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BEFORE THE WASHINGTON STATE  
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND	)	
TRANSPORTATION COMMISSION,	)	DOCKETS UE-090134
	)	and UG-090135
Complainant,	)	(consolidated)
	)	
vs.	)	VOLUME VIII
	)	Pages 360 to 479
AVISTA CORPORATION, d/b/a	)	
AVISTA UTILITIES,	)	
	)	
Respondent.	)	
<hr style="border: 0.5px solid black;"/>		
In the Matter of the Petition	)	DOCKET UG-060518
of	)	(consolidated)
	)	
AVISTA CORPORATION, d/b/a	)	VOLUME VIII
AVISTA UTILITIES,	)	Pages 360 to 479
	)	
For an Order Authorizing	)	
Implementation of a Natural	)	
Gas Decoupling Mechanism and	)	
to Record Accounting Entries	)	
Associated With the Mechanism.)	)	
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A hearing in the above matter was held on  
October 6, 2009, from 1:30 p.m to 3:15 p.m., at 1300  
South Evergreen Park Drive Southwest, Room 206, Olympia,  
Washington, before Administrative Law Judge ADAM TOREM  
and CHAIRMAN JEFFREY D. GOLTZ and Commissioner PATRICK  
J. OSHIE and Commissioner PHILIP B. JONES.

Joan E. Kinn, CCR, RPR

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18 EMA-1T Elizabeth M. Andrews - 23 Jan 09 - Prefiled  
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2 EMA-13-X Public Counsel - Avista Corporate 2009 Proxy  
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6 EMA-16-XC Public Counsel - Avista's Response to PC DR  
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16   BWF-3-X       Public Counsel - Avista's Response to PC DR

17                   No. 187 (w/o Attachment A)

18   BWF-4-XC     Public Counsel - Avista's Response to PC DR

19                   No. 5 (Including Attachment A (Confidential))

20   BWF-5-XC     Public Counsel - Avista's Supplemental

21                   Response to PC DR No. 6 (Including Attachment

22                   A (Confidential))

23   BWF-6-X       Public Counsel - Avista's Response to PC DR

24                   No. 514 (Including Attachment A)

25   BWF-7-X       Public Counsel - Avista's Response to PC DR

0383

1                   No. 490

2

3    BRIAN J. HIRSCHKORN, Manager of Pricing, State and  
4    Federal Regulation Dept., Avista

5    BJH-1T        Brian J. Hirschhorn - 23 Jan 09 - Prefiled  
6                   Direct Testimony re proposed annual revenue  
7                   increases in electric and nat gas & changes to  
8                   Company's service schedules

9    BJH-2        Brian J. Hirschhorn - 23 Jan 09 - Present  
10                  electric tariffs/service schedules

11   BJH-3        Brian J. Hirschhorn - 23 Jan 09 - PROPOSED  
12                  electric tariffs/service schedules

13   BJH-4        Brian J. Hirschhorn - 23 Jan 09 - PROPOSED  
14                  electric rate spread and rate design

15   BJH-5        Brian J. Hirschhorn - 23 Jan 09 - Present nat  
16                  gas tariffs

17   BJH-6        Brian J. Hirschhorn - 23 Jan 09 - PROPOSED nat  
18                  gas tariffs

19   BJH-7        Brian J. Hirschhorn - 23 Jan 09 - PROPOSED nat  
20                  gas rate spread and rate design

21   BJH-1aT       (from 060518) Brian J. Hirschhorn - 30 Apr 09  
22                  - Prefiled Direct Testimony re Company  
23                  proposals to continue Decoupling Mechanism and  
24                  to Describe Evaluation Process / Report

25   BJH-2a        (from 060518) Brian J. Hirschhorn - 10 Aug 09



0384

1                   - \*28 Sep 09 - Decoupling Evaluation Report by  
2                   Titus (Updated / Revised - 28 Sep on CD)  
3    BJH-3a       (from 060518) Brian J. Hirschhorn - 30 Apr 09  
4                   - Decoupling Comparison Tables (2007-2009)  
5    BJH-4a       (from 060518) Brian J. Hirschhorn - 30 Apr 09  
6                   - Decoupling Quarterly Report - 4th Qtr 2008  
7    BJH-8T       Brian J. Hirschhorn - 11 Sep 09 - Prefiled  
8                   Rebuttal Testimony re New Customer Adjustment  
9                   and Decoupling Evaluation by Titus and  
10                  Schedule 101 Issues  
11    CROSS-EXAMINATION EXHIBITS  
12    BJH-9-X     The Energy Project - 28 Sep 09 - Response to  
13                  EP DR EP-028  
14    BJH-10-X    Commission Staff - 2 Oct 09 - Response to UTC  
15                  Staff DR 181  
16    BJH-11-X    Commission Staff - 2 Oct 09 - Response to UTC  
17                  Staff DR 182  
18    BJH-12-X    Public Counsel - Avista's Response to PC DR  
19                  No. 523  
20    BJH-13-X    Public Counsel - Avista's Response to PC DR  
21                  No. 527 (Including Attachment)  
22    BJH-14-X    Public Counsel - Avista Tariff's Schedule 151  
23                  and 151A  
24  
25    DAVID R. HOWELL, Gas Engineering Design Manager, Avista

0385

1 DRH-1T David R. Howell - 11 Sep 09 - Rebuttal  
2 Testimony re Pro Forma Adjustments for Capital  
3 Expenditures

4

5 WILLIAM G. JOHNSON, Wholesale Marketing Manager in  
6 Energy Resources Dept., Avista

7 WGJ-1T William G. Johnson - 23 Jan 09 - Prefiled  
8 Direct Testimony re proposed normalizing and  
9 pro forma adjustments to power supply  
10 revenues/expenses & proposed level of  
11 authorized expense/retail revenue credit for  
12 ERM purposes

13 WGJ-2 William G. Johnson - 23 Jan 09 - Worksheet -  
14 Power Supply Pro Forma

15 WGJ-3 William G. Johnson - 23 Jan 09 - Description  
16 of Power Supply Adjustments

17 WGJ-4 William G. Johnson - 23 Jan 09 - Plant  
18 Generation & Fuel Cost Summary

19 WGJ-5 William G. Johnson - 23 Jan 09 - ERM  
20 Authorized Expenses - Pro Forma 2010

21 CROSS-EXAMINATION EXHIBITS

22 WGJ-6-X Public Counsel - Avista's Response to PC DR  
23 No. 81

24

25 CLINT G. KALICH, Manager Resource Planning & Power

0386

1 Supply Analyses, Energy Resources Dept., Avista  
2 CGK-1T Clint G. Kalich - 23 Jan 09 - Prefiled Direct  
3 Testimony re Avista's use of the AURORA  
4 Dispatch Model  
5 CGK-2 Clint G. Kalich - 23 Jan 09 - Forecast of  
6 Company Load and Resource Positions from 2009  
7 through 2019  
8 CGK-3 Clint G. Kalich - 23 Jan 09 - Summary Output  
9 from Dispatch Model  
10 CGK-4T Clint G. Kalich - 11 Sep 09 - Rebuttal  
11 Testimony re Lancaster Prudence  
12 CROSS-EXAMINATION EXHIBITS  
13 CGK-5-X Public Counsel - Avista's Response to PC DR  
14 No. 496  
15 CGK-6-X Public Counsel - Avista's Response to PC DR  
16 No. 534  
17 CGK-7-X Public Counsel - Avista's Response to PC DR  
18 No. 535  
19 CGK-8-X Public Counsel - Avista's Response to PC DR  
20 No. 538  
21 CGK-9-X Public Counsel - Avista's Response to PC DR  
22 No. 539  
23 CGK-10-X Public Counsel - Avista's Response to PC DR  
24 No. 541  
25

0387

1 JAMES M. KENSOCK, Vice-President and Chief Information  
2 Officer, Avista

3 JMK-1T James M. Kensock - 11 Sep 09 - Rebuttal  
4 Testimony re Pro Forma Adjustment on Avista's  
5 Information Services Department

6

7 SCOTT J. KINNEY, Director of Transmission Operations,  
8 Avista

9 SJK-1T Scott J. Kinney - 23 Jan 09 - Prefiled Direct  
10 Testimony presenting Avista's pro forma  
11 transmission revenues and expenses, the  
12 Company's transmission and distribution  
13 expenses, and Avista's Asset Management  
14 Program expenses

15 SJK-2 Scott J. Kinney - 23 Jan 09 - Transmission pro  
16 forma adjustments

17 SJK-3 Scott J. Kinney - 23 Jan 09 - Asset Management  
18 Program Model

19 SJK-4T Scott J. Kinney - 11 Sep 09 - Prefiled  
20 Rebuttal Testimony re Kermode proposal to  
21 exclude certain gen/trans/distro and general  
22 plant expenses from rates

23 CROSS-EXAMINATION EXHIBITS

24 SJK-5-X Public Counsel - Avista Response to PC DR No.

25 237

0388

1 TARA L. KNOX, Senior Rate Analyst in the State and  
2 Federal Regulation Dept., Avista  
3 TLK-1T Tara L. Knox - 23 Jan 09 - Prefiled Direct  
4 Testimony re Avista's electric and natural gas  
5 cost of service studies & electric and natural  
6 gas revenue normalization adjustments to the  
7 test year results of operations & proposed  
8 retail revenue credit rate to be used in the  
9 Energy Recov. Mech.  
10 TLK-2 Tara L. Knox - 23 Jan 09 - Retail Revenue  
11 Credit Worksheet -- Average Production and  
12 Transmission Cost (Electric)  
13 TLK-3 Tara L. Knox - 23 Jan 09 - Electric Cost of  
14 Service Study - Process Description  
15 TLK-4 Tara L. Knox - 23 Jan 09 - Electric Cost of  
16 Service Study - Summary Results  
17 TLK-5 Tara L. Knox - 23 Jan 09 - Demand Allocator  
18 Sensitivity Analysis  
19 TLK-6 Tara L. Knox - 23 Jan 09 - Natural Gas Cost of  
20 Service Study - Process Description  
21 TLK-7 Tara L. Knox - 23 Jan 09 - Natural Gas Cost of  
22 Service Study - Summary Results  
23 TLK-8T Tara L. Knox - 11 Sep 09 - Rebuttal Testimony  
24 re Company Position on Production Property  
25 Adjustment

0389

1 TLK-9 Tara L. Knox - 11 Sep 09 - Corrected Revised  
2 Staff Exhibit DPK-6  
3 TLK-10 Tara L. Knox - 11 Sep 09 - Production Factor  
4 Adjustment -- Rebuttal  
5  
6 DON F. KOPCZYNSKI, Vice President of Transmission and  
7 Distribution Operations, Avista  
8 DFK-1T Don F. Kopczynski - 23 Jan 09 - Prefiled  
9 Direct Testimony re Avista's electric and  
10 natural gas facilities and operations  
11 DFK-2 Don F. Kopczynski - 23 Jan 09 - System  
12 improvements and efficiencies  
13 DFK-3 Don F. Kopczynski - 23 Jan 09 - Customer  
14 Classes - detailed usage and number of  
15 customers in each class  
16  
17 ROBERT J. LAFFERTY, Director of Power Supply, Avista  
18 RJL-1T Robert J. Lafferty - 11 Sep 09 - \*29 Sep 09 -  
19 Rebuttal Testimony re Lancaster Prudence (BPA  
20 Transmission Contracts and Nat Gas  
21 Transportation Contracts) (Revised)  
22 CROSS-EXAMINATION EXHIBITS  
23 RJL-2-X Public Counsel - Avista's Response to PC DR  
24 No. 528  
25 RJL-3-X Public Counsel - Avista's Response to PC DR

0390

1                   No. 529 (Including Attachment A)

2   RJL-4-X       Public Counsel - Avista's Response to PC DR

3                   No. 532 (Revised)

4   RJL-5-X       Public Counsel - Avista's Response to PC DR

5                   No. 533 (Including Attachments A and B)

6

7   SCOTT L. MORRIS, Chairman of the Board, President and

8   CEO of Avista Corporation

9   SLM-1T        Scott L. Morris - 23 Jan 09 - Prefiled Direct

10                Testimony re Overview of Avista's Rate

11                Requests and Background

12   SLM-2        Scott L. Morris - 23 Jan 09 - Avista's

13                Corporate Structure

14

15   KELLY O. NORWOOD, Vice-President of State and Federal

16   Regulation, Avista Corporation

17   KON-1T        Kelly O. Norwood - 11 Sep 09 - Rebuttal

18                Testimony re Staff Rejection of Various Pro

19                Forma Adjustments, Reduction of ERM Surcharge,

20                and Decoupling Mechanism (Revised)

21   CROSS-EXAMINATION EXHIBITS

22   KON-2-X        The Energy Project / Public Counsel - 18 Sep

23                09 - Response to PC DR PC-520

24   KON-3-X        The Energy Project - 18 Sep 09 - Response to

25                PC DR PC-521

0391

1 KON-4-X The Energy Project - 27 Sep 09 - Response to  
2 EP DR EP-031

3 KON-5-X Public Counsel - Avista's Response to PC DR  
4 No. 524

5

6 JONATHAN POWELL, Manager in Demand-Side Management  
7 Department, Avista Corporation

8 JP-1T Jonathan Powell - 30 Apr 09 - Prefiled Direct  
9 Testimony re Avista's Natural Gas DSM Programs  
10 and Results of Decoupling Pilot Program

11 JP-2 Jonathan Powell - 30 Apr 09 - DSM Program  
12 Examples (Every Little Bit)

13 JP-3T Jonathan Powell - 11 Sep 09 - Prefiled  
14 Rebuttal Testimony re Soundness of Avista  
15 Decoupling Mechanism

16 CROSS-EXAMINATION EXHIBITS

17 JP-4-X The Energy Project - 29 Sep 09 - Response to  
18 EP DR EP-027

19 JP-5-X The Energy Project - 28 Sep 09 - Response to  
20 EP DR EP-026

21 JP-6-X The Energy Project - 29 Sep 09 - Response to  
22 EP DR EP-034

23 JP-7-X The Energy Project - 28 Sep 09 - Response to  
24 EP DR EP-030

25 JP-8-X Commission Staff - 2 Oct 09 - Response to



0392

1		Public Counsel DR PC-393
2	JP-9-X	Public Counsel - Avista's Response to PC DR
3		No. 522
4	JP-10-X	Public Counsel - Avista's Response to PC DR
5		No. 307 (Including Attachments A and B)
6	JP-11-X	Public Counsel - Avista's Response to PC DR
7		No. 388 (Including Attachments B and C)
8	JP-12-X	Public Counsel - Avista's Response to PC DR
9		No. 390
10	JP-13-X	Public Counsel - Avista's Response to PC DR
11		No. 394
12	JP-14-X	Public Counsel - Avista's Response to PC DR
13		No. 283 (Including excerpt from Attachment A)
14	JP-15-X	Public Counsel - Avista's Response to PC DR
15		No. 485
16	JP-16-X	Public Counsel - Avista's Response to PC DR
17		No. 510
18	JP-17-X	Public Counsel - Avista's Response to PC DR
19		No. 506 (w/o Attachment A)
20	JP-18-X	Public Counsel - Avista's Response to PC DR
21		No. 511 (w/o Attachment A)
22	JP-19-X	Public Counsel - Avista's Response to PC DR
23		No. 498
24	JP-20-X	Public Counsel - Avista's Response to PC DR
25		No. 515

0393

1 JP-21-X Public Counsel - Avista's Response to PC DR  
2 No. 516  
3 JP-22-X Public Counsel - Avista's Response to PC DR  
4 No. 543 (w/o Attachment A)  
5 JP-23-X Public Counsel - Avista's Response to PC DR  
6 No. 544  
7 JP-24-X Public Counsel - Avista's Response to PC DR  
8 No. 545  
9 JP-25-X Public Counsel - Avista's Response to PC DR  
10 No. 505  
11 JP-26-X Public Counsel - Avista's Response to PC DR  
12 No. 519  
13  
14 RICHARD L. STORRO, Vice President of Energy Resources,  
15 Avista Corporation  
16 RLS-1T Richard L. Storro - 23 Jan 09 - Prefiled  
17 Direct Testimony re Avista's resource planning  
18 and power operations  
19 RLS-2 Richard L. Storro - 23 Jan 09 - Avista 2007  
20 Electric Integrated Resource Plan  
21 RLS-3 Richard L. Storro - 23 Jan 09 - Lancaster  
22 Generation Facility (map + picture)  
23 RLS-4 Richard L. Storro - 23 Jan 09 - Lancaster  
24 Generating Facility Power Purchase Agreement  
25 Evaluation Overview

0394

1 RLS-5 Richard L. Storro - 23 Jan 09 - Independent  
2 Valuation of the Lancaster Facility Tolling  
3 Agreement  
4 RLS-6 Richard L. Storro - 23 Jan 09 - Overview of  
5 the Lancaster Power Purchase Agreement  
6 RLS-7 Richard L. Storro - 11 Sep 09 - Rebuttal  
7 Testimony responding to Staff (Kermode)  
8 Proposal to Exclude Certain Pro Forma  
9 Adjustments re Plant/Gen In Service

10 CROSS-EXAMINATION EXHIBITS

11 RLS-8-X Public Counsel - Avista's Response to PC DR  
12 No. 88 (Including Attachment A)  
13 RLS-9-X Public Counsel - Avista's Response to PC DR  
14 No. 89 (Including Attachment A)  
15 RLS-10-X Public Counsel - Avista's Response to PC DR  
16 No. 93  
17 RLS-11-X Public Counsel - Avista's Response to PC DR  
18 No. 94 (Including Attachment A)  
19 RLS-12-X Public Counsel - Avista's Response to PC DR  
20 No. 95  
21 RLS-13-X Public Counsel - Avista's Response to PC DR  
22 No. 100  
23 RLS-14-X Public Counsel - Avista's Response to PC DR  
24 No. 101  
25 RLS-15-X Public Counsel - Avista's Response to PC DR

0395

1                   No. 102

2    RLS-16-X   Public Counsel - Avista's Response to PC DR

3                   No. 103

4    RLS-17-X   Public Counsel - Avista's Response to PC DR

5                   No. 104

6    RLS-18-X   Public Counsel - Avista's Response to PC DR

7                   No. 112

8    RLS-19-X   Public Counsel - Avista's Response to PC DR

9                   No. 118 (Including Attachment A)

10   RLS-20-X   Public Counsel - Avista's Response to PC DR

11                  No. 129

12   RLS-21-X   Public Counsel - Avista's Response to PC DR

13                  No. 135

14   RLS-22-X   Public Counsel - Avista's Response to PC DR

15                  No. 174 (w/o Attachment A)

16   RLS-23-X   Public Counsel - Avista's Response to PC DR

17                  No. 304

18   RLS-24-X   Public Counsel - Avista 2009 Electric

19                  Integrated Resource Plan (Excerpt, pp. 2-27

20                  and 2-28)

21   RLS-25-X   Public Counsel - Draft Sixth Northwest Power

22                  Plan (Excerpt, pp . 8-26 and 8-27)

23   RLS-26-X   Public Counsel - Pacific Northwest Regional

24                  Resource Adequacy Assessment

25   RLS-27-X   Public Counsel - Power Plants in the Pacific

0396

1 Northwest (Formatted from NPCC website)

2 RLS-28-X Public Counsel - Pacific Northwest Resource

3 Adequacy Assessment 2011 and 2013

4

5 MARK T. THIES, Senior Vice President and Chief Financial

6 Officer, Avista Corporation

7 MTT-1T Mark T. Thies - 23 Jan 09 - Prefiled Direct

8 Testimony re financial overview of Company &

9 proposed rate of return in electric and

10 natural gas requests

11 MTT-2 Mark T. Thies - 23 Jan 09 - Avista's credit

12 ratings & capital structure

13

14 ICNU WITNESSES

15 DONALD W. SCHOENBECK, Member, Regulatory & Cogeneration

16 Services, Inc. (RCS)

17 DWS-1T Donald W. Schoenbeck - 17 Aug 09 - Response

18 Testimony regarding load research settlement

19 agreement from UE-070804; Avista's electric

20 cost-of-service study; the Company's proposed

21 rate spread; and Schedule 25 rate design

22 DWS-2 Donald W. Schoenbeck - 17 Aug 09 - Witness

23 Qualifications

24 DWS-3 Donald W. Schoenbeck - 17 Aug 09 - Cost of

25 Services - Revenue to Cost

0397

1 DWS-4 Donald W. Schoenbeck - 17 Aug 09 - Electric  
2 Results of Operation - Calculation of General  
3 Revenue Requirement & Revenue Conversion  
4 Factor

5

6 MICHAEL P. GORMAN, Consultant, Brubaker & Associates,  
7 Inc.

8 \*\* Presented in Conjunction w/Public Counsel (see  
9 below)

10

11 NWIGU WITNESSES

12 DONALD W. SCHOENBECK, Member, Regulatory & Cogeneration  
13 Services, Inc. (RCS)

14 DWS-5T Donald W. Schoenbeck - 17 Aug 09 - Response  
15 Testimony contesting gas cost of service study  
16 and Schedule 146 rate design

17 DWS-6 Donald W. Schoenbeck - 17 Aug 09 - Cost of  
18 Service Study with Peak Demand Adjustments on  
19 behalf of NWIGU

20

21 NW ENERGY COALITION WITNESS

22 NANCY L. GLASER, Consultant

23 NLG-1T Nancy L. Glaser - 17 Aug 09 - Response  
24 Testimony reviewing/critiquing Avista's  
25 Decoupling Mechanism

0398

1 NLG-2 Nancy L. Glaser - 17 Aug 09 - Witness

2 Qualifications

3 NLG-3 Nancy L. Glaser - 17 Aug 09 - Avista Responses

4 to NWECC DRs

5 NLG-4 Nancy L. Glaser - 17 Aug 09 - Avista Responses

6 to NWECC DRs

7 NLG-5T Nancy L. Glaser - 18 Sep 09 - Cross-Answering

8 Testimony re DSM and Decoupling Issues

9 (Revised)

10 CROSS-EXAMINATION EXHIBITS

11 NLG-6-X The Energy Project - 2 Sep 09 - Response to EP

12 DR EP-21

13 NLG-7-X Public Counsel - NWECC's Response to PC DRs No.

14 1 and 2

15

16 THE ENERGY PROJECT WITNESSES

17 BARBARA R. ALEXANDER, Consumer Affairs Consultant

18 BRA-1T Barbara R. Alexander - 17 Aug 09 - Response

19 Testimony evaluating results/impacts of

20 Avista's Pilot Decoupling Program on limited

21 income nat gas customers

22 BRA-1a Barbara R. Alexander - 17 Aug 09 - Witness

23 Qualifications

24 BRA-2T Barbara R. Alexander - 22 Sep 09 -

25 Cross-Answering Testimony responding to

0399

1 Deborah J. Reynolds & Nancy L. Glaser

2 (Revised)

3 BRA-3 Barbara R. Alexander - 11 Sep 09 - Bill Impact

4 Analysis re Staff's Proposed \$10 Monthly

5 Customer Charge (Gas)

6

7 GLENN WATKINS, Principal and Senior Economist, Technical

8 Associates, Inc.

9 \*\* Presented in Conjunction w/Public Counsel (see

10 below)

11

12 PUBLIC COUNSEL WITNESSES

13 MICHAEL P. GORMAN, Consultant, Brubaker & Associates,

14 Inc. (testimony also on behalf of ICNU)

15 MPG-1T Michael P. Gorman - 17 Aug 09 - Response

16 Testimony re Fair Return on Common Equity and

17 Overall Rate of Return for Avista Corporation;

18 evaluation of testimony submitted by

19 Dr. William Avera

20 MPG-2 Michael P. Gorman - 17 Aug 09 - Witness

21 Qualifications

22 MPG-3 Michael P. Gorman - 17 Aug 09 - Rate of Return

23 MPG-4 Michael P. Gorman - 17 Aug 09 - Capital

24 Structure

25 MPG-5 Michael P. Gorman - 17 Aug 09 - Proxy Group



0400

1	MPG-6	Michael P. Gorman - 17 Aug 09 - Growth Rates
2	MPG-7	Michael P. Gorman - 17 Aug 09 - Constant
3		Growth DCF Model
4	MPG-8	Michael P. Gorman - 17 Aug 09 - Dividend
5		Yields
6	MPG-9	Michael P. Gorman - 17 Aug 09 - Historical
7		Growth Rates
8	MPG-10	Michael P. Gorman - 17 Aug 09 - Electricity
9		Sales are Linked to U.S. Economic Growth
10	MPG-11	Michael P. Gorman - 17 Aug 09 - Current and
11		Projected Payout Ratios
12	MPG-12	Michael P. Gorman - 17 Aug 09 - Sustainable
13		Growth Rate
14	MPG-13	Michael P. Gorman - 17 Aug 09 - Sustainable
15		Constant Growth DCF Model
16	MPG-14	Michael P. Gorman - 17 Aug 09 - Multi-Stage
17		Growth DCF Model
18	MPG-15	Michael P. Gorman - 17 Aug 09 - Electric
19		Common Stock Market/Book Ratio
20	MPG-16	Michael P. Gorman - 17 Aug 09 - Equity Risk
21		Premium - Treasury Bond
22	MPG-17	Michael P. Gorman - 17 Aug 09 - Equity Risk
23		Premium - Utility Bond
24	MPG-18	Michael P. Gorman - 17 Aug 09 - Bond Yield
25		Spreads

0401

1 MPG-19 Michael P. Gorman - 17 Aug 09 - Utility Bond  
2 Spreads  
3 MPG-20 Michael P. Gorman - 17 Aug 09 - Beta  
4 MPG-21 Michael P. Gorman - 17 Aug 09 - CAPM  
5 MPG-22 Michael P. Gorman - 17 Aug 09 - S&P Credit  
6 Metric Financial Ratios (without Decoupling)  
7 MPG-23 Michael P. Gorman - 17 Aug 09 - S&P Credit  
8 Metric Financial Ratios (with Decoupling)  
9 MPG-24 Michael P. Gorman - 17 Aug 09 - Revision of  
10 Dr. Avera's DCF Model  
11 MPG-25 Michael P. Gorman - 17 Aug 09 - Revision of  
12 Dr. Avera's CAPM  
13  
14 MICHAEL L. BROSCHE, Financial Consultant and Principal,  
15 Utilitech, Inc.  
16 MLB-1T Michael L. Brosch - 17 Aug 09 - Response  
17 Testimony re Avista's proposal to continue its  
18 Pilot Decoupling Program  
19 MLB-2 Michael L. Brosch - 17 Aug 09 - Witness  
20 Qualifications  
21 MLB-3 Michael L. Brosch - 17 Aug 09 - Listing of  
22 Previous Testimony (since 1978)  
23  
24 HUGH LARKIN, Certified Public Accountant, Larkin &  
25 Associates, PLLC

0402

1 HL-1T Hugh Larkin - 3 Sep 09 - Response Testimony re  
2 Rate Base and Revenue Requirement Issues  
3 (Revised)  
4 HL-2 Hugh Larkin - 17 Aug 09 - Witness  
5 Qualifications  
6 HL-3 Hugh Larkin - 3 Sep 09 - Revenue Requirements  
7 - Electric (Revised)  
8 HL-4 Hugh Larkin - 17 Aug 09 - Revenue Requirements  
9 -- Gas  
10 CROSS-EXAMINATION EXHIBITS  
11 HL-5-X Avista - 18 Sep 09 - PC Response to Avista  
12 DR 1  
13 HL-6-X Avista - 18 Sep 09 - PC Response to Avista  
14 DR 5  
15  
16 KEVIN D. WOODRUFF  
17 KDW-1T Kevin D. Woodruff - 2 Sep 09 - Response  
18 Testimony re Avista's Forecast of 2010 Power  
19 Supply Costs (Revised)  
20 KDW-2 Kevin D. Woodruff - 17 Aug 09 - Witness  
21 Qualifications  
22 KDW-3 Kevin D. Woodruff - 17 Aug 09 - Avista's  
23 Response to Staff DR No. 206  
24 KDW-4 Kevin D. Woodruff - 17 Aug 09 - Avista's  
25 Lancaster CCCT Power Purchase Agreement

0403

1 Acquisition (same as RLS-6)

2 KDW-5 Kevin D. Woodruff - 17 Aug 09 - Avista 2007

3 Electric Integrated Resource Plan (Excerpt

4 Only)

5 KDW-6 Kevin D. Woodruff - 17 Aug 09 - Avista 2009

6 IRP Preferred Resource Strategy Presentation

7 (Excerpt Only)

8 KDW-7 Kevin D. Woodruff - 17 Aug 09 - Avista 2007

9 Annual Report (Excerpt Only)

10 KDW-8 Kevin D. Woodruff - 17 Aug 09 - Avista's

11 Response to PC DR No. 496

12

13 MARY M. KIMBALL

14 MMK-1T Mary M. Kimball - 17 Aug 09 - Response

15 Testimony on Avista's Claims re Demand Side

16 Management (DSM) Savings

17 MMK-2 Mary M. Kimball - 17 Aug 09 - Avista Reported

18 Residential Gas DSM Savings & Restated 2008

19 Results to Remove Impact of New Estimates -

20 Washington & Idaho

21 MMK-3 Mary M. Kimball - 17 Aug 09 - Avista's

22 Washington & Idaho Natural Gas DSM Savings -

23 Restated to Remove 2008 Changes to Residential

24 Savings Estimates

25 MMK-4 Mary M. Kimball - 17 Aug 09 - IPMVP, "Concepts

0404

1                   and Options for Determining Energy and Water  
2                   Savings," Volume 1, April 2007 (Excerpts Only)

3

4   GLENN A. WATKINS, Principal and Senior Economist,  
5   Technical Associates, Inc.

6   GAW-1T    Glenn A. Watkins - 17 Aug 09 - Response  
7                   Testimony re Avista's Electric and Natural Gas  
8                   Cost of Service Studies, Proposed Class  
9                   Revenue Increases, Residential Rate Design,  
10                  and Low-Income Rate Assistance Program  
11                  Proposals

12   GAW-2    Glenn A. Watkins - 17 Aug 09 - Witness  
13                   Qualifications

14   GAW-3T   Glenn A. Watkins - 11 Sep 09 - Cross-Answering  
15                   Testimony responding to Deborah J. Reynolds re  
16                   Increased Nat Gas Residential Customer Charge

17   GAW-4    Glenn A. Watkins - 11 Sep 09 - Value Line Nat  
18                   Gas Utilities - Rates of Return on Common  
19                   Equity

20

21   COMMISSION STAFF WITNESSES

22   ALAN P. BUCKLEY, Senior Policy Strategist, UTC  
23   (testifying jointly w/Donald W. Schoenbeck)

24   APB/DWS-1T   Alan P. Buckley & Donald W. Schoenbeck - 17  
25                   Aug 09 - Response Testimony re Avista's Pro

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1                   Forma Year Power Supply Expense Level

2    APB/DWS-2    Alan P. Buckley & Donald W. Schoenbeck - 17

3                   Aug 09 - Analysis and Proposed Adjustments

4                   to Avista's Pro Forma Year Power Supply

5                   Expense Level

6    APB/DWS-3    Alan P. Buckley & Donald W. Schoenbeck - 17

7                   Aug 09 - Normalized Expense - WNP-3 Exchange

8                   Power

9    APB-1        Alan P. Buckley - 17 Aug 09 - Witness

10                  Qualifications

11

12    JOANNA HUANG, Regulatory Analyst, UTC

13    JH-1T        Joanna Huang - 17 Aug 09 - Response Testimony

14                  re Spread of Staff's Proposed Revenue

15                  Increases + Rate Changes within Service

16                  Schedules

17    JH-2        Joanna Huang - 17 Aug 09 - Staff Revenue

18                  Allocation (Electric) & Comparison of

19                  Present/Proposed Rate Components by Schedule

20                  (Electric)

21    JH-3        Joanna Huang - 17 Aug 09 - Uniform Percentage

22                  of Margin (Gas) & Staff Revenue Allocation

23                  (Gas) & Comparison of Present/Proposed Rate

24                  Components by Schedule (Gas)

25

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1 DANNY P. KERMODE, Regulatory Analyst, UTC  
2 DPK-1T Danny P. Kermode - 2 Sep 09 - Response  
3 Testimony re Staff Analysis of Avista's  
4 10-Year Results of Operations, Rate Base, and  
5 Capital Structure (Revised)  
6 DPK-2 Danny P. Kermode - 2 Sep 09 - Avista's Results  
7 of Operations for Test Year Ended Sep 30, 2008  
8 -- Electric (Revised)  
9 DPK-3 Danny P. Kermode - 2 Sep 09 - Avista's Results  
10 of Operations for Test Year Ended Sep 30, 2008  
11 - Natural Gas (Revised)  
12 DPK-4 Danny P. Kermode - 17 Aug 09 - Pro Forma  
13 Interest Adjustment - Electric  
14 DPK-5 Danny P. Kermode - 17 Aug 09 - Pro Forma  
15 Interest Adjustment - Gas  
16 DPK-6 Danny P. Kermode - 17 Aug 09 - Production  
17 Property Adjustment Calculation - Electric  
18  
19 ANN M.C. LARUE, Regulatory Analyst, UTC  
20 AMCL-1T Ann M.C. LaRue - 17 Aug 09 - Response  
21 Testimony re Staff's Position on Six Contested  
22 Pro Forma Adjustments  
23 AMCL-2C Ann M.C. LaRue - 17 Aug 09 - Non-Executive  
24 Labor (PF3 and PF1)  
25 AMCL-3C Ann M.C. LaRue - 17 Aug 09 - Executive Labor

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1 (PF4 and PF2)

2 AMCL-4 Ann M.C. LaRue - 17 Aug 09 - Mercury Emission

3 O&M (PF14)

4 AMCL-5 Ann M.C. LaRue - 2 Sep 09 - Insurance Expense

5 (PF18 and PF10) (Revised)

6 AMCL-6C Ann M.C. LaRue - 17 Aug 09 - Insurance Expense

7

8 DAVID C. PARCELL, President and Senior Economist,

9 Technical Associates, Inc.

10 DCP-1T David C. Parcell - 17 Aug 09 - Response

11 Testimony on Cost of Capital

12 DCP-2 David C. Parcell - 17 Aug 09 - Witness

13 Qualifications

14 DCP-3 David C. Parcell - 17 Aug 09 - Avista Corp. -

15 Total Cost of Capital

16 DCP-4 David C. Parcell - 17 Aug 09 - Economic

17 Indicators, Interest Rates, Stock Price

18 Indicators

19 DCP-5 David C. Parcell - 17 Aug 09 - Avista Corp. -

20 Segment Ratios 2006-2008

21 DCP-6 David C. Parcell - 17 Aug 09 - Avista Corp. -

22 Bond Ratings, History of Credit Ratings

23 DCP-7 David C. Parcell - 17 Aug 09 - Avista Corp. -

24 Capital Structure Ratios 2004-2008

25 DCP-8 David C. Parcell - 17 Aug 09 - AUS Utility



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1 Reports - Electric Utility Groups Average  
2 Common Equity Ratios  
3 DCP-9 David C. Parcell - 17 Aug 09 - Comparison  
4 Companies - Basis for Selection  
5 DCP-10 David C. Parcell - 17 Aug 09 - Comparison  
6 Companies - Dividend Yield, Retention Growth  
7 Rates, Per Share Growth Rates, DCF Cost Rates  
8 DCP-11 David C. Parcell - 17 Aug 09 - Standard &  
9 Poor's 500 Composite 20-Year U.S. Treasury  
10 Bond Yields Risk Premiums  
11 DCP-12 David C. Parcell - 17 Aug 09 - Comparison  
12 Companies - CAPM Cost Rates  
13 DCP-13 David C. Parcell - 17 Aug 09 - Comparison  
14 Companies - Rates of Return on Average Common  
15 Equity, Market-to-Book Ratios  
16 DCP-14 David C. Parcell - 17 Aug 09 - Standard &  
17 Poor's 500 Composite Returns & Market-to-Book  
18 Ratios 1992-2007  
19 DCP-15 David C. Parcell - 17 Aug 09 - Avista Corp. -  
20 Rating Agency Ratios  
21 CROSS-EXAMINATION EXHIBITS  
22 DCP-16-X Public Counsel - 2 Oct 09 - UTC Staff Response  
23 to PC DR No. 4  
24 DCP-17-X Public Counsel - 2 Oct 09 - UTC Staff Response  
25 to PC DR No. 5

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1 DCP-18-X Public Counsel - 2 Oct 09 - UTC Staff Response  
2 to PC DR No. 6

3

4 VANDA NOVAK, Regulatory Analyst, UTC

5 VN-1T Vanda Novak - 17 Aug 09 - Response Testimony  
6 re Staff View of Avista's Weather  
7 Normalization Adjustments (Electric and Gas)

8

9 DEBORAH J. REYNOLDS, Regulatory Analyst, UTC

10 DJR-1T Deborah J. Reynolds - 14 Sep 09 - Response  
11 Testimony re Avista Request to Permanently  
12 Extend Decoupling Mechanism and Recommending  
13 Alternative Regulatory Approach to Company  
14 Proposal (Revised)

15 DJR-2 Deborah J. Reynolds - 14 Sep 09 - Bill  
16 Analysis Model (Revised)

17 DJR-3 Deborah J. Reynolds - 11 Sep 09 -  
18 Cross-Answering Testimony re Recommendation to  
19 Phase Out Avista's Decoupling Mechanism

20 CROSS-EXAMINATION EXHIBITS

21 DJR-4-X Public Counsel - UTC Staff's Responses to PC  
22 DR No. 2

23 DJR-5-X Public Counsel - UTC Staff's Responses to PC  
24 DR No. 3

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0410

1 MICHAEL P. PARVINEN, Assistant Director of Energy, UTC  
2 MPP-1T Michael P. Parvinen - 17 Aug 09 - Response  
3 Testimony re Proper Pro Forma Adjustments and  
4 the Matching Principle; Staff's Recommended  
5 Treatment of the ERM surcharge; and Overview  
6 of Staff's Case

7 CROSS-EXAMINATION EXHIBITS

8 MPP-2-X Avista - 18 Sep 09 - Staff Response to DR 05  
9 MPP-3-X Avista - 18 Sep 09 - Staff Response to DR 13  
10 MPP-4-X Avista - 18 Sep 09 - Staff Response to DR 14  
11 MPP-5-X Avista - 18 Sep 09 - Staff Response to DR 15  
12 MPP-6-X Avista - 18 Sep 09 - Staff Response to DR 16  
13 MPP-7-X Avista - 18 Sep 09 - Staff Response to DR 19

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

2 JUDGE TOREM: We'll be on the record in the  
3 Avista general rate case and the matter of its  
4 decoupling pilot program. This is Administrative Law  
5 Judge Adam Torem. I'm currently sitting without the  
6 Commissioners here in Olympia on Tuesday, October the  
7 6th, 2009. It's a little after 1:30 in the afternoon,  
8 and there are three docket numbers, UE-090134,  
9 UG-090135, those are the electric and natural gas rate  
10 case docket numbers, and the decoupling docket number is  
11 UG-060518, and all of these are consolidated together.

12 Before the Commissioners come in this  
13 afternoon, we're going to take appearances, take care of  
14 a few housekeeping items based on the parties'  
15 attendance the rest of the week. There's a copy of a  
16 letter I handed around from the Edison Foundation  
17 regarding Commissioner Oshie's status with that group.  
18 We're also going to talk about one of our policy  
19 advisors, Steve Johnson, and his prior role with Public  
20 Counsel and now on the Commissioners' policy staff.  
21 We'll scroll through the exhibit list and the cross-exam  
22 estimates and schedule, and then we'll be ready to take  
23 a brief break, get the Commissioners, and have your  
24 opening statements and hear from the settlement panel.  
25 So anyone on the bridge line that's waiting for the

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1 settlement panel, it's probably another 10 or 15 minutes  
2 before we actually get the Commissioners in and go from  
3 there.

4 We'll take appearances from all the parties,  
5 we'll start with Avista.

6 MR. MEYER: Thank you, Your Honor, David  
7 Meyer for Avista.

8 JUDGE TOREM: Northwest Industrial Gas Users.

9 MR. STOKES: Chad Stokes.

10 JUDGE TOREM: Industrial Customers of  
11 Northwest Utilities.

12 MR. VAN CLEVE: Brad Van Cleve for ICNU.

13 JUDGE TOREM: Public Counsel.

14 MR. FFITCH: Simon ffitich for Public Counsel.

15 JUDGE TOREM: And The Energy Project.

16 MR. ROSEMAN: Ronald Roseman for The Energy  
17 Project.

18 JUDGE TOREM: And Commission Staff.

19 MR. TRAUTMAN: Greg Trautman for Commission  
20 Staff.

21 JUDGE TOREM: I want to note on the record  
22 that David Johnson of the Northwest Energy Coalition  
23 because his client is not a signatory or a participant  
24 with the settlement panel today asked to be excused from  
25 attending, and that was granted, so Mr. Johnson is

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1 expected to be here the rest of the week for the rest of  
2 the hearing but not for today.

3           The housekeeping items, we'll start with  
4 other attendance issues, Mr. Stokes had sent me an  
5 E-mail and asked given the outlook for his client that  
6 you're not having any cross-examination planned other  
7 than presenting a witness today that NWIGU be excused  
8 for the rest of the week; is that correct?

9           MR. STOKES: Yes, Your Honor, that's correct.

10           JUDGE TOREM: And Mr. Van Cleve for the  
11 Industrial Customers also let me know they had no  
12 cross-exam, and I made the similar suggestion to him,  
13 and he confirmed for me today, and confirm this on the  
14 record, Mr. Van Cleve, that you wish to be excused as  
15 well.

16           MR. VAN CLEVE: That's correct, Your Honor.

17           JUDGE TOREM: I will let the Commissioners  
18 know that your seats will be vacant. Counsel, if that  
19 makes any difference for spreading out later in the  
20 week, let me know.

21           Mr. Roseman.

22           MR. ROSEMAN: Yes, Your Honor, thank you, we  
23 have -- The Energy Project has cross but only regarding  
24 the decoupling docket and Mr. Watkins, who I guess is it  
25 looks like is to appear at that same time frame, which

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1 is Thursday afternoon and Friday. We aren't going to  
2 have any cross for any of the other witnesses prior to  
3 the beginning of decoupling, so I would request that I  
4 be allowed to be excused for that period of time.

5 JUDGE TOREM: So it sounds like, Mr. Roseman,  
6 you wouldn't be here tomorrow then, and we'd have to  
7 figure out how far we get on Wednesday and you'll maybe  
8 weigh in Thursday morning what time you'll come down?

9 MR. ROSEMAN: That would be correct. What I  
10 would try to do is either consult with Mr. ffitch here  
11 or sometime in the afternoon, just assuming you're going  
12 by the witness list, what my intention was is to go into  
13 the bridge line, see where you are on witnesses, and  
14 then make a conservative guess about when you would  
15 start with decoupling. The only thing I would ask, if  
16 all of a sudden that schedule gets changed, it looks  
17 like decoupling is at the end of the hearing days, if  
18 it's going to be moved a day or something happens, that  
19 someone let me know. And I will try to, like I said, I  
20 will be in touch with Mr. ffitch and that usually has  
21 worked for us in the past.

22 JUDGE TOREM: So long as when you call in you  
23 know the baseball scores, I'll tell you what's happening  
24 here.

25 MR. ROSEMAN: I will make it a point to find

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1 that out.

2 JUDGE TOREM: All right, so we won't expect  
3 to see you tomorrow either. Thank you, Mr. Roseman, and  
4 we'll keep you informed as to where we look like we're  
5 going to get to decoupling, just depends on how well  
6 those cross estimates come out.

7 MR. ROSEMAN: Thank you, Your Honor.

8 JUDGE TOREM: Anything else on attendance  
9 issues for parties or witnesses the rest of the week?

10 MR. MEYER: Just the Dick Storro question  
11 that I posed to you earlier.

12 JUDGE TOREM: All right, and we're working on  
13 that issue. For the record that's a question of whether  
14 Mr. Storro is needed on the revenue requirements  
15 questioning period tomorrow or whether he can delay his  
16 trip over and come simply for the Lancaster power supply  
17 issue. So as soon as we know, we'll see if we can get  
18 him before he gets on the plane at 3:00.

19 MR. MEYER: Thank you.

20 MR. FFITCH: Your Honor, one other matter, if  
21 I may, I just wanted to check and make sure that  
22 Mr. Watkins is on the bridge line. If he's not, then we  
23 want to get a call to him.

24 Mr. Watkins, are you on the bridge line  
25 today?



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1 MR. WATKINS: Yes, I am.

2 MR. FFITCH: Thank you, Your Honor.

3 Thank you, Mr. Watkins.

4 JUDGE TOREM: All right, thank you for  
5 confirming that.

6 All right, let's turn then to a letter dated  
7 April 22nd, 2009, I think that's been handed out to all  
8 the parties. This was an invitation from the Edison  
9 Foundation asking Commissioner Oshie to become a member  
10 of the Institute for Electric Efficiencies Advisory  
11 Council. He accepted that appointment sometime this  
12 spring, and if you look down to almost the final  
13 paragraph it sets out what his duties might be.

14 As a member of the IEE Advisory  
15 Committee, you will be invited to meet  
16 twice a year with our management  
17 committee of CEO's for open discussions  
18 around energy efficiency and dynamic  
19 pricing issues.

20 I bring this up as a potential conflict and  
21 just want to have it out on the record because this case  
22 does mention some dues to the IEE, and they were a  
23 contested adjustment on the electric side of the case.  
24 I'm not so sure if that adjustment was simply moving the  
25 IEE dues from the gas case back to the electric case or

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1 something else, but because it did come up in at least  
2 one piece of testimony in adjustment, I wanted to give  
3 the parties a heads up on Commissioner Oshie's role  
4 here. If any of you thought that this raised a conflict  
5 that required an objection, then we could have further  
6 discussions, but I just wanted to give everybody a  
7 chance.

8 Company have any issues with this?

9 MR. MEYER: No issues.

10 JUDGE TOREM: Any other parties have any  
11 issues?

12 MR. TRAUTMAN: No, Your Honor.

13 MR. FFITCH: No, Your Honor.

14 MR. VAN CLEVE: No, Your Honor.

15 MR. ROSEMAN: No, Your Honor.

16 MR. STOKES: No, Your Honor.

17 JUDGE TOREM: All right, so it looks  
18 unanimous that this particular appointment doesn't  
19 interfere with Commissioner Oshie's role sitting as a  
20 decisionmaker here.

21 Moving on to our policy advisor, Mr. Steve  
22 Johnson, he joined the Commission's Policy Advisory  
23 Staff after working for Public Counsel, and you may  
24 recall he filed testimony in the Docket 060518 prior to  
25 it ever becoming consolidated with this rate case. And

0418

1 some time ago we also had the issue, has to be last  
2 year, when there was the oversight of filing the  
3 evaluation plan and the schedule, and there was a big  
4 hearing here about whether there was going to be a  
5 penalty, and in fact there was, and at that point  
6 Mr. Johnson had joined the Commission's Policy Staff.  
7 And because of his direct involvement with 060518, at  
8 that time we set up sort of an in-house ethics wall that  
9 he did not participate in any advocacy or advice as to  
10 what the Commission should do regarding the penalty, if  
11 any.

12 We would like to have Mr. Johnson, I think  
13 folks know that he's been around the case, we want to  
14 put it on the record today though that he is planning on  
15 advising the Commissioners on all aspects of the case,  
16 the electric, the gas, and the decoupling issues. And  
17 we thought, we put this on the record before and took  
18 action affirmatively to put him at arms' length on the  
19 decoupling matter and evaluation plan, today though it  
20 puts the question of the posture of the case is much  
21 different, it's an overall position as to where should  
22 they be, and if there are folks that want to talk to  
23 Mr. Johnson to determine if he's still wearing the  
24 Public Counsel hat somehow working at the Commission, we  
25 can make him available at a break today or after the

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1 hearing, but we should hear any objections.

2           If a party does want to make an objection  
3 though, I do want to make it clear that it can't just be  
4 an unsupported I object and Mr. Johnson will be  
5 excluded. The impact on Commission Staff is heavy, and  
6 the burden on the party making the objection will be the  
7 full extent of the law to demonstrate prejudice or any  
8 other standard that needs to be articulated. So if you  
9 think you're going to make such an objection, let me  
10 know, we can set up a time either late this afternoon or  
11 early tomorrow morning first thing to hear those  
12 objections and create a record, and then we can make a  
13 determination whether those objections will be sustained  
14 or overruled at that time.

15           One point that I can call your attention to  
16 is one witness, Mr. Brosch, is actually quoted, he's  
17 quoting Mr. Hirschhorn, but his response in that  
18 actually quotes Mr. Johnson, and that's back at Exhibit  
19 MLB-1T, it's the prefiled direct testimony, it's at page  
20 27. I'm not sure if there are any other instances, but  
21 I know it's there.

22           So I wanted to put that on the record today  
23 and give the parties an opportunity, and I will give  
24 Mr. Johnson an opportunity for Northwest Energy  
25 Coalition tomorrow to be aware of this so that he can

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1 take it up, because it may impact his position with  
2 decoupling as well. Any initial comments, or do you  
3 want to just be able to approach me later on this?

4 MR. MEYER: I'm happy to voice we have no  
5 concerns whatsoever.

6 JUDGE TOREM: Any other parties want to state  
7 concern or no concern right now?

8 MR. TRAUTMAN: Staff has no objection.

9 MR. FFITCH: No objection.

10 MR. STOKES: No objection.

11 MR. VAN CLEVE: No objection.

12 JUDGE TOREM: I'm not hearing any, but I'll  
13 check with Mr. Johnson and confirm with Mr. Roseman as  
14 well on this.

15 MR. ROSEMAN: I have no objection.

16 JUDGE TOREM: All right, no objection at all.  
17 So we'll check with Mr. Johnson about Mr. Johnson, if  
18 that's not confusing enough, and confirm Steve's  
19 continued involvement with the case tomorrow.

20 All right, with that out of the way, let's  
21 turn to the exhibit list. I sent out an updated copy  
22 late yesterday probably around 4:00 that incorporated  
23 all of your cross-exam exhibits, and I sent out an  
24 updated one when I realized I had cut and pasted  
25 multiple things in the same spot, and then I made a copy

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1 you don't have, a couple more exhibits that we'll  
2 revise. Mr. Norwood I think updated page 34 of  
3 testimony, and there was maybe Mr. Lafferty had updated  
4 testimony, so I've made those notations as well at least  
5 in the electronic format and the one I have printed out  
6 on the Bench. Did counsel identify any glaring errors  
7 in what I sent out yesterday?

8           If you do through the course of the hearing,  
9 and it will probably come up as we admit exhibits and go  
10 through things witness by witness, please call that to  
11 my attention so that the final exhibit list by the time  
12 we get to Friday and early next week can be submitted to  
13 records center and used as a reference for all of you as  
14 you prepare your briefs.

15           MR. MEYER: Just one item of clarification, I  
16 did visit before the hearing with Mr. ffitch, and there  
17 may be an exhibit or two that's a cross-examination  
18 exhibit that is to be used for a particular Avista  
19 witness but perhaps is better used with reference to a  
20 different one. And so as we continue through the week,  
21 we'll try and bring those to Mr. ffitch's attention or  
22 Staff's attention in advance so we can move the  
23 cross-exhibit into the appropriate category, but I don't  
24 think there will be very many of those.

25           JUDGE TOREM: All right, so we'll just -- and

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1 even if it's been preassigned a number with one witness  
2 and we carry it to another, that's happened in past  
3 experience as well where as long as we're identifying  
4 for the record what we're talking about so that any  
5 reviewing body, that's the real audience for creating  
6 the record, can identify what we're speaking about when  
7 they look at the paper, we're in good shape.

8 MR. MEYER: Okay.

9 JUDGE TOREM: So I don't mind if the initials  
10 for one witness transfer cross-exam another.

11 All right, finally, the cross-exam  
12 estimates --

13 MR. MEYER: Your Honor, before we leave the  
14 exhibit list, may I just ask one other clarifying  
15 question?

16 I distributed this afternoon hard copies of  
17 the Avista response to Bench Request Number 3, and I  
18 intend to make reference to that in my opening  
19 statement, and is it your pleasure to mark at this time  
20 Bench Request Number 3 responses as an exhibit?

21 JUDGE TOREM: We'll go ahead and mark  
22 Avista's response as B-2 for Bench 2, and the Commission  
23 Staff and Public Counsel response to Bench Request 3  
24 that they filed jointly as B-3, and that way you can be  
25 referring to an exhibit number when you go. So yours

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1 will be B-2, and Mr. Ffitch and Mr. Trautman's exhibit  
2 will be B-3. Does that address the concern, Mr. Meyer?

3 MR. MEYER: It does. I suppose there's also  
4 responses to Bench Request Number 2 that are out there,  
5 and, Staff, what is your pleasure in that regard?

6 MR. TRAUTMAN: It would make sense to mark  
7 them as exhibits. Maybe they should be B-2 and 3.

8 JUDGE TOREM: It doesn't make a whole lot of  
9 difference in the numbering which order. Are you both  
10 referring to the responses to Bench Request 2 as well in  
11 these openings today?

12 MR. TRAUTMAN: I will, Your Honor, just  
13 briefly to indicate where the Commission can easily find  
14 our revenue requirement numbers.

15 JUDGE TOREM: Okay, so we'll mark Commission  
16 Staff's response to Bench Request 2 as B-4. How many  
17 other parties are, I'm trying to remember, we had three  
18 parties respond to Bench Request 2?

19 MR. FFITCH: Public Counsel also responded to  
20 Bench Request 2, Your Honor.

21 JUDGE TOREM: So Public Counsel, yours will  
22 be B-5, that will be your response to Bench Request 2.

23 And, Mr. Trautman, just so I'm clear, the one  
24 that will be moved into evidence will be the most  
25 updated response; is that correct?



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1 MR. TRAUTMAN: Yes.

2 JUDGE TOREM: So it will replace any of the  
3 previous responses of which I think there were perhaps  
4 two others?

5 MR. TRAUTMAN: Well, the updated one only  
6 updated Mr. Kermode's exhibits, and I'm trying to recall  
7 if any original Bench Request -- I believe -- that may  
8 have been the only ones we had to put in, but I know the  
9 updated one has Mr. Kermode's Exhibits 2 through 6, so I  
10 think those are the only ones that need to be marked as  
11 a Bench Request response.

12 JUDGE TOREM: I believe so as well.

13 So, Mr. Meyer, you also had a response to  
14 Bench Request 2.

15 MR. MEYER: I don't see the need to mark  
16 that. That was simply an electronic version of what was  
17 already provided.

18 JUDGE TOREM: Yeah, I think it was just a  
19 resubmission; is that correct?

20 MR. MEYER: Correct.

21 JUDGE TOREM: All right, so right now the new  
22 exhibits we've marked are B-2 and B-3, which are  
23 respectively Avista's and then the joint response from  
24 Commission Staff and Public Counsel to Bench Request 3.  
25 B-4 and B-5 are respectively Commission Staff's response

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1 to Bench Request 2 in its most updated fashion and B-5  
2 being Public Counsel's response to that same Bench  
3 Request 2.

4 Any other updates or questions about exhibits  
5 today?

6 MR. FFITCH: One thing, Your Honor,  
7 housekeeping matter again, we have redacted copies of  
8 two cross-examination exhibits available. They have  
9 been filed or provided to the records center. I think  
10 for purposes of the hearing it may not be something that  
11 counsel need or the Bench needs, but I do have copies,  
12 redacted copies of the confidential cross-exhibits if  
13 the Bench requests them or if counsel would like them.

14 JUDGE TOREM: If I recall, just because we're  
15 staying with the theme, it appears those were for  
16 Mr. Johnson.

17 MR. FFITCH: Your Honor, actually one of them  
18 is an exhibit for Ms. Andrews.

19 JUDGE TOREM: Okay.

20 MR. FFITCH: And one of them, let's see --

21 JUDGE TOREM: Oh, they're for Mr. Folsom.

22 MR. FFITCH: That's correct, Your Honor.

23 JUDGE TOREM: So there were two for  
24 Mr. Folsom and one for Ms. Andrews.

25 MR. FFITCH: Correct, and I have -- those

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1 were for Mr. Folsom responses to Public Counsel Data  
2 Requests 5 and 6, so again I just have -- we provided  
3 redacted hard copies to the records center, and I have  
4 additional ones here if people want that or if the Bench  
5 would like.

6 JUDGE TOREM: Okay, thank you.

7 All right, moving now to the estimates for  
8 our cross-exam for the rest of the week, any corrections  
9 or comments on that? I do know we have the question  
10 outstanding for Mr. Storro that we're going to go get an  
11 answer for when we go off the record for a moment here  
12 so that will be addressed quickly, anything else,  
13 comments on those?

14 What I'm hoping is that the estimates here  
15 are conservative and lengthy as opposed to the other way  
16 around, because we're really trying to shoehorn three  
17 and a half days of estimated hearing time into what we  
18 now have left of three days, and that was I guess  
19 mutually by mine and all the parties' choices, but I  
20 don't want to prejudice the Commissioners to not get  
21 them the information, so we'll need to make alterations  
22 and lengthenings of our schedules on Thursday and Friday  
23 and perhaps Saturday morning if we don't get to where we  
24 need to be so all this needs to get into the record. I  
25 trust given that I have mentioned that now on Tuesday

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1 afternoon folks will move at an appropriate pace  
2 starting tomorrow morning. I think we're still planning  
3 for 9:30 tomorrow morning unless the parties let me know  
4 otherwise they want to start earlier, and then I'll  
5 check with the Commissioners. So tomorrow we'll start  
6 with the normal hearing day, and we'll see how we do.

7 Any parties make any other observations when  
8 they look at the totals?

9 MR. MEYER: We will do what we can to shorten  
10 our cross.

11 JUDGE TOREM: Let's make sure we get all the  
12 points that you wanted to get across, but if there's  
13 cutting to the chase to be done, please do.

14 MR. FFITCH: Your Honor, I would just echo  
15 that for Public Counsel, we noted your comments, and we  
16 do have some overlap with Staff on issues, so we're  
17 hoping that that will lead to some efficiencies when  
18 we're going back and looking at our cross, cognizant of  
19 the schedule, and also we'll try to cut to the chase.

20 JUDGE TOREM: Excellent.

21 MR. MEYER: To that end, one thing that,  
22 maybe just assuming this to be the case, but before the  
23 hearing in a colloquy among counsel we agreed among  
24 ourselves that we would be prepared to stipulate all the  
25 exhibits including the cross-examination exhibits into

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1 the record, so that may shorten in some cases some  
2 foundational cross.

3 JUDGE TOREM: All right, perhaps we can do  
4 that this afternoon at the close of the settlement panel  
5 and just take care of that yet today so there's a few  
6 more minutes tomorrow.

7 MR. MEYER: Thank you.

8 MR. VAN CLEVE: Your Honor, I would like to  
9 raise one other issue, we would request that  
10 Mr. Schoenbeck who's here today be excused from  
11 attending the rest of the week. He has other testimony  
12 which the issues here is -- were resolved by the  
13 stipulation, and no cross was identified for him, so we  
14 would request that he be excused after today.

15 JUDGE TOREM: All right, thank you for  
16 raising that, and I will note the Company has requested  
17 and received permission thus far for Mr. Morris,  
18 Mr. Thies, Mr. Avera, and Mr. Kopczynski to be excused,  
19 Commission Staff has sought and obtained permission for  
20 Ms. Huang and Ms. Novak to be excused. Were there any  
21 other witnesses for which there is no cross scheduled?  
22 I don't think so, but Mr. Schoenbeck is one as well.

23 MR. TRAUTMAN: Oh, Mr. Buckley.

24 JUDGE TOREM: Right, and Mr. Buckley is  
25 teamed with Mr. Schoenbeck on testimony, but there's no

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1 identified cross. Mr. Trautman, did you want to seek  
2 his excusal as well?

3 MR. TRAUTMAN: Yes, Your Honor.

4 JUDGE TOREM: All right, let me check if the  
5 Commissioners or Policy Staff have any questions planned  
6 for Mr. Buckley tomorrow, and if there are none, then I  
7 will come back and let you know that for tomorrow so  
8 that he can be excused as well.

9 Anything else before we take a 5 minute  
10 break, and I will come back with Commissioners and an  
11 answer on Mr. Storro and perhaps Mr. Buckley as well?

12 Hearing none, then we'll take a brief 5  
13 minute recess. For those on the bridge line, we'll try  
14 to come back just at 2:00 or a couple minutes after.

15 (Recess taken.)

16 JUDGE TOREM: Good afternoon, we're back on  
17 the record, this is Judge Torem and now the  
18 Commissioners have joined me on the hearing panel.  
19 We've got some answers to the witness issues. Let's  
20 have Mr. Storro catch the 3:00 flight. We may very well  
21 have a question for him in addition to the Lancaster  
22 issues. We'll see, it depends very much on how the  
23 cross-exam goes on the rest of the pro forma and revenue  
24 requirement adjustments.

25 MR. MEYER: That's not at all a problem,

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1 thank you.

2 JUDGE TOREM: Mr. Buckley, Mr. Trautman, it  
3 appears to me that although we're excusing  
4 Mr. Schoenbeck and he filed joint testimony with  
5 Mr. Buckley, there may yet be some questions in  
6 particular with any contested power cost issues that  
7 could come up, and Mr. Buckley appears to be the best  
8 person unless you identify someone else, because you  
9 certainly couldn't testify to a Commission Staff  
10 position.

11 MR. TRAUTMAN: Right.

12 JUDGE TOREM: So Mr. Buckley need not  
13 necessarily be in the room but available when those  
14 issues might come up. So a telephone standby of some  
15 sort as long as you know how to reach him in a rather  
16 quick fashion so we don't burn through any hearing time,  
17 that would be fine. Then if we end up having no  
18 questions by the time we get to the decoupling on  
19 Thursday afternoon or Friday, by that point he'll know  
20 that he can be excused then.

21 MR. TRAUTMAN: All right, thank you.

22 JUDGE TOREM: We are now ready I think to  
23 take the parties' opening statements. Is each party  
24 planning on making an opening statement that's a  
25 signatory to the settlement?

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1 MR. MEYER: Avista is.

2 MR. TRAUTMAN: Yes, Your Honor.

3 MR. FFITCH: Yes, Your Honor.

4 MR. STOKES: Yes, Your Honor.

5 MR. VAN CLEVE: Yes, Your Honor.

6 MR. ROSEMAN: Yes, Your Honor.

7 JUDGE TOREM: So we're going to have a series  
8 of six opening statements, we'll start with the Company  
9 I imagine, and then I'll let you sort out. Unless you  
10 have an order, we can just go around the room and make  
11 those opening statements as brief -- again, because the  
12 Northwest Energy Coalition was excused from today, if  
13 you're going to comment on any other remaining contested  
14 issues and how the settlement does or does not affect  
15 those contested issues, let's refrain from any  
16 discussion of the decoupling matter, as you saw my  
17 E-mail last week to Mr. Johnson, so that he wouldn't  
18 feel at all slighted by not being here and having an  
19 opportunity to talk particularly about decoupling and  
20 the position the Coalition is taking.

21 All right, so with that in mind, Mr. Meyer.

22 MR. MEYER: Thank you, Your Honor, and  
23 members of the Commission. In recognition of the time  
24 available, I ask myself what would I find most helpful  
25 if I were a Commissioner at this stage of the case



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1 trying to make sense out of this, and what kind of road  
2 map could I provide in terms of contested issues or not.  
3 And to that end I will be referring to Bench Request  
4 Number 3, which is our response, and that had been  
5 distributed in hard copy today, and I see you all have  
6 it in front of you, so in due course I will talk you  
7 through that essentially, and that will help in a brief  
8 explanation of what's in and what's out in terms of the  
9 settlement. And by that I mean what's left to decide if  
10 you approve the settlement. And again, Mr. Norwood as  
11 part of the panel will be more than able to answer any  
12 further detail questions as they occur to you in that  
13 regard.

14           But first things first, I thought it would be  
15 helpful to level set on the numbers, and this is an  
16 attempt to be just very matter of fact about what are  
17 the parties' recommendations, and of course I invite the  
18 parties to correct me in their opening statements to the  
19 extent I have misstated anything, but let's lay the  
20 groundwork. The first set of numbers are what is the  
21 contested revenue requirements as each party sees it?  
22 For Avista, we believe the additional revenue  
23 requirement for electric is \$37 1/2 Million, Staff, if I  
24 understand their position correctly, is at \$24 1/2  
25 Million, and Public Counsel is at a negative \$2.9

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1 Million. For gas, Avista's arguing for a \$2.8 Million  
2 increase, Staff is at \$634,000, and Public Counsel is at  
3 \$689,000. So call these bench marks, call them  
4 bookends, call them what you want to, but those are the  
5 numbers that we'll be talking about through the balance  
6 of this week.

7 Now turning more particularly to the numbers  
8 that are set forth in the stipulation so we can make  
9 some sense out of those. First of all, let's take  
10 electric. As filed, the Company was asking for a \$69.7  
11 Million rate increase. The settlement provides for a  
12 reduction of that to \$38.61 Million. And in our  
13 rebuttal we further took some of that, removed it, and  
14 our revenue requirement is down to \$37.5 Million, and in  
15 a moment I will explain how we got to each of these  
16 numbers. Same thing on the gas side. Company's  
17 proposal was \$4.9 Million, we settled at \$3.1 Million,  
18 and the Company is still arguing in its rebuttal for  
19 \$2.8 Million.

20 Now to put at least the, well, to put both  
21 the electric and gas figures into perspective, and this  
22 is where the parties may differ not in terms of the  
23 numbers but in terms of how they choose to characterize  
24 the net impact to rate payers, the \$37 1/2 Million of  
25 rate relief on the electric side the Company is still

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1 advocating for standing alone represents approximately a  
2 9 1/2% change in the base rates. However, Avista  
3 proposes to offset much of this with a \$28 Million  
4 reduction in the existing surcharge that's meant to  
5 recover deferred power costs, and it would do this at  
6 the same time, at the same time that the general rate  
7 case decision became effective sometime in mid to late  
8 December.

9           So what is the net impact of what the Company  
10 proposes? When you subtract the \$28 Million from the  
11 \$37 1/2 Million requested, the net impact on customers  
12 would be approximately \$9 1/2 Million, representing  
13 approximately a 2.2% change in bill rates at that time  
14 once you do the netting. Now I acknowledge that Staff  
15 and Public Counsel see it differently, and they would  
16 propose to essentially delay by a month any netting so  
17 that the rate increase in mid December in terms of  
18 whatever is approved would not be offset, and in January  
19 there would be a reduction, so there would be a lag  
20 between the two rate changes. We propose to do it all  
21 at once to avoid customer confusion. More about that  
22 later.

23           Similarly on the gas side, the remaining \$2.8  
24 Million of revenue requirement that we are still  
25 recommending represents approximately a 1.4% increase in

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1 base rates. Fortunately, however, the Company has  
2 pending before the Commission a PGA rate decrease of  
3 just in excess of 20%, which would take effect in  
4 November if approved by the Commission. So while rates,  
5 the base rates would increase, all parties including  
6 customers are in the fortunate position of seeing some  
7 net decrease overall in their bills. And the Company  
8 well understands the difference between base rates and  
9 PGA pass throughs, but in terms of the actual impact in  
10 the near future, that's where we end up.

11 Now turning now to the settlement. The panel  
12 will get into the particulars, but I just wanted to  
13 highlight a few things. First of all, cost of capital,  
14 but for one issue, that is resolved, and as you know the  
15 return on equity agreed to was 10.2% with a 46 1/2%  
16 equity component resulting in a rate of return of, an  
17 agreed rate of return of 8.25%. Now it is understood  
18 that Public Counsel will assert that there should be  
19 some offset, if you will, and I believe they're  
20 proposing a 25 basis point offset to at least the gas  
21 return on equity should the decoupling pilot continue  
22 into the future. We see it differently, and I won't  
23 rehearse those arguments now, you'll hear about those  
24 later. Suffice to say we disagree on that point, but  
25 that is the only nuance, if you will, on cost of capital

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1 that may still be at issue.

2           In terms of power supply issues, we've  
3 resolved all of the major power supply issues except  
4 Lancaster. The two pieces that are especially  
5 noteworthy in the settlement are the agreed upon level  
6 of gas costs, the price of gas for the unhedged portion  
7 of supplies that we purchase through 2010. And while we  
8 had in the filing \$7.83 a decatherm, fortunately gas  
9 prices have come off, and we were able to reach  
10 agreement at \$5.61 per decatherm. The other biggest  
11 element driving the reduction in power supply cost was  
12 the change in retail load. It had been estimated to be  
13 approximately a 5% increase, but as the settlement  
14 describes, given the economic conditions, we've revised  
15 that downward to a 2% increase, which is a net drop of  
16 3%. Those two factors are the biggest drivers of the  
17 power supply settlement. There are other particulars  
18 that the panel get into.

19           Thirdly, rate spread and rate design.  
20 There's nothing peculiar here. Equal percentage  
21 increase on the electric side to all schedules. In  
22 terms of rate design on the electric side, there was a  
23 change in the basic charge from \$5.75 to \$6 a month, and  
24 there are other particular changes to the extra large  
25 general service Schedule 25. On the gas side, again an

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1 equal percentage of margin increase for all schedules  
2 except for transportation, and that transportation  
3 schedule instead would receive just 2/3 of an equal  
4 margin increase. The gas basic charge is still at  
5 issue, so it's not true that we've settled all rate  
6 design and rate spread issues. And the reason that the  
7 gas basic charge or customer charge issue is still there  
8 is that it is wrapped up in the whole debate around  
9 decoupling. And you will see proposals by Staff for  
10 example to increase it anywhere from \$8 to \$10 a month  
11 assuming decoupling goes away. And so because it's tied  
12 up in that discussion, we couldn't settle out that  
13 issue.

14           Lastly, low income bill assistance. There  
15 the Company has agreed to increase its tariffs to  
16 provide for additional LIRAP funding by the greater of  
17 on the electric side the overall increase in base  
18 revenues or 9% and on the gas side by the greater of the  
19 overall percentage increase in base revenues or 1.75%.

20           So in a nutshell, we accomplished a lot in  
21 terms of putting a number of significant issues to bed  
22 in the areas of cost of capital, in the areas of rate  
23 spread/rate design, power supply, and low income billing  
24 assistance. What's not put to bed, and this is where I  
25 would like to direct your attention to our response, the

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1 Avista response to Bench Request Number 3, and that has  
2 been marked, I know it's in front of you, but it's been  
3 marked as Exhibit B-2. And the first thing I'm going to  
4 do is just simply direct your attention to Attachment A,  
5 page 1 of 2, and draw to your attention the numbers,  
6 many of which I've already given you, but I just want to  
7 make sure that we're all tracking through the same set  
8 of numbers.

9                   Page 2 or page 1 of this Attachment A is  
10 electric and page 2 is gas. I will spend most of my  
11 time just on the electric, and I won't belabor this, but  
12 I just want to make sure that we're all tracking through  
13 it. As you can see, there's a column to the right-hand  
14 side at settlement, and then there's a column for where  
15 the Company is at on rebuttal. So if we track down  
16 first of all the settlement column, we filed for \$69.7  
17 Million. You can see what the impact of agreeing to  
18 cost of capital was as well as a number of power supply  
19 adjustments that we agreed to as well as a line item,  
20 line number 9, pro forma O&M generation, and when you  
21 sum those up you have a \$36.9 Million set of agreed upon  
22 adjustments. By subtracting that number from the top  
23 number of \$69.7 Million, you get the \$32.9 Million which  
24 is shown in terms of the revenue requirement based on  
25 the stipulation's agreed upon adjustments. But that's

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1 by no means a cap, that's by no means the upper limit of  
2 what the revenue requirement is, at least in the  
3 Company's view, and it was never intended to be conveyed  
4 that way.

5           So as you proceed down the page, even at time  
6 of settlement, even then and before we filed our  
7 rebuttal, there were a number of issues that remained  
8 outstanding, and these are identified in their  
9 particulars down below beginning with Lancaster,  
10 prudence, labor, capital additions, et cetera. But  
11 there is one item in particular that stands out, and  
12 that is the production property adjustment, and that is  
13 \$7.9 Million, and that's a positive number, and the  
14 narrative to our response to Bench Request 3 explains  
15 why that number is a positive number, essentially the  
16 theory behind it.

17           So when you factor in the positives and  
18 negatives down below, in Avista's view at time of  
19 settlement its revenue requirement was still \$38.6  
20 Million. The only thing that has changed then from  
21 settlement to where we're at today is that we have filed  
22 rebuttal testimony, and in the process of doing that we  
23 have fine tuned some of our adjustments, and that's  
24 shown in the right-hand column. And the only two  
25 numbers, well, three numbers, but the two primary



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1 numbers that drive the difference between where we  
2 Avista were at in terms of settlement and where we're at  
3 today are in the area of labor and in the area of  
4 information services. I will say there is a modest  
5 change in the production property adjustment, but it's  
6 rather immaterial.

7           So Avista's revised revenue requirement as we  
8 sit here today before you is \$37.4 Million. And there's  
9 a footnote down below that describes how you can more  
10 particularly get to that number through the exhibits of  
11 Ms. Andrews. So hopefully this, we have a lot of  
12 numbers floating around, hopefully this explains at  
13 least where Avista's at and where we're at today as this  
14 case evolves.

15           I'm not going to do the same thing on the gas  
16 sheet, which is the second sheet, but it's the same  
17 idea, I think you can discern for yourself really. The  
18 revenue requirement there as Avista sees it is \$2.8  
19 Million, and the only two things that have changed there  
20 since we filed our settlement again were the area of  
21 labor and information services.

22           So I could at this point, I know I've used up  
23 more than my allotted time, and I want to move off the  
24 numbers, and I sure could provide a quick road map for  
25 the rest of the case, and I know you don't want to talk

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1 about decoupling today, and I could spend some time  
2 talking about what's going to happen tomorrow as the  
3 Company sees it in terms of other revenue requirement  
4 issues that are resolved, but I don't have the sense  
5 that that is the type of opening you were looking for at  
6 this point in time, so at your pleasure.

7 JUDGE TOREM: All right, Commissioners, any  
8 questions on those areas that you want to hear this  
9 afternoon which will guide the rest of the parties as  
10 well?

11 I think the numbers and the settlement, that  
12 really has us in the position now to ask the questions  
13 and focus what we have for the settlement panel.

14 MR. MEYER: Thank you, that's all I have.

15 MR. STOKES: Good afternoon, I'm Chad Stokes,  
16 I represent the Northwest Industrial Gas Users. We  
17 believe the settlement is a fair compromise on certain  
18 revenue requirements, rate spread and rate design  
19 issues. We believe that 10.2% ROE is appropriate in  
20 today's financial markets based on the risk facing the  
21 Company. As part of the settlement, there was more than  
22 \$1.2 Million in adjustments to the proposed revenue  
23 requirement, which has been further reduced by the  
24 Company, which we feel is appropriate. On the rate  
25 spread and rate design, the rate spread was done

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1 consistent with Avista's cost of service study as well  
2 as the cost of service study done by our expert, Mr. Don  
3 Schoenbeck, and a very important issue for us was moving  
4 Schedule 146 towards its relative cost of service.

5 As far as our litigation position going  
6 forward, we don't have any witnesses that will appear  
7 this week besides Mr. Schoenbeck who's here today, and  
8 we don't have any cross, therefore we have asked to be  
9 excused from the rest of the hearing but reserve the  
10 right to brief any issue that comes up after we've  
11 reviewed the transcript. Thank you.

12 JUDGE TOREM: Mr. Van Cleve.

13 MR. VAN CLEVE: Thank you, Your Honor, Brad  
14 Van Cleve appearing on behalf of the Industrial  
15 Customers of Northwest Utilities. I just want to give  
16 you a little bit of our perspective on the case and  
17 where we're at. As you're probably aware, there's a  
18 huge volume of information involved in these cases,  
19 Avista originally had 12 witnesses, but even more  
20 important than that, there's a tremendous amount of data  
21 and information that underlies that. And in this case  
22 there were 3 volumes of workpapers that were produced  
23 and 10 volumes of data responses. And an intervenor  
24 like ICNU has fairly limited resources available, so we  
25 have to pick and choose which issues that we're going to

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1 focus on, and we try to find those issues which will  
2 have the most impact on our members.

3           In this case we addressed three issues, power  
4 cost, rate spread/rate design, and cost of capital. And  
5 we sponsored three pieces of testimony. Mr. Schoenbeck  
6 addressed the rate spread/rate design issues, we jointly  
7 sponsored Mr. Buckley and Mr. Schoenbeck on power costs  
8 with Staff, and we also jointly sponsored Mr. Gorman on  
9 cost of capital with Public Counsel. The settlement  
10 resolves all of the issues that were raised in our  
11 testimony. We think that the results on each of these  
12 issues are good. On power costs most of the adjustments  
13 suggested by Mr. Buckley and Mr. Schoenbeck were adopted  
14 in the settlement. On cost of capital the agreement  
15 keeps Avista at its current level of ROE, and the  
16 overall cost of capital result is very close to the  
17 recommendation made by Mr. Gorman, so we feel this is a  
18 reasonable result. On the issue of rate spread, parties  
19 agreed to an equal percentage rate spread, and what this  
20 does is maintain the current status quo on the cost of  
21 revenue allocation among the customer classes. And the  
22 reason we're doing that is Avista is just about complete  
23 with a new cost study, and we're hopeful in the next  
24 case that we will be able to actually base the rate  
25 allocation on that cost study. And finally, the

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1 settlement includes some rate design changes in Schedule  
2 25, which is the rate schedule for Avista's largest  
3 customer, which aligns those customers more with the  
4 cost within that class.

5           While we're not sponsoring any witnesses on  
6 the remaining issues that have been raised by Staff and  
7 Public Counsel, we do urge the Commission to seriously  
8 consider the adjustments that they're proposing.  
9 Avista's customers have experienced near annual rate  
10 increases over the last 8 to 10 years, and more  
11 specifically they saw a 9% rate increase just this  
12 January. In Avista's litigation case, they're basically  
13 asking for another 9% increase in base rates, so that  
14 would be an 18% increase in base rates within the course  
15 of just one year. So while we're not sponsoring  
16 witnesses and we're not conducting cross-examination on  
17 those issues, we think it's very important for the  
18 Commission to send the Company a message that it needs  
19 to do a better job of controlling its costs. And we do  
20 reserve the right to address those issues that Public  
21 Counsel and Staff are raising in our brief. Thank you.

22           JUDGE TOREM: Mr. Roseman.

23           MR. ROSEMAN: Mr. ffitch is going to go  
24 first.

25           JUDGE TOREM: All right, Mr. ffitch.

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1                   MR. FFITCH: Your Honor, Mr. Roseman has  
2 yielded to me at least temporarily.

3                   Good afternoon Chairman Goltz and  
4 Commissioners and Judge Torem, Simon ffitch appearing on  
5 behalf of Public Counsel office. We, as you know, are a  
6 party to and support the partial settlement in this case  
7 as being in the public interest, and many of the points  
8 that I was going to make have already been touched on,  
9 so I will try to be concise here. We did co-sponsor  
10 cost of capital expert testimony with the Industrial  
11 Customers, and our witness was Mr. Michael Gorman, and  
12 he is available today by phone and will be on the panel  
13 for any questions on cost of capital issues. On rate  
14 spread and rate design, we jointly sponsored with The  
15 Energy Project expert testimony of Glenn Watkins.  
16 Mr. Watkins is also on the telephone today and is a  
17 member of the settlement panel and a co-author like  
18 Mr. Gorman of the joint testimony. In the settlement,  
19 Public Counsel also agreed to the power cost component  
20 and to the single revenue requirement adjustment  
21 production O&M.

22                   The issues remaining in dispute have been  
23 touched upon already, but I will just quickly review  
24 those from our perspective. First of all, essentially  
25 all the revenue requirement issues addressed by Public

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1 Counsel except for the production O&M matter are still  
2 in dispute, and our witness on those issues is Mr. Hugh  
3 Larkin. There are a couple of lists of those issues.  
4 One of them is attached to the settlement itself. I  
5 believe the Bench request response of Avista, Bench  
6 Request Number 3, also has a list. Those are pretty  
7 good lists, but there may be other issues on revenue  
8 requirement that crop up during the case.

9           In the area of power costs, we're tendering  
10 the testimony of Mr. Kevin Woodruff on the issue of the  
11 Lancaster contracts. That's the sole remaining power  
12 cost issue outstanding that's not resolved by the  
13 settlement.

14           The issue of the ERM or the energy recovery  
15 mechanism is important to us. We strongly disagree with  
16 the proposals of Avista in this case to use the ERM  
17 matter in connection with the proposed rate increases in  
18 this case, and that's a matter of dispute, and we'll be  
19 addressing that as the case goes forward.

20           We have also two witnesses on decoupling. I  
21 won't go into that in depth, but Mr. Michael Brosch and  
22 Mary Kimball have addressed the decoupling issues, and  
23 there are two related issues affected by decoupling on  
24 cost of capital and rate design, you're already heard  
25 about these. The cost of capital settlement in this

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1 case is essentially a cap and is from Public Counsel's  
2 perspective based on an assumed rejection of the  
3 decoupling continuation in this case. And if decoupling  
4 or another risk reduction mechanism is approved in this  
5 case, then the settlement permits parties to argue for a  
6 reduction in the return on equity to reflect that. That  
7 issue has not yet been resolved.

8           With the other issue that is connected to  
9 decoupling is the gas rate design issue. Public  
10 Counsel's initial testimony agreed with the initial  
11 recommendation of Avista for a 25 cent increase in the  
12 gas customer charge. However, at this point in time,  
13 that issue is no longer resolved. Avista nor any other  
14 party is willing to agree to that customer charge until  
15 the outcome of the decoupling issue is resolved, so that  
16 is also outstanding in terms of issues.

17           I believe, Your Honor, that covers the points  
18 I wanted to make in my opening statement, I will defer  
19 now back to Mr. Roseman.

20           MR. ROSEMAN: Thank you.

21           Good afternoon, Your Honor. I am going to  
22 focus my attention primarily on the low income customers  
23 of Avista. With yearly rate increases over the past 4  
24 years I believe and the severe downturn in the economy,  
25 these rate assistance programs are ever important in



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1 keeping limited income customers connected to their  
2 utility service. In 2007 before the severe economic  
3 downturn, there were over 30,000 limited income  
4 customers in Avista's service territory. 70% of these  
5 customers live with incomes of less than \$15,000. Over  
6 6,000 of these customers have received some assistance  
7 through LIRAP. This settlement, as Mr. Meyer mentioned,  
8 will increase LIRAP funding. It will increase it by a  
9 minimum of 9%, or if a rate increase is approved at a  
10 higher amount than that, by that amount, kind of a  
11 indexing of funding to what happens with rates above 9%  
12 on the electric side.

13           The Energy Project believes the settlement is  
14 in the public interest because the increase in LIRAP  
15 funding will help provide some resources or funding to  
16 the over 24,000 customers who currently are not able to  
17 avail themselves of LIRAP. The program runs out of  
18 money generally. This last year was an exception, but  
19 that is generally what the rule is. The additional  
20 funding also complies with RCW 80.28.068, which allows  
21 the Commission to approve rate assistance programs and  
22 recover expenses in lost revenue in rates to other  
23 customers. So we are pleased or satisfied that this  
24 increase will hopefully address whatever rate increase  
25 the Commission approves and yet be able to address the

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1 needs of this unserved population. As Mr. ffitch  
2 mentioned, we are -- the other issue besides decoupling  
3 that we have Ms. Barbara Alexander testifying on behalf  
4 of The Energy Project, the other issue that remains will  
5 be the rate design issue, and Public Counsel and The  
6 Energy Project are co-sponsoring Glenn Watkins in that  
7 regard.

8 Thank you.

9 JUDGE TOREM: Thank you, Mr. Roseman.

10 MR. FFITCH: Your Honor, may I just make one  
11 more point that I forgot to make briefly, and this  
12 relates to the Bench's interest in identifying our  
13 specific positions on revenue, I just wanted to chime in  
14 on that. Mr. Meyer has accurately described our  
15 ultimate revenue recommendation. Those are to be found  
16 in our response to Bench Request Number 2 in the case.  
17 We have those are the spreadsheets that we filed to  
18 reflect our current recommendation on electric and gas  
19 revenue. And just to sort of flesh that out just a  
20 little bit, essentially that roughly \$32 Million or so,  
21 \$32 Million to \$34 Million, is primarily comprised of  
22 approximately \$20 Million worth of revenue requirement  
23 issues and approximately \$12 Million of Lancaster  
24 related power cost issues.

25 Thank you, Your Honor.

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1 JUDGE TOREM: Mr. Trautman.

2 MR. TRAUTMAN: Thank you, Your Honor. Good  
3 afternoon, Commissioners. Much has already been said of  
4 the partial settlement, which Staff fully supports. We  
5 do so for a number of reasons. It resolves several  
6 significant issues in the case and furthers the rate  
7 payers' interest in fair, just, and reasonable rates. I  
8 will just highlight three areas. The cost of capital  
9 which was previously mentioned at 10.2% very closely  
10 approximates Staff's litigation position in the case.  
11 It is the same as what has been carried over from the  
12 current settlement, and it's also consistent with our  
13 position that recent events in the capital markets do  
14 not justify an increase in the return on equity. The  
15 common equity ratio is also very close to Staff's  
16 litigation position.

17 On the power supply adjustments, as was  
18 previously mentioned, it includes many adjustments  
19 recommended jointly by Staff and ICNU, including the  
20 update for the retail price of gas as well as the retail  
21 load adjustment, and those two adjustments alone account  
22 for \$27 Million in reduction. It also resolves the rate  
23 spread and the rate design in a manner that's very close  
24 to Staff witness Ms. Huang's recommendations,  
25 particularly as to equal percentage increase to both the

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1 electric and gas schedules. As has been mentioned,  
2 there is, on the gas side, there's still an issue  
3 remaining as to the appropriate fixed charge, and as  
4 part of decoupling Staff has recommended that that be  
5 phased out and that the fixed charge be raised to \$8,  
6 but also that the volumetric charge be accordingly  
7 reduced. So there would be an increase in fixed charge  
8 but a reduction in the volumetric charge. I won't go  
9 further into that, because it's really into the  
10 decoupling issue.

11 As far as the remaining litigated issues, as  
12 Mr. Meyer correctly stated, the Company is now  
13 advocating for, and this is on the electric side, for a  
14 \$37.5 Million revenue requirement, and Staff is  
15 advocating \$24.5 Million, so there's a difference of  
16 about \$13 Million. What was helpful to me is to look  
17 at, and this was provided in our most recent response to  
18 Bench Request 2 and it's updating Mr. Kermode's  
19 exhibits, and I would direct your attention in  
20 particular to DPK-2 and 3, of which there's a summary of  
21 adjustments page. And on that page and when you look at  
22 that page, you can see two columns, one that has  
23 Avista's rebuttal position, and one that has the Staff  
24 position, and you can clearly see in dollar figures how  
25 much is at issue for each adjustment, and it's very

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1 clear how you can see the differences on the pro forma  
2 adjustments between the \$37.5 Million and the \$24.5  
3 Million figures.

4           And basically for Staff, although there are a  
5 number of adjustments, some of them smaller in dollar  
6 value, the primary adjustments from Staff's perspective  
7 from a dollar perspective have to do with the capital  
8 additions for 2008 and 9 and the asset management and  
9 information service programs. And those four combined,  
10 the difference between Avista's and Staff's position is  
11 about \$11.5 Million. And then we also have differences  
12 on labor compensation and incentive issues, and the  
13 differences there is about \$1.3 Million. And then there  
14 is also a difference, as Mr. Meyer referred to, on the  
15 production property adjustment and how that's  
16 calculated, and currently we have a difference of about  
17 \$1.4 Million. And there are some other offsets, but  
18 when you're looking at a broad scale of the \$13 Million,  
19 those are the main baskets where the differences are  
20 between the Staff and the Company.

21           Oh, one other, one other point, we agree with  
22 Public Counsel that the ERM, the ERM surcharge, is a  
23 separate issue. It should not be tied to this case.  
24 It's currently I believe it's predicted to -- it should  
25 end, it's estimated to end in January or February of

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1 next year, and we would advocate simply allowing that to  
2 go on its separate track and not fold it into the rate  
3 case, because it is a separate issue, as is the PGA  
4 issue. We're aware that there will be decreases because  
5 of the PGA, but that is separate from this rate case and  
6 should not become a part of the analysis of the rates  
7 that come out of this rate case.

8 Thank you.

9 JUDGE TOREM: All right, I think that is it  
10 for opening statements, so I'm going to ask that we  
11 assemble the witnesses that are sponsoring Exhibit  
12 JT-1T, the joint testimony in support of the partial  
13 stipulation. In the room here we should have Kelly  
14 Norwood for Avista, Danny Kermode from Staff, and I  
15 believe Mr. Schoenbeck is here as well representing ICNU  
16 and NWIGU.

