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

2 JUDGE TOREM: Good morning, everybody, it's a  
3 little after 9:00, it's Thursday the 8th of October, and  
4 we're back on the Avista rate case. Today's agenda has  
5 us looking at the power supply contracts for Lancaster,  
6 and I believe Richard Storro of Avista has already taken  
7 the witness stand, we'll get him sworn in in just a  
8 minute.

9 I let Mr. Trautman know this morning that  
10 we're going to issue a Bench request to follow up on  
11 some of the testimony from Danny Kermod yesterday. I  
12 don't think we got quite the clarification we needed  
13 from him on the stand, so we're going to put a Bench  
14 request, because it's an accounting one we'll put it in  
15 writing and issue it later today, and hopefully you'll  
16 see that go out by E-mail this afternoon. If I have  
17 printed copies over the lunch hour, I'll have them  
18 waiting when we come back after lunch.

19 Second matter, after thinking and  
20 reinterpreting my exchange with Mr. ffitch yesterday  
21 about whether he would have a chance to respond to the  
22 unknown potential testimony of Mr. Buckley, maybe I had  
23 a little extra coffee in the system, so I apologize,  
24 Mr. ffitch, if I was overly aggressive in telling you  
25 what you would or wouldn't do. My understanding in

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1 discussing with you in the lobby this morning was that  
2 the true intent was not to necessarily object to the  
3 Bench calling him as a witness but a concern on the due  
4 process and procedurally that you and any other party  
5 for that matter that wishes to be able to respond to the  
6 as of yet unknown testimony be given an adequate  
7 opportunity to do so. And my hope is that if the Bench  
8 today after hearing from the other witnesses scheduled  
9 on the Lancaster topic chooses to call Mr. Buckley that  
10 we will then take a break and allow the parties that  
11 have not yet had a chance to prepare whatsoever to  
12 consult with their experts, determine whether or not  
13 there are questions they can be prepared to ask today,  
14 and if so we'll proceed with some I guess redirect, if  
15 you will, or recross as the case may be from the other  
16 parties and flesh out the Staff's position on Lancaster,  
17 assuming that there is any testimony and assuming that  
18 there is a position to discuss. If that's not  
19 sufficient preparation, then I'll hear from the parties  
20 what their recommendations might be and how we might get  
21 that into the record so that everybody has a chance to  
22 respond prior to going to briefs and then again in the  
23 briefs that will be due next month.

24 Mr. ffitch, is that satisfactory?

25 MR. FFITCH: Yes, thank you very much, Your



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1 Honor.

2 JUDGE TOREM: Any other parties want to  
3 comment on that issue or we'll wait and see what happens  
4 later today?

5 MR. MEYER: We'll just wait.

6 JUDGE TOREM: Mr. Buckley, for you I can't  
7 offer any apologies or retreat, you're still on the hot  
8 seat at some point, we just don't know when.

9 All right, Commissioners, any other  
10 housekeeping from us from the Bench today?

11 Parties, anything else we need to be made  
12 aware of?

13 All right, then I think we're ready to swear  
14 in Mr. Storro.

15 (Witness RICHARD L. STORRO was sworn.)

16 JUDGE TOREM: All right, Mr. Meyer, if you  
17 would check with your witness here and see if there's  
18 any additions or corrections to his testimony which has  
19 already been admitted.

20 MR. MEYER: There are none, Your Honor, he's  
21 available for cross.

22 JUDGE TOREM: All right. And on the schedule  
23 today, Mr. ffitich is the only scheduled party for Public  
24 Counsel to examine both Mr. Storro, well, all four of  
25 the witnesses that are for the Company, Mr. Kalich,

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1 Mr. Lafferty, and Mr. Johnson, and that's the order I  
2 plan on taking them unless Mr. ffitch has some other  
3 reason to call them differently.

4 MR. FFITCH: No, Your Honor, that's  
5 satisfactory.

6 JUDGE TOREM: Okay, let's begin then.

7 MR. FFITCH: Thank you.

8 Good morning Commissioners and Judge Torem.

9

10 Whereupon,

11 RICHARD L. STORRO,

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

14

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

16 BY MR. FFITCH:

17 Q. Good morning, Mr. Storro.

18 A. Good morning.

19 Q. I don't know that we've met in the hearing  
20 room before. As you know, I'm Simon ffitch, the  
21 attorney for the Public Counsel Office in this case, and  
22 I wanted to ask you some questions about the Lancaster  
23 contracts. We're going to be primarily asking you  
24 questions about your direct testimony, which is RLS-1T  
25 and some exhibits and cross-exhibits. Can you please

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1 turn first to page 4 of your direct testimony.

2 A. I have that.

3 Q. All right. And if you would look at lines 10  
4 and 11, there you say that the Company had forecasted  
5 annual energy and capacity deficits starting in 2011 in  
6 the 2007 electric IRP without the addition of the  
7 Lancaster plant, correct?

8 A. Yes.

9 Q. So let's first talk about the capacity. Can  
10 you please turn to what's been marked as Exhibit 24-X,  
11 RLS-24-X.

12 JUDGE TOREM: Mr. ffitch, just so I have the  
13 record clear, the testimony you just referred to is on  
14 page 4 of RLS-1T?

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

16 BY MR. FFITCH:

17 Q. Now I'm asking the witness to turn to the  
18 excerpt from the 2009 IRP which has been marked RLS-24-X  
19 and go to the second page of that exhibit.

20 A. Winter capacity position?

21 Q. Correct. And if we look at the years 2010,  
22 well, first of all we're looking at Table 2.6, which is  
23 page 2 of the exhibit, correct, and it's entitled winter  
24 capacity position megawatts?

25 A. Yes.

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1 Q. And if we look at the years 2010 and 2011, at  
2 the bottom of the column for those two years we see that  
3 the capacity position in 2010 is greater than the  
4 Lancaster plant's 275 megawatts for 2010 but less than  
5 plant capacity in 2011, correct?

6 A. That's true.

7 Q. And then if we go over to Table 2.7 on the  
8 next page, can you just tell us what we see there for  
9 the capacity position in 2010 and 2011?

10 A. Well, Table 2.7 is a summer capacity  
11 position.

12 Q. Okay.

13 A. And for 2010 shows 293 and for 2011 shows  
14 124.

15 Q. Okay, so that shows that -- all right.

16 A. What these show that in 2010 we have even  
17 with the addition of Lancaster slightly more capacity  
18 during part of those -- some of those months of that  
19 year.

20 Q. Mm-hm.

21 A. Than the Lancaster project had.

22 Q. Okay. And then in 2011 --

23 A. And the big difference here between 2010 and  
24 11 is at the end of 2010 we lose a 100 megawatt contract  
25 that we purchased 04 through 10 that expires at the end

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1 of 2010.

2 Q. Okay.

3 And if you return to your direct testimony at  
4 page 9, that's RLS-1, now we're looking at page 9 of  
5 RLS-1, and there at line 18 and 19 you state that Avista  
6 Utilities was assigned the rights to the Lancaster PPA  
7 starting January 1st, 2010, correct?

8 A. That says the Company has announced Avista  
9 Utilities would have the rights to the Lancaster PPA  
10 beginning January 1.

11 Q. Okay. So now we've just looked at the  
12 numbers we've just looked at in those tables related to  
13 capacity, correct?

14 A. One of those tables related or two of them  
15 related to capacity, winter and summer.

16 Q. Right, and now we're going to talk about  
17 energy.

18 A. Okay.

19 Q. Energy deficits. I mean in general if we go  
20 actually back to, let's see, sorry to jump, let me hold  
21 on a second before I make you jump around.

22 If you could look at now RLS-8-X, please, and  
23 in this request Public Counsel in April of this year  
24 asked the Company to summarize its energy position in  
25 average megawatt hours, correct?

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1 A. That's right.

2 Q. And if we look at the chart on page 2 of that  
3 exhibit, that shows that as of that time, April 2009,  
4 Avista expected to have some quarterly energy short  
5 positions in 2010 without Lancaster; is that right?

6 A. That's true, we show 16 average megawatts in  
7 Q1 and 51 average megawatts in Q4 at that particular  
8 time.

9 Q. All right. And that's in the bottom line of  
10 that chart?

11 A. Yes.

12 Q. And those needs are well below the 275  
13 megawatt capacity of the Lancaster plant, correct?

14 A. Yes.

15 Q. Did Avista forecast in its 2007 IRP that it  
16 would have any such quarterly energy short positions in  
17 2010?

18 A. I believe the quarterly positions in 2010 in  
19 the 2007 RFP actually in quarters Q1, 3, and 4 were  
20 about average of 51 average megawatts short, so the  
21 position had changed a little bit between when the 07  
22 IRP was done and when this chart was prepared in April I  
23 believe. So our position actually improved slightly  
24 from the time the 07 IRP was put together.

25 Q. All right. Now looking still at this chart

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1 on page 2, the energy needs here, the energy short  
2 positions that you're showing here are not taken as  
3 evidence of the need to procure capacity; is that  
4 correct?

5 A. This is average energy.

6 Q. So they're not interpreted or --

7 A. They're not generally the same number even  
8 though on some months they might be the same, so.

9 Q. All right. They're not taken as evidence of  
10 need that you need to go out and procure capacity?

11 A. No, you would have to look at LNR4 capacity  
12 to determine whether you have a need for capacity.

13 Q. And how would you normally meet these, you,  
14 Avista, normally meet these short-term energy needs that  
15 are shown on this chart?

16 A. Well, whether it's daily, monthly, or  
17 quarterly, we would meet them with short-term energy  
18 purchases.

19 Q. All right.

20 Could you please turn to your Exhibit RLS-4,  
21 which is an attachment to your direct testimony.

22 A. I have that.

23 Q. All right. And this is an analysis or an  
24 overview of the transaction, correct?

25 A. Yes.

0765

1 Q. And it's dated April 11, 2007, so I presume  
2 it was prepared about that time?

3 A. Correct.

4 Q. And was this the first written analysis that  
5 Avista performed of this transaction?

6 A. I believe there was another one that we,  
7 well, no, this is the first initial study that we did  
8 relative to the procurement of Lancaster.

9 Q. Okay. Would you please turn to page 5 of  
10 this exhibit, Exhibit RLS-4, and under the first  
11 underlined heading, which is power purchase agreement  
12 availability date, you state that Avista analyzed the  
13 PPA or power purchase agreement transfer dates of 2009,  
14 2010, and 2011, correct?

15 A. Yes.

16 Q. And the last sentence of the paragraph  
17 includes the phrase, the early inclusion of the power  
18 purchase agreement prior to the deficit year decreases  
19 its value relative to other options; is that correct?

20 A. That's what it says.

21 Q. Okay. Please turn to page 7 of the exhibit,  
22 which is a chart, Table 3, entitled study results; do  
23 you have that?

24 A. Yes, I do.

25 Q. It appears that if you read across the first



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1 line which is labeled cost of lease that the cost of the  
2 Lancaster PPA declines as the start date is delayed from  
3 2009 to 2010, correct?

4 A. I think I'd defer most of the questions  
5 relative to this particular table in the exhibit to  
6 Mr. Kