer Advocates, Smart Grid Principles of the NASUCA, Res. 2009-03, (June 30, 2009) (4 pp.) (9/19/12)
CME-8CX	Public Counsel	The Energy Project Response to Public Counsel Data Request No. 2

OLYMPIA, WASHINGTON; NOVEMBER 29, 2012

10:33 A.M.

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THE COURT: All right, then. I've unmuted the conference bridge line so everyone should be able to hear me. Let's be on the record. Good morning. My name is Marguerite Friedlander, and I'm an administrative law judge with the Washington Utilities and Transportation Commission.

This is the time and place set for a hearing in docket UE-120436, UG-120437, and the second phase of dockets UE-110876 and UG-110877, styled "The Washington Utilities and Transportation Commission versus Avista Corporation, dba Avista Utilities."

The Commission has convened this hearing to examine the settlement agreement that was filed on October 19th, 2012, and will start preliminarily by taking appearances from the parties, beginning with the company.

MR. MEYER: Thank you, your Honor. David Meyer. My appearance is previously of record. I am appearing on behalf of Avista.

THE COURT: Thank you. And appearing on behalf of the Industrial Customers of Northwest Utilities.

MR. SANGER: My name is Irion Sanger. That is I-r-i-o-n S-a-n-g-e-r. I'm at the law firm of Davis and Van

Cleve. Address is 333 Southwest Taylor, Suite 400, Portland, Oregon 97204. My phone number is (503) 241-7242. And my e-mail address is ias@dvclaw.com.

THE COURT: Thank you. And I guess I should have reminded everyone from the beginning that, for the court reporter's sake and for my sake, if you can speak slowly and clearly, and refrain from using acronyms. And if you do have to use acronyms, please spell them out and identify what they stand for. So now we'll go to the Northwest Industrial Gas Users.

MR. BROOKS: Good morning. This is Tommy Brooks from the firm Cable Huston on behalf of Northwest Industrial Gas Users.

THE COURT: Thank you. And have you -- I think we had Mr. Stokes here before. Have you made a long-form appearance?

MR. BROOKS: Sometimes it's hard to recall if it was Mr. Stokes or myself, so I'll be glad to repeat the information.

THE COURT: Thank you. I would appreciate that.

MR. BROOKS: The address is 1001 Southwest 5th Avenue, Suite 2000, Portland, Oregon 97214. Sorry. 97204. Phone number is (503) 224-3092. And the e-mail address is tbrooks@cablehuston.com.

THE COURT: Thank you. And appearing today on behalf of the Energy Project.

MR. ROSEMAN: Good morning. My name is Ronald Roseman. I'm an attorney in Seattle, and I have already provided my appearance on behalf of the Energy Project in this docket.

THE COURT: Thank you. Appearing today on behalf of Public Counsel.

MR. FFITCH: Your Honor, Simon ffitch appearing on behalf of Public Counsel. And.

MS. GAFKEN: Excuse me. Lisa Gafken, Public Counsel.

THE COURT: Thank you. And appearing today on behalf of staff.

MR. TROTTER: From Commission staff, Donald T. Trotter, Assistant Attorney General, and Michael Fassio, Assistant Attorney General.

THE COURT: Thank you. And I would note for the record that the coalition, the Northwest Energy Coalition, had requested to be excused from participating in the hearing, and that request was granted.

So I think at this time it would be appropriate to take up the admission of exhibits. And my understanding from the settling parties and Mr. ffitch is that all of the exhibits have been stipulated or are agreed to be stipulated into the record; is that correct?

MR. MEYER: That is correct.

THE COURT: So just for clarity sake, that includes the bench exhibits, all of the pre-filed testimony in exhibits as well as response testimony, the settlement agreement, the supporting testimony in support of the settlement agreement, as well as response and rebuttal testimony dealing with the settlement agreement; is that correct? Sounds -- sounds good to everybody? Okay. Good. So that's all admitted.

At this point I do, however, want to discuss something with counsels regarding the exhibit list. It's -- from having reviewed the testimony supporting the multiparty settlement stipulation, there is at least one, possibly two, data request responses that have been relied upon in support of the settlement agreement that have not been provided to the Commission.

And those are Avista's response to staff data request 137, and Avista's response to Public Counsel data request 427. And I am prepared to mark those -- the bench would request that Avista provide those --

MR. MEYER: Sure.

THE COURT: -- as soon as possible. And I am prepared to mark those as 7C, as I understand the response to data request 137 is confidential, and 8, respectively. And Mr. Meyer, when do you think those would be available to the Commission?

MR. MEYER: We can have them to them by tomorrow.

THE COURT: That would be fine. Thank you. All right. Does anybody have an objection to admission of these exhibits as well? Okay. Hearing nothing, those are admitted as well.

Let's deal with some preliminary matters. I know that Mr. Sanger had raised a preliminary matter regarding the relevancy of the testimony -- of the cross-examination, I should say, of Mr. Gorman. If you want to restate that for the record.

MR. SANGER: Preliminarily, your Honor, Mr. ffitch and I discussed earlier that it's possible that he may not have questions for Mr. Gorman. I don't know if we want to address the objection now or after Mr. ffitch has decided whether or not he actually has questions for Mr. Gorman.

THE COURT: That's fine. If the settlement panel -- if Mr. ffitch is fine with the settlement panel answering the questions, then we won't have need for an objection to Mr. Gorman's testimony. So let's address it as it comes.

The a preliminary matter I believe was raised by Mr. ffitch as far as co-counsel cross-examining some of the settlement panel witnesses, and the parties have indicated that they do not have an objection to that, and the bench does not as well, so that's -- that's fine. That request is granted.

Okay. Is there any other preliminary matter that needs to be dealt with before we seek the settlement panel.

MR. MEYER: Yes, your Honor. I was just reminded that part of DR-427 contains confidential information.

THE COURT: I see. So we will mark that as 8C.

MR. MEYER: Thank you.

THE COURT: Yes. All right, then. If there's nothing further, why don't we go head and have the settlement panel rise, and I will swear you in.

Do you swear or affirm that the testimony you're about to give is the truth, the whole truth, and nothing but the truth?

THE WITNESSES: I do.

THE COURT: Thank you. You can be seated. And I will at this point recess the hearing while I retrieve the commissioners, and then we will get into Commission -- or I'm sorry, counsel introduction of the witnesses and cross-examination. So we are on recess right now.

(A break was taken from 10:41 a.m. to 10:49 a.m.)

THE COURT: Okay. We'll be back on record. Why don't we start as far as introduction of the settlement witnesses with Mr. Meyer.

MR. MEYER: Thank you, your Honor, and members of the Commission. Good morning. For Avista -- and as you know, we've stipulated into the record all of the exhibit material, so I won't go through that preliminary, but I'll just simply introduce Kelly Norwood as the witness who will be addressing the settlement and any other questions you have.

THE COURT: Thank you. And we already have his testimony, so we already know his title and such. Mr. Roseman.

MR. ROSEMAN: Good morning, Commissioners. Good morning, everyone. On behalf of the Energy Project, Mr. Charles Eberdt will be representing -- will be speaking on behalf of the Energy Project in support of the settlement.

THE COURT: Thank you. And for these two witnesses, there's no corrections or additions to the testimony?

MR. ROSEMAN: No.

THE COURT: Okay. Thank you. And I believe this is Mr. Deen. Mr. Sanger, would you please introduce Mr. Deen.

MR. SANGER: Yes. Mr. Michael Deen will be testifying on behalf of ICNU regarding the settlement and testimony in support of the settlement.

THE COURT: And no corrections?

MR. SANGER: And we have no corrections to that testimony.

THE COURT: Okay.

MR. BROOKS: And Mr. Deen will also be speaking on behalf of NWIGU.

THE COURT: Thank you. Thank you. And Mr. Trotter.

MR. TROTTER: Thank you. The Commission staff witness testifying in support of the settlement will be Mr. Kenneth L. Elgin, senior financial analyst for the Commission.

THE COURT: And no corrections to testimony?

MR. TROTTER: That's correct.

THE COURT: Okay. Thank you. And I believe they've been proffered for cross. So Mr. ffitch.

MR. FFITCH: Thank you, your Honor. Good morning, Chairman Goltz and Commissioners. Simon ffitch for Public Counsel. Good morning to the panel.

E X A M I N A T I O N

BY MR. FFITCH:

Q. I'm going to start with you, Mr. Norwood. Good morning.

A. Good morning.

Q. I'd like you to turn to your rebuttal testimony, which has been marked as KOM-7, to page 11, please.

A. I am there.

Q. I'm looking at lines 2 through 6. In that question you were asked if you agree that the settlement contains a substantial implicit attrition adjustment, and you say, "No, there is no specific attrition allowance in the settlement"; correct?

A. That's correct.

Q. Now, that answer doesn't really address the question, does it? Because you were asked if there is an implicit, not a specific, attrition adjustment in the settlement.

Is your answer still no, there is no implicit attrition adjustment in the settlement?

A. Yes, that would be the same answer. As I mention in my testimony, there's multiple ways to get to the end result, so I would still say there's no implicit attrition adjustment, either.

Q. Okay. And is it your testimony that the 2013 and 2014 rate increases in the stipulation contain any amounts attributable to attrition?

A. Again, I'm concerned about assigning labels to dollars.

Q. That's a yes-or-no question, Mr. Norwood.

MR. TROTTER: I'll object, your Honor. The witness should be allowed to answer.

THE COURT: Please go ahead, Mr. Norwood.

THE WITNESS: As I mentioned in my rebuttal, there are multiple ways to get to the end result that was agreed to the -- by the settling parties, and you can get there with or without an attrition study or an attrition analysis.

And the conclusion of the settling parties was there -- there were sufficient analysis and information in attrition. The attrition study was part of the information that was provided to all parties, but the conclusion was there's a demonstrated need for rate relief whether you call it driven by an attrition study or pro forma adjustments or other means that this Commission has addressed.

BY MR. FFITCH:

Q. And so you're suggesting that the Commission doesn't need to make a ruling on attrition, because there are multiple methods to get --

A. That's correct.

Q. -- to the same number?

A. Yes.

Q. But the burden of proof is on the company in this case, isn't it? And Avista has chosen in this case to present an attrition study, not some other method to the Commission; isn't that correct?

A. We have provided an attrition study in addition to other analyses.

Q. You're asking the Commission to scour the record for some other method, to read between the lines to find some other basis to support the revenue amounts that are stipulated in the agreement.

Is that what you're suggesting?

A. No. In both the testimony supporting the stipulation as well as the rebuttal testimony, I pointed the Commission back to my originally filed testimony where we laid out three different methods to get to a similar result, and one of those was attrition.

Q. Pardon me. And so if the Commission were to look at the attrition evidence that you have presented and decide that it was not reliable and to reject your attrition adjustment in this case, and that of staff, your testimony would be that the Commission could otherwise find a basis for approving the settlement revenue amounts as reasonable?

A. Yes.

Q. Is that your testimony?

A. Yes, it is.

Q. And that would be as a result of the Commission finding a way to add dollars on top of the standard rate-making revenue analysis evidence that's in the case to create an additional revenue amount to deal with your concerns about regulatory lag and timely cost recovery, et cetera; is that correct?

MR. MEYER: Object to the form of the question. The question asked about standard adjustments, and it -- it assumes that what the company has proffered is other than a variety of means that have been employed in the past to reach the result. So the form of the question was troublesome.

THE COURT: Mr. ffitch.

MR. FFITCH: I can rephrase the question, your Honor.

THE COURT: Okay. Thank you.

BY MR. FFITCH:

Q. Mr. Norwood, let's just go back for a moment to your initial filing in this case. And isn't it correct that your initial filing in this case and its request for a little north of 41 million dollars, approximately 40 million dollars in revenue is based on two components; the first component is a traditional rate-making analysis based on results of operation for a test year with restating and pro forma adjustments, and that yields a revenue requirement on the electric side, for example, of approximately 20 million dollars; isn't that correct?

A. That's correct. The only clarification I would add is that the first piece of it, the restating in the pro forma, what we laid out there were and included pro forma adjustments that this Commission has included I would say on a regular basis. So I just add that clarity.

Q. All right. Thank you.

A. And so -- but the Commission has also in their most recent order, and specifically the Puget order, identified other means that the utilities should look at and the parties should look at to address the recovery of costs. And they've laid that out in the Puget order.

Q. So getting back to my question, your initial filing consisted of two components; approximately 20 million dollars based on those -- the standard rate-making analysis that would occur in any general rate case, and the second piece is your recommendation for approximately 20 million dollar attrition adjustment; correct?

A. That was the proposal together with, as I mentioned earlier, two other separate analyses that arrived at the same conclusion in terms of the overall end result.

Q. Right. So if you had just filed a traditional general rate case analysis using the Commission's requirements for, you know, what to file in support of the test-year-based analysis, you would have been asking for approximately 20 million dollars, would you not, absent your attrition adjustment, do you disagree with that?

A. I think that's based on rulings in prior -- prior cases, but the most recent cases, the Commission has invited the utilities to use other means to address the regulatory lag problem. And as I mentioned, they specifically mentioned a number of items in the Puget order, which I think was issued in May or June of this year, in addition to prior cases.

Q. Mr. Norwood, I'm not -- we've read your testimony. I understand that you've injected some additional new theories here.

My point is that those build upon your traditional standard rate-making analysis; isn't that correct? Do you disagree with that?

A. There are some changes that we've made in this case. For example, this is the first time we've proposed an attrition adjustment in our filing. So yes, there are some new adjustments, new information that we've brought forth in this filing that we have not in the past.

Q. All right. And you're not -- are you disagreeing with me that your 2011 test year analysis with your restating adjustments and your pro forma adds up to approximately 20 million dollars, and your attrition adjustment builds on that to get you to your 40 million dollar request? Do you disagree with that?

A. I disagree that the -- the 2011 analysis with the pro forma adjustments and restating adjustments that we used in the past, I believe that is not sufficient to accomplish rates that are fair, just, reasonable and sufficient.

Q. Mr. Norwood --

MR. MEYER: Let him finish, please. Your Honor, let the --

By MR. FFITCH:

Q. -- basic factual components of your filing?

A. The factual components --

THE COURT: Hold on. We have to have one at a time, first of all. Mr. Norwood, please finish your answer, and then Mr. ffitch, you can certainly follow up with additional questions.

MR. FFITCH: I apologize, your Honor.

THE WITNESS: Mr. ffitch, what you're asking me to do is to -- is to follow certain mechanics that have been used in the past, and I think there's been recognition by this

Commission and other parties that the mechanics that we've used in the past are not accomplishing what we need to accomplish.

And so what we offered in that case was three different methods to get there. Attrition was one. And the traditional, whatever you want to call it, adjustments, pro form adjustments we've used in the past are not enough. And so, yes, we have added and looked at other means to get to an end result that does accomplish what we need to accomplish.

BY MR. FFITCH:

Q. Thank you. I'll move on to another topic. Let's talk about REC's, Mr. Norwood. And that's R-E-C-S, renewable energy credits.

THE COURT: Thank you.

BY MR. FFITCH:

Q. Mr. Norwood, you'd agree that there are two different -- two different REC revenue issues in this case; one of them has to do with the treatment of the 2012 REC revenues, and the second has to do with the forward-looking treatment of REC revenues after January 1, 2013, just in a general sense?

A. I recognize that Public Counsel has raised issues, yes.

Q. All right. Do you agree that it is Commission policy that 100 percent of REC revenues should be returned to customers?

A. I have read prior orders with that guidance, yes.

Q. Can I get you to turn to page 25 of your rebuttal testimony, please. That's still Exhibit 7.
A. Page 25?
Q. Page 25.
A. I'm there.
Q. And I'm looking at lines 21 and 22.
A. Yes.
Q. And here you say that, under the stipulation, 3.4 million -- I believe that's the number -- 3.4 million of the REC revenues would be reflected in the base rates that take effect January 1st, 2013; correct?
A. Yes.
Q. And those funds represent the 2012 REC revenues that are included in base rates; correct?
A. No.
Q. No?
A. That really is based on the known amount of REC sales that have already taken place, plus an estimate of what we expect to occur during the 2013 rate period.
Q. And do those funds include anything that is derived from the ERM deferral balance?
A. No. This calculation has nothing to do with the ERM. This calculation identifies or tries to set a base amount of renewable energy credit revenue that we expect to actually occur during 2013.

And in the proposal of the stipulating parties in the settlement is that, to the extent that it deviates from that, we would track it a hundred percent so that the end result is customers would get 100 percent of whatever the revenues are in the end, through both putting in base rates as well as tracking the difference through the ERM.

Q. Let me ask another question. Still sort of trying to get to the bottom of this. On page 25 also at line 13 you state that Avista would retain some of the 2012 REC revenues by virtue of the ERM sharing bands; correct?

A. That's correct.

Q. And that's 10 percent of the ERM deferral amount that you would retain; therefore, 10 percent of the REC amounts?

A. No, not at all. If you look at what's written here in our last general rate case, there was a substantial amount of REC revenue that was built into the stipulation that's shown on line 8 of page 25, 4.1 million dollars.

And then what we've done this year in 2012 is, to the extent -- actually, the actual REC revenue for '12 is expected to be higher than what was built in the base rates, and so we're deferring that difference through the ERM, and that's just the way that we've accounted for this for the past number of years.

And so what I've done on -- on line 13, as you mentioned, the net effect of the accounting for REC revenues for 2012 is that we will keep $28,000 of the 4.3 million, and so, you know, we're keeping .6 -- a portion of 1 percent of it.

But as we worked through the settlement with the settling parties, their desire was to go back to let's make sure customers are getting a hundred percent on a going-forward basis, and so that's what we've laid out is, beginning January 1 of '13, we would have deferred accounting so that 100 percent goes to customers.

Q. Okay. Well, I think we're not in disagreement. We understand that you are bringing a portion of the revenues forward in base rates, and as you indicate here, we're talking about the deferral piece.

A. Yes.

Q. And that is subject to the sharing bands?

A. In '12 it is; correct.

Q. In 2012?

A. Yes.

Q. And for the 2012 dollars, the company is retaining 10 percent of the REC revenues because there's -- we're within the 90/10 sharing band, deferred revenues.

A. It's 10 percent of the difference between what was in base rates and what the actual is. And as I mentioned, that's a total of $28,000 out of 4.3 million.

Q. Right.

A. Right. So bottom line is it's a small number for '12, and so -- but going forward, we've all agreed let's make sure it's a hundred percent, not 99.35 percent.

Q. And so your position is that in 2012 the customers do not receive a hundred percent of the REC revenues?

A. They will not.

Q. And so your position is that Commission order does not apply in 2012 to -- a hundred percent requirement doesn't apply?

A. We've discussed this in the past and in our testimony in that the accounting treatment in the past for the utilities has been slightly different, and -- and so we've been accounting for this this way for a number of years. And our belief is, on a going-forward basis, it's appropriate to do a hundred percent, but we're off a little bit in 2012.

Q. That is a matter of dispute in this case; correct?

A. It is.

Q. In the ERM review for the 2012 dollars, absent the treatment in this rate case, the ERM review for the 2012 dollars hasn't happened yet.

That happens in early 2013; correct?

A. That's correct.

Q. Can you confirm there's no term in the settlement stipulation that states the total amount of 2012 REC revenues that are included in base rates?

A. Would you repeat the question, please?

Q. Please confirm that there is no term in the settlement stipulation that states the total amount of 2012 REC revenues included in base rates.
A. In the current settlement agreement?
Q. Correct.
A. I think that's true.
Q. And isn't it also the case that there is no separate pro forma adjustment for the 2012 REC revenues in your evidence in this case, they are simply included in the power supply or power cost adjustment?
A. All the information was provided to show the calculation of the numbers that we've provided here.
Q. Do you know if there's a separate pro forma adjustment for the 2012 REC revenues in your filing in this case?
A. I'd have to look to see the dollars that were broken down, so I don't know the answer. I don't know how much detail was provided.
Q. Right. Let's move on to talk about the 2013 REC revenues. And if you could turn to the settlement stipulation itself, the multiparty stipulation, page 5.
A. I'm there.
Q. And looking at item 12. You're there ahead of me. What the settlement says is that, beginning on January 1st, 2013, Avista will track separately and defer a hundred percent of all REC revenues over that which is included in base rates,

and this deferral will be for the benefit of customers, and not subject to any dead band or sharing percentage; correct?
A. I see that.
Q. The stipulation doesn't contain any specifics on how or when those revenues would be returned to customers, does it?
A. I'm sorry. Ask the question again, please.
Q. Does the stipulation contain any specifics about how or when those revenues would be returned to customers?
A. Yes. I believe it does, in terms of the -- oh, no. I'm sorry, it doesn't. You're correct. Well, no, it does. What it says is that it would be -- it would be deferred into the ERM balance without any sharing. And then once the ERM balance triggers 30 million, then there would be a rate adjustment plus or minus.
Q. Doesn't say that in the provision, does it, Mr. Norwood?
A. No, but they're deferred to the ERM, and that's the energy recovery mechanism, and that's the way the ERM operates. They would be part of that balance.
Q. So the ERM is subject to the trig -- excuse me. The ERM including the ERM -- pardon me. The deferral balance in the ERM, including the REC revenues, is subject to the trigger?
A. Yes, that's my understanding.
Q. And would you agree that it's not expected, based on past data, that the ERM trigger would be activated on an annual

basis, even at its revised 30 million dollar level?

A. Yes. I have to step back on the question about information in the record on the REC dollars. There was agreement among the parties on the power supply adjustment of 5.4 million dollars.

And within that, that includes all the REC revenue that was included in the case. So within that analysis that was provided to everyone, that would include the detail.

Q. So -- but that's not specifically called out in the settlement or in your direct case, is it? And it's not in the testimony supporting the settlement.

A. I think that's correct.

Q. That may --

A. I have to take that back. On page 22 of the joint testimony, on line -- line 25, there I've identified the update to power supply that was requested by staff and provided to all the parties. So that was part of the corrections and updates that was worked through by all parties as we progressed through the case.

Q. And is there a reference there to the 2012 REC revenues?

A. No, there isn't, but it's embedded in the 5.4 million adjustment.

MR. FFITCH: If I may just have one minute, your Honor, I think I may have finished with Mr. Norwood.

THE COURT: Thank you. Thank you, Mr. Norwood.
THE WITNESS: You're welcome.

E X A M I N A T I O N

BY MR. FFITCH:
Q. Now I have some questions for you, Mr. Elgin. Good morning.
A. Good morning.
Q. Mr. Elgin, would you agree that staff's testimony in support of the settlement rates is based in part on staff's attrition analysis?
A. Yes.
Q. In your opinion, do the revenue increases agreed to in the settlement include some amount for attrition?
A. I believe I've answered that question in my direct -- pre-filed direct rebuttal testimony on page 2, Mr. ffitch.
THE COURT: Mr. Elgin.
THE WITNESS: Excuse me. Is the microphone on?
THE COURT: I think it might be off. Could you double-check that?
THE WITNESS: Testing. How's that?
THE COURT: Maybe bring it a little closer. That might help. Thank you.
THE WITNESS: Is that better?
THE COURT: It is.

THE WITNESS: Thank you. If you would turn to my pre-filed rebuttal testimony on page 2, on lines 14 and 15 I answered that question.

THE COURT: Is that KLE-7T?

THE WITNESS: Yes, ma'am.

THE COURT: Thank you.

BY MR. FFITCH:

Q. And you said there that, yes, staff did consider the effects of the attrition; correct?

A. Yes.

Q. And my question is: Do the revenue increases agreed to in the settlement include some amount for attrition?

A. I believe I've answered that question already, Mr. ffitch, but yes, it does.

Q. Can I get you, please, to turn to page 10 of this same testimony. That's KLE-7. Turn to the bottom of the page.

A. Yes, I have that.

Q. Are you there? And there you're discussing how you understand that the company's direct electric case adjusted for the stipulated rate of return of 9.8 percent -- excuse me. That's the ROE.

Adjusted for the stipulated rate of return is approximately 29 million dollars; correct?

A. The company's case?

Q. For 2013.

A. Yes, that's on line 21 of my testimony.
Q. Yes. And that includes attrition; correct?
A. Yes. That's our -- basically that calculation, I want to make the record clear, basically took the company's pre-filed direct case and just applied that rate of return to it.
Q. Yes. And that includes the company's requested attrition adjustment; correct?
A. That's not quite accurate, Mr. ffitch. As Mr. Norwood pointed out, the company's direct pre-filed case has an attrition analysis, but the way they presented their case, they have the full 2000 out to 2013 rate base effects, and then they plug a number, so it's a question of presentation.
They have an analysis that supports a number, and then their presentation said, "Well, if we go out and -- and adjust our rate base to the 2013 rate year, and consider the effects of attrition, this is how we, Avista, chose to present its direct case."
Q. All right. Well, we have their case in the record, and you're saying that, taking their total case, which includes an attrition analysis, when you adjust it for the stipulated rate of return, you get to 29 million; correct?
A. That's correct.
MR. TROTTER: Objection. Objection. He answered the question. The company's portrayal, if you look as Ms. Andrews'

exhibit, shows both an attrition, as Mr. Elgin testified, an attrition column, and then a rate base column to get to essentially the same number.

MR. FFITCH: Your Honor, I'm going to object to Counsel testifying.

THE COURT: I think that's a first. I'm going to allow it, Mr. Trotter. I think he -- he has clarified the answer, and I'm going to overrule the objection.

BY MR. FFITCH:

Q. Would you agree that the company's original direct electric operations case included a 20.5 million dollar attrition adjustment?

A. Again, Mr. ffitch, it's -- it's how it's presented. And it's -- they have an analysis, and then what they have done is presented it differently with respect to what the attrition analysis and study Mr. -- Dr. Lowry presented and how the company presented its direct case.

So -- and that's -- Mr. Norwood testified earlier this morning, it's several ways to look at it, and this is the way they chose to present it. But -- but I guess to further clarify the record, they have stated that there is 20 -- 20 million plus attrition that they are demonstrating on the record through Dr. Lowry.

Q. Thank you. And would you agree that the company has provided an updated load forecast in the case, and that as a result of that updated load forecast, the attrition request or analysis that you just referred to has been increased by 8.2 million dollars, so that would bring it up to a total of about 28.7 million?

A. Well, that -- I think the better way to characterize it is they provided load update, but I don't think they ever really presented that number on -- it would be something we may have seen on rebuttal had we gone to litigation, but I guess they're saying on their revised load forecast there -- on rebuttal we would have seen an attrition case that the number would have been bigger; that's correct.

Q. And you're saying they haven't quantified that as 8.2 million dollars?

A. I have -- I believe that's the correct number. I don't have that in front of me, but I'll accept that.

Q. Thank you. So for all intents and purposes, Avista's 29 million dollar request consists almost exclusively of attrition, does it not?

A. That's the way Public Counsel is choosing to characterize it, but that's not what -- the way I understand your rebuttal testimony to assert. One could look at it that way, but I don't.

Q. You state at the bottom of page 10 that staff's direct electric case adjusted for the stipulated rate of return results in a revenue deficiency of approximately 7 million dollars; correct?

A. Yes.

Q. Let's just take that apart a little bit. First of all, when you refer to your direct electric case, you're referring to your filing on September 19th which recommends a revenue requirement of negative 1.3 million; correct?

A. Yes, that would be Mrs. Huang's results of operation statement that she presents. That would be only for the electric business.

Q. Yes. Focusing on the electric business. And in your direct case filed on the 19th, you present evidence that, under standard rate-making analysis, at your recommended return on equity, the company's electric revenue requirement is minus 20 million dollars per year; correct?

A. Well, again --

Q. Setting aside the attrition piece of the case.

MR. TROTTER: I'm going to object to the question. This Commission has accepted numerous attrition adjustments over time. I would consider that a standard adjustment. So his use of the word "standard" is ambiguous, and if he wishes to clarify, he needs to. Thank you.

THE COURT: Mr. ffitch.

MR. FFITCH: Your Honor, I'm surprised that these questions are creating such discussion. I'll rephrase my description of traditional rate making.

THE COURT: Thank you.

BY MR. FFITCH:

Q. Staff's traditional rate-making analysis in this case using a 2011 test year with restated and pro forma adjustments recommends and concludes that the electric revenue requirement for this company is minus 20 million dollars; correct?

MR. TROTTER: I think I'll object, your Honor. He's now used the word "recommends." Staff's recommendation is not that. There's a very simple way to ask the question, and I wish he'd proceed to do that.

THE COURT: Mr. ffitch, would you like to rephrase?

MR. FFITCH: I'll try, your Honor. Seems to me to be quite a straightforward question.

BY MR. FFITCH:

Q. In staff's testimony filed on September 19th in this case, based on a 2011 test year analysis with restated adjustments and pro forma, the conclusion of that analysis was that the electric revenue requirement for this company was negative 20 million dollars. And if we need to go back to your direct testimony, we can do that.

A. Before the attrition results, is that your question?

Q. That's my question.

A. Yes.

Q. Thank you. And at the stipulated rate of return in this case, staff's analysis that I've just referred to results in a negative electric revenue requirement of 12 million dollars; correct, approximately?

A. I don't know how to make that calculation, so I don't know how you did it. I -- I guess if you're adding -- I mean, I guess if you're taking seven million minus two, you get five, but I don't know what that -- what that means.

But I think that's your arithmetic is what you've done. I would agree to that seven minus two is five. Is that what you're suggesting?

Q. I can rephrase that.

A. Okay.

Q. What I'm asking is that, if you take your negative 20 million dollars, and instead of using your 9.0 ROE you use a 9.8 ROE and the other components of the stipulated rate of return, that negative 20 million becomes negative 12 million; correct? Would you accept that? Just it's mathematics.

A. I'll accept that subject to check.

Q. Thank you. And so the way that staff gets to positive territory in this case is through staff's 19 million dollar attrition adjustment; correct?

A. Yes, I -- I think I have that number in my testimony. Yes, I'll accept that.

Q. And -- all right. And you can see that if you just add the 19 million to your negative 12 million, that brings you to the 7 million dollars that you're talking about at the

bottom of page 10 in your testimony; correct?
A. Yes.
Q. All right. Let's turn to page at the top of -- top of 11. And there you state that the 2013 increase of 3 percent can be viewed as staff moving its attrition allowance closer to the company's request; correct?
A. Yes.
Q. And the difference between your 7 million and the 2013 stipulated increase of 13.6 million is about 6.6 million; correct?
A. Yes.
Q. So if staff's direct electric case includes 19 million for attrition, and most of the movement from your direct case is towards the company's attrition adjustment, isn't it -- as you've testified, isn't it reasonable to conclude that staff's view of attrition for settlement purposes in the case is somewhere around 25 million dollars?
A. No.
Q. All right. Take me back through this. You're starting with your testimony on page 11 that the 3 percent increase can be reviewed as you moving your attrition allowance closer to the company request, and the starting point that you give us in your testimony is 7 million dollars.
A. Mr. ffitch, your -- your question presumes something in my testimony that isn't there. As I said, you're myopically

looking at the settlement and taking parts of the settlement and not looking at the totality of all the adjustments that are contested.

If you look at my testimony on page 11, the very first part of that sentence states, "Within this range are numerous contested adjustments." So -- so for the torturous arithmetic that you're having me go through here begs the question that none of these other adjustments were considered in the settlement.

And so while I understand how your -- your rebuttal testimony views this in a way to try to parse this and try to identify what's specifically in there, you're welcome to do that, and you have done so, but I won't sit here and agree to this arithmetic and wait for you to parse it and try to identify specifically what's in the settlement and what's for attrition.

Q. Don't you think the Commission --

A. I won't do it.

Q. Don't you think the Commission needs to understand what's in this settlement to decide that it's a reasonable basis for increasing customer rates?

A. Yes, I do.

Q. Do you disagree that -- and let's follow up on your statement about contested adjustments. Do you disagree that, if we look at the company's 2011-test-year-based electric revenue analysis of approximately 20 million dollars, if you apply the agreed adjustments for power cost, and you apply the stipulated rate of return, that even if you accept every other adjustment in favor of the company, and just use the stipulated adjustments in this case, you end up with a revenue requirement for this company on the electric side of less than a million dollars? Do you disagree with that arithmetic?

A.   I'm just not following your question, and I guess all I can say is that the Commission can evaluate Public Counsel's rebuttal testimony in the way it chooses to do the arithmetic. This settlement is a black box, and all I've said on page -- on those pages of my testimony is try to provide some context for the Commission about how we got to the 13 million dollars given the fact that our pre-filed direct case was negative.

And so I was just trying to provide a little roadmap in terms of what staff's thinking was, and I will agree to, on the record, that we considered attrition, and we think it was appropriate for staff to do so.

Q.   Well, thank you, Mr. Elgin. Let's turn to another topic. Can you please turn to your Cross Exhibit Number 9-CX.

Do you have that?

A.   Unfortunately, I -- I have it, but I -- no, I don't have it. Excuse me. I thought I had it. I cannot find it in my pile.

Q.   Maybe your --

A. I have it now. Thank you.

Q. You're being helped out there. And this is staff's response to Public Counsel's data request number 6; correct?

A. Correct.

Q. When did staff first become aware of Avista's recently announced severance program?

MR. TROTTER: Your Honor, the exhibit's answered that directly. Is there need for cross on this? I'm sorry. I'm missing a point. I'll object.

THE COURT: Mr. ffitch.

MR. FFITCH: Your Honor, a few brief questions on this matter and we'll be through this.

THE COURT: All right. I'm going to allow it. Objection overruled. Maybe we could just move quickly though -- through the foundational questions.

MR. FFITCH: I'll do that, your Honor.

THE WITNESS: Yes, the response indicates that we -- the staff became aware of it on October 23rd, 2012, that morning.

BY MR. FFITCH:

Q. Do you recall when staff executed the multiparty settlement agreement in this case?

A. It was the week ending October 12th, 2012.

Q. And would you accept -- I believe if we look at the multiparty settlement stipulation, it appears to have been signed on October 18th by staff?

A. That's correct. It took us a week to put the documents together after we had the agreement.

Q. And staff first learned of the severance plan from its internal UTC librarian?

A. Yes.

Q. And you reached agreement in principle about -- at the beginning of that week of October 12th that you just testified; is that right?

A. That's correct.

Q. And so staff was not aware of the recently announced severance plan during the settlement discussions nor at the time the settlement was filed?

A. That's correct.

Q. The staff did not consider the savings expected to be realized from the plan when entering into the settlement stipulation?

A. No, it did not.

Q. Move on to our next topic, Mr. Elgin, regarding the E-R-M, ERM, which I believe stands for energy recovery mechanism. I'll let Avista correct me on that if --

MR. NORWOOD: That's correct.

MR. FFITCH: That's correct. Thank you. It's a venerable institution now. Sometimes people can forget the origins.

BY MR. FFITCH:

Q. But in any event, can I get you -- if you need to look at your direct testimony, Exhibit 1, you can do that. But you may not need to.

You would agree that, as part of its original filing, Avista proposed to refund 13 million dollars from the ERM deferral account concurrent with any requested increase that was approved in this case; correct?

A. Yes.

Q. And it's true, isn't it, that staff opposed that as a matter of principle on the ground that any ERM balance should be treated independently and not used to mask substantial rate increases; correct?

A. Correct.

Q. And Mr. Buckley addresses this in his testimony and makes the point that the ERM is designed for the credit balance to remain in the ERM, and to be used for the benefit of rate payers to offset higher power costs; correct? Do you recall that?

A. Yes.

Q. So reducing the ERM credit balance by definition reduces the amount of protection that rate payers have against higher power costs, doesn't it?

A. Yes.

Q. And under Avista's initial proposal in the case, it would reduce the amount of protection against power costs by approximately 13 million dollars?

A. Yes.

Q. Isn't it the case that, under this settlement, the ERM account is not treated independently, and it is used to mask rate increases, and it will result in a reduction in the amount of protection for customers against power costs?

MR. TROTTER: I'll object. He just answered that question. Asked and answered.

MR. FFITCH: Your Honor, I'm asking about the settlement as opposed to the initial proposal of Avista as filed. So it's a different question.

THE COURT: All right. Mr. Elgin, if you could please answer that question.

THE WITNESS: Yes, your Honor. And the question was asked and answered in my testimony in support of the settlement, so I'll answer it the same way I did there. Yes. But the question -- to clarify, it's a question of degree. And so we've -- we have -- the settlement has a very measured and judicious use of the ERM moneys, and we think that that's in the public interest.

BY MR. FFITCH:

Q. And you state in your rebuttal, "I believe that this is a central element of the settlement"; is that correct?

A. Do you have a citation for me, Mr. ffitch?

Q. I believe it's page 28 of the joint testimony or close to that.
A. Okay. Let me --
Q. It might be in rebuttal. I'm sorry. I don't have a page number for you.
A. The -- the response is on page 27, begins on line 14. And I say, "One of the central elements of this settlement is to use the ERM balances for customers' benefit to mitigate the rate pressures they will experience for the next two years under the terms of the settlement."
Q. And do you state that this is a central element of the settlement, because staff would not agree that the stipulated rate increases were reasonable absent a diversion of the ERM credits?
A. No.
Q. No, you don't believe the settlement would be reasonable without the ERM credits?
A. No. What I'm saying is the -- the -- why I answered your question is because what staff did was use the ERM in a judicious way to mitigate the increases that our customers would experience.
And so if you look at the totality of the agreement, what -- what staff thought it was putting together would be a rate plan that would have a 2 percent increase in 2013, a 2 percent increase in 2014, and then because ERM moneys are being

refunded, assume the best circumstances that -- that the company is able to manage its costs and achieve a fair rate of return, and it does not file a rate case, and we assume that we have to back out the ERM increases, rate payers get at most a 2 percent bill impact as a result of the ERM moneys being backed out.

It's always a problem with any kind of deferred amounts when you start to collect them or refund them back to customers or the bill impacts once those credits or refunds expire, and so we looked at this very carefully in how we proposed to implement this rate plan, and this is how staff considered the use of those ERM moneys and why I think it's reasonable.

Q. Would staff still support these rate increases as fair, just and reasonable without the ERM credit?

A. Yes.

Q. In the second year, 2014, the settlement stipulates that 9 million dollars of ERM credits will be diverted to the settlement rate increases, to offset the settlement rate increases -- excuse me -- if available; correct?

A. Well, "diverted" is not the right word to use, but yes, they will be used to offset the refund to the extent that they are available. And as my testimony points out, the combination of the two is about equal to the amount that's in the ERM accounts right now through 2011.

Q. Does the --

A. Very likely that they'll be there.

Q. But once they're used or applied for this purpose, they won't be there for customers' benefit to offset increased power costs; correct?

A. Yes. It's just a question of when the benefit accrues to rate payers. So is it today or in the future, and we feel today is the right time to begin this process.

Q. Does the settlement establish how it will be decided in 2014 if the 9 million dollars is available or if it should be credited to customers?

A. Well, the settlement establishes the fact that these -- the company will have to file the tariffs, and the Commission will take action on those tariffs as they're filed.

Q. Nothing more specific than that?

A. What more is there -- how more -- I mean, I don't know what else we could do. I mean, the Commission has the settlement in front of it, and the tariffs will be filed, and the Commission will make its judgment about those rates in the context of the settlement and go forward. We fully expect that the Commission will take that action.

Q. So you're saying that the parties or the company will decide in advance whether to request application of the 9 million dollars against a rate increase, and that would be part of the company's filing, and then the Commission would decide at that point?

A. I mean, the settlement speaks for what the company's agreeing to do, and it seems to me that it would have to be some extraordinary event that would somehow make that money not -- not there. And so I guess the question is I fully expect the company to make that filing in the context of the terms of the settlement. I -- I don't know what else to say.

Q. Staff, if I'm reading your testimony correctly, appears to state that it would also be willing to agree to further use of ERM -- an ERM credit balance to offset rate increases in 2015; is that correct?

A. Do you have a cite for me again so I can --

Q. Your joint testimony on page 28, I believe. Lines 18 to 19.

A. (Witness reviews exhibit.)

Well, I think what I'm saying there is that, if it's possible if the ERM -- if the ERM balance grows and we can continue to refund and keep that in effect, we can evaluate it at that time.

But I guess what I'm saying here is this part of my testimony is to clarify what staff and how staff view the rate plan, assuming the best that we can at this point some kind of normal power supply and no real changes to the ERM balances. So this is what I'm saying is the worst or what we're hoping for is the 2 percent backing out of -- of the ERM in 2015.

That's all that testimony stands for.

Q. But absent this -- some new action that you're projecting here in 2015, the ERM credits terminate and there will be a -- you testify a 2 percent increase, a third increase in rates in 2015?

A. Well, again, it's not a increase. It's a change to the bills because the expiration of the ERM credit, and this is -- this is one of the endemic problems of deferred accounting and mechanisms where you create moneys that either customers are surcharged or refunded.

When you have to -- to -- to deal with the rate-making implications of those kinds of credits and refund to customers, there are bill impact. So to say it's an increase is a misnomer. It's a bill impact, but it's not a rate increase.

Q. A bill impact would be that the bill would go up 2 percent, the credits would expire; correct?

A. Yes. That's what my testimony says.

Q. So that would be the third consecutive winter heating season increase that would result from this settlement; correct?

A. That could result from the settlement. Assuming no other changes, we would have to evaluate in 2015 where the ERM is and make some decisions, and the Commission and the company might have a proposal, work with staff and Public Counsel about what we might want to do with the ERM, and this -- again, assuming no other changes, yes, there would be a 2 percent bill impact as a result of the ERM being backed out.

MR. FFITCH: Thank you. I may just have another question or two -- let me just check, your Honor -- for Mr. Elgin. Thank you, Mr. Elgin. I just have a brief examination for Mr. Deen. I think I can finish before noon, your Honor.

THE COURT: Thank you.

E X A M I N A T I O N

BY MR. FFITCH:

Q. Good morning, Mr. Deen.
A. Good morning to you.
Q. Can you turn to your joint testimony, page 20 -- 33.
A. What was that, page 33?
Q. Page 33.
A. I'm there.
Q. And there you state that ICNU does not believe an attrition adjustment is appropriate, and would not have supported the stipulation if it had included such an adjustment; correct?
A. That is correct.
Q. In your rebuttal you repeat that stating that ICNU would not have joined the stipulation if it had included an attrition adjustment; correct?

A. That is correct. You're referring to page 2 of the rebuttal?

Q. Correct. And does this remain your position?

A. It does.

Q. And is it your testimony that the revenue increases in the settlement contain any amounts based on the attrition adjustment recommendations of staff or Avista?

A. That is correct. I think that's very clearly stated in both the testimony and the settlement document itself.

Q. I'm going to ask you a couple questions about your cross exhibits, Mr. Deen. You are a witness for both Industrial Customers of Northwest Utilities and the Northwest Industrial Gas Users; correct?

A. That is correct.

Q. And your cross exhibits are Exhibit 14 and 15, MCD-14 and 15; correct?

A. Yes.

Q. Would you agree that neither the Northwest Industrial Gas Users or ICNU were aware of Avista's recently announced severance program during the settlement negotiations or prior to signing the settlement?

A. That is correct.

Q. And ICNU and Northwest Industrial Gas Users first learned of the severance program as a result of Public Counsel data requests; correct?

A. A very minor distinction. I believe ICNU became aware of the program through verbal conversation with Public Counsel. NWIGU became aware of it I believe through the data request.

Q. Thank you. And neither party did -- meaning Northwest Industrial Gas Users or ICNU -- did an evaluation of the impact of the severance program; correct?

A. Since its announcement or during the settlement process or --

Q. Well, first during the settlement process.

A. No.

Q. Have you done an analysis since then?

A. We have not done a subsequent analysis.

MR. FFITCH: All right. Those are the questions -- all the questions I have for Mr. Deen. Thank you, Mr. Deen. And that would complete my questioning, your Honor, and turn it over to Ms. Gafken.

THE COURT: Okay. Thank you. And Ms. Gafken, how much questioning do you have? I realize we're getting close to the noon hour, so I'd like to know if we'll be done with cross around lunch time.

MS. GAFKEN: Your Honor, this may be a natural breaking point for the lunch break. I don't think that I would conclude all of my questioning in ten minutes.

THE COURT: Okay.

MS. GAFKEN: It's not lengthy, but --

THE COURT: If everybody's willing to go a little later, then I think that's fine.

MS. GAFKEN: Okay.

THE COURT: So let's go ahead.

MS. GAFKEN: Why don't we start and see.

THE COURT: Yeah. Thank you.

E X A M I N A T I O N

BY MS. GAFKEN:

Q. Pardon me as I get set up. Mr. Norwood, good morning. Almost afternoon.

A. Good morning.

Q. I have a few questions for you to start here. The settlement agreement does not specifically address executive compensation, does it?

A. Not specifically, no.

Q. If the Commission adopts the settlement as it's proposed, it will not evaluate executive compensation in this case, will it?

A. No, I think the Commission has the opportunity to evaluate all the information in front of it, which we've already -- it's already been entered into the record or pre-filed testimony.

And the other testimony supporting the stipulation staff has -- has some testimony regarding executive comp. They looked at it. They are satisfied that that issue has been addressed in the stipulation.

And so I think, from the parties' perspective, the settling parties, it's clear we've said that we've taken into consideration all the recommendations and testimony there, but I think the Commission also has the opportunity to look at all the information presented and to determine going forward, which they've done in the past, is there more information they want to see.

And of course they have to make the ultimate decision on whether the end result of the stipulation accounts for any adjustments that they might have otherwise made without the settlement agreement.

So I think there is opportunity for the Commission to evaluate all the information and look forward to see if there's anything else they would want to see or do regarding that issue.

Q. But the settling parties aren't asking the Commission to make that evaluation, are they?

A. No, and what we've said is that we have addressed and all the issues that have been raised at least by Public Counsel through the settlement agreement.

Q. If the Commission were to accept the settlement agreement as it's proposed, the Commission won't be asked to evaluate executive compensation until the next general rate case, which wouldn't be filed before 2014; is that correct?

MR. TROTTER: I'm going to object to the use of the word "evaluate." It's ambiguous. The witness has testified the Commission is not being asked to specifically resolve it. If she means evaluate is equivalent to resolve, I won't object.

But "evaluate" is very broad, and as Mr. Norwood said, the record's there for evaluation. So I'm asking for clarifications. I'll object because the question is ambiguous.

MS. GAFKEN: I would accept the clarification of defining "evaluate" as "resolve."

THE COURT: Thank you.

THE WITNESS: We've asked the Commission to resolve the -- any issues before them today regarded -- regarding executive compensation through approval of the settlement agreement. And what we've laid out is that there were substantial concessions made with regard to dollars to accommodate any of those issues that in the end result might be addressed by the Commission.

But, you know, the Commission -- we're not going to ask the Commission to do or do not look at certain issues. It's their call as to what they want to look at.

BY MS. GAFKEN:

Q. Is executive compensation a topic that you understand the Commission to be interested in?

A. Yes.

Q. I'm going to ask you a few questions about the peer groups, and there's been a lot of testimony about that. I want to note that, before the hearing began, I did speak with your counsel about, not the precise questions, but how the questions were constructed, and I do believe that we won't go into confidential territory, that they're okay to ask on the public record.

So I don't believe we need to go into a closed session. But I'm sure that counsel will let us know if -- if we need to do something differently.

Would you agree, Mr. Norwood, that the peer group of companies used in setting the proper level of executive compensation should be similar in size and profile to Avista Utilities?

A. You know, you're getting into some specifics that I think might be better addressed to Ms. Feltes. Karen Feltes is our senior vice president of human resources, and she is involved in working with the board compensation committee on the analysis and the consultants that get into those issues.

So I think she's not going to like me for this, but might be better addressed to her, because I think -- I think a lot more goes into it than just simply looking at size.

Q. Okay. I can reserve that question for Ms. Feltes. Would you turn to your rebuttal testimony, which is Exhibit KLN-7T, page 30, please.

A. I am there.

Q. Faster than I am.

THE COURT: Yeah. Just a second. The bench has to get ready.

BY MS. GAFKEN:

Q. Mr. Norwood, I would draw your attention to Exhibit 7T, page 30, lines 1 through 5.

A. Yes.

Q. In your testimony at page 30, lines 1 through 5, you criticize the ISS peer group for including companies with only natural gas operations or only electric operations; is that correct?

A. Those were some examples. There are other differences, also.

Q. But your criticism on those lines is designed to point out that the companies in the ISS peer group do not share characteristics similar to Avista; correct? That's the --

A. In some cases, that's correct.

Q. The Towers Watson Energy Services peer group also includes companies that have only electric or only natural gas operations; correct?

A. That would not surprise me. And again, Ms. Feltes could be more specific.

Q. Okay. Staying on that same page of your testimony, Exhibit 7T, page 30. Please go down to lines 18 through 20.

You refer to the Towers Watson Energy Services peer group as including companies with revenues between 1 billion dollars and 3 billion dollars; correct?

A. Yes.

Q. Isn't it true that Avista Utilities has revenues at the lower end of that spectrum as compared to the Towers Watson peer group?

A. I don't have the numbers in front of me, but I think it's in the neighborhood of 1.5 billion.

Q. Would you accept, subject to check, 1.4?

A. Sure.

Q. If the Commission accepts the settlement agreement as it's being proposed by the settling parties, the Commission wouldn't evaluate which peer group is the most appropriate peer group to use, would it? Or it wouldn't be required to make that finding?

A. I guess I'm concerned about we have provided -- in fact the Commission asked us in the last rate case to provide a lot of information related to how executive comp is determined, how the peer groups are chosen and so on.

We've provided all of that to the Commission. So they have an opportunity to look at all of that, so we're not asking them to not look at it. But through asking them to approve the settlement, we're asking them to -- to look at all of that and then make a decision as to whether the settlement agreement itself, the end result is reasonable, taking into consideration the fact that they may actually choose to do something slightly different with regard to that single issue. But taken as a whole, you know, we believe that the settlement agreement is -- is reasonable and appropriate.

Q. But the Commission would have to modify the settlement agreement in order to address executive compensation differently?

A. No, I don't think so. I think -- again, I think it's appropriate to look at the settlement agreement as a whole. Public Counsel has raised a few issues related to executive comp. They're in the -- with regard to executive comp, I think they're a couple hundred thousand dollars on one issue and a couple hundred thousand dollars on another issue.

And if you look at the concessions made by the company to get to an end result, it's millions of dollars of concessions that we've made. And so I think the Commission can look at potential impact of any differing -- different decision or a decision they might make that might be different than what we included in our original filing, but again, I think the end result is -- is the important factor.

But the Commission in the past, as they did in the last order, said, "We want more information on this," and so they asked us to make a filing by February 29th, which we did. And my understanding is we complied with what they wanted to see.

And we provided updated information here. So I think the Commission has lots of information to look at to decide, number one, is the settlement reasonable as an end result, and number two, going forward do we want more information from the company or other companies on this. And if they do, then we'd be happy to provide that going forward.

Q. But to be clear, executive compensation is one of the items that has been black-boxed in the settlement agreement; isn't that correct?

A. Yes, that's correct.

Q. And the same could be said about the allocation between utility and non-utility with respect to executive compensation?

A. Yes.

Q. Correct? Do Avista's executives and corporate officers enter their time daily into a time-keeping system?

A. No, we enter it every other week.

Q. Okay. Biweekly?

A. Yes. At least I do.

Q. Have those records been provided?

A. It's -- I don't know. But it's based on the split that has been already provided. In fact I think it's one of the cross exhibits that Public Counsel introduced, which is KON-9-CX. That shows the split that's used by the officers.

And so when I charge my time every two weeks, it's based on that split.

But what I also do is for me I write down the amount of time I spend on Washington rate case, Idaho rate case, and also responding to discovery requests. And I think it's actually in particular to Public Counsel. I'm serious. I'm not joking.

Q. What you're describing there, Mr. Norwood, is entering your time for payroll purposes based on the split between utility and non-utility that is set annually; is that correct?

A. That's correct. And if there's a change that occurs during the year, then that split will be changed, and that has happened in the past.

Q. You referred to Cross Exhibit KON-9-CX. Why don't we go ahead and go to that exhibit.

A. Yes, I have it.

Q. In your testimony you testified that the best evidence of how to allocate the time between utility and non-utility comes from the individual officer.

Is that a correct summary of your statement?

A. That's correct.

Q. And you also testified that each officer is periodically surveyed to gather that information; correct?

A. That's correct.

Q. By "periodically," is that the annual survey?

A. We do it annually; that's correct. But if we're -- we also -- "we" being primarily the rates department or human resources -- is aware that there's a change in responsibilities for any of the officers, then we would go to them and get a new split for them going forward.

Q. Okay. If you would turn to that Cross Exhibit KON-9-CX, there's an attachment that begins on page 3. And I'll -- I'll note that the page numbers that I'll be referring to are the exhibit label page numbers which appear at the top right-hand corner.

So page 3 of that exhibit begins attachment A. Attachment A contains a number of e-mails from officers discussing their utility/non-utility split.

Is that the officers responding to the survey requesting their -- their allocation?

A. That's correct.

Q. Let's look at just a couple of the examples. Staying on page 3, on page 3 is Scott Morris's e-mail responding?

A. Yes.

Q. Is that correct? And he says there that he is probably an 80/20 split?

A. Yes. Which I think is important to note, because Mr. Morris had been using 90/10, and so he's recognized that there should be a greater allocation to non-utility, and so he's indicated that.

Q. Then turning to the next page, page 4, we have Mark Thies's response; correct?
A. Yes.
Q. And there he simply says "yes" to a request for a response from the person taking the survey?
A. Yes; correct.
Q. Page 5 we have Dennis Vermillion's response?
A. Yes.
Q. And he says, yes, but it is probably more like 99/1?
A. Yes, correct.
Q. The e-mails found in attachment A of Cross Exhibit KON-9-CX is typical of how the officers respond to surveys regarding time allocation?
A. Yes.
Q. Is that correct? Let's return to your rebuttal testimony, which is Exhibit 7T. And I'd like you to go to page 31.
A. I have it.
Q. Okay. There -- oh, I'm sorry. Please refer to lines 10 through 13 on page 31. There you state that Mr. Coppola, in evaluating Scott Morris's time, assumes that any time not documented with a specific calendar entry was spent on non-utility activities; is that correct?
A. Yes.
Q. If he assumed that, wouldn't Mr. Coppola have

allocated 37 percent of Mr. Morris's time to utility?
A. Would you repeat the question, please.
Q. Sure. If Mr. Coppola assumed that all of the time that Mr. Morris spent outside of particular calendared items, if he assumed that all the other time was spent on non-utility activities, wouldn't Mr. Coppola have allocated 37 percent of Mr. Morris's time to utility?
A. I mean, yeah, that's a tautology for the analysis that he did. I mean -- and, you know, we've -- I've got his exhibit in front of me. He simply took three months of data and identified times when, in his view, Mr. Morris was spending time on utility, and assumed that time that was blank on his calendar that he didn't have a specific meeting was all non-utility, which is not reasonable at all.
Q. But Mr. Coppola's recommendation was to split the time 50/50, not 37?
A. Which is also not reasonable at all. He took a three-month shot in time, used his own judgment about what was utility and non-utility versus Mr. Morris who spends time every day in the business knowing where he spends his time. And so I think this is not a reasonable analysis at all to use his own judgment.
Q. But we don't have contemporaneously kept time records that document what the officers spend their time on, do we?
A. I mean, not day to day, hour to hour, but we -- as

we've talked about, we do a survey, and it's every officer's responsible to represent the time that they spend. And for my part, you know, I spend lots of time with these folks, and I believe I've reviewed the representations that they've made, and I think they are representative of the time that they spend on utility/non-utility.

Q. Okay. Let's switch gears a bit. Would you agree that there's a dispute in this case regarding board of director compensation and whether it should include stock payments?

A. I think there's a -- Public Counsel has raised some concerns, and at this point I think they're the only party with the concern at this point in the case.

Q. And Public Counsel is recommending that the stock payments be removed while allowing an adjusted amount of cash payments?

A. Yes, and we've addressed that in our rebuttal testimony.

Q. But that issue isn't specifically addressed in the settlement agreement, is it?

A. No. But as we explain in the rebuttal testimony, that's an apples-and-oranges analysis that he's made, very clearly.

Q. But that's the disagreement; correct?

A. Yes, that's --

Q. That's part of the disagreement?

A. Yes, it is.

Q. Changing topics once more.

A. Sure.

Q. If you'd please turn to your cross -- or I'm sorry, your rebuttal Exhibit KON-7T, page 34, lines 20 to 23.

A. Yes, I'm there.

Q. You testify there that, without adequate DNO insurance, that Avista would not be able to attract or retain qualified individuals to serve on its board.

Is that a correct representation of your testimony?

A. That's right.

Q. But Public Counsel isn't suggesting that Avista forgo DNO insurance, is it?

A. No, it's a matter of cost assignment, and the Commission, as I mentioned here, has addressed this issue back in '09.

Q. Okay. Switching topics again. I guess I'll ask the bench, would you like me to continue with the cross or --

THE COURT: How much more do we have?

MS. GAFKEN: I have three more topics, not necessarily all for Mr. Norwood.

THE COURT: Let's go ahead and break for lunch, then, and come back in an hour. So 1:10. Okay. We're off the record.

(A luncheon recess was taken

from 12:11 p.m. to 1:17 p.m.)

THE COURT: Okay. We'll go back on the record. Before we took the recess, I believe Ms. Gafken was cross-examining Mr. Norwood.

MS. GAFKEN: Yes, thank you.

BY MS. GAFKEN:

Q. Good afternoon, Mr. Norwood.

A. Good afternoon.

Q. The last two Commission orders required Avista to conduct internal accounting audits in the business A&G expenses and report the findings to the Commission; correct?

A. Yes.

Q. Are Avista's accounting practices and its internal accounting audits topics you understand the Commission would be interested in?

A. Yes.

Q. And Avista presented its 2011 audit report as an exhibit to the current rate case; correct?

A. Yes.

Q. The 2011 audit is the most recent audit of Avista's A&G expenses; correct?

A. Yes.

Q. And it's also the second internal audit that Avista has; correct?

A. Yes.

Q. Would you agree that the 2011 audit found that, for one of the two categories reviewed, appropriate accounting and allocation of utility expenses did not occur within the tolerable rate?

A. Yes.

Q. Do you understand "tolerable rate" to mean that Avista may have a certain number of accounting errors for a certain sample size?

A. Yes.

Q. And the settlement agreement does not address Avista's accounting practices or the results of the 2011 audit; isn't that correct?

A. There's not specific language in there, but the parties -- I believe the parties took into consideration the possible impacts of any of those accounting issues and believe that they're satisfied with the accounting that has gone on today.

Q. But that's one of the things that's been black-boxed; correct?

A. That's correct.

Q. Let's return to your rebuttal testimony, Exhibit KLN-7T. And if you go to page 36.

A. I'm there.

Q. Okay. Turn your attention to lines 12 and 13.

A. Okay.

Q. And on those lines you state that Avista cannot guarantee that errors will never occur; is that correct?
A. Yes.
Q. But the issue isn't perfection, is it?
A. I think what we're saying here is we will likely, highly likely, not be perfect. And so I guess that's the question of what Public Counsel was asking here is that what they're looking for is perfection.
Q. Do you understand that Public Counsel is not recommending perfection, but rather is asking that the Commission consider consequence for failing to maintain errors within the tolerable range?
A. I think it's unclear to me what Public Counsel is recommending here.
Q. Okay. Can Avista guarantee that the number of accounting errors will be within the tolerable range?
A. No. In fact that's the purpose of internal audit is to establish some measures and audit to see if we're meeting those measures. And even though, as we've explained here and in the report, there's been substantial progress and that the errors are very small, there are still errors and it's beyond the tolerance. And so I think there's still work to do there for us.
Q. And that there -- the error rate is beyond the statistical tolerable rate?

A. It's I don't believe beyond the rate that our internal audit department has established, but is it a material issue? No. In fact staff, as I mention later in my rebuttal, recognized also that this is really more of an issue of principle as opposed to materiality.
Q. Well, in this particular instance, the number isn't very great, but we don't know going forward whether it would always be small, do we?
A. Yeah, I mean, there's no way to know precisely what the number will be going forward.
Q. I'd like to draw your attention to the second cross exhibit, which is KON-10CCX. Now, this exhibit has been designated as a confidential exhibit. Again, I don't believe that I'll ask questions that will require a confidential response. So again, I don't believe we need to go into our confidential session.
A. I have it.
Q. Okay. But my first question that I'd like to ask is whether the information that's contained in Exhibit KON-10CCX is still confidential.
A. I would have to look at each page to see if there's anything here. And I'm looking right now.
MR. MEYER: May I confer with my client, please?
THE COURT: Sure.
THE WITNESS: Okay. It's my understanding that we

should continue to keep this confidential.

BY MS. GAFKEN:

Q. Okay. Very well. Thank you for taking a look at that.

A. Sure.

Q. Again I'll be referring to page numbers that are connected with the exhibit label, which is on the upper right-hand corner pages. If you would turn to page 3 of Exhibit KON-10CCX.

A. I have it.

Q. The recommendation that appears on page 3 of KON-10CCX was made to Avista's management or made by Avista's management to Avista's board of directors in February 2012; is that correct?

A. Yes.

Q. If you would turn to page 4 of the same exhibit. Are the -- are the -- are the headings of the charts on that page confidential?

A. They are not.

Q. Okay. So referring to the annual dividend growth chart, that particular chart illustrates the historical annual dividend per share for 2011 and -- I'm sorry -- 2010 and 2011; correct?

A. Yes, 2010, '11 and '12 are actuals.

Q. Okay. So 2012 is also actual?

A. That's correct.

Q. And 2013 and 2014 are projected?

A. Yes.

Q. And the projected amounts for those two years are based on the recommendation that we see on page 3; is that correct?

A. They are -- at the point in time that this was presented to the board, it was the expectation of the recommendation that would be made to the board based on information that management would have known at that time. So it is an estimate of what they would expect to do under the information they had available.

Q. Was this entire packet provided to the board?

A. Yes, it was. At least that's my understanding.

Q. Okay. If you would turn to page 5 of KON-10CCX.

A. I have it.

Q. This page shows the dividend yields of the utility industry compared to other industries; correct?

A. Yes.

Q. And the smaller box floating up to the right-hand side of the page there, that compares Avista's dividend yield to the utility sector and other sectors; correct?

A. Yes, it does.

Q. Please turn to page 7 of the same exhibit.

A. I have it.

Q. On page 7 of Exhibit KON-10CCX shows the quarterly dividend amounts from 1998 to 2010; is that correct?
A. Yes.
Q. And the trend over the last ten years is apparent to the reader, isn't it?
A. Yes, it is.
Q. Now if we turn to page 8 of KON-10CCX. Page 8 shows Avista's historical annual dividend per share between 2007 and 2010; correct?
A. Yes.
Q. The information contained in Exhibit 10-CCX illustrates the financial health of Avista, doesn't it?
A. No. It reflects the change in dividends, the portion of earnings that are distributed to shareholders on a quarterly basis. It is not a reflection in and of itself of the health of the company.
Q. But if one were to look at the dividend information, isn't that something that investors or others could look at to determine what the health of the company is?
A. That would certainly be one piece, but they would definitely want to look at other pieces, like the price earnings ratio, the total return, because what an investor's looking for is not only the dividend payout, the dollars they're getting through the dividend, but the growth.
Q. But it is a factor?

A. It's one element; correct.
Q. A company wouldn't set dividends higher than its anticipated earnings, would it?
A. Typically it wouldn't.
Q. Okay. I think that those are all the questions that I have for Mr. Norwood. I do have some questions for Mr. Elgin.
THE COURT: Please proceed.

E X A M I N A T I O N

BY MR. FFITCH:
Q. Good afternoon, Mr. Elgin.
A. Good afternoon.
Q. Are you familiar with corporate dividends?
A. Yes.
Q. Generally speaking?
A. Yes.
Q. Would you agree that if a utility increases its dividend, that the increase is a positive signal to investors?
A. In general terms, yes. In other terms, it could be other factors that would indicate to investors other -- other things. So in general, yes, rising dividends is -- and particularly for a utility like -- like Avista, rising dividends is one of the things that investors would expect.
Q. Would you agree that when a company increases its dividend, that the company is signalling that it anticipates

future earnings will be sufficient to sustain the higher dividend level?

A. Yes. However, in Avista's particular circumstances, there are -- were other factors to consider. For example, if you turn to page --

Q. I'll actually stop you there, because you answered my question. You would have the chance on redirect to --

A. Very well.

MR. TROTTER: I'll just ask the bench if it's willing to give Mr. Elgin the leeway other witnesses have been given.

THE COURT: That's fine. Go ahead. Continue.

THE WITNESS: Thank you, your Honor. For example, if you turn to page -- or if the Commission would turn to page 7 of 10, and in particular this exhibit shows the history of Avista. And what's clear in this exhibit is that in -- in the late 1990s, Avista pursued a strategy where it chose to keep more earnings for future growth.

And you can see in that -- in that chart where the 31 cents a share dividend fell to 12 cents a share. And at that time the electric industry and Avista, there were lots of things going on, but Avista chose to keep -- keep more earnings for growth.

But in, as you can see, beginning in 2003 and more particularly more recently in 2008, Avista chose to really recant from that strategy and become what we call a more traditional utility company. And what it did over time was ratably ratchet up its dividend to industry norms. And so its specific dividend policy was to achieve that objective.

And you can see elsewhere in this exhibit, if you turn to page 4 of 10, you can see that the explicit policy was a strategy to be consistent with other EEI companies on average. And --

BY MS. GAFKEN:

Q. And the company has been successful in achieving that goal, hasn't it?

MR. TROTTER: Your Honor, I would ask Counsel be directed not to interrupt the witness.

THE COURT: We're already on redirect, so yeah, if you can let Mr. Elgin finish and then propose the next question. Thank you.

MS. GAFKEN: I apologize. I thought that was a break.

THE COURT: Thank you.

THE WITNESS: And then -- and then finally you can see that -- that on the exhibit that sometimes earnings weren't sufficient to achieve that kind of 60-percent strategy. But -- but dividend policy for utilities tend to be stable and earnings can fluctuate, so, you know, what this -- what this shows me is that the company has attempted to move itself more to a traditional kind of look as a utility from its prior policy where it wanted to use earnings for other -- other types of investments.

BY MS. GAFKEN:

Q. Dividends and increases in dividends are set based on anticipation of future earnings; correct?

A. Yes. But -- but again, within certain parameters. I mean, if -- if a dividend increase could not be supported by long-term sustainable growth, then the board should look carefully at increasing the dividend. But again, it is -- it is a function of prospectus earnings and return on book.

Q. All right. Switching gears to a different topic. The settling -- the settling -- sorry. My microphone got turned off.

A. Been there.

Q. The settling parties are describing the settlement provision that prohibits Avista from filing a general rate case with rates going into effect prior to January 1st of 2015 as a stay-out; is that correct?

A. Yes. That's part of the consideration of the settlement.

Q. Okay. The result of that provision is that Avista will not have a general rate case for consideration by this Commission in 2013; is that correct?

A. Yes.

Q. But despite this provision, customers will experience a rate increase in both 2013 and 2014; correct?

A. Yes.

Q. And customers will also experience an increased bill impact, using the term that you used earlier today, of approximately 2 percent in 2015, if the ERM credit is not extended and no other rate changes occur?

MR. TROTTER: I object to the question. This was asked by Mr. ffitch.

THE COURT: It was. Objection sustained.

MS. GAFKEN: Sure.

BY MS. GAFKEN:

Q. So Mr. Elgin, from the customer perspective -- and I want you to have that customer perspective in mind -- this settlement does not provide a stay-out, does it?

MR. TROTTER: I'm going to object to the question. This was the subject area that Mr. ffitch covered and gave a pledge that there would be no overlap, and now we're in overlap.

THE COURT: Ms. Gafken.

MS. GAFKEN: I don't believe this was covered by Mr. ffitch.

THE COURT: I'm going to allow this question, but please refrain from duplicating efforts, so to speak. Thank you.

THE WITNESS: Well, I've answered that question. If you mean that there's no stay-out, the settlement is a rate plan for under the -- under the circumstances we -- we've set up. A net bill impact of 2 percent in 2013, 2 percent in 2014, and if Avista were to not file in 2015, and no other changes were done, we'd have to back out the ERM, it would be another 2 percent bill impact in 2015.

BY MS. GAFKEN:

Q. But that's not really my question. The question is, from the customer's perspective, it's just like the company had filed a rate case in 2013, because their -- they will have a resulting increase to their bill in 2014; isn't that correct?

A. That is correct. But at the same time, we -- we -- we know what the history has been. And what we're trying to do is provide a period of time where that's the -- what I think is the real key factor of this settlement is that it provides rate stability for customers, given the fact that we have very strong evidence that this company will be continuing to be exposed to cost increases.

And so rather than ignoring that, we've tried to fashion together a rate plan that accommodates all the diverse interests about this company and the impact of the cost of service to customers.

Q. But doesn't the stay-out really -- the settlement agreement really only provides a stay-out to the litigation that occurs when a general rate case is filed; isn't that correct?

A. Well, that's -- that's one way of -- one way to phrase it, but it's not -- that's a very narrow look at it, what the settlement is. And I would -- I would quibble with that. But you can make that statement, but it's way too narrow.

MS. GAFKEN: Okay. That's all the questions that I have for the panel.

THE COURT: Okay. Thank you. Starting redirect, Mr. Meyer.

MR. MEYER: Yes, please. Sort of share the mic here.

E X A M I N A T I O N

BY MR. MEYER:

Q. Just have a few quick areas for Mr. Norwood. The first is to ask Mr. Norwood to clarify his earlier testimony today regarding future REC revenues as they may relate to the ERM.

A. Thank you. With regard to the question really related to will the REC revenues be credited to customers on an annual basis, and --

MR. FFITCH: Your Honor, I'm going to object to the form of the question. I don't actually remember hearing a specific question from Counsel. I believe that Mr. Meyer simply introduced the general topic of ERM and invited his witness to enter upon a unfocused narrative on the topic, so I would object to the form of the question.

THE COURT: Mr. Meyer.

MR. MEYER: I can argue it or just simply rephrase it.

THE COURT: Rephrase and --

BY MR. MEYER:

Q. What was your prior testimony this morning with regard to the treatment of future REC revenues?

A. My testimony was that there -- the dollars would go into the ERM, and there wouldn't be a rate adjustment until the ERM balance triggered at the 30 million dollar level. And my understanding is that staff in its testimony on page 14, Mr. Elgin's testimony, which is KLE-7T, I did mention that in his view there would be opportunity each year as we file the ERM filing to consider, depending on the level of the deferral for the REC revenue, to consider actually flowing that back through to customers on an annual basis through Schedule 93, which is the ERM tariff.

And so the point was made earlier that the stipulation doesn't address whether it's returned annually, and that is true. And so the clarification is that at least staff has noted that there would be opportunity that -- for that, and the company wouldn't be opposed to looking at the balance every year and returning that difference to customers each year, if that would be the Commission's desire.

Q. Thank you. Mr. Norwood, would you further explain what you meant earlier this morning when you testified by what

I understood you to be making as a distinction between an attrition adjustment per se and the condition or the phenomenon or state of affairs of attrition?

A. Yes, there was a lot of dialogue on the issue of attrition, and I think it's important to distinguish between the two. There's a condition of attrition that this Commission has -- has talked about for 30 years, and that is a condition where costs and rate base are growing at a faster pace than revenues, and that is a condition of attrition or regulatory lag or a shortfall in revenues or lower earnings.

But -- and so an attrition analysis -- an attrition adjustment is a terminology that's used for a type of adjustment that could be used to address the attrition condition. But there -- as we've said earlier, there's other ways to address the attrition condition without using a specific attrition adjustment. So that's just a clarification, I think it's important.

MR. MEYER: That's all I have. Thank you.

THE COURT: Thank you. Correct me if I'm wrong, there were no questions for Mr. Eberdt, so I don't think we'll have redirect. And who's going to be doing redirect for Mr. Deen?

MR. SANGER: I don't believe there's any redirect for Mr. Deen.

THE COURT: Okay. That's fine, then. Mr. Trotter, did you have redirect for Mr. Elgin?

MR. TROTTER: Just a couple, your Honor. Thank you.

E X A M I N A T I O N

BY MR. TROTTER:

Q. Mr. Elgin, Mr. ffitch or Public Counsel asked you about staff's attrition allowance and asked you to do some arithmetic subtracting staff's attrition allowance from staff's overall revenue requirement.

Do you recall that?

A. Yes.

Q. Did Public Counsel submit testimony in this docket that Avista is not subject to the effects of attrition?

A. No, it did not.

Q. Did Public Counsel produce an attrition study showing that the attrition was zero?

A. It produced no attrition study or no evidence to the effect of attrition on Avista's operations.

MR. TROTTER: Nothing further. Thank you.

THE COURT: Thank you. Are there questions from the bench at this point?

E X A M I N A T I O N

BY CHAIRMAN GOLTZ:

Q. Let's start with Mr. Eberdt, what the heck. About attrition -- no, just kidding. So on the low income issue, low income set of issues, do I recall correctly that the settlement calls for kind of reviewing that whole process down in future?

A. The agreement was to look -- to look at the low income bill assistance program and evaluate whether it's achieving what it should be achieving, whether it's in line with the statute and, if necessary, make adjustments.

Q. So that was my question about the statute. Just caused me to kind of reexamine the statute, and does talk about giving the Commission authority to provide rates at a quote, "at a discount," unquote.

Is there a concern that the current programs aren't really meshing with that and the low income bill assistance program is something different than that?

A. Yes, I would say that that's what staff -- Deborah Reynolds filed in her direct testimony. She questioned whether the current structure, which she terms as a grant, meets the allowance of the statute.

However, in her testimony, she seems to ignore that what the statute says is that you can allow rates, services, charges, and/or physical facilities at a discount, not just rates. So that's I think one of the pivotal points of our differences with her about that, because we believe that if you discount a rate on a per kilowatt basis, that does provide a benefit to the customer. It is a discount.

But if you also discount the bill on an annual basis, that is also a discount. So there's some terminology questions here I think.

Q. And -- but you're saying is that the current method by which low income bill assistance is provided is a discount on a rate?

A. Well, we're saying it's providing the services at a discount or it's discounting charges.

Q. Discounting charges; okay.

A. I think there -- the key issue here is not what the mechanism is, but whether you are achieving what you want to achieve. And that's what we should be looking at and discussing.

Q. Right. Yeah, lawyers might just look at the words. So is this -- is this issue, this sort of statute issue, come up before in your experience?

A. No.

Q. Okay. Thank you. That's all I have for you.

E X A M I N A T I O N

BY CHAIRMAN GOLTZ:

Q. One question for Mr. Deen. And so to put it bluntly, what's the problem with an attrition adjustment? I mean, you seem to be very careful not to come close to accepting the concept?

A. Well, I think from the perspective of ICNU, and ICNU submitted a joint testimony with Public Counsel on the issue directly through Mr. Dittmer, we think that, you know, the phenomenon of attrition, as was just clarified, can be dealt with in a number of regulatory ways, and we believe the sort of general standard regulatory practice in Washington without an explicit attrition study or adjustment is appropriate to address the problem. So in other words, ICNU doesn't believe that an extra mechanism is needed.

Q. So -- but I guess I'm getting at so your interpretation of the settlement is that it does not include an attrition adjustment?

A. Yes, that's correct.

Q. And so -- and I gather that some sort of a protection against a concession that somehow we might -- somebody might say later on that ICNU or NWIGU agrees with an attrition adjustment in the future.

But is -- but if you don't have attrition in there, because Mr. Elgin certainly seems to think attrition's in there, Public Counsel certainly seems to think attrition's -- must be in there.

If it's not in there, then what is there? It seems to me you're conceding an awful lot of adjustments in the company's favor if -- if the attrition allowance is zero.

A. And I think that's, you know, a great question. That's sort of the balance that ICNU struck in the negotiations. In particular there's other aspects of the settlement that are very important to ICNU, particularly the rate stability predictability aspect is extremely important to the ICNU members, be able to make capital intensive business decisions over the next couple of years.

So that's an extremely important consideration. Then also in the financial side, ensuring some access in a timely fashion to the ERM dollars was also extremely important. So again I think the ICNU perspective is very much predicated on standing all the terms of the settlement as a whole.

Q. So is your alternative to attrition adjustment, what's -- what are the mechanisms that are better than that, in your view?

A. I think, you know, it's something we have to look at on a case-by-case basis. In this proceeding if the settlement had included an explicit attrition adjustment, ICNU would -- as it said in testimony, would not have been able to join.

Q. Even though all other things being equal? I mean, the bottom line is the same, the end result is exactly the same. If they had said, "This includes attrition," you would have not signed?

A. I believe that's very likely the case. And that's again due to the fact that ICNU is very concerned about precedential issue with regard to other utilities that may be differently situated.

Q. Okay. So thank you.

E X A M I N A T I O N

BY CHAIRMAN GOLTZ:

Q. So Mr. Norwood, just a few questions. Just to nail this nail, your view is that as of January -- if this settlement's approved as of January 1, 2013, the rates will be fair, just, reasonable and sufficient?

A. Yes, they will be. And with the caveat, as I explained in the testimony, that this -- the revenues from the settlement gets us part way there. And as we explained, the way for us to get to the point to where we think actually there is a reasonable return, fair return during '13 and '14, is it's incumbent on us to cut our costs, because the revenue increase by itself is not enough.

Q. Right.

A. But we have plans in place, and we're already down the road of executing on that plan to cut costs to a level where we believe that the outcome and the earnings opportunity in 2013 will be sufficient.

Q. Right. So put another way, the rates that are put in place on January 1, 2013, will allow the company an opportunity to earn a reasonable return; is that correct?

A. That is correct.

Q. And on January 1, 2014, the same will be true?

A. We believe that to be true, yes.

Q. Okay. And if there's any difference in that view, we'll hear from you?

A. Yes, you will.

Q. Okay. So on executive compensation, that was a -- an issue. And you were at every public hearing that's been held in the Spokane area. And at every public hearing, with the exception of the one held a couple years ago in Pullman, this issue of executive compensation comes up. So it's fair to characterize that as a hot-button issue.

So is -- is it a downside of this settlement that we won't have a chance to address that?

A. I don't think so. I think here's the real problem with -- with that whole hot-button issue is, if you read the comments -- and I read all of them -- what the customers are saying is, "There's -- there's the executive pay, and it's at our expense or we're paying for it."

And what we don't see is clarification that -- in fact we are clarifying, but I think it would be helpful for all of us to communicate that to the customer, "You're not paying for all of that. You're paying for a fraction of it."

And so this Commission in the past has made decisions, and those decisions have said, "To the extent there's any incentive pay based on earnings, customers aren't paying for it." And in fact part of the base pay is going to be allocated to non-utility, because you're dealing with non-utility stuff.

And so the Commission as recent as the '09 order addressed really both of those issues. And so, you know, we are taking a number of steps to help educate customers that they are not paying for what shows up in the newspaper in terms of the salaries and compensation for executives.

Q. No, I understand that. But I think also that there still is -- even if explained all that and all that's understood, there'd still be a concern just with that portion of executive compensation that's been paid for by rate payers.

A. Yes. And, you know, I -- I've been noodling on this for this summer, because I knew this was -- issue was going to come up, you know, whether we litigated or settled.

Q. Yeah.

A. And so what I asked someone to do was go out and find out what are electric customers paying at Snohomish PUD and Seattle City Light and Grant PUD.

Q. You just happen to have those figures with you?

A. I do. And -- and so what I found was that, if you look at what electric customers in the State of Washington are paying for Scott Morris, it's very comparable to what electric customers are paying at Snohomish and Seattle City Light and Grant County PUD.

Q. And why isn't the comparable survey, as we suggested in our order last time, why aren't you using Snohomish PUD and

Seattle City Light and Bonneville Power Administration in your comparables if they are? Wouldn't that be a better sell for you?

A. There's -- now, let's make sure you understand what I just said, and that is I'm looking at electric customers in the State of Washington, and electric customers of Snohomish, so it doesn't include what Idaho customers are paying.

Q. Well, okay.

A. And so on. So understand that. And so -- so it's a message point I think that's relevant, but I understand your question of the public. And I guess I hate to pass you off to Karen Feltes, but she's the one that's intimately involved and working on a report now.

Q. But the idea saying, "Well, we do business in Oregon and Idaho," but rate payers as a whole are paying -- the body of Avista rate payers, and you said electric and gas --

A. Yes.

Q. -- as a whole are paying more for their CEO's salary --

A. Yes.

Q. -- in the body of electric rate payers of City Light --

A. They are.

Q. -- Bonneville, any of those others?

A. That is correct. They are paying more.

Q. Okay. Okay. So --
A. And there are reasons for that. And I think --
Q. And Ms. Feltes can tell us?
A. She can help you with that.
Q. Okay.
A. And it's not a simple answer. And I think it's worth talking about it a little while, because -- and she will tell you we have -- it's not just the CEO, but it's other officers of the company.
And she will tell you that recently we seated a new chief financial officer that joined us. We recently had a new chief counsel come in, and she can talk to you about the competitiveness of attracting people who work for our business and have the skill set and are a good fit for what we need to do as a company.
Q. Okay. In response to I believe it was Ms. Gafken, you indicated that the Commission may be able to wish to do something with executive comp in this case.
And I didn't quite follow what that could be, other than maybe are you saying that we could just simply assume, if a settlement includes no adjustment for executive compensation, and make one on top of that?
A. You know, the Commission has before it a settlement, and my understanding is you can approve it --
Q. Yeah.

A. -- you can reject it, you can approve it with conditions, and our request is that you approve it as is without changes, at least to the revenue requirement. But this Commission has at its discretion to look at all the information.

My response to Ms. Gafken was that we made significant concessions in terms of dollars to recognize the fact that this Commission, if we litigated, may do something different than what we've proposed in the case.

And the issues raised by Public Counsel were in the neighborhood of, at least with regard to executive comp, was probably five, $600,000, in that neighborhood. And I compare that to literally millions of dollars that we gave up, which puts ourselves in a position to do some extraordinary cuts to make this work.

So what we're asking you is -- we would never ask you to not look at this, not evaluate it, whatever, but please evaluate it in the context of -- of we made concessions as a package to make this work.

But as you have in the past, if the information we provided to you, both on February 29th as well as the information Ms. Feltes provided to you, if that's not enough or you'd like to see something different, then we would gladly provide that either in the next rate case, which is going to be at least a year away, or we're willing to participate in workshops or provide other information to hone in on what the issues are, and then let's address them going forward. But we'd ask that you approve the stipulation as is.

Q. And one final question in that in your rebuttal testimony in response to the -- Mr. -- Public Counsel's testimony, you -- you don't respond -- you talked about executive compensation and responded to the Public Counsel witness on that topic. You don't respond to staff witness Ms. Huang's testimony on that.

A. Right.

Q. Is that just because you only wanted to respond to Public Counsel or what?

A. Well, I guess I just go to Mr. Elgin mentioned in his testimony that staff had looked at those issues, and for purposes -- let me just read what they said on Mr. Elgin's testimony, KLE-7T.

Staff considered these issues, executive comp, under the terms of the settlement and believes the settlement fairly resolves these issues for purposes of this case. So I think staff did what we would hope they would do is look at the whole package to see whether there were concessions sufficient to meet their needs, so --

Q. But Ms. Feltes may have a view of staff's testimony on that subject?

A. Yes. And she's reviewed that, and I think she's prepared to have a conversation with you. Sorry, Karen.

Q. Okay. Thank you, Mr. Norwood.

E X A M I N A T I O N

BY CHAIRMAN GOLTZ:

Q. And just a few for Mr. -- Mr. Elgin. So on the attrition adjustment that staff proposed, Ms. Breda on page 38 of her testimony kind of disclaims that the analysis is a model for future. I mean, I got through all this testimony, then at the end it says, you know, but don't -- I got the sense, don't hold this out as a model. And I'm wondering why that is.

A. Would you please ask her?

Q. Maybe ask her. But -- but --

A. But I can say -- let me put it to you this way. Attrition, like rate of return, requires a lot of judgment in terms of how you go about -- and you look at the circumstances of the case.

And so I think one of the things that's important to realize is that an attrition analysis is not a one-size-fit-all exercise. Just like rate of return analysis, if you look at the record, you have Dr. Avera's, Mr. Gorman and my analysis. They're all different and there is no model, and I think that's what she's suggesting is that the way she undertook it, and -- and circumstances may change and how you go about doing it.

But the general principle I think would apply, and that's the important thing is that it's an analysis that says what evidence is there that test period relationships will not hold in the rate year. And so -- and I think that principle would hold. What I think she's saying is that the specifics in how you actually calculate it is not a model.

Q. So one thing -- if you want to just defer this, that's fine. If the -- in doing an attrition analysis, does one make pro forma adjustments to test your results for no unmeasurable changes, whether they be rate-based or whatever, and then do an attrition analysis or do you kind of abandon the pro forma adjustments and throw all that stuff into the attrition analysis? I got the sense that maybe you would -- staff was doing the latter.

A. No, what -- I'd be happy to answer that.

Q. Okay.

A. The reason why staff presentation is done this way is that it may be that the evidence -- you get a scenario where, for example, let's say a company says there is attrition, and staff does its analysis and says there isn't any attrition, why we include the traditional pro forma results of operations is to give you the snapshot of a traditional rate making with no attrition so that you can still do your traditional pro formas and know what all the changes to the test period that you're looking out to the rate year, there would be a normal pro forma, and you can make that judgment about is the evidence enough to compel you to provide the analysis -- attrition adjustment or not.

Q. Uh-huh.

A. And so this record has two attrition analysis, and so that's why I testified the way I did. So you -- you have to remove the -- and adjust the attrition results before the fact that you have provided pro forma results.

Q. Okay.

A. And so you -- the other way to do it would be to throw at all pro formas and look at a true attrition year. And what happens then is you start moving more and more to a future test period in that scenario, so it's a -- a question of degree. So one could do it that way.

But -- but staff felt that the presentation needed to be this way, because this is the way we've traditionally done it, in case you down the road would not want to accept the attrition analysis, the evidence isn't compelling.

Q. So as I understand staff's view is that, in the settlement, staff views the proposed increase effective January 1, 2013, to include attrition?

A. Yes.

Q. And in 2014 it is all attrition?

A. No. It's --

Q. It's some attrition?

A. Yes.

Q. Okay.

A. That it's recognizing that -- that the -- the rate plan is -- if you look, Mr. Norwood provided some charts with -- and we're not going to get on to the merits, but the general -- the general trend that what 2014 is continued high cap ex, continued slow, if any, low growth, and upward pressure on non fuel O&M. And what I testified --

Q. Okay.

A. -- is that -- that I felt very comfortable with the '14 increase being very similar to '13 results.

Q. Okay. Let me -- if I can find it. My question was on 2014, yes. So in your rebuttal testimony, which is KLE-7T, on page 5, the question on line 18 is Public Counsel also states, "There is no evidence or basis for the rate increase in 2014 contains part of the settlement; is this accurate?"

And you said, "No. In fact the record evidence is clear that attrition is likely to prevail for the foreseeable future," and you cite Mr. Thies's testimony, MTT-1T at 7. And as I recall, that simply talks about capital expenditure costs looking forward in 2014. And then Avista responds to staff data request 137, and I don't know what that is.

A. We have -- we will get that to you shortly, but it is -- it is the foundation, it's the data supporting Dr. Lowry's trending and projections for the attrition year.

Q. For the 2014?

A. For 2013.
Q. Okay. So how do we get from there to 2014?
A. Two ways. The cap ex is fairly constant.
Q. Okay.
A. The growth and load is little, if any, and Mr. -- Mr. Norwood's presentation in his -- his rebuttal, I don't have the exact citation. Just give me a second here. I'll find it. It would be on page 20.
Q. I'm sorry. What?
A. On page 20 of Mr. Norwood's rebuttal testimony, illustration number 4.
Q. Okay.
A. Where you see from 2012 to 2013 the expectation that that would continue.
Q. Which line? Continue the statement. The light green line?
A. Well, no. What you see is you see the green line is the -- the prior to the announcement of the severance.
Q. Right.
A. But you still see the growth in non-fuel O&M by the dotted green line, and the expectation that that would continue to grow through from '13 to '14.
Q. Well, it stops at '13. How do you know it goes beyond '13?
A. Well, I haven't got that far yet.

Q. Okay.

A. The other point is the -- in my testimony on page -- beginning on page 6, starting with the question on line 8.

Q. I'm sorry. Rebuttal testimony?

A. Yes. Yes, sir. The historical experience, so in other words, one of the things in an attrition analysis is not just necessarily budget, but what were the trends, the historical trends.

So if you look at the rate increase history of this company, the average increase since 2001 was 8.6 percent on the electric business, and the last most recent three-year period, 5 percent. So -- and then to the extent that one actually takes financial projections for what they are, there was data provided for '14.

Q. Okay.

A. And so the conclusion we reached was that the '13 increase would likely at a minimum be for '14, but for -- as Mr. Norwood described, we need some kind of mechanism to incent the company to take actions on the cost side.

And rather than looking at 5 percent increases or 8 percent increases that we've experienced over the past ten years, a modest increase in having a clear message to them to manage the business, reduce the costs and stop this cycle of increases was the right outcome.

Q. So it basically gives them a two-year opportunity to

manage their business, and rather than -- maybe I'm trying to put words in your mouth, but if it's just a one annual rate case cycle, the savings they make in one year are going to be gone in the next rate case, but now they have two years, they'll get two years of savings?
A. And -- and if they file for '15, which the settlement provides, you will capture what they actually --
Q. Right.
A. Yes. So it gives them that opportunity to do that.
Q. Okay. So one of the -- so much of the attrition in both 2013 and 2014 would be capital investments; okay.
A. And low load growth.
Q. Right. But I'm just focusing on capital investments. And so that means that in effect this rate increase -- and let's just use 2014 as an example -- is designed in part to give the company a return on and return of the investments they make during 2013, for example; is that correct?
A. Yes.
Q. Okay. So how do we know that they're going to make those capital investments? In other words, if they know where they're going to get the functional equivalent of return on and return of, whether or not they make the investment, how do we know -- why wouldn't they have some incentive to say, "Let's hang back, let's just defer that to 2015 and put it in the next period"?

A. That's part of their business judgment. And -- but my -- my expectation is that -- that there may be some of that, but we know right now one of the specific actions they undertook was the early retirement option, so --

Q. Right.

A. But again, we don't want to micromanage them.

Q. Right.

A. And so if it's prudent for them to cut back a little bit on the cap ex because of low load growth, and cut their costs and -- and if that -- if that's the right thing to do, then we will see that.

Q. I'm not sure I'm worried about if it's the right thing to do. I'm worried about if it's the wrong thing to do.

A. Well, again --

Q. You know what I mean?

A. Yes. I don't think the Commission or its staff want to be in that position. We want the company to manage its business.

Q. And this gets to my next question, which you're welcome to bump to Mr. Trotter, if you want. But so if in effect we're saying there's going to be this rate base addition in mid 2013, and we're going to give you rates in maybe both 2013, and for certain in 2014, that's going to provide you with a return of and return on that investment, that rate-based addition, then is there a concern about -- about the used and useful requirement in our state law in that if they don't in fact add that rate-based addition, that they're kind of getting paid for it anyway. See what I'm saying?

A. Yes, I understand your -- I understand what you're saying.

Q. Yeah.

A. I can't -- what I would say is that you're not making a specific valuation. So you're not saying, for example, like in the PIP case, you have a specific rate for a specific thing and you true it up.

Q. Yeah.

A. Or you're making some specific finding that the rate base is for future. What you're approving is a rate plan and that -- that this is a fair apportionment of the consequences of what we have seen. And it's not unprecedented. We've done this before, had rate plans.

Q. And I've seen them in other states.

A. Yes. And so I guess -- I guess because you're not making a specific rate-base finding, I don't think there's a legal impediment. But again, Mr. Trotter can opine on that.

Q. Okay.

A. What I suggest is that look at it broadly as the end result. Is this a fair result with respect to the experience, what the company asked for in its original request, where are we at now, how we're trying to manage the impacted customers of these very likely capital expenditures.

And I would just say my experience with utilities is that in general, once they plan and make capital budget expenditure plans for five years to -- you know, in the five-year kind of time frame, it's consistent with what we see in other businesses where your cap ex, you do kind of like about a five-year plan, and absent any major change, there's not a lot of deviation from that. And if anything, it might grow, might be more. So I would say there's some comfort in that.

Q. I will ask Mr. Norwood that. We'll get back to you in a minute. Just a couple more questions of what's included in attrition.

Is -- you said on the gas side that a major cause of the attrition is Avista's pipeline replacement program for Aldyl, A-l-d-y-l, hyphen A pipe. I think I have that right.

Is that correct?

A. Yes, for 2013. And not just the pipe, but all the increased costs about the whole DIMP and all those things surrounding the safety of that system.

Q. D-I-M-P, all caps?

A. D-I-M-P, all caps.

Q. And that all that holds true also for 2014?

A. Not to the degree. You see the big impact in 2013 of the delta, if you look at the rate plan. The big impact is for what's going to be happening between -- in '13.

Q. Okay.

A. '14 you capture the expense and the big push, and now for '14 those things continue, but it's mostly now just the -- the executing the -- now the replacement.

Q. And you're familiar with a proposed cost recovery mechanism that we've developed and put out for comment in a different docket?

A. That's correct.

Q. So if we have a -- an attrition adjustment here in this case and we approve -- pardon me. If we have a settlement that includes attrition relating to replacement of pipe, and if we approve that in this case, does that impact what we do in that other docket?

In other words, if Avista were to take advantage of an accelerated cost -- of a cost recovery mechanism in that other docket, and they also have an attrition adjustment here, is that double counting?

A. No, because in this circumstance I would look at the CR -- the CRM, the cost recovery mechanism, in that other docket for things over and above what's already planned. So it would be limited to that.

So I don't see Avista having -- taking a need for that, but if there were something that they wanted to do to accelerate, we would consider the merits of that in the CRM proposal.

Q. Because I'm actually --

A. I don't see -- I don't see Avista availing them themselves of it. But again, my understanding of what you've proposed there is something over and above some acceleration.

Q. Yes.

A. Something incremental to what would be the standard plan. And we have a plan for Avista. We know what it is.

Q. Let me just ask a couple more things. So on the whole issue of the earned balance, do you recall what's the interest that accrues under -- around earned balanced?

A. I don't know. Ms. Breda --

Q. Mr. Norwood?

MR. NORWOOD: Yes. What we're using is the after-tax long-term cost of debt, so it's in the neighborhood of 3 to 4 percent.

CHAIRMAN GOLTZ: Okay. Thank you.

BY CHAIRMAN GOLTZ:

Q. And then finally, Mr. Elgin, in your opening case, you testified in favor of 9.0 return on equity and were settling on 9.8. Isn't that a big number? Isn't that a big movement?

A. Yes.

Q. And -- and that would hold true for 2014, and I'm just wondering if -- if the -- would it be your analysis that ROE's are trending down, and that trend may continue to 2014?

A. (No audible response.)
Q. That's a "yes"?
A. Yes.
Q. Okay. So -- but still that's just one of those elements that staff is willing to, for lack of a better term, acquiesce in for the end result?
A. Yes. And in the Puget case, I made the same testimony, not -- not as low a number, but the Commission also accepted 9-8, so I advocated the same thing, not 9-0, but 9-5, and I'd say capital costs are coming down.
Q. Yeah.
A. But earlier this year, did you accept 9-8, and I'm comfortable with that number in the context of this settlement.
Q. Okay. Thank you.

E X A M I N A T I O N

BY CHAIRMAN GOLTZ:
Q. So can I go back to Mr. Norwood and just ask the question of -- so if you just assume that there's -- that some -- that there's an attrition -- implicit attrition adjustment built into the -- into the settlement, and therefore that would include plant be built in 2013 or 2014, and how do we know that plant's going to be built?
A. I think there's some -- some comfort there that we can provide in that. If you look at the recent history, we're

spending between -- it's in the ballpark of 95 to a hundred and three percent of what we've planned to spend. And as Mr. Elgin mentioned, a lot of our projects are multiyear projects. So once you decide to do something, you have to get your studies done, order the equipment, arrange for manpower and so on.

So that in itself won't give you as much comfort, but I think that the other side of that is, you know, we offered in our rebuttal testimony that, if there's some concern that we may make other cuts that cause us to over earn, so to speak, that we're willing to, after the fact, we file our Commission basis reports with the Commission every year, and if in fact we were to cut capital steeply, what that would result in is you would see earnings go up, because the return is revenue divided by rate base. So if rate base is lower, you're going to have a higher return. So it would show up.

Whether you -- whether you adopt that after-the-fact mechanism or not, you will still get the Commission basis report by April 30th of every year, so you'll see what the earned return is, you'll see how rate base has grown.

And so we've actually looked at capital additions in our capital plan as part of this cost-cutting initiative, and our conclusion is we've already scaled back our plans for capital additions enough, and so we do not have a plan to scale back our capital investment at this point for '13 and '14.

Q. So do we -- Mr. Elgin mentions in his testimony, staff data request -- Avista response to staff data request 137. Is that in the record, by the way?

THE COURT: It's not yet, and actually I've asked for it. That's Bench Exhibit 7C.

BY CHAIRMAN GOLTZ:

Q. Maybe that has that. But is there in the record details of your capital -- of your cap ex budget for '13 and '14?

A. It is in that staff request 137 that will be in the record if -- if it's put in the record.

Q. Okay.

A. And what that shows really is our financial forecast for 2012 to 2016, and it's really a roll-up of all the other information we provided to all the parties where we've provided the details of every capital project we have on our books that we're planning to do in '13, '14.

Q. So if we were concerned about a possible reluctance to follow through on the cap ex expenditure, we could ask for -- we could see what the plans are from that exhibit?

A. Yes.

Q. And we could ask you for periodic reports as to how you're going and all of that, so we kind of track this without too much burden on the company over the next couple years.

A. We have the data anyway. We're happy to provide whatever you need in that vein.

CHAIRMAN GOLTZ: Okay. And that's all I have. Thank you.

THE COURT: Thank you. Commissioner Oshie.

E X A M I N A T I O N

BY COMMISSIONER OSHIE:

Q. Well, just let me follow up, because I mean, the way I sense this from Mr. Norwood is -- you know, the settling parties, they've reached an agreement in good faith. There's an assumption of what the company's going to be doing in 2013, 2014.

There's an assumption, and staff has to -- you know, makes its judgment based on representations made by the company, made in good faith, that certain, you know, behavior is going to be exhibited by the company.

And so what I believe the chairman was really digging at there is what if that behavior doesn't material -- materialize. And there's been some offerings, so to speak, and I don't mean to -- I don't want to trivialize that, because they aren't, but you have your rate of return, Mr. Norwood, and you -- you're willing to provide, you know, enough documentation that, if asked for, as to what your final plans would be for 2014.

But it seems to me that if everyone was operating in good faith, if there are circumstances that are beyond what people's understandings are entering into the agreement, that there could be an off-ramp. And it could happen on either side.

If your financial condition deteriorates for some reason outside of what's included in this agreement, are you saying you'll just eat it and you won't come in here and ask for to sort of break the deal or -- and I think what I heard Mr. Elgin say, although I don't think he meant it this way, that if you didn't perform as you said you were going to do with regard to your cost of your capital expenditures, that, you know, staff was just sort of going to look the other way.

I don't -- frankly don't think that they would. And so if everyone is operating in a good-faith environment, doesn't it make sense to have a reasonable off-ramp for circumstances that really are not -- that are perhaps foreseen, but are very on the marginal edges of risk?

And one of those would be the company doesn't behave as it -- as it's in its control to do, or two, that there are outside extraneous circumstances that affect the company's earnings that are -- that the company may want to come in.

I'm just -- and I'm offering that up as not just a hypothetical, but I mean, it would seem like there's protection on both ends for both the rate payers and the settling parties, including the company, and the company shareholders.

A. I think the -- one of the advantages of this plan is it's only a two-year plan, not a longer plan. And as you mentioned, there are things that we probably don't envision, can't envision that potentially could happen, so extraordinary circumstances.

But our commitment here in this stipulation is to -- to not come in for a general rate relief with rates prior to January 1, '15. But certainly not oppose that if there's something that -- and I think it would have to be a very unusual circumstance for us to come in and say we would want out of the deal. And I guess I don't envision that.

Our expectation is that we will hold to this plan. We will not file for rates -- for base rates prior to -- to be effective prior to January 1 in '15.

In terms of the good faith and are we going to do what we've said we're going to do, you know, I think there's a number of forums that we've had, whether it's with staff or others, that we're certainly not opposed to any questions being asked or data being provided to demonstrate that we're following through on what we've -- all we're committing to here is to continue to do, at least on the capital side, what we've committed to doing, that is spend what we have to do to have a reliable system.

On the cost side, as you know, we're planning to cut costs. And that's what we have to do. So -- but if there's certain data you need or check-ins, we're not opposed to that.

Q. Well, I think really it's more than that, Mr. Norwood. I'm not personally asking you to provide the data. I just see this as a -- you know, that there is a -- this is a way to mitigate risk or questions that any of us may have about, well, how is this going to actually play out over the two-years period.

A. Uh-huh.

Q. I'm not questioning your veracity that you assume at this point you're going to be -- you're going to be completing the cap ex that you expect to have in 2014. I'm just saying what if things happen and you don't?

And I would expect at that point another party would come in and say, "Things aren't really sizing up the way that we thought that it would, and so we need to have another look at it."

A. Right.

Q. And I'm assuming in that circumstance you wouldn't object to that.

A. No, I wouldn't. I would be concerned if we were to look at our response to 137, that will be Exhibit 7C I think, and say that, well, we had in there, for example, 256 million dollars of capital. I don't know what the number is.

And if we get to that period and we only spend two hundred and forty-eight, there may be some very good reasons to not spend that money. And I'd rather that we not -- all of us not put ourselves in a position where we go spend money we don't need to spend just to meet the target. So there -- I think it's important that we recognize --

Q. And I would completely agree with you.

A. Good. Thank you. I'm glad we're on the same page there. But I have no problem with the two-year plan here where we do a check-in or recognize things are going to change. But I think it's a solid plan and something that we can make work.

E X A M I N A T I O N

BY COMMISSIONER OSHIE:

Q. Okay. Well, let's go back to Mr. Deen. That was just a convenient segue or way to ask -- for me to ask that question, Mr. Norwood, after the chairman. But I want to go back to Mr. Deen.

I guess I want would like to understand better your client's point about attrition. And so I -- I guess I could -- if I -- does ICNU believe that attrition is not a tool that the Commission should use in regulating electric utilities?

A. Of course, you know, we're open -- ICNU is open and will evaluate any proposal that's made in a specific case. I don't want to generalize too much, but in this case certainly we were opposed to the calculation, did not feel it's appropriate. And in particular our concern is eroding the principles of the historic test here.

Q. Okay. So if I understand your testimony is you believe that attrition has a place in the Commission's toolbox, you just don't believe that it should be used in this case.

And is it because of what attrition is being used -- is what attrition is -- the subject matter of it, in other words, what the attrition mechanism is addressing, which is a lag in capital spending recovery?

A. I think that's part of it. And like I said, just in general ICNU is very concerned about, as was stated in the discussion earlier, an attrition study is based on a lot of judgment and can be very sensitive to the assumptions used.

And ICNU is just fundamentally more comfortable with rates that are set on historic test year basis with limited pro forma adjustments. Now, that said, in this case ICNU was able to reach agreement on the revenue requirement, if not the principle, because the other factors involved in the settlement, specifically the rates certainty, and then also the use of some of these ERM dollars.

Q. Is -- are there other mechanisms -- and maybe I should just say it this way, Mr. Deen -- in your mind that if you -- if you were looking at this particular fact situation that's -- that staff is addressing affirmatively as an attrition adjustment, which is capital spending and the lag in recovery over a two-year period, at least I think in major part, is that can you think of a better way to do it that would provide the same kind of financial support for the company without attrition, which you say in your last response is requiring a lot of judgment? Is there a mechanism that requires less judgment, yet provides the same relief and might give you some comfort, your client some comfort?

A. I think, unfortunately, the answer is either we're able to reach a recent settlement between the parties, like we have in this case, or we would prefer to have a fully litigated rate case.

Q. Well, let me ask you personally, then. And I know that maybe I can't in the way that you would answer it. But is -- so is there a mechanism that is like attrition that is more comfortable for you personally that requires less judgment? And "judgment" means uncertainty in the outcome, in my mind. So go ahead.

A. I'm afraid I don't think I have a good -- a good answer in mind.

E X A M I N A T I O N

BY COMMISSIONER OSHIE:

Q. All right. All right. Mr. Elgin, the same question. I mean, you use the same description of attrition. I probably overstated as being as having uncertainty built into one's judgment as to outcomes if attrition is employed as a -- as a tool.

But -- so is there a mechanism that would -- that would -- that has more -- would have more empirical support that would provide the same kind of relief to the company that staff is looking to afford it through its acknowledgment of attrition and using an attrition mechanism to deal with it?

A. I can think of two things, but it's really --

Q. Is your mic on?

A. Is that better?

Q. There we go. Thank you.

A. I can think of two options. The first is if you want certainty in the numbers, and that's what I hear Mr. Deen talking about with their comfort level, the historical rate-making with pro formas.

In my mind, one -- one methodology is to go to end-of-period rate base. My mind that's still consistent with the matching principle that has underlied this Commission's rate making for many years. So you know what that is.

And then the next thing then would be to add construction work in progress and rate base. You have the discretion to do that now under the statute. So if -- if you want certainty and -- and you're -- you're concerned about rates being based on cost, and you know what they are, and there's a degree of precision that makes you comfortable, then that would be my recommendation that you -- you go where you would go.

Q. How about a tracker mechanism of some kind? I mean, we've used them -- employed them in other areas where we just -- there's -- I know that you made a comment about deferred accounting earlier, but it would be similar to that.

A. No, I do not recommend that at all.

Q. So let's go to the -- the effect of the settlement. I'd like to -- I'd like to move on beyond attrition to the effect of the settlement on rate payers. And -- and so what I -- what I understand is going to happen is in -- at the end of 2014, the approximately 9 million dollars that's going to be used in the ERM to support rates or taken from the ERM and used to support rates, is that when will that be -- when will rate payers see that effect in rates?

In other words, right now -- now, I'm not stating this very well, Mr. Elgin, but the 9 million is used to support the rates that will be in place through the end of 2014. When that 9 million is gone, then the 9 million was going to have to be made up in order to keep rates the same.

So is there going to be a tariff filing by the company in January to say, "We're going to raise rates by 9 million dollars in order to bring us even with the" -- in other words, to avoid the effect of losing the ERM support or -- or I anticipate a rate case to be filed, and I'm not quite sure how that's going to work.

And has staff thought that through as to what do we do, what makes up for the 9 million dollars when we drop off -- to use the term, we drop off the 2014 cliff with regard to the support?

A. Well, again, I'm -- I don't think dropping off the cliff is the proper way to characterize it.

Q. It's a small cliff.

A. Okay. Let me go back and answer. This -- the ERM and using the ERM moneys is exactly why I don't recommend deferred accounting for, because if you have deferred accounting and money is either owed to rate payers or owed to companies, you have to collect it some way.

It's on the company's books. And so it has rate consequences, not necessarily -- and that's probably a misnomer. It has bill consequences. So for example, you know, this is one that makes gas trackers have such dramatic impacts sometimes on customers.

If you have rising gas prices, you have a PGA, you put in those anticipated gas costs, rates go -- the costs go up faster, they didn't collect enough, so now they've got a deferred piece. Rates go up and so now you have to also not only have a rate increase, but also collect the amount that you didn't collect. That has bill impacts.

And so we have the same situation with the ERM balance. And so one of the reasons why I was troubled by the initial proposal to use 13 million to offset the rate increase, which were questions from Public Counsel, is that's a 3 percent bill impact. And I felt that was too much potentially to go on and come off in one year. And that's why I recommended that that not be used at that time.

So -- so having said that, back to the impact to the customers. What would happen is, because it's a refund, the company's going to have to take some action to either stop the refund or continue it. And that would require a tariff filing.

And so the Commission will have that in front of it. And at that time we'll know what the ERM balance is, what we want to do with it. And -- and as I said, this rate plan under the circumstances I would like to see would be a three-year 2 percent bill impact to customers.

So a 3 percent general increase with a 1 percent ERM offset the first year, a 3 percent increase the second year with a continuation of the 1 percent ERM offset. And so this 9 million dollars at the end of 214 will have to be dealt with, and it is a 2 percent impact to customers on their bills.

It's not a rate change. It's the fact that you no longer have 9 million dollars to use as a bill offset. And so that's what you have, and that's what the settlement contemplates. So you'll have to deal with that.

Now, whether the company files a rate case or not, we'll have to see. My -- my hope is that they're going to able to manage their costs, hopefully some load will come back, and hopefully they'll take a good look at their cap ex. And with all those three factors, maybe they won't file a rate case.

They don't have to, and I would hope that they don't. But that's what we tried to put together as an incentive package to give the company the opportunity, the two-year window to manage those costs and manage those pressures it faces in operating that business, and give them an opportunity to live within this known price parameter over a two-year period, so --

Q. So okay.

A. Those are the impacts to the customers, and the benefit is that kind of 2 percent, 2 percent, 2 percent that you've -- by accepting the settlement, you've built that in. That's what the settlement does for rate payers.

Q. So you anticipate that the company would file by 30 days prior to January 1st, 2000 -- that would be a filing made in 2014 for effect in 2015, would file for a tariff change that would embody the 9 million dollars that's now being used to support rates from, you know, through this -- if -- if we adopt the settlement, and -- but you just don't know whether, if I can restate your -- what I believe you said is that you just don't know whether that will -- they're going to ask the rate payers for new money -- in other words, a rate increase -- or whether the company will just say, "Let's take the 9 million dollars out of the ERM"?

A. They're not taking -- that's not the way to look at it. They're not taking 9 million. The 9 million that they've refunded, that belongs to rate payers, is no longer there. They've refunded.

Q. I understand that, but the 9 million has to be dealt with at the end of 2014. So the money either has to come from rate payers, either by what they've accumulated in the ERM or through some other mechanism. That's what I'm asking.

A. But the money's not coming from rate payers. It's money that's owed to rate payers, sir. And it is not -- it's not the proper way to look at it that you're taking money from rate payers.

Q. No, I think you misunderstand me, Mr. Elgin. The 9 million is used to support rates through this rate deal that the -- that the -- at least that's my understanding of what the staff has and the other settling parties have made.

And so -- but that 9 million dollars or support, isn't it drawn from the ERM over the two-year period?

A. Yes, it's money it's --

Q. Yes.

A. -- it's drawn from the ERM. It's money that's owed to rate payers. It's refunding money they're entitled to under the ERM.

E X A M I N A T I O N

BY COMMISSIONER OSHIE:

Q. Okay. Let me ask Mr. Norwood this question. Do you understand what I'm saying, Mr. Norwood?

A. Yes.

Q. Thank you.

A. I think I do. So a couple points of clarity. One is right now we have on our books roughly 20 million dollars that -- from prior periods, '11 and '12, that as Mr. Elgin said is owed to customers. And so --

Q. Understood.

A. Yes. Okay. So the plan then is beginning January 1, '13, is to begin to credit 4.4 million to customers, and then as you mention, something has to happen at the end of '13. The stipulation says we'll file October 1st of 2013 to do two things: There will be a base rate increase of 3 percent, and we'll also file a tariff to increase the credit to customers from 4.4 million to 9 million.

And so beginning January 1, '14, you'll have that credit. And then at the end of '14, that 9 million goes away. And at that point we have to decide are there ERM dollars, what else are you going to do beginning January 1, '15.

Q. So I think that that's -- that's something has to happen --

A. Yes.

Q. -- at the end of this deal to either draw money from the ERM to make up what was already -- to compensate for the 9 million that's being used to support rates or rates have to go up the equivalent.

A. Right. So we would actually file October 1 of '14 to eliminate that bill credit of 9 million dollars, and so that in effect would be a bill increase, not a base rate increase, but a bill increase, because the credit goes away.

Q. Yeah. Thank you, Mr. Norwood.

E X A M I N A T I O N

BY COMMISSIONER OSHIE:

Q. That's what I was driving at, Mr. Elgin.

A. I think I understood when -- where I was misinterpreting the question, sir.

Q. I think we've got -- I think it's clear now.

A. Okay.

COMMISSIONER OSHIE: I was just -- as I say, I just wondered what happens at the end. That's all. All right. I don't think I have any more after the conversation we've had with RECS and a few other things. Thank you.

THE COURT: Okay. Thank you. And before we take up Mr. -- yeah, let's go ahead and take a break, maybe 15. And we're off the record. Thank you.

(A break was taken
from 2:44 p.m. to 3:04 p.m.)

THE COURT: Okay. We'll go back on the record. And I believe that Commissioner Jones has some questions for the panel.

E X A M I N A T I O N

BY COMMISSIONER JONES:

Q. Thank you, Judge Friedlander. Good afternoon. These are for probably Mr. Norwood and Mr. Elgin, so I'll start with Mr. Norwood.

I think in your testimony you are alleging that the Palouse -- the Palouse Wind PPA is produced and is consistent with our renewables policy statement, are you not?

A. Yes.

Q. So are you requesting -- would you like us to find in the order that it's produced?

A. Yes. In fact in the stipulation I believe there's specific language that says that the settling parties agree that it is prudent. So yes, we would request that language in the order.

Q. In the order; okay. And just I'm curious, when did that plant go into operation?

A. Actually, the official completion will be in December, I believe. All the turbines are up and running, but there's, I guess, minor details are completing before it goes into official service.

Q. Has it produced any power in calendar year 2012, and will there be any RECS in 2012?

A. It has produced power. I think we're receiving the power. I don't know the answer to the RECS.

Q. Okay. I'm going to be referring to the T's testimony, Mr. Norwood. You may want to get N2T, 1T out.

A. Yes.

Q. Mr. Elgin, you might want to get that in front of you, too. Mr. Thies's direct. And I thought it might be helpful, based on the previous exchange, to go over some of this -- these questions on capital expenditures. I'm going to use the word cap ex, talking about capital expenditures.

So I think Mr. Thies says in his testimony at some point that there is a five-year plan for 1.2 billion dollars; is that correct?

A. That is correct.

Q. How widely disseminated is that capital expenditure, that cap ex plan? For example, is it in the 10-K that you filed with the SEC?

A. I'm not certain, but I think we have put it in the K or the Q.

Q. Okay. And how often --

A. I know that we've communicated it publicly.

Q. And how often is that updated? If you could just briefly describe the capital budgeting process that takes into account the five-year plan. There has to be some sort of annual budgeting process supervised by Mr. Thies, I would think.

A. Yes. There's an -- actually an annual process that we go through to actually redevelop the capital budget for the next five-year period, and there's actually a capital budget committee that consists of six or eight members who are the core people at energy and delivery, generation, transmission, that are really overseeing that part of the business.

And they gather all the projects that the engineers and others believe need to be done. They actually build a business case for each project that they want to have done, and that's reviewed by the capital budget committee.

Ultimately that's rolled up into Mr. Thies and actually to the finance committee of the board where they approve that capital budget each year.

Q. On an annual basis?

A. On an annual basis, and then they revisit that. I don't know how often the committee meets, but it's at least quarterly where they meet to get a check in on how we're doing, what's changing, are we on track.

Q. Okay. Could you turn to page 17. There's a table, illustration number 5 in Mr. Thies's testimony. I think it might be useful to go over this just for a bit.

A. Yes, I have it.

Q. Are you there? Mr. Elgin, are you there? I'm going to ask you some of these same questions, because this relates to the financial forecast that the settlement agreement relies on for 2014.

Let's just go over these lines, Mr. Norwood. And I guess my question is what is in there -- one, two, three, four -- about six, six specific lines here.

My question generally is: What is in those lines, and do you anticipate that amount changing significantly over the next two years?

So T and D, transmission and distribution is the first line. Do you -- do you anticipate that staying -- staying roughly in the 80 million dollar range for the next couple of years?

A. You know, I think we actually have an exhibit in this case in the record that shows the components for the five-year plan. And if I could find it I think fairly quickly. And it would show actually what -- how it changes from '12 to '16.

Q. If you can do it quickly. I don't want to belabor this point too much. And Mr. Elgin, I'm kind of getting ready -- when I finish with Mr. Norwood, I'm going to come to you.

My questions relate to, especially with the financial forecasts for 2014, how much rigor, how much information was provided to staff. And I'm asking a few questions, but you

might -- I'm going to be asking you similar questions.
A. I have that in front of me, and it's --
Q. Which exhibit is it?
A. The exhibit is DBD-2, and that's David DeFelice, Exhibit 2.
Q. Okay.
A. This is what it looks like, the colored.
Q. Yes, I'm there. This looks -- since it's so fancy and in color, was this presented to Wall Street investors?
A. Yeah. I think we actually provide at least to the rating agencies the breakdown.
Q. Okay.
A. T and D.
Q. Okay.
A. So you can see the change over time from 2012, and it does look like it's fairly consistent in terms of spending.
Q. Okay. That's sufficient. Information technology, about 44 million, that's what color is on here. You don't have an IT?
A. Actually it's ET.
Q. Okay.
A. Enterprise technology, so that is the black bar.
Q. Okay. I see that. There's a bit of a bump in 2012, but fairly consistent. What about customer growth, 37 million?
A. Yes, and that is the dark blue. And that's a little

bit smaller this year, and part of that is because we're not seeing the customer growth.

Q. Now, has this been revised for the July 2012 load growth revision that you submitted to the Commission --

A. This was --

Q. -- probably?

A. Has not. So the '13 number may come down a little bit on customer growth.

Q. Okay. Generation, 31 million. It's pretty constant.

A. Yes. '13 dips down a little bit then goes back up for '14, '15.

Q. Natural gas, I think you testified to this earlier, the Aldyl pipeline replacement program is part of that, and that's a 20-year plan, isn't it?

A. Yes, it is.

Q. Okay.

A. And this chart shows it's fairly constant in terms of level of spend for the next five years.

Q. And facilities, what are facilities?

A. What we're doing right now is our -- the building that -- our home office basically is a five-story building, was built in 1958.

Q. I've been there.

A. Yes. It's -- it's still has asbestos in it and the old equipment, and so we're actually in I think the fourth or fifth year of a five-year plan to basically remodel and get rid of that stuff. So there's some other facilities in outlying areas where we're building some facilities to -- to house vehicles and other equipment --

Q. Okay.

A. -- that needs to be protected.

Q. That's enough. As I said, I don't want to get into too much detail. Environmental, 9 million. Yeah, that's fairly insignificant.

So my overall point is that this is -- except for customer growth, you're confident in this bar chart and DeFelice and that provides a cap ex of two hundred and fifty-two million in 2013, 258 million in 2014, and 250 million in 2015.

So are you still comfortable with those figures submitted to the Commission?

A. Yes, absolutely. In fact I've had recent conversations with other officers, and the plan is to stay in that ballpark going forward.

E X A M I N A T I O N

BY COMMISSIONER JONES:

Q. Okay. Mr. Elgin, so how much specific information did you request or did the company provide you? Was it -- was it this level of information that you're relying on for the financial forecasts for 2014? Especially on the cap ex site, you make three points why you're comfortable with the rate plan for 2014.

One is cap ex going up; one is the economy's not going to recover quickly, slow customer growth; and then the third one is non-fuel O&M continuing to exceed. And you pointed to Mr. Norwood's graph.

So my question is: How much -- how much did you dig into kind of the documentation for the company?

A. Well, I -- I had seen this, which -- from -- provided by Mr. DeFelice, also the data here I have also seen in response to discovery presentations to the credit rating agencies, both Moody's and S&P. And that data is consistent with this data.

Q. Okay.

A. But more importantly, in the financial forecast for Avista Utilities, which you will be -- you will have as one of the -- the exhibits, and I'm not sure what it's been -- is that your bench --

Q. Is that bench request 137?

THE COURT: Which forecast, the May or the August?

MR. ELGIN: Which?

MR. NORWOOD: I'm sorry. The question again was?

THE COURT: The financial forecast, I was just asking Mr. Elgin specifically which one he was referring to, because it appears that there were two. There was an update, and that was 8C, that's been marked as 8C or will be when it comes in. But there was the original one that was filed, and that's 7C.

MR. ELGIN: I was looking at the update, your Honor.

THE COURT: All right. So that's 8C.

MR. ELGIN: All right. And that -- that forecast has numbers consistent, although in the out years, the numbers are larger, so past the rate plan forward, the numbers I see here are for plant additions or greater.

BY COMMISSIONER JONES:

Q. Okay.

A. And then with respect to the income statement items, the increase in non-fuel O&M, I have to sort of -- I sort of backed into it. I just looked into the -- the income from operations statement, and the growth in revenues, and these data do indicate continued pressure on non-fuel O&M.

Q. Okay.

A. But this data did not include -- I don't believe it included the severance announcement.

Q. Did not?

A. I don't believe it did, but Mr. Norwood could confirm that, but I suspect not. So to that extent, in terms of the projections. And then just if -- so -- if I were doing an attrition study, you know, if you look at the trends and then the projections, and you would see strong evidence that these numbers are fairly consistent, and shows a continued upward pressure for rates.

E X A M I N A T I O N

BY COMMISSIONER JONES:

Q. Mr. Norwood, could you turn to page 10 of your rebuttal testimony. We've been over a bit of this before, just a question or two on that.

A. I'm there.

Q. On lines 8 through 11, again I'm focusing on -- in -- on the second year of what I call the rate plan, 2014. And you state simple extension of the trend analysis in the attrition study would show a need for incremental electric revenue increase of approximately 14.5 million for 2014; is that correct?

A. Yes.

Q. Now, in your testimony in response to questions, you said that you aren't using an explicit attrition adjustment. But by the trend analysis that you state here in your testimony, I think you are referring to the attrition study done by Mr. Lowry in the trend analysis that was developed by his attrition study, are you not?

A. I am. And so what I've pointed out here are, that's one method that you could use to look at the need for reg relief in 2014.

E X A M I N A T I O N

BY COMMISSIONER JONES:

Q. Okay. And I think, Mr. Elgin, in your testimony, I think at some point, either on page 6 or 7, you talk about historical trends or some sort of trend analysis, do you not?

Let me see. I'm looking at page 7 where you cite those three factors. But maybe you don't. Maybe you didn't cite specifically to trend analysis. But I thought you said something on historical trends, did you not in your earlier testimony? And I'm just trying to get a sense.

A. Yes, that would be on page 6.

Q. Okay. So my question is: When you say "historical analysis," are you referring to Breda's attrition study, Lowry's attrition study, or some sort of historical analysis that you did yourself?

A. Actually, it's a combination of all three.

Q. Okay.

A. As you recall in the case prior to this one, there was also alleged attrition. That case was settled. And so we -- staff began reviewing the growth in rate rates and the growth in customers and revenues.

And while we didn't have anything specific in terms of the study, we did have some preliminary data that something was going on, and there was some merit to the assertion, but the problem was is at that point how to quantify and how we would go about.

And we weren't -- we did not have a study, so we weren't responding to anything specific. So we had that, and that sort of informed our -- and then in the PSE case, we, you know, went a little bit further. And then in this case, we specifically through Ms. Breda responded and provided our own attrition analysis in response to Dr. Roberts.

E X A M I N A T I O N

BY COMMISSIONER JONES:

Q. I understand. Mr. Norwood, back to you. In Mr. Thies's testimony -- I'm not going to refer to anything too specific there, but I think the general thrust of his testimony is the company is in good financial health.

You have a triple B credit rating from S&P. The long-term goal is to get a triple B plus credit rating; correct?

A. Yes.

Q. What do you mean by long term? What number of years does the company take to achieve that? Five years? Ten years? Two years?

A. I haven't talked to Mark specifically about what his goal is or what his plan is in terms of time frame, but I think within the next five years I think what his goal would be.

Q. That's fair. Has the company experienced any difficulty in accessing capital markets over the past year either for fixed income or equity?

A. No.

Q. So you have been able to access capital markets on reasonable terms to the amount of equity that you need and fixed income that you need; correct?

A. Yes. Although, you know, one element of that is stock issuances. We have been issuing stock. And if you look at our stock price versus our peers, I think there may be a concern there. But generally speaking, we have been accessing capital under reasonable terms, yes.

Q. And you feel that the settlement agreement with its 47 percent equity layer, the 9.8 percent ROE will continue to afford you that ability to access capital on reasonable terms?

A. I think that by itself will not. I think what will make a difference is that this agreement does -- as Chairman Goltz and I were talking earlier, the issue that we've been experiencing is we've had this I think expectation of the ROE authorizes 9, 8, 10 percent number, but we haven't been able to actually reach it.

So I think with this agreement, together with our cost management, there's an opportunity to get closer to that on an actual basis, and I think that's what analysts and investors are going to look for is that actual opportunity.

Q. And that's what you cite to on page 13 of your

rebuttal testimony; right? You are alleging that, compared to the great states of Oregon and Idaho, that you -- for some reason you haven't been able to achieve your --
A. Yes.
Q. -- authorized returns in this state; correct?
A. That's correct.
Q. And so for 2011, even though your ROE was 9.8 percent, you achieved only 7.4 percent?
A. Yes.
Q. Okay. I'm turning to REC revenues now briefly. And this concerns the settlement agreement on REC revenues, which I think is -- what is it? Number 5. Judge, I don't know the official cite for the settlement agreement, but it's the settlement agreement.
THE COURT: It does have an exhibit number assigned to it, and the settlement agreement is Bench Exhibit Number 5.
BY COMMISSIONER JONES:
Q. Okay. So on page 5 of that is 12, number 12, which is renewable energy credit revenues, and I think I understand the thrust of that, and there was -- there was, both with other commissioners and with other questioners, we had a good exchange this morning. I cannot say that I'm entirely clear about how this is going to work yet.
A. Okay.
Q. I understand the separate tracking mechanism. But the

way I understand you saying is it still is going to be a deferral within the ERM. 100 percent is going to go -- 100 percent of the difference is going to go back to customers.

That's your intent; correct?

A. That's correct. And the question that we were talking about is the timing of when they would get that difference, whether it's annual or whether it would be dumped into the bucket and they wouldn't get a rate change benefit until the bucket tipped.

And what I clarified was that we were not clear in the stipulation on that, whether it's annual or otherwise. And so we are open to, if the Commission's desire is to have that -- any changes credited to customers in an annual basis, any difference, then we are open to that.

Q. Okay. But let's read the language again, Mr. Norwood. So it says, "Beginning on January 1st, 2013, Avista will track separately," which you don't do now, "separately and defer 100 percent of all REC revenues over that which is included in base rates."

A. Yes.

Q. So the question is: Is this over meant to be symmetrical? What if it is not over and it's under, is this meant to be a symmetrical mechanism over and under or just over?

A. Yeah, I think we could have done a better job on the language. My understanding is it's both ways, but I'll have to defer to the other parties to see what the clarification is on that. That's a good question.

Q. Okay. Well, why don't we -- does staff have an opinion on that or the other settling parties?

MR. ELGIN: I would ask that that question be deferred to Ms. Breda.

COMMISSIONER JONES: Okay.

MR. ELGIN: I don't know.

COMMISSIONER JONES: Okay. Mr. Deen, is it meant to be symmetrical or not.

MR. DEEN: Pardon me. My interpretation of that is that it would be symmetrical in the sense that our understanding of -- ICNU's understanding of the Commission's recent order in the PacifiCorp docket was the customer should receive a hundred percent of the actual value, whatever that is. So that was, from ICNU's perspective, the intent of this provision.

BY COMMISSIONER JONES:

Q. Okay. All right. My last question is on -- on page 6 of the settlement agreement, Mr. Norwood, there's number 15. And this is not -- this relates to the deferred accounting maintenance costs of Colstrip and Coyote Springs 2.

And as I recall -- this is a bit of history here, but since you're going to be out for two years if we approve this, I think there's a lesson to be learned here, perhaps. My recollection of the last rate case is we spent quite a bit of time asking questions both of staff and the company on this -- on this new deferred accounting mechanism.

And each time the commissioners asked questions on this, you all said, "This is really important. Costs are variable for our share of Colstrip and Coyote Springs 2, and the maintenance costs are going up and down, and we really want to smooth things out."

We asked questions about, you know, the future, and everybody assured us that, you know, this was necessary. So I read Mr. Dittmer's testimony, and I read other testimony, and now we have this in the settlement agreement where you're basically discontinuing a deferred accounting mechanism, which is as Mr. Elgin said, and I agree with some of his sentiments, not all, but deferred accounting should be used rare -- sparingly, if possible.

Okay. So I guess my overall question to you here, Mr. Norwood, is what happened -- and I'll ask it to staff, too. What happened where your projections appear to be -- appear to be so off and now we're discontinuing this?

A. I'm glad you asked the question. I can assure you --

CHAIRMAN GOLTZ: Defer to Ms. Feltes.

THE WITNESS: I'll spare Ms. Feltes this one. I can assure you this was not our approval or recommendation in the discussions. In fact this was really hard for me to swallow on, because this piece is important for us. And in fact, as you look forward to '13 and '14, that is one of the changes in costs that we're experiencing that we have to deal with.

And so we swallowed hard in the whole process to give this up in exchange for the balance of the stipulation. So this was something that was tough for us to give up on.

E X A M I N A T I O N

BY COMMISSIONER JONES:

Q. Any response? I mean, I don't want to get into respective litigation positions and a whole history. I'm just trying to look forward here, Mr. Elgin. And as you said in response to Commissioner Oshie on attrition, you know, you did -- you offered a couple of tools in the toolbox to deal with regulatory lag, but you don't seem to like deferred accounting. And yet a lot of time was spent on putting this in the last rate case.

A. In the last rate case, it was part of the settlement.

Q. Yeah.

A. And then we -- staff read your order, and we understood that there was some concern about the propriety of it. And staff examined it, and we were uncomfortable with it, and so one of the -- one of the things about this settlement was we wanted to go back to what was before, and the settlement gets us there. And so that's why it's there. It's one of the elements of the give and take to the process.

MR. NORWOOD: May I clarify? I just want to make sure it's clear that on balance we fully support the end result here. And so we received things the other direction in exchange for giving up things like this.

COMMISSIONER JONES: Well, Mr. Dittmer's not here and -- but I read his testimony, and it appeared that the projection of the baseline was quite different than was represented to us in the last case. I don't know, Mr. ffitch --

MR. FFITCH: Mr. Dittmer is here. He's been here all day, your Honor.

COMMISSIONER JONES: Well, I think I'll leave it at that for now. Thank you. Those are all my questions.

THE COURT: Thank you. Chairman Goltz.

E X A M I N A T I O N

BY CHAIRMAN GOLTZ:

Q. I'm sorry. One more question occurred to me, Mr. Elgin, if I could. Some of the questions that I was asking and some of the ones Mr. Jones focused on was about relating to the precision of the number for the second year increase, how precise was it.

Because we spend so much time, you know, getting to a precise number in this business. So what I think you're saying, at least implicitly, that the imprecision, whatever imprecision there is, is okay because whatever problems there are with that are overcome by the fact that you have a two-year rate plan, and this is in effect some -- an incentive plan, I think you used the term.

Am I reading that right, that you're really saying, yeah, the second year is a bit imprecise, but it doesn't matter, because overall there's independent value in the fact that we have a two-year rate plan, and this is really designed to give the company incentives to manage within that -- within those caps?

A. That's correct.

Q. And is that -- you said we've had rate plans before, but is this -- this seems to me like conceptually a little bit of a -- of new theoretical ground here. I mean, it's a little bit like a price cap. It's a little bit moving into an incentive regulation it sounds like.

Is that -- are we doing -- tiptoeing into that or am I overanalyzing this?

A. No, sir, you're not. I think that that's one of the things from staff's perspective --

Q. Is your mic on?

A. Yes. No, you're not. I think one of the things from staff's perspective is the value of this. Not only it provides the right incentives, it in my mind breaks the cycle of, "Here are my costs. I'm filing a rate case," and which was something that we wanted to overcome, and also at the same time wanted to recognize the company needed an opportunity to earn a fair rate of return.

So it was balancing all of those competing interests, and then coupled with what's the impact to rate payers. And the net bill impact is 2 percent. And so if you look at the whole package, as Mr. Norwood has consistently emphasized, it is a -- it's in the public interest.

It's a very good package that provides certainty for rate payers, certainty of revenues for customers -- for the company, and an opportunity for the company to where staff's concerned to look at the cost side of the picture to see what we can do to break this endless cycle of rate cases. So I would say, yes, it is part of that concept of a price cap, rate cap. We're stepping -- putting our little toe in that water.

Q. Okay. Thank you.

E X A M I N A T I O N

BY THE COURT:

Q. Thank you. And I just have a couple, and I believe I can direct them to Mr. Norwood. Isn't it correct that the settlement removes certain production fixed costs from the retail revenue credit?

A. Yes, that's correct.

Q. So where in -- how much are they, and where do I find that number? Is it in Ms. Andrews' testimony or in her exhibits, I should say?

A. No. If you look at -- I think -- I'm trying to make sure I understand what you're saying. The -- the settlement agreement changes the calculation of the retail revenue credit. And in the past it included demand-related generation and transmission costs, and the agreement is to pull out the demand-related and use only the energy-related.

And so that new number is shown in attachment to the stipulation, and I'm going to find it for you here. It's appendix 1 to what's been marked as Exhibit 5, the stipulation.

Q. Okay.

A. And you'll see on line 29 of that page through the retail revenue credit number of 32.15 dollars per megawatt hour.

Q. Right.

A. Previously if you would include the demand-related costs, it would be in the neighborhood of 5 cents, so it's been reduced roughly from 5 cents down to 3 cents.

Q. I see.

A. And the calculation of that is included in Ms. Knox', Tara Knox' testimony. All the details of that were provided there.

Q. I see. And did she have a specific exhibit attached to her testimony that went into more detail?

A. Yes. She actually had an exhibit that showed the calculation of it.

Q. Do you know what that is, which exhibit?

A. I think I can ask counsel or --

MR. MEYER: May we approach the witness?

THE COURT: Yeah, please.

THE WITNESS: That is Exhibit TLK-2, Tara Knox 2.

BY THE COURT:

Q. Okay.

A. And the number that shows up here is $33 per megawatt hour, but that's part of the original case.

Q. Right.

A. And so if you reflect the stipulation, then it's a lower number.

Q. I see. I see. Fair enough. The other -- I just have one other question, and that relates to the REC revenues. The REC revenue is dealt with in the settlement?

A. Yes.

Q. So it would appear, from the joint testimony in support of the settlement, that the REC revenues above and beyond those that are already calculated or already credited to customers would be passed through at a hundred percent?

A. Yes.

Q. So what is this number that's already calculated to be credited to the customers?
A. That is included in -- take just a moment to find it.
Q. Sure.
A. In my rebuttal testimony, I provide specific numbers.
Q. Okay.
A. I'm looking for it.
Q. And so that's KON-7T?
A. Yes. It's actually on page -- yes, page -- the bottom of page 25 of that exhibit.
Q. Okay.
A. On line 22 it says the agreement includes $3,410,297 of REC revenues, and that's Washington's share.
Q. Okay.
A. So any -- any actual dollars during 2013 that would differ from that would be deferred and set aside.
Q. I see. And does that then -- how do you project that for 2014? Is it the same number?
A. Actually, it'd be the same number. The deferral would be the -- the same number. We'd be deferring the actual minus the same number in 2013.
Q. I see. The 3.4 million?
A. That's correct.
Q. And then for 2012, if I'm understanding it correctly, we're still under, according to the settlement agreement, the

90/10 sharing; is that correct?

A. For any differences that are not built in the base rates. As we talked earlier, there's 28 -- there's a $28,000 difference between a hundred percent going to customers and what's actually occurring, so 99.35 percent is going to customers in 2012.

Q. I see. And that's because it says in your rebuttal testimony that Washington REC revenues will exceed the amount of REC revenues in base rates by two hundred and eighty-two thousand --

A. That's correct.

Q. -- plus; okay.

A. And 10 percent of that is the 28,000.

THE COURT: Right. Right. Right. Got you. Okay. Okay. I think that does it for me. Does -- does counsel for the settlement witnesses wish to provide redirect.

MR. MEYER: I do, your Honor.

THE COURT: Based on the -- based only on the commissioners and my clarification questions.

MR. MEYER: Surely.

E X A M I N A T I O N

BY MR. MEYER:

Q. Mr. Norwood, I believe Commissioner Oshie referred to off-ramps and whether there were or were not any in the settlement either to protect the company or the customer.

Do you recall that exchange?

A. Yes, I do.

Q. In what sense, if any, is the company's offer to refund any excess earnings an off-ramp of sorts to protect customers?

A. Right. I think I may have misunderstood Commissioner Oshie's question when he asked it. There is not a specific off-ramp or protection in the stipulation, but in our rebuttal testimony we did offer that if after the fact, as we look at Commission basis reports and look at what our actual earned return was for the prior year, we are offering up that if we earn more than 9.8 percent, we would refund that to customers, and we lay out how that would happen in my rebuttal testimony.

So I think the word "teeth to it" may have come up earlier. So in my view, that would provide some teeth to the protection to customers that, if in fact we do over earn in '13 or '14, we would refund that back to customers.

On the other side, with regard to the company, if -- if there were an extraordinary event that would occur in the next two years, then we may file with the Commission to explain an extraordinary event and ask for some type of relief. All the parties would have the opportunity to weigh in on that, and obviously it would be up to the Commission as to whether that event would be cause to change the stipulation.

Q. Mr. Norwood, would you explain what the implications of this off-ramp, if we want to characterize it as such, that you just described, would be in terms of rate base or expense or revenues in '13 or '14 that may or may not materialize?

A. Yes. In the Commission basis reports, that would include all the expense s that we incurred during the calendar year, the revenues, expenses and the rate base that was in place during the period.

So to the extent any of those changed or significantly different than what the expectation is here in this case, then that would be reflected in there and would effect the actual earned return that we're presenting to the Commission. So all those factors would be captured in that -- that test.

Q. And in that fashion, would the company be prevented from over earning as defined by the authorized return?

A. Yes.

Q. Okay. Thank you.

THE COURT: Thank you. Mr. Eberdt did have one question that Mr. Roseman doesn't want to redirect, I understand. Mr. Sanger.

MR. SANGER: Yes. Yes, I have a couple redirect questions, your Honor.

E X A M I N A T I O N

BY MR. SANGER:

Q. Mr. Deen, does ICNU believe that there's an off-ramp in the stipulation?

A. No, not as -- not as such. I believe ICNU's position is that the settlement would prevail under all normal conditions, although as Mr. Norwood explained, I think there's significant value to consumers to this 9.8 percent ceiling.

Q. And does the -- the guarantee of a fixed rate increase with no -- no additional rate increases, is that a key and critical element of the settlement for ICNU?

A. Yes. Again, that is extremely -- an extremely critical element for the ICNU members.

MR. SANGER: No further questions, your Honor.

THE COURT: Thank you. And Mr. Trotter.

E X A M I N A T I O N

BY MR. TROTTER:

Q. Just a couple. Mr. Elgin, you were asked some questions from Chairman Goltz about the used and useful statute?

A. Yes, I recall those.

Q. Okay. And are you familiar with the five-year rate plan the Commission approved for PacifiCorp a number of years ago?

A. Generally, yes.

Q. And did that call for -- can you describe the rate changes that plan called for?

A. Yes, I can.

Q. Just percentages each year.

A. It called for a three-year plan with a 4 percent increase offset by certain merger and Centralia credits in the first year, and then one and a half and 2.1 -- excuse me. It was a range of increases in the following year, and then a increase in base rates of 1 percent in the third year.

Q. What about the fourth and fifth year?

A. There were no increases.

Q. To your knowledge, did the Commission value the company's property that was used and useful for service for any year of those five years?

A. No. And there was no finding or no updated test period, no specific findings on rate base for the subsequent years.

Q. Were there any prudence issues contested or at least at issue in that case?

A. Yes, there were. There were -- one of the significant issues was related to the company's acquisition of six major thermal generation, and even though that was not specifically found, the Commission went ahead and accepted the rate plan for a subsequent report on the specific merits of the acquisition for resources.

Q. So the Commission in its order did not make a prudence finding for those, to your knowledge?

A. To my knowledge, not.

Q. Are you familiar with the last settlement the UTC approved for Avista?

A. Yes.

Q. Was that a black box settlement?

A. Yes, it was.

Q. Did the settlement include a valuation that the company's property needs to be pursued?

A. No, it did not.

Q. Did the Commission's order include a valuation of the company's property used in the ensuing proceeding?

A. No, it did not.

Q. In one of your responses, you mentioned the matching principle. Is an attrition study consistent with the matching principle?

A. Yes.

Q. And why is that?

A. What it -- what it's trying to do is look at relationships that are likely to prevail in the rate year that are different from the test period, so it's attempting to match what the evidence suggests will likely occur in the rate year as opposed to what's being measured in the test period.

Q. As a result of that analysis, does an attrition study tell you whether the company will have a reasonable opportunity to earn a fair return?

A. What it -- what the attrition analysis and then the allowance does is an effort to provide the company with a reasonable opportunity. So it doesn't tell you specifically, but it -- it's to, if we're talking about probabilities, enhance the probability and the likelihood that, under the conditions that are likely to prevail, the company would indeed have that opportunity.

Q. Do end-of-period rate base or CWIP, are those measures, which you also identified I think in response to a question -- do those measures give an indication of whether the company will be allowed a reasonable opportunity to earn fair return?

A. No. Again, those are just different ways of valuing the public service property to the extent that the Commission is -- is comfortable or insists on is, I guess, a better word, that they know what the rate base is and what those actual relationships are.

So in the circumstances where you have growing rate base, moving to end of period and, for that matter, including CWIP just merely increases the valuation of rate base and increases the -- all else being equal, the amount in the revenue requirement that's for return on rate base.

Q. Just one last question on the PacifiCorp rate plan. In the last year of that rate plan, did the company petition to change it or terminate it?

A. The company --

Q. And by "company" I mean PacifiCorp.

A. PacifiCorp petitioned the Commission to cease the -- one of the credits that was in place to deal with adverse power costs. And the parties, we litigated that issue, and the Commission determined that it wanted to open the rate plan because of those circumstances and enable the company to file a rate case before the end of the five-year term.

Q. And is that a -- is reopening settlement a tool the Commission can use as an off-ramp?

A. Yes. And in fact that issue went beyond the Commission, went to the court, and the court said that the Commission has that right to look at any rate plan and open it at any time. The rate plan becomes the Commission's -- part of the Commission's order, and it can change the orders.

Q. Thank you. That's all I have.

THE COURT: Thank you. And I -- I believe that's all the questions that we have for the settlement panel, so you are dismissed. Thank you so much for your testimony.

Mr. ffitch, I believe that you had -- had additional witnesses that you were interested in cross-examining; is that correct?

MR. FFITCH: That's correct, your Honor. We had identified Ms. Breda and also potentially Mr. Gorman.

THE COURT: And I believe that during cross-examination by Ms. Gafken, Ms. Feltes was mentioned as a possible alternative witness.

MR. FFITCH: That's correct. And I believe we would also like to call Ms. Feltes.

THE COURT: Okay. So I guess who would you like to start with?

MR. FFITCH: Your Honor, before we get to that point, since we're now to individual witnesses, I would also like to raise a potential point with the bench regarding an offer of proof by Public Counsel for consideration by the bench under the Commission settlement rules.

And the reason for this proposal is the number of questions that have gone to attrition witnesses in the case, including questions about ICNU's own attrition theories. At this point, other than Mr. Gorman, it appears that the only witness who will not have an opportunity to answer the commissioners' questions on those points would be Mr. Dittmer.

Mr. Dittmer is here in the hearing room. He has heard the questions. Some of the questions at least went specifically to ICNU's attrition theories. Mr. Dittmer is one of ICNU's attrition witnesses.

So we would request, under the offer of proof rule, that Mr. Dittmer, at some point convenient to the Commission during the hearing, be allowed an opportunity to take the stand

and simply answer the questions that the commissioners had for the other attrition witnesses, nothing more than that.

THE COURT: I see. So I guess my preference would be to continue with cross-examination, since that's where we're at right now, rather than confuse things, and then we can take up Mr. Dittmer after the other cross-examination witness has -- have been addressed.

MR. FFITCH: Thank you, your Honor. I'm prepared to proceed with Ms. Breda, unless there's a request for a break.

MR. MEYER: May we have a five-minute break?

THE COURT: Sure. That's fine. We're on recess.

(A break was taken
from 3:53 p.m. to 4:07 p.m.)

THE COURT: Okay. We have Ms. Breda up and if you would stand and raise your right hand. Do you swear or affirm that the testimony you're about to give is the truth, the whole truth, and nothing but the truth?

THE WITNESS: I do.

THE COURT: Thanks. You can be seated. And Mr. -- oh, yes, I should. At this point I do want to announce that earlier this week I had e-mailed the parties to let them know there may be additional witnesses needed from questioning from the bench.

Three of those were Mr. Coppola, Ms. Huang and Dr. Lowry, and they will no longer be needed as witnesses. So they can be excused at any time. However, we do have Ms. Breda. And Mr. Trotter, would you want to introduce this witness and ask if there are any corrections or additions to her testimony, please?

MR. TROTTER: Sure. Has the witness been sworn?

THE COURT: She has.

E X A M I N A T I O N

BY MR. TROTTER:

Q. Ms. Breda, are you a witness on behalf of Commission staff in this case?

A. Yes.

Q. And you filed testimony and exhibits?

A. Yes.

Q. And do you have any material changes to make in any of those exhibits?

A. No, I do not.

MR. TROTTER: The witness is presented for cross. I will note, your Honor, this witness was not offered by staff as a supporting witness for the settlement, so I guess I'll wait and see how it goes.

THE COURT: Understood. Mr. ffitch.

E X A M I N A T I O N

BY MR. FFITCH:

Q. Thank you, your Honor. And good afternoon, Ms. Breda.
A. Good afternoon.
MR. FFITCH: Your Honor, I apologize. I -- I -- I have one point with regard to your instruction regarding witnesses that I -- I wasn't quick enough to bring up. For Mr. Coppola, we did have errata, and we were expecting he would take the stand possibly, and then beginning of his testimony could obviously give his brief errata. So he is here, and we can still do that at the appropriate time --
THE COURT: All right.
MR. FFITCH: -- on the record.
THE COURT: All right. Well, then we'll do it very quickly after Ms. Feltes. Thank you.
MR. FFITCH: Thank you, your Honor.
BY MR. FFITCH:
Q. Again, good afternoon, Ms. Breda. You're the chief staff witness on attrition; is that correct?
A. I prepared the attrition analysis, yes.
Q. All right. Pardon me. I'm getting trapped -- attacked by sticky notes here. Pardon me.
Would you generally agree that an attrition adjustment should be transparent based on informed judgment and careful evaluation?
A. Generally, yes.
Q. And that an attrition adjustment should be undertaken

with caution?

A. Yes.

Q. Would you agree also that the Commission in the past has looked at four main factors when allowing attrition, and those are: High inflation, high capital costs, financial integrity if the company's in jeopardy, and high construction costs or cap ex? These are four of the main factors that appear in the past Commission decisions?

MR. TROTTER: Your Honor, I'm going to object. This has nothing do with her direct testimony or really the -- this was -- this was -- subject was covered by Mr. Elgin in his testimony.

He is the policy witness on attrition in this case, clear from his direct testimony. And so he's got the wrong witness. And Mr. -- Mr. Elgin also filed rebuttal on this very point.

THE COURT: Mr. ffitch.

MR. FFITCH: Your Honor, under the Commission's rules for settlement hearings, we are dependent on evidence in support of our position. The topic that I've just touched on, which I'll be finished with in one more question, was addressed by Ms. Breda briefly, and I'm just trying to move past it, just get some basic confirmation on --

THE COURT: Do you recall where it was addressed? Was this in -- I assume this was in her response testimony.

MR. FFITCH: I believe we're looking at Exhibit 1 for Ms. Breda, page 19.

THE COURT: Okay.

MR. FFITCH: It's on page 19, line 17 through 20 generally.

THE COURT: Okay. I am going to allow this line of questioning and overrule the objection.

MR. FFITCH: Thank you, your Honor.

BY MR. FFITCH:

Q. Do you have that place in your testimony?

A. I am looking at it, yes.

Q. And those are generally the factors the Commission has looked at?

A. Generally, yes.

Q. And in this case, staff is only relying on one of those factors, the high construction costs or high cap ex; correct?

A. Correct. Yes.

Q. And that's because we're not in a period of high inflation, capital costs are low, and the company's not facing significant financial jeopardy; correct? Those other three factors are not present currently, are they?

A. The other fact -- I'm sorry. What -- no high inflation, and I would generally say yes.

Q. All right. And you performed, as I think you've

already testified, staff's attrition study in the case?
A. Yes.
Q. Correct? And also you analyzed the company's attrition studies?
A. Yes.
Q. And to summarize your methodology, you started with staff's base case for the 2011 test year, including restatement, pro forma, and pro forma adjustments, and then developed growth rates to forecast the 2013 rate year, which you also call the 2013 attrition year; correct?
A. Well, backing up, I looked at -- I actually conducted a thorough study looking at budgets, forecasts and growth rates before determining what seemed to be the most reasonable.
Q. Okay. I'm just trying to sort of get to the step by step.
A. Okay.
Q. I'm looking at page 24 of your testimony.
A. Okay.
Q. I think this is pretty basic stuff, but --
A. Okay.
Q. You start out with traditional test year analysis, and then you take those growth factors that you talked about to do an attrition analysis for the 2013 rate year; correct?
A. Well, I start with a traditional test year basis, not considering all of the pro forma adjustments, considering

certainly statement adjustments and adjust forward, yes.
Q. Okay. So we're looking at page 24, and we're looking at lines 8 and 9. The question is, "Please describe how an attrition analysis is performed."
A. And --
Q. And you answer, "It starts with the base case historical test year, period, results of operations with restating and certain pro forma adjustments"?
A. That's what I say, yes.
Q. That's your testimony?
A. Yes.
Q. That's how you started your analysis. And then the second sentence basically describes how the attrition study adds on to that with examining and estimating the relationship between expenses, revenues and rate base?
A. Correct.
Q. That's how you did your study?
A. Yes.
Q. All right. And in this case, you started with a 2011 test year; correct?
A. Yes.
Q. And you were forecasting into the 2013 rate year; correct?
A. That's correct.
Q. All right. And at least in some places you refer to

that as the 2013 attrition year; correct?
A. Correct.
Q. Right. And as part of this analysis, you develop a 2013 rate base; right?
A. I develop a whole test period for 2013.
Q. Right.
A. Which includes a rate base.
Q. Okay. All right. And the result of all this is that you -- you on behalf of staff have a recommendation of an attrition adjustment of 19.1 million for electric and 2.8 for gas for the 2013 rate year; correct?
A. I think that's correct, yes.
Q. Is it correct that you did not perform a full attrition study for the 2014 rate year in this case?
A. Yes, I only looked to the rate year.
Q. For 2013?
A. Correct.
Q. And so you did not develop a 2014 rate base?
A. No.
Q. And to your knowledge, did Avista develop or file a 2014 attrition analysis with a 2014 rate base in this case?
A. Not to my knowledge.
Q. Your attrition also doesn't agree with the Avista recommendation in this case. You have about a 10 million dollar difference of opinion; is that right? Your -- you're at

19.1 million, and the updated Avista attrition recommendation is in the neighborhood of 28, 29 million; is that right?
A. You can't look at the adjustment. Really what I'm doing is creating a rate year looking at the relationships for the rate year and what that return may be to determine if there's any earnings erosion.
So the adjustment is just a -- the difference between staff's base case and what the attrition analysis shows for the rate year. So they're not relative.
Q. But staff has identified 19.1 million dollars' worth of attrition on top of the --
A. On top of staff's base case, but not the company's.
Q. Right. So your attrition component is 19.1 million. The staff's or the company's attrition component now as updated is 29 million.
A. And they're not relative. You can't compare them, because what I'm -- if you look at my Exhibit 9 and 10, it shows basically what the results of my attrition analysis are or is. And the adjustment is just to bring staff's base case, whether it be electric or natural gas, up to that level.
Q. So you have different methodologies, and you arrive at different numbers. They're both based on attrition analyses. You just have a different approach than the company?
A. I don't have a different approach than Lowry. Basically Lowry's doing the same thing. He's looking at the

rate year and calculating what that return would be and based on the proposed capital structure determining what the revenue requirement would be for that rate year.

Q. All right. But are you saying that you both end up with the same number, your attrition component of your analyses is the same?

A. No. I'm saying that the approach to determine what the need for the rate year and if there's actually any perceived attrition or potential earnings erosion in that year, we're approaching it in the same fashion.

Q. All right. But you come out with different numbers, and I guess this is where I want to get to. As I understand it, one of the primary differences in your analyses is your treatment of the revised load forecast.

A. The difference between Lowry's adjustment and mine I mean is the load forecast. I mean, basically Lowry's initial study I think -- I believe on a system basis had 12.5 or 7 million in additional revenue.

Once they updated their study, they updated their power supply cost and their -- another expense, and that -- and updated their revenue, and they for the most part offset each other where they came up with about the same amount of requirement in the rate year.

Q. All right. And that was an update that happened around July through discovery; correct?

A. Correct.

Q. And the new load forecast that was provided in discovery showed a drop in load for the company for 2013; is that right?

A. It did, yes.

Q. And as a result of that, Avista recalculated or updated its attrition analysis and found that that increased their attrition analysis by about eight and a half million dollars; is that right?

A. I -- what they provided in July was an update to Lowry's study which basically provided the 41 or -- million in rate year amount. The 8.2 that they're referring to I believe is only in the responsive testimony to the settlement.

Q. But that's the difference, that's the result of that revised load forecast is about another 8.2 million into the company's case; right?

A. I believe so.

Q. And staff in its testimony has criticized the company's use of the load forecast as kind of a make-whole approach; is that right?

A. I'm sorry. Repeat the question.

Q. Staff's testimony has criticized the company's use of this new load forecast as essentially a make-whole kind of a approach to rate making or to attrition?

MR. TROTTER: I'll object.

THE WITNESS: Where do you see that?

MR. TROTTER: Never mind.

BY MR. FFITCH:

Q. I'm referring to testimony of Mr. Elgin. If you don't recall, that's fine. We can move on. Mr. Elgin, Exhibit 1, page 6, lines 4 through 5. He's characterizing staff's attrition case generally, including yours.

Do you recall that?

MR. TROTTER: Counsel -- your Honor, if Counsel wishes the witness to review that testimony, I have no problem with that. But -- or if he wishes to move on, I have no problem with that. This middle ground isn't productive, I submit.

MR. FFITCH: We can certainly go to that. Just trying to move efficiently. If the witness doesn't recall this part of staff's case, we can go to that testimony.

THE WITNESS: I do have his testimony.

BY MR. FFITCH:

Q. All right. I'm looking at KLE-1T.

A. Okay.

Q. Page 6, lines 4 through 5. Do you have that?

A. I do.

Q. And Mr. Elgin here is discussing the -- I believe discussing the load forecast that was filed, and stating that he's making this criticism that it's being sort of presented as part of a make-whole philosophy that staff doesn't agree with;

correct?

A. I'm not sure if it's stating a make-whole philosophy, but what I am -- what -- what we've done with it in my attrition analysis is basically what we're looking at, we're not looking to forecast actual revenues for the rate year.

We're looking to use this as part of the attrition analysis and determine whether there's evidence of earnings erosion in the rate year. And so based on that, I use that information and adjusted it for the study.

Q. All right. And Mr. -- Mr. Elgin does express a concern about the make-whole philosophy in his testimony here, does he not?

A. Oh, at line 1 and 2, yes.

Q. Correct?

A. Yes.

Q. And he goes on to say that staff does not fully accept either the load or the revenue forecast, and that it's not clear that it should be considered at all; correct?

A. Correct.

Q. And let's talk a little bit more about the load forecast. You discuss your treatment of the load forecast in your Exhibit 1CT at page 29. Another basic question -- I don't know if you need to go there, but you point out that the load forecast shows a decrease for 2013, but that's a one-year decrease, and after 2013 there's a general upward trend in load

after 2013; correct?
A. Yes.
Q. And so you describe that elsewhere in your testimony as an anomaly?
A. I believe so, yes.
Q. And for this reason you state, I think subsequent sections, that you did not use the Avista forecast due to the inherent uncertainty of the forecasts this dramatic change shown in this update, and the fact that the company's predicting steady growth after 2013; correct?
A. Well, I considered the new forecast, but I did not use the specific 2013, yes.
Q. You took a different approach --
A. Yes.
Q. -- than the company? Just a couple more areas, Mr. Breda. Are you familiar with -- are you familiar with the exhibit that's been referred to -- or the data request that's been referred to a number of times, staff data request 137 we discussed somewhat in the hearing today?
A. Yes.
Q. You've had a chance to review that in your --
A. I've looked at that extensively, yes.
Q. Okay.
A. I don't know that I can recite from it, but I've looked at it.

Q. It's probably good that you can't recite from it. Just a couple of questions about that. That data response doesn't develop a rate base for electric or gas operations; is that correct?
A. What -- it provides a budget for -- that you can look at the components of a rate base, yes.
Q. Well, it provides a budget, but it doesn't provide an actual fully developed rate base that you would use in a traditional rate-making context; isn't that right?
A. Well, it provides a balance sheet and income statement.
Q. And that's not presented on a Washington jurisdictional basis, is it?
A. I don't recall. I think that there are components, but I don't recall.
Q. And I think we heard earlier that the savings from the recently announced severance package are not included or reflected in that information, are they? Staff 137.
A. Well, I don't remember the date of that data request, but I believe it was well before the announcement of the severance.
Q. And do you recall that the O&M expenditures in the data request forecast subject to a general escalation factor of 4 percent per year?
A. Well, I do know that there's many different line

items. When you say "O&M," I think that there was certain line items that were escalated at 4 percent.

Q. Right. Do you recall whether or not there was any detailed bottom-up analysis for an O&M, other than that blanket escalation?

A. I believe for other O&M components, like maintenance, I have not looked at the bottom-up detail, but I believe there was more detail on some items and less on others. And so there may have been some, but not in that particular data request.

Q. Okay. Could you turn to your testimony, Exhibit KHB-1, page 38, please?

A. Okay.

Q. And this is actually a question that Commissioner Goltz started to ask earlier in the day. Here you testify that you expressly caution against using the attrition study in this case as a framework for future analysis; correct?

A. Yes.

Q. And the reason for that is because, as you state, the facts and circumstances can change, the assumptions about revenue expense and rate base can vary; correct?

A. Correct. I mean, the general -- I think as Ken agreed, the general framework is consistent with what we've done, what others have done in the past. And I -- but I do believe there's room to determine what's the most reasonable method when you're looking at certain components of an analysis, And so this was just a caution regarding that.

Q. So the best way to avoid this problem would be to do a 2014 attrition study for a 2014 rate year or attrition year, wouldn't it?

A. This isn't addressing that at all. This is just saying, when you're approaching any attrition adjustment, you should be looking -- I mean, you may have a different approach to how you look at the rate year for all the components, revenue, expenses and rate base.

Q. But doesn't this say that it's not necessarily a good idea to use this framework that you've used for future attrition analysis?

A. Well, I didn't realize it would be interpreted as a general framework. I mean, I think that there's a lot of decisions that can be made, whether you forecast forward something or look at past trends, and how much detail you look at.

And so all that's based on the circumstances, you know, what the economy's doing, what -- what sort of pressures are on the company, and all different issues. So that was what I was trying to address here.

Q. And the closer in time you could examine all of those, the better your study would be, the better your results would be, presumably.

Wouldn't that be true?

A. Well, generally a forecast is unknown and an actual is known, so if that's what you're referring to, yes.

Q. And your entire testimony again is -- is directed towards a projection for 2013 only; correct?

A. I'm not actually trying to project what 2013 may be. I'm trying to look at the relationships of the test period of revenue, expenses, and rate base, and determine whether those relationships, based on what we know today, may hold or not, and how that may affect the earnings of the utility.

Q. Right. May hold in 2013?

A. I looked at 2013; correct.

Q. All right. And we've heard confirmation earlier in the hearing that staff did not know of the recently announced employee severance program at the time the settlement was finalized; correct?

A. Correct.

Q. Setting aside the stipulation for a moment, if Avista filed a 2013 GRC, do you think it's reasonable to assume that those savings and the impact of the severance plan would be considered in the development of new base rates to be implemented in 2014?

A. You mean if the test period was included the severance or --

Q. Yes.

A. Generally, yes, it would be considered based on the framework that we use to determine pro forma, restatement adjustments; correct.

Q. Okay. There was testimony earlier today -- have you been in the hearing room all day?

A. Yes.

Q. There was testimony earlier from Mr. Norwood and possibly also from Mr. Elgin about the variety of methods other than tradition -- than attrition that could be used in this case to kind of reach the settlement result.

Did you hear that testimony?

A. I did. And I know that Mr. Dittmer discussed some of that in his testimony as well.

Q. Did you, in your testimony for staff, present any other methods or methodologies or alternatives other than the attrition analysis that you did?

A. Well, the company presented an end-of-period rate -- I mean end-of-period rate base, and I did discuss that in my testimony.

Q. And your recommendation is based on attrition and not end-of-period rate base?

A. That's correct. And I think that if I can mention Mr. Dittmer's testimony, he did have the discussion regarding looking at the other alternative methods. And, you know, based on that analysis, there -- I think that what was found, and I'm -- I'm subject to -- I'm sure that Jim can add to this, but what was found was that much of the construction that the company had did not -- would not be considered during -- with those other methods.

Q. As I understood the gist of the testimony earlier, what Mr. Norwood and Mr. Elgin were saying is that you can get to the 27 million dollar rate increase by a number of paths other than attrition in this case.

Did you file any testimony in this case, other than your attrition analysis, that would get the Commission to the 27 million dollar rate increase that's in the stipulation?

A. I -- I don't know of any other path that looks at the rate year that falls within our traditional rate-making framework policies and procedures we have currently at the Commission.

Q. And based on your review of the company testimony in this case, Mr. Lowry, Ms. Andrews, did they present any other methodology or means or pathway to get to their recommended settlement amount or their recommended overall amount other than their attrition analysis?

A. You're asking me what -- well, I think that Mr. Norwood filed testimony in support of settlement discussing -- I think he said earlier today discussing the different methods in his reply testimony.

Q. Right. But other than what he says in his rebuttal testimony, you're not aware of any other evidence they present about other paths or methods or methodologies?

A. No, I'm not.

Q. Can I get you to turn, please, to page 37 in your testimony, KHB-1.

A. I'm there.

Q. And you're asked there at line 11, "What other recommendations do you have regarding attrition allowances?" And can you just summarize what your recommendations there are, including the footnote? You don't have to read the whole thing, but just summarize what you're recommending.

A. Yes. Basically we're asking for testimony and more direct testimony in support of a load forecast and other documentation if an attrition study is filed again.

This was a learning process. It's been numerous years since the last attrition analysis was looked at, and I think that this is just an improvement if company -- if utilities are to file, it would be helpful to have more direct --

Q. All right.

A. -- testimony.

Q. And so you asked for essentially more support for each of the forecasts relied upon. That's your statement in line 13?

A. Yes.

Q. And as you point out, this is the first time that attrition has been presented to the Commission in many years, approximately 20 years; isn't that right?

A. That's my belief, yes.

Q. Is it fair to say this recommendation is intended to remedy some shortcomings in the support that Avista provided for its studies in this docket?

A. Well, as with anything else, we have discovery to collect additional information. But what we're asking here is to have it on direct testimony.

Q. And none of these recommendations are included in the settlement; is that correct?

A. No, I don't believe it's in the settlement.

Q. They're not in the settlement? I'm just making sure the court reporter heard the answer.

A. Oh, no.

MR. FFITCH: May I have a moment, your Honor?

THE COURT: Yeah.

MR. FFITCH: Those are all my questions, your Honor. Thank you, Ms. Breda.

THE WITNESS: Thank you.

THE COURT: Thank you. Mr. Trotter, redirect?

MR. TROTTER: Yeah, just a couple.

E X A M I N A T I O N

BY MR. TROTTER:

Q. You mentioned you conducted discovery of the company's

attrition case; is that right?
A. Yes.
Q. And did that include discovery on their forecasts and other assumptions that they used?
A. Yes.
Q. Did the company respond to those?
A. Yes.
Q. You were asked questions about other paths that the company used to support its revenue requirement. And could you turn to page 8 of your testimony, KHB-1CT.
A. Okay.
Q. On line 4 you list, I haven't counted them, but several adjustments that you explain in your testimony are all related to the issue of attrition.
Are those adjustments that you list there in that caption -- well, what did -- do those represent another path that the company took that you have taken out because you're using attrition in this case?
A. Oh, I -- yes, they do.
Q. You were also asked a question about whether the savings from the severance plan would be included in a 2013 test period.
Do you recall that?
A. Yes.
Q. Would there be revenues, other revenues, expenses,

rate base, and other elements of the rate-making formula also at issue in a 2013 test year for a utility that had such a plan? It's a very simple question.

A. Okay. Yes.

Q. Don't want to confuse you. So the case wouldn't be solely a severance plan, would it?

A. Of course not. Plus they also have the expenses to execute that plan included in 2000 -- I would think.

Q. That's all I have. Thank you.

THE COURT: Thank you. And is there any questions? No questions from the bench.

CHAIRMAN GOLTZ: Mr. ffitch covered it for me.

THE COURT: Thank you. You're dismissed. Thank you so much for your testimony. So I believe at this time, Mr. ffitch, since I think we have about 15 minutes or so for Mr. Feltes; is that right?

MR. FFITCH: Or we have Mr. Coppola. I believe you indicated we'd put him up to get the corrections taken care of.

MR. TROTTER: Your Honor, we have no objection to simple letter, an errata sheet to save the court reporter and --

THE COURT: And that will -- that would work for the Commission as well. And I don't believe that the Commission had any questions for Mr. Dittmer as well, so unless he has an errata to his testimony, I think he could also be excused.

MR. FFITCH: With respect to Mr. Coppola, let me ask my co-counsel whether that there's any -- whether the letter approach would be adequate. We can check briefly with the witness.

THE COURT: Sure. Sure.

MR. FFITCH: Perhaps I can just confer. With respect to Mr. Dittmer, your Honor, I'm requesting an offer of proof under the rule for Mr. Dittmer to be placed on the stand and be asked the same questions on attrition that the commissioners asked other witnesses so that we can have the full and balanced record on that issue.

THE COURT: And do you have the citation to the rule regarding the offer of proof?

MR. FFITCH: Yes, your Honor. It's 48007.

THE COURT: Okay.

MR. FFITCH: 740 sub 2 sub C, if I transcribed that correctly.

MR. TROTTER: He did, your Honor. That rule says the parties, such as Public Counsel, has the right to present evidence or, in the Commission's discretion, an offer of proof. It doesn't say both. So we'll object to both.

MR. MEYER: And I'll object on an entirely different basis, and that is that this is -- this is the same thing as surrebuttal. I have no objection if the commissioners themselves would like to hear more from Mr. Dittmer.

They've -- that's at their discretion.

But for Mr. Dittmer now to be asked the same question that Mr. Norwood was asked is the same thing as saying, "Mr. Dittmer, what is your surrebuttal testimony to Mr. Norwood?" And that's wholly improper at this stage of the proceeding. That was not contemplated by the schedule.

THE COURT: Well, and I have to agree with Mr. Trotter on this one and sustain the objection, because it would appear from the language of the rule that parties in opposition to the settlement have the right to present argument in opposition and the right to present evidence in -- evidence and opposition or, in the Commission's discretion, an offer of proof, and Mr. Dittmer has actually already presented testimony as evidence.

And -- and actually, I believe he's also presented -- well, he's presented testimony, in any event. So at this time, since the commissioners are not -- not wanting to question Mr. Dittmer any further, I think that I'm going to sustain Mr. Trotter's objection. And we can call Ms. Feltes to the stand at this point.

MR. MEYER: Thank you, your Honor. Rise and be sworn in.

THE COURT: Do you swear or affirm that the testimony you're been to give is the truth, the whole truth, and nothing but the truth?

THE WITNESS: Yes, I do.
THE COURT: Thank you. You can be seated.
THE WITNESS: Thank you.

E X A M I N A T I O N

BY MR. MEYER:
Q. Ms. Feltes, for the record, please state your name and your employer.
A. Karen Feltes. Avista Corporation.
Q. And you can just keep that in front of you.
A. Okay.
Q. And what are your responsibilities at Avista Corporation?
A. I'm a senior vice president of human resources and a corporate secretary.
Q. And have you prepared and pre-filed testimony in this proceeding that has been marked as an exhibit?
A. Yes, I have.
Q. And are you here this afternoon at the request of the -- the commissioners to respond to questions regarding executive compensation?
A. Yes, I am.
MR. MEYER: With that, your Honor, she's available.
THE COURT: Thank you. I believe it's Ms. Gafken.
MS. GAFKEN: Yes, thank you.

E X A M I N A T I O N

BY MS. GAFKEN:

Q. Good evening, Ms. Feltes.

A. Uh-huh. Good evening.

Q. Were you present earlier today when I questioned Mr. Norwood about executive compensation?

A. Yes, I've been in the room all day.

Q. Do you recall Mr. Norwood deferring certain questions relating to the peer group to you?

A. Yes, I did.

Q. Okay. Generally speaking, using a peer group, the reason that we use a peer group is to set the overall level of the executive compensation; is that correct?

A. Using a peer group is one point of data that is used in doing that.

Q. And if an inappropriate peer group is used, that one point that does then inform the level of executive compensation, the results of doing that could result in compensation that's too high; isn't that correct?

A. No, it would be based upon what your compensation philosophy actually is. So if you have a compensation philosophy that you pay at the 75th percentile, you, you know, are at -- actually adhering to that, so it -- it -- I can't say "yes" to that question.

Q. Would you agree that you should use a peer group of companies in setting the proper level of an executive compensation package that is similar in size and profile to Avista Utilities?

A. Yes, I agree that it would be similar in size, based upon how you define that.

Q. And some of the things that you would look at are perhaps revenues, size of the company in terms of the number of employees?

A. Basically you would look at revenues and market capitalization would be probably your two most key ones.

Q. In terms of the Towers Watson Energy Services peer group, that peer group does include companies that have only electric or only natural gas services.

That's correct; right?

A. They are in the energy industry, yes.

Q. Is that different than the Towers Watson Energy Services peer group?

A. I'm sorry. Could you repeat that? Because I thought that you just asked that.

Q. Right. And I guess I wasn't clear about your answer, so let me re-ask the question and maybe we can get clarity that way.

The -- the Towers Watson Energy Services peer group includes companies that have only electric services or only

natural gas services; correct?
A. Yes.
Q. And the Towers Watson Energy Services peer group also contains companies that have no utility operations; correct?
A. Yes, I believe there are some, yes.
Q. And companies within the Towers Watson Energy Services peer group also provide services such as banking services, waste disposal, oil and gas production and exploration, cargo container leasing, and international operations; correct?
A. And could you define that for me? I'm not clear where you're getting that from.
Q. Are you aware that there's a company in the Towers Watson Energy Services peer group that provides banking services?
A. Which is also an electric utility.
Q. Right. That also provides banking services?
A. Yes, that has a subsidiary that provides that.
Q. Okay. And are you aware that there's also a company within the same peer group that provides waste disposal?
A. I'm probably not as familiar with that one.
Q. What about oil and gas production and exploration?
A. Yes.
Q. Cargo container leasing?
A. I'm sorry. I'm not familiar with that.
Q. Okay. And there's at least one company in the Towers

Watson Energy Services peer group that has international operations; correct?
A. I would have to look at it again, but I believe that that's correct.
Q. Okay. Does Avista offer banking services?
A. I'm not certain what your question is referencing in regard to this group.
Q. Does Avista offer banking services?
A. We do have unregulated businesses.
Q. And is one of those unregulated businesses a bank?
A. No.
Q. Does Avista have international operations?
A. No.
Q. Does Avista engage in oil and gas production and exploration?
A. No.
Q. Does Avista lease cargo containers?
A. No.
Q. Is Avista engaged in waste disposal?
A. No. We use hog fuel for our kettle landfall.
Q. Earlier I had asked Mr. Norwood a question about his criticism of the ISS peer group, and the question that I asked was whether his criticism was designed to point out that companies in the ISS peer group did not share similar characteristics to Avista.

Do you remember that question?

A. Yes.

Q. And I believe that Mr. Norwood answered affirmatively that that was one of the points of his criticism. Do you recall that?

A. I -- I'm really not certain what he answered.

Q. Okay. But it's true that there's -- that the companies that are within the energy Watson -- or I'm sorry -- the Towers Watson Energy Services peer group also have some differences with Avista or as compared to Avista; true?

A. You know, I have a problem answering that question, because ISS is an Institutional Shareholder Services, and it's not a benchmarking firm per se. And so you're trying to compare apples and oranges.

Q. But the Towers Watson Energy Services peer group contains companies that aren't similar to Avista or that have -- that don't share the same characteristics with Avista; correct?

A. There would be a few that have overlapping characteristics that we might draw from that market to actually bring people into our company.

Q. With your answer that you just gave, are you focusing on Avista's utility business or the combined utility/non-utility?

A. I'm focusing on Avista's utility business, because we only use that peer group for that.

MS. GAFKEN: I think I'm going to go ahead and stop there. Thank you.

THE COURT: Thank you. Redirect, Mr. Meyer?

MR. MEYER: No redirect.

THE COURT: Okay. Thank you. Any questions from the bench?

E X A M I N A T I O N

BY CHAIRMAN GOLTZ:

Q. May I ask one question?

A. Yes, of course.

Q. About peer groups. Humor me with a hypothetical here. So there's 20 utilities. They're all virtually identical. They're all in each other's peer group; okay? So they're the same.

Assume period of no inflation, no -- the utilities don't change, the job descriptions don't change, jobs don't get any harder, jobs don't get any easier, just flat out into infinity; okay?

20 companies. They all benchmark at the average of everybody there; okay? So they all have the same salaries. And that would continue on forever under that hypothetical; right? Every year would be the same.

Now, in year one or year two, one utility says, "We're going to benchmark our person at a hundred and ten percent of the average"; okay, then -- and that continues on. Over time the salaries of that -- of all the utilities would increase despite the fact there's no increase in job responsibilities, there's no inflation, and the salaries of all those utilities would keep on increasing because one of the utilities benchmark at above -- at above average; isn't that right?

A. Hypothetically.

Q. Yes.

A. I understand your --

Q. I guess what I'm saying is that the -- when you use a benchmarking system where you're comparing with other utilities, if some other utility in the benchmark just bumps it up a little bit, everyone else goes up, even if all other things are created equal. So it's just as a self-fulfilling frenzy going up in higher salaries.

A. And -- and I can fully appreciate exactly what you're saying. And it also works in the opposite direction. So as you have people who have been in their positions for a long time and they leave the company or they retire, those -- those salaries can also go the other direction.

And in fact we have that inside of Avista where Gary Ealey was being paid seven hundred and fifteen thousand dollars as far as his base when he left, and Scott is at, you know, 675, and -- and was well below that for a number of years.

So what we see is that we might have people who -- you know, in the industry we might have positions that -- that bump it up, but we also have positions that bump it down. So it does kind of equalize itself as the market is shifting.

Q. Have you ever seen a situation where, when you compare to your benchmarks, you actually lower salary of someone at Avista?

A. We have seen situations where a salary has been held.

Q. Has been held. It's never been -- because they average --

A. If you're asking me at the executive level.

Q. Yes, I am, yeah.

A. Yes.

Q. Yeah. Held constant, but there's never been a benchmark's going down, so reduce it a little bit?

A. We have not seen the benchmarks over the last few years actually doing that, so no, not in my experience.

Q. The benchmarks generally tend to increase?

A. Not generally tend to increase. Sometimes they've actually stayed flat. I can use myself as an example where I've actually been held at the same salary based upon the benchmarks for several years.

Q. Okay. Thank you.

A. Welcome.

THE COURT: I believe Commissioner Jones has a few questions.

E X A M I N A T I O N

BY COMMISSIONER JONES:

Q. Yeah, I'll try to be brief, but a few questions. How long have you used Towers Watson Energy Services peer group for salary and benefits consulting?

A. Ever since I've been in my role. I've been with the company for 15 years, but just in April of this year we actually changed to Meridian, and so the compensation committee of the board actually selected a new compensation consultant.

And then in September of this year they actually -- the compensation committee of the board actually went through a full review of the peer group again, did an analysis on it, and decided to go ahead and remain with that peer group. And that is also in looking at the ISS peer group as well, which is a completely different thing. You know, would be willing to discuss that as well.

Q. Do you also -- my questions are driving at how independent these consulting companies can be for these sorts of issues.

So does Towers Watson or Meridian offer other services to Avista on HR, human-resources-related issues?

A. Meridian offers no other services. And for the executive consulting piece, when Towers Watson was in place, they did not. The executive consultant piece did not offer any other services. However, we do have actuarial services that are provided for the pension plan.

Q. By whom?

A. By Towers.

Q. By Towers?

A. Yes.

Q. Okay. And what does Mercer do for you? I think in your testimony you talk about Mercer Consulting?

A. Meridian.

Q. It's Meridian. And what services do they provide you? Is it benchmarking for benefits of executives?

A. And -- and I just would like to make one clarification. They're actually hired by the compensation committee of the board of directors, so they don't report to Avista. They report to the compensation committee. And the services that they provide to the compensation committee have to do around --

Q. Okay.

A. -- actually doing the benchmarking, consulting with the committee on various different things, including shareholder analysis, what shareholders are concerned with, what they're looking at, compensation structures in general, so those types of services.

Q. So Ms. Feltes, they go directly to the compensation

committee, not through you?
A. That's correct.
Q. And who is the -- the chair of that now is John Taylor?
A. That's correct.
Q. How long has he been chair of the compensation committee?
A. He's been chair of the compensation committee for over four -- I would have to go back and look, but it's been a period of time, four years, I believe.
Q. Now, in response to Chairman Goltz's question, you said one of your criticisms of ISS, Institutional Shareholder Services, is apples and oranges?
A. Yes.
Q. Explain that a little bit more, because I think ISS is a -- is a group of companies of shareholders that are trying to reflect shareholder interests in this contentious debate over executive compensation; is that not correct?
A. That's -- I -- fully correct. And what I would like to help people understand is that ISS reviews 3,000 proxy statements, and so what they've done is they actually have a very formulaic approach where they basically are looking at the pay of the CEO and relative performance of the company in a total shareholder return of the companies that they market themselves to. So it's basically that's what they're looking

at.

They are not benchmarking to say, "We go out and we're looking at what your -- your roles and responsibilities are, we're looking at your full officer slate." They're not looking at that market competitiveness.

They're really -- really concerned about is your pay practice, and specifically your long-term incentive, is it -- is it aligned to what the company has designed. So if -- if we're saying that Scott Morris's long-term incentive is based upon how well the company is performing, ISS is looking at him as a CEO and then comparing that across all of these groups.

Q. And by long-term incentive pay, I'm going to simplify here, but that relates primarily to issues of corporate stock incentives, vesting periods, as you say, aligning the company's primarily financial interests with the performance of that senior executive; correct?

A. That is correct. And all of -- all of that incentive is borne by the shareholders.

Q. Okay. So you are still standing by Mr. Norwood's testimony. You didn't file any rebuttal testimony; correct?

A. No, no.

Q. So you -- what Mr. Norwood talks about in page -- pages 28 to 33 of his testimony is basically -- I mean, you've reviewed this testimony, and this -- this basically reflects your expert opinion as well?

A. I've definitely reviewed it, and I do support it. Although I -- would you like me to just take a minute here so that I can -- there's been a lot of detail today, so I'd like to look at what you're referencing.

(Witness reviews exhibit.)

Yes, thank you for letting me take that moment, but I do support that.

Q. So one of your other criticisms on page 30 of his testimony, lines 13 through 15, for example, it says the ISS peer group reports only the top five executive officers, which for Avista is whom again? It's Scott Morris and who else? Are you included in the top five?

A. Yes, I am and --

Q. Who are they, for the record?

A. Yes. It's the CEO, Scott Morris, it's our chief executive office -- I'm sorry. Our chief financial officer, Mark Thies; Marion Durkin, who is our general counsel; and Dennis Vermillion, who's our president of the utility; and then myself.

Q. So you say here that the Towers Watson Energy Services, their analysis includes other senior officers, and it doesn't provide any benchmarking ability for these other officers.

That's one of the criticisms here?

A. That -- that is correct. And I'd also like to say that the methodology that ISS is using, when I talk about this formulaic approach, they actually only implemented that in 2011, and they got enormous criticism.

In fact we have an article here from the Harvard Law School talking about the criticism, and ISS has just actually published the fact that they're changing their methodology because they were using too narrow of a platform in even the companies that they were selecting.

And so another piece is is that they're really trying to just advise institutional shareholders again on this pay-for-performance issue, but it wasn't meeting the mark. And so shareholders came back and gave comment on that. And so there's not a consistency year over year if you're trying to use that as your benchmark.

COMMISSIONER JONES: I see. Those are all the questions I have, Judge.

THE COURT: Thank you. And so with that, if there's nothing further from Ms. Feltes, I believe you're dismissed. Thank you so much for your testimony.

THE WITNESS: Thank you.

THE COURT: I believe we've come to the end of the witnesses, so have -- have you, Mr. ffitch and Mr. Coppola, conferred to make sure that you're all right with doing a letter, errata as opposed to -- I apologize. Ms. Gafken. Do you feel that's going to work for his errata?

MS. GAFKEN: We could do a letter for the errata portion, but obviously I would note that Mr. Coppola is sitting here and could answer some of the questions about the ISS peer group that were asked. Obviously his recommendation includes an ISS component, and he has relevant information to share.

THE COURT: Sure. And we do have his testimony already, so that has been admitted into the record. And we'll wait to see what the errata is. You know, obviously we should be getting that shortly, I would assume.

COMMISSIONER JONES: Judge.

THE COURT: Yes, Mr. -- I'm sorry. Commissioner Jones.

COMMISSIONER JONES: I don't want to engage -- it's late in the day and the testimony is evident, but if there is any counter study to the Harvard Law School study that Ms. Feltes referenced, in addition to your testimony, I would appreciate seeing any academic or other study buttressing or, you know, counter to that criticism of the ISS.

MS. GAFKEN: Okay. So the way that I understand that, you're requesting additional information then countering their criticism to the ISS group? Okay. We can provide both that and the errata.

MR. TROTTER: Excuse me, Commissioner Jones, if I have a clarification. You were asking for an academic study?

COMMISSIONER JONES: Yes, an academic study. I would limit it to academic or think tank. And I just haven't had time to review your testimony last night, but I'm sure this is a very contentious area, and I just want to make sure we have a balanced record.

THE COURT: And why don't we go ahead -- I'm hesitant to mark something in the absence of knowing it even exists, but if you do file something, let's go ahead and designate that as Exhibit 9.

MS. GAFKEN: Okay.

THE COURT: I assume that won't be confidential if it's an academic or think tank study, so thank you. And let me see. And Mr. Meyer, I believe you indicated that Avista tomorrow would be able to file the Avista response to staff data request number 137 and Avista response to Public Counsel data request, and I think it's 427?

MR. MEYER: 427. Yes, I think it went out the door today for receipt tomorrow.

THE COURT: Would you mind -- I don't know my laptop -- unfortunately, I've run out of battery. And so I don't know if I've gotten a courtesy copy in the e-mail, but if I haven't, would you please make sure that you send one to me?

MR. MEYER: I'll do that.

THE COURT: Thank you. I appreciate that. Is there anything further before we adjourn?

MR. FFITCH: Your Honor, I did have a question regarding 137. Obviously this is a new exhibit. It's being included in the record. It's been some discussion of it. I would like to have a moment, if I may, just to confer with one of our witnesses about whether we want to request any further process with respect to that new exhibit. May I just have a moment?

THE COURT: Sure. Sure. That's fine.

(Pause in the proceedings.)

MR. FFITCH: Your Honor, I have a -- I guess a point of clarification. Are these being categorized as bench request under the Commission rules? I ask that because I believe the bench request rule permits parties the option of filing a response to a document that comes in pursuant to a bench request.

THE COURT: Yes. And they are bunch exhibits, because they were not filed. They are supporting testimony, but they were not filed as exhibits to that testimony, so they're bench exhibits.

And so if -- if Public Counsel did wish to respond to either of these, I'm prepared to give you the opportunity. We do not have a lot of time, though, in which to do so. Do you have a suggestion?

MR. FFITCH: Your Honor, I think it's relatively unlikely that we would respond, but because the rule does permit us the opportunity, if we could have a short period of time, whatever is convenient for the bench, at least have the option. Other parties of course would have that, too.

THE COURT: Right. Right. Well, if we're going to get these exhibits in tomorrow, that'd be Friday, so I would have no problem sometime next week expecting to hear back from you say maybe Thursday.

MR. FFITCH: That'd be perfectly workable, your Honor.

THE COURT: Okay.

MR. FFITCH: I did have one other matter. That's the public comment exhibit in this docket.

THE COURT: Yes.

MR. FFITCH: And we are close to having that be finalized. We can't offer it today, your Honor. There is a number for it on the list. I believe that we can file that probably, our staff would like to have it be first of next week, if that's acceptable.

THE COURT: That's fine. That's fine.

MR. FFITCH: And we would plan to file that in the normal -- what's become the normal form in the form of a disk rather than paper.

THE COURT: Understood.

MR. FFITCH: If that's acceptable.

THE COURT: So we'll just plan on December 3rd, then.

MR. FFITCH: December 3rd?

THE COURT: Yeah.

CHAIRMAN GOLTZ: Excuse me. Do you know how many comments there are? That's okay.

MR. FFITCH: One hundred and eighty-six, approximately.

THE COURT: So is there anything else procedurally that we need to address before we adjourn?

MR. FFITCH: Your Honor, the other issue that had been discussed at the prehearing conference was whether the bench would like to have post-hearing briefs.

THE COURT: Right. And I believe, after having conferred with the commissioners, that that will not be necessary, nor will closing arguments. So we're going to take the record as is and review it and base our decision on that.

MR. FFITCH: Thank you, your Honor.

THE COURT: Thank you. All right, then. We're adjourned. Thank you so much.

(Deposition concluded at 5:13 p.m.)

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C E R T I F I C A T E

STATE OF WASHINGTON
COUNTY OF KING

I, Kathleen Hamilton, a Certified Shorthand Reporter and Notary Public in and for the State of Washington, do hereby certify that the foregoing transcript of the proceedings on NOVEMBER 29, 2012, is true and accurate to the best of my knowledge, skill and ability.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this 3RD day of DECEMBER, 2012.

____

KATHLEEN HAMILTON, RPR, CRR, CCR

My commission expires:
APRIL 2014