17 On the phone, Mr. Gorman, can you hear me?

18 MR. GORMAN: Yes, I can.

19 JUDGE TOREM: And Mr. Watkins?

20 MR. WATKINS: Yes, I'm here.

21 JUDGE TOREM: All right, once we get all the  
22 witnesses comfortably seated, then I will have them all  
23 stand up again to take the oath, and I will ask those of  
24 you by telephone to do the same wherever you're located.

25 (Witnesses KELLY O. NORWOOD, DANNY P.

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1 KERMODE, DONALD W. SCHOENBECK, MICHAEL P.  
2 GORMAN, and GLENN A. WATKINS were sworn.)

3 JUDGE TOREM: Commissioners, I know we have a  
4 few prepared questions, one of which was answered by the  
5 Bench requests, I don't know if there are any follow-ups  
6 to the information we received on Bench Request 3. We  
7 already have the exhibits, Bench 2 and Bench 3 are the  
8 written responses from Avista and then the joint  
9 response from Public Counsel and Commission Staff  
10 already marked, and I'll indicate as a Bench exhibit  
11 they're certainly admitted.

12 Which one of you wants to kick off the  
13 questions that we have for the panel?

14 COMMISSIONER OSHIE: I think you have to be  
15 more direct, Judge. We're not quite sure what to do.

16

17 Whereupon,

18 KELLY O. NORWOOD, DANNY P. KERMODE, DONALD W.  
19 SCHOENBECK, MICHAEL P. GORMAN, and GLENN A. WATKINS  
20 having been first duly sworn, were called as witnesses  
21 herein and were examined and testified as follows:

22

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

24 BY COMMISSIONER OSHIE:

25 Q. We had a question as we of course discussed

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1 the matters prior to the hearing about the effect of the  
2 language used to describe the low income assistance  
3 program benefits that are contained in the settlement,  
4 and I think that that's been cleared up at least enough  
5 for our purposes going forward, understanding that it's  
6 the -- it is -- the amount is whichever is higher, which  
7 is for electric the overall percentage increase in base  
8 revenue that we finally agree upon or that we finally  
9 order or the 9%, and so that's my understanding from the  
10 testimony, and I do appreciate that from the attorneys  
11 this morning. The language wasn't clear from the  
12 settlement agreement, at least not to me, I don't  
13 believe to the individuals that are assisting us with  
14 this case as well, so that's been cleared up.

15 I do have a question, and the settlement's  
16 fairly straightforward, and it doesn't really -- the  
17 language in it is clear, I mean it's limited in the  
18 number of issues that it addresses, so personally I  
19 don't have a lot of questions about the parties' intent  
20 here, it seems fairly obvious. There is a question that  
21 I do have with regard to rate design that's contained,  
22 the language is on page 6 and 7 of the settlement  
23 stipulation with regard to gas service, and it's under  
24 small b, 2(b) rate design. So the question I have, at  
25 least the initial question, is I think we need to have a



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1 better explanation of what's meant by the parties there.  
2 You know, what's in dispute still with regard to  
3 Schedule 101 is the basic charge, and of course there's  
4 a number, and of course the amounts are still in  
5 question. In other words, there's a difference of  
6 opinion between the parties as to what the final rate  
7 increase should be with regard to the Schedule 101 as it  
8 will be spread evenly, whatever increase would be  
9 decided upon, if any. And so the basic charge is in  
10 dispute, the amount allocated to Schedule 1 of the  
11 revenue requirement is in dispute, but the settlement  
12 says that the, if I'm reading it right, they're going to  
13 maintain the present break even usage level between  
14 Schedules 101 and 111. So how does that -- I mean  
15 doesn't the fact that the basic charge is still in  
16 dispute and the break even usage level is still in  
17 dispute, doesn't that affect the break -- and as part of  
18 this answer, you can explain what you mean by the  
19 present break even usage level. So what's the parties'  
20 intent with regard to this section and this language?

21 A. (Mr. Norwood) I'll take a shot at that. For  
22 Schedules 101 and 111, as a customer approaches  
23 basically the break point, and I will explain that in  
24 just a minute, for 101 and 111 we want to make sure that  
25 in the transition from 101 to 111 there's a smooth

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1 transition so that a customer's not in a situation where  
2 from month to month they can jump from one schedule to  
3 the other depending on their usage to get a lower bill.  
4 So the intent of this language is to say that once the  
5 basic charge is determined for Schedule 101, which is  
6 still in dispute in this case, then we would want to set  
7 the energy rates and the transition between 101 and 111  
8 in a way that there's a smooth transition so that we  
9 don't have a schedule shifting problem from one schedule  
10 to the other. And we do this in every case whether  
11 there's an issue with the basic charge or not to assure  
12 there's not some gamesmanship that could go on with  
13 customers from month to month.

14 Q. It goes on to say that, thank you,  
15 Mr. Norwood, that the rates Schedule 101 will not be  
16 conditioned or dependent on the rates schedule for  
17 Schedule 111 and 112. From your explanation, is there  
18 any inconsistency there? I mean it seems like that  
19 break even point would be dependent upon, at least with  
20 regard to Schedule 111, I don't know about 112, but  
21 obviously between 101 and 111 there's going to be some  
22 at least potential variation in rates depending on the  
23 amount of revenue that is allocated to each schedule.

24 A. (Mr. Norwood) Yes, when I read this I had  
25 the same question and thought, there seemed to be a

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1 conflict here. But as I spoke to Mr. Hirschhorn, who's  
2 our rate design witness, again the plan here would be to  
3 establish the basic charge at whatever level is  
4 determined in this case. Once that's set, then you  
5 would establish the energy rates on both schedules at a  
6 level that would provide a smooth transition between the  
7 schedules. That's what was intended by this language.

8 Q. So it is somewhat dependent, but everyone  
9 understands --

10 A. (Mr. Norwood) Yes.

11 Q. -- what was meant. I think that we have a  
12 better understanding as well.

13 MR. FFITCH: And, Your Honor, excuse me, I'm  
14 sorry.

15 COMMISSIONER OSHIE: Go ahead, Mr. ffitich.

16 MR. FFITCH: I just wanted to add because  
17 this was language that concerned us and we were involved  
18 in the negotiation of it that our understanding is  
19 consistent with the way that Mr. Norwood has described  
20 it, and we wanted to make sure that this language with  
21 respect to Schedules 111 and 112 didn't tie our hands  
22 with respect to Schedule 101 issues that were still in  
23 dispute. I believe that Mr. Norwood has described the  
24 intent accurately.

25 COMMISSIONER OSHIE: All right, thank you,

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1 Mr. ffitch.

2 BY COMMISSIONER OSHIE:

3 Q. Just very briefly, I want to jump to the rate  
4 design, the basic charge under the electric settlement,  
5 and that's on partial settlement stipulation 5. This  
6 doesn't -- my question isn't with regard to the position  
7 of the parties, I think that's very clear. I guess my  
8 question is just a bit of a background. You know, do  
9 the parties agree on what costs make up the fixed costs  
10 for the electric side? They've agreed that \$6 should be  
11 the fixed rate residential basic charge or fixed charge  
12 per month, but just, again this is just curious, if you  
13 will.

14 A. (Mr. Norwood) I would say that the parties  
15 probably would not agree if we tried to agree as to what  
16 those fixed costs are. In this particular case, there  
17 wasn't a need to try to identify or determine what the  
18 fixed cost is per month to serve a customer. That issue  
19 really came up on the gas side because of the decoupling  
20 issue and the basic charge issue. That issue is not  
21 present on the electric side. So if we were to go  
22 around the table with the witnesses, my guess is you  
23 would get a different answer.

24 In the past for rate making purposes we've  
25 established a basic charge. There have been arguments

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1 one way or the other on that. From Avista's  
2 perspective, we believe that \$6 per month is well below  
3 what the fixed cost is per month to serve customers, but  
4 in the past in my view that fixed cost per month that's  
5 been charged to customers, the \$6, we've attempted to  
6 keep that at a relatively low level because of concerns  
7 that have been expressed that if you have a higher basic  
8 charge per month, it might have a more adverse  
9 economical impact for some customers who may have a  
10 lower usage per month.

11 Q. Well, Mr. Norwood, I believe that you have  
12 stated what I understood, perhaps this question of  
13 whether or not the parties did agree, and I think you've  
14 also stated on the record a fact that I think is  
15 necessary, which is that the proposed fixed charge is  
16 less than, and I would assume all the parties agree,  
17 that the \$6 is less than the what is a fixed charge per  
18 customer, less than the total fixed charge per customer,  
19 so it doesn't exceed that.

20 A. (Mr. Watkins) Your Honor, this is Glenn  
21 Watkins, I would disagree with that point. I would  
22 agree with Mr. Norwood that the parties would have  
23 differences of opinion as to what level of fixed costs  
24 there are, but my analysis indicates that the fixed  
25 customer charge is somewhat less than the \$6, but within

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1 the ball park.

2 Q. All right, and that's fine, thank you for the  
3 clarification.

4 COMMISSIONER OSHIE: I don't have any other  
5 questions, Your Honor.

6 JUDGE TOREM: Public Counsel or Staff want to  
7 have any of their witnesses -- Public Counsel has I  
8 think. Mr. Trautman, anything for Mr. Kermode on that  
9 issue?

10 MR. TRAUTMAN: No.

11 JUDGE TOREM: Commissioner Jones.

12 COMMISSIONER JONES: Good afternoon, this is  
13 Commissioner Jones, I've got two lines of questioning,  
14 so the first relates to Lancaster. I understand that  
15 Public Counsel disputes the prudence of the Lancaster  
16 contracts, does any other party dispute these contracts?  
17 And I will start with maybe go around the table starting  
18 with Mr. Van Cleve. I think you said something like you  
19 wanted to focus on three issues and power costs was one  
20 of them.

21 MR. VAN CLEVE: That's right, Your Honor. In  
22 our testimony we didn't address the issue of the  
23 Lancaster contracts, and I would say that we may weigh  
24 in on the issue in our briefing after there's a full  
25 record in the case, but we haven't taken a position on

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1 it as of yet.

2 COMMISSIONER JONES: So you reserve the right  
3 to weigh in on the brief, but you don't want to say  
4 anything at this point as to why you didn't weigh in on  
5 it with evidence?

6 MR. VAN CLEVE: Well, it initially wasn't,  
7 and I can let Mr. Schoenbeck address this, it wasn't an  
8 issue that we focused on on the power costs. We knew  
9 that Public Counsel was focusing on it, so we were kind  
10 of relying on them to carry the issue.

11 COMMISSIONER JONES: Staff.

12 MR. TRAUTMAN: We also have not challenged  
13 the Lancaster contracts in our case.

14 COMMISSIONER JONES: Okay, I think that's it.

15 Judge, is this the only time that we have  
16 Mr. Gorman available?

17 MR. FFITCH: Your Honor, Mr. Gorman is  
18 available by telephone for other issues, non-panel  
19 issues, on Friday the 8th.

20 COMMISSIONER JONES: Okay.

21 MR. FFITCH: On Friday the 9th, I'm sorry.  
22 So, for example, if there were questions about cost of  
23 capital related to decoupling, he would be the --

24

25

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

2    BY COMMISSIONER JONES:

3            Q.    Well, why don't I start, and if this is more  
4    related, I have a general question and one more related  
5    to the basis point reduction for decoupling, which is  
6    hypothetical I know, but if it's not appropriate today I  
7    could ask it during the decoupling session on Friday,  
8    because I know we're going to have a lot of discussion  
9    on that point. This is more for the Company, could you  
10   provide for the Bench, at least for me, the most recent  
11   cost of -- the most recent capital structure that you  
12   have. Isn't it true, Mr. Norwood, that you have a  
13   facility by which you can issue equity, common equity,  
14   and I think you issued \$250 Million or a large amount of  
15   first mortgage bond debt after the filing of your  
16   rebuttal case, correct?

17            A.    (Mr. Norwood) That is correct, and we do  
18   have 2 million shares of common that are available to be  
19   issued through a periodic offering. In mid to late 2008  
20   we issued 750,000 shares of common stock. On the debt  
21   side, as you mentioned, we did recently issue \$250  
22   Million of debt, and that would replace some of the  
23   short-term debt that we had outstanding.

24            Q.    Well, I know Mr. Thies and your cost of  
25   capital witness, Mr., what's the pronunciation of his



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1 name?

2 A. (Mr. Norwood) Thies.

3 Q. No, no, is it Avera?

4 A. (Mr. Norwood) Oh, excuse me, Avera.

5 Q. Avera?

6 A. (Mr. Norwood) Yes.

7 Q. Because I've always called him Avera, rhymes  
8 with Evada, but he's not here today, but if he could, if  
9 Mr. Thies or Mr. Avera could provide that.

10 And, Mr. Gorman, if you want to chime in on  
11 this, please do with your, you know, I would like to see  
12 your calculation of the most recent capital structure as  
13 well.

14 A. (Mr. Norwood) It would be company specific,  
15 so Mr. Thies and his group will put that together.

16 JUDGE TOREM: And I think we'll issue a Bench  
17 request so that's formally part of the record and set a  
18 deadline for that to come in. Mr. Norwood, do you have  
19 any idea as to how long it might take to obtain that  
20 information?

21 MR. NORWOOD: Probably it could be put  
22 together in probably two days, today is Tuesday, so we  
23 could have it in by Thursday.

24 JUDGE TOREM: All right, so I'll see if I can  
25 get with Commissioner Jones, and we'll get a short Bench

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1 Request Number 4 typed up, and it probably won't go out  
2 today but first thing tomorrow morning, and if you want  
3 to pass the idea of the request on, feel free to do  
4 that, but it will formally be issued tomorrow morning.

5 MR. NORWOOD: We will do that, and if we can  
6 get it done sooner, we will certainly get it to the  
7 Commission.

8 JUDGE TOREM: Commissioner Jones, did you  
9 have further questions you wanted to ask perhaps of  
10 Mr. Watkins?

11 COMMISSIONER JONES: No, not for Watkins,  
12 maybe for Gorman.

13 BY COMMISSIONER JONES:

14 Q. I just wanted to clarify, Mr. Gorman, on your  
15 25 basis point recommendation in your cost of capital  
16 testimony, are you on the bridge line?

17 A. (Mr. Gorman) Yes, I am.

18 Q. Okay. Are there any other states, I think  
19 you mentioned in your testimony Oregon's case with  
20 Portland General of 10 basis points, and there was a  
21 Connecticut case where they figured they -- I guess the  
22 way I read the testimony it was too difficult to  
23 calculate. But if the Commission were to approve some  
24 sort of decoupling or continuation of the decoupling  
25 mechanism, in terms of other states those are the only

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1 two states that you would like to bring to the Bench's  
2 attention?

3 A. (Mr. Gorman) It is the only states that  
4 specifically address the return on equity adjustment for  
5 a decoupling mechanism. Generally speaking if there's  
6 rate mechanisms that change the overall operating risk  
7 of a utility, that is generally considered in my  
8 judgment by the regulatory commission in establishing a  
9 fair return of equity, but it is largely at the  
10 discretion of the regulatory commission.

11 Q. And could you just clarify for me, I've read  
12 your testimony on the basis or your theory behind using  
13 25 basis points, but as I understand it it's basically  
14 you look at A rated paper and BAA, this is Moody's,  
15 Moody's rated paper, you know, higher rated paper and  
16 lower rated paper, and you talk about the spread between  
17 those two types of fixed income instruments, is that the  
18 basic theory behind your calculation?

19 A. (Mr. Gorman) Well, the theory behind it is  
20 to try to measure the difference in required rate of  
21 return to market demand for investments that have more  
22 assurance of full cost recovery. An A rated utility  
23 bond has more assurance of cost recovery than a BAA  
24 rated utility bond, but both of those securities have a  
25 pretty high probability of full cost recovery. Imposing

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1 a decoupling mechanism or other rate mechanism which  
2 provides greater cost recovery assurance to the utility  
3 will reduce their risk, but it takes an operating  
4 enterprise that already has pretty strong cost recovery  
5 probability and it improves it in an incremental way.  
6 So the idea behind looking at the spread demanded by the  
7 market for high quality securities, one with better cost  
8 recovery than the other, was an effort to try to gage  
9 what the market return differential would be for  
10 improving cost recovery risk.

11 COMMISSIONER JONES: Thank you, that's all I  
12 have.

13 JUDGE TOREM: I'm sure we'll get more into  
14 that later in the week.

15 Chairman Goltz.

16 CHAIRMAN GOLTZ: Okay, I will have some  
17 questions on this as well, but I assume that Mr. Gorman  
18 will be available then on Thursday or Friday?

19 MR. FFITCH: He is not available on Thursday,  
20 he's in another hearing, but he's available all day  
21 Friday by telephone, Your Honor.

22

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

24 BY CHAIRMAN GOLTZ:

25 Q. So just related to that, this may be a

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1 question for counsel, but I noticed that, I think  
2 Mr. Gorman actually mentioned this, but on page 2 of the  
3 settlement agreement right in the middle on line 12  
4 among other places, it says parties remain free to  
5 recommend a lower ROE, joint testimony, I'm sorry, joint  
6 testimony, parties remain free to recommend a lower ROE  
7 based on the option of decoupling or another risk  
8 reduction mechanism. I'm focusing on the term another  
9 risk reduction mechanism. Is there something else out  
10 here besides decoupling, or is this -- that would fall  
11 from this category, or is something else coming?

12 A. (Mr. Norwood) I'm not aware of anything  
13 coming, and there's nothing on the table at this point  
14 that I'm aware of.

15 MR. FFITCH: Your Honor, we would actually  
16 take a different view. We would characterize Staff's  
17 recommendation on the customer charge as a risk  
18 reduction mechanism.

19 CHAIRMAN GOLTZ: That's what I was thinking  
20 of.

21 MR. TRAUTMAN: I think that would be correct,  
22 but we are not advocating for a further lowering of the  
23 cost of capital.

24 CHAIRMAN GOLTZ: Right, I understand.

25 BY CHAIRMAN GOLTZ:

1           Q.     Then really my next question is really, and I  
2     don't even know if it's appropriate to ask it here or  
3     later in the week, and it would be of Mr. Norwood and  
4     maybe channeling what some members of the public would  
5     like to have asked who testified at the public hearing  
6     in Spokane last week.  And as you know, a number of  
7     members of the public made statements to the effect that  
8     it would be inappropriate to give the Company any rate  
9     relief unless we knew that they were doing everything  
10    possible to cut costs and be prudent in their expenses,  
11    and so I just wanted to give you an opportunity either  
12    now or later in the week if it's easier if you want to  
13    more think about it some more, how do you respond to  
14    those questions?  Because of course the public hearing  
15    you weren't given a chance to respond, but how would you  
16    respond to those customers that really say, hey, don't,  
17    you know, Commission, please don't give any rate relief  
18    until we know that they're doing everything possible to  
19    cut costs, as other businesses and government entities  
20    are doing, you know, in this economic time?

21          A.     (Mr. Norwood)  Right, and I would like to  
22    respond to that now, because we hear that from our  
23    customers, we're talking with our customers and we  
24    listen to them.  There are a number of things that we  
25    have done and that we're continuing to do.  One is we

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1 have a hiring restriction in place right now. No  
2 positions can be filled, whether that's because of  
3 retirement or someone leaving the Company, can be --  
4 those positions can't be filled unless they're approved  
5 by the chairman of the board, so it's the highest level  
6 that has to approve all the --

7 Q. You mean if a mail clerk has a vacancy, you  
8 go to the chairman of the board to get an exception?

9 A. (Mr. Norwood) Absolutely. Every position is  
10 screened now through the CEO and the chairman.

11 Capital budgets for 2009 originally came in  
12 at \$270 Million, and senior management cut that down to  
13 \$210 Million. Later the board cut it back to \$202  
14 Million, so we have cut our capital budgets. Salaries  
15 for 2009, there was no increase for officers for 2009,  
16 the increase for other employees was also cut back from  
17 3.8% to 2.5%. For 2009 we cut 52 positions from our  
18 operations group, just find a way to get the work done  
19 with fewer bodies. The existing building was built in  
20 1958. We added on to it in 1978. We've gone 30 years  
21 without adding space. We have desperately needed more  
22 space. We had drawn up plans to build another building  
23 on the same site there for more space. We canceled that  
24 because of the costs and the economy. We found a place  
25 9 miles away that we could buy at a very low cost, and

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1 we've moved people out there, which is not ideal, but  
2 it's a lower cost than simply building another building.  
3 We have outsourced our billing system in the last year.  
4 We had a new requirement to have disaster recovery.  
5 Rather than add costs, we outsourced our billing as well  
6 as providing disaster recovery for a lower cost.

7           A couple other things that we are doing that  
8 really demonstrate I think our effort to try to keep our  
9 costs low. Several years ago we worked with California  
10 to qualify our hydro plants on the Spokane River as  
11 certified renewable resources in the State of  
12 California, and because of that we were able to sell  
13 some of our surplus energy to California under that  
14 program and achieve \$5.8 Million per year of additional  
15 margin which is reflected in this case and being  
16 credited back to customers. We've also gone after one  
17 example is the State of Montana who needs load following  
18 services, and so we are selling more load following  
19 services, and that's bringing in about \$4.9 Million per  
20 year which is going back to customers.

21           One of the -- and it's already been mentioned  
22 today about the ERM surcharge that can be reduced, we  
23 are listening to our customers, and that's part of the  
24 reason why in this case we are proposing that the ERM  
25 surcharge be reduced. We're not suggesting that it be



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1 brought into the general rate case or be a part of the  
2 revenue requirement or anything like that. Our interest  
3 is in trying to mitigate the impact on our customers'  
4 bills. There is a clear opportunity here rather than  
5 increasing rates, for example if the Commission were to  
6 give us everything we asked for that's on the table  
7 today, the \$37.5 Million, that would be about an 8.6%  
8 increase in customers' bills, but there is this decrease  
9 that we can do with the ERM which would be right at  
10 6.6%, so the net increase to customers if the Commission  
11 were to give us everything we asked for that's on the  
12 table would be about 2% to customers. We think that's  
13 important, because customers are telling us that they  
14 don't want more bill increases, and we don't want more  
15 bill increases either. So rather than increasing rates,  
16 whatever the rate increase might be in December, and  
17 then decreasing them again in January or February, to us  
18 it just makes sense to mitigate that and have a very  
19 small adjustment in December. On the gas side the  
20 proposal on the table is for 1.4%, it's very small. As  
21 has already been mentioned, we have a PGA decrease of  
22 20%.

23                   Those are independent issues, but, you know,  
24 I work and live in the community with those customers,  
25 and we hear them. I go to these public meetings, I hear

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1 every comment and make notes on them. So it is  
2 important what comes out of this case for customers, but  
3 it's also important what comes out of this case for  
4 shareholders, because we have an obligation to hook up  
5 every customer that comes to us and says I want service.  
6 We're not like a Target or a Shopco where if we have an  
7 underperforming store where a customer is not covering  
8 its cost, we can't tell them to go away or shut it down.  
9 We have new reliability requirements where we have to  
10 spend dollars to make sure that we comply with those.  
11 That is driving our costs up, so we have to find a  
12 balance here where we are able to recover our costs and  
13 yet mitigate the impact on customers. And I think in  
14 this particular case there's a real opportunity to do  
15 this, be able to give us what we need to try to preserve  
16 our credit rating, which is at the lowest rung of the  
17 investment rating scale.

18 Q. I think that some -- in your testimony you  
19 mentioned some of your cost saving measures, but I don't  
20 remember the hiring freeze being in there. Maybe it  
21 was, but.

22 A. (Mr. Norwood) I think that showed up through  
23 discovery, and it's probably not in direct testimony.

24 Q. And on the hiring freeze then, so how many  
25 exceptions in the past, you know, several months have

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1 you had exceptions made to the freeze, if you know?

2 A. (Mr. Norwood) I don't know the answer to  
3 that, I would have to go back. And when I say -- if I  
4 said freeze, my intention was to say a hiring  
5 restriction.

6 Q. I think you said restriction, and those of us  
7 who do government just translate that into freeze.

8 A. (Mr. Norwood) Right, and so it is not a  
9 freeze, so thank you for bringing that up.

10 Q. Okay.

11 A. (Mr. Norwood) There are cases where we  
12 absolutely have to have bodies to do the work, but as I  
13 mentioned, those are scrutinized by Mr. Morris in senior  
14 management before those positions are filled.

15 CHAIRMAN GOLTZ: I just had one other  
16 clarification of the question that Commissioner Jones  
17 asked, Mr. Trautman, is the Staff not -- is there a  
18 negative implication in the Staff's not providing  
19 testimony in Lancaster, that being that you support the  
20 Company's position?

21 MR. TRAUTMAN: I would say we are neutral to  
22 that adjustment.

23 CHAIRMAN GOLTZ: Okay, I have no further  
24 questions.

25 JUDGE TOREM: Commissioner Oshie,

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1 Commissioner Jones, any other clarifications or any  
2 other questions?

3 COMMISSIONER OSHIE: No further questions.

4 COMMISSIONER JONES: No further questions,  
5 Judge.

6 JUDGE TOREM: All right, thank you for those  
7 witnesses that made themselves available by phone today  
8 for the panel and those that came in person.

9 It's now about 12 minutes after 3:00, is  
10 there any other housekeeping business we need to take  
11 care of?

12 I think we made it clear Mr. Van Cleve and  
13 Mr. Stokes after today won't be back in front of the  
14 Commissioners, so if you have anything else for them,  
15 this is the time.

16 Also Mr. Roseman is not going to join us  
17 tomorrow. His issues come up mainly with decoupling, so  
18 we're going to keep him apprised. I told him that since  
19 he gets to watch the baseball playoffs, he will let us  
20 know what's going on there in exchange, but he will be  
21 back late Thursday or sometime on Friday. Between me  
22 and Mr. Ffitch, we'll make sure we don't forget  
23 Mr. Roseman when it's time for him and his witnesses.

24 Mr. Ffitch.

25 MR. FFITCH: I have one small housekeeping

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1 matter, I don't know that the Commissioners are required  
2 for it, Your Honor, but it's brief. We would like to  
3 ask permission to have part of our cross-examination of  
4 Elizabeth Andrews conducted by Sarah Shifley of our  
5 office on one issue. I have conferred with Mr. Meyer  
6 about that, and he indicates that he has no objection to  
7 that, and the purpose would be for Ms. Shifley to have  
8 some opportunity to conduct examination.

9 JUDGE TOREM: So there's no training budget  
10 to send her elsewhere in state government?

11 MR. FFITCH: There's nowhere else to get  
12 better in state government to get cross-examination  
13 experience than in Commission hearings, Your Honor.

14 JUDGE TOREM: In an attempt to keep State  
15 costs low and follow the Company here, we'll grant that  
16 request.

17 CHAIRMAN GOLTZ: Give me a transcript of that  
18 page for our budget request.

19 JUDGE TOREM: All right, seems we're serving  
20 all kinds of purposes here.

21 Any other housekeeping measures?

22 All right, thank you very much then. We will  
23 begin at 9:30 tomorrow morning. Commissioners, they've  
24 all been admonished that if we don't move along on the  
25 schedule tomorrow, the starting times can be shifted

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1 earlier. I do have a military watch that starts at  
2 O'Dark 30, we'll confer with the Commissioners as to  
3 Thursday's and Friday's dates and how long and how much  
4 baseball we miss. Until tomorrow morning we are  
5 adjourned.

6 (Discussion off the record.)

7 JUDGE TOREM: All right, counsel, since the  
8 Commissioners are gone, and we're still all here, let's  
9 go back on the record for just a moment and take up  
10 rightfully what I have overlooked, the idea that we were  
11 going to by acclamation I suppose take each of the  
12 exhibits that's been offered on prefiled direct, and you  
13 will clarify for me your intention with the cross-exam  
14 exhibits because I don't know what objections may or may  
15 not be made to those, but all the prefiled direct  
16 exhibits I understand are to be moved into the record by  
17 acclamation for each and every witness of each party.  
18 Now Mr. Johnson is not here, but I doubt that he would  
19 have any objections to us moving Ms. Glaser's exhibits  
20 in as well.

21 Mr. ffitich, do you have any ideas on that?

22 MR. FFITCH: Your Honor, I would move that  
23 all the direct testimony be admitted by stipulation,  
24 testimony and exhibits, and anticipating the next  
25 matter, we don't have any objection to admission of

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1 cross-examination exhibits by stipulation.

2 JUDGE TOREM: Do any of the parties have  
3 concerns or potential objections they want to reserve on  
4 cross-exam exhibits that have been identified to date?  
5 Mr. Meyer?

6 MR. MEYER: Do not. In the course of the  
7 next few days, should we come across something, you  
8 know, we would obviously bring it to your attention, but  
9 at this point we would support a stipulation or a motion  
10 to enter them all into the record.

11 JUDGE TOREM: Any other parties want to speak  
12 to the motion?

13 MR. TRAUTMAN: We have no objection.

14 JUDGE TOREM: All right, then I will admit  
15 all of the prefiled direct and all of the cross-exhibits  
16 that are on the exhibit list that was circulated late  
17 last night. Any further exhibits that are identified  
18 will be individually numbered going forward and have to  
19 be introduced.

20 Mr. Meyer.

21 MR. MEYER: I assume when you mentioned  
22 prefiled direct you meant and rebuttal, whatever appears  
23 on your exhibit list.

24 JUDGE TOREM: Right, any prefiled items,  
25 rebuttal, cross-answering, response, all of those and

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1 all of the cross, so all means all, they're all admitted  
2 including then also the joint testimony supporting the  
3 stipulation from today and all of the Bench exhibits  
4 that we identified through Bench 1 through 5 at this  
5 point.

6 MR. MEYER: Thank you.

7 JUDGE TOREM: Any other housekeeping that I'm  
8 overlooking or promised to handle and have already  
9 forgotten?

10 All right, seeing none, then we're really  
11 adjourned.

12 (Hearing adjourned at 3:15 p.m.)

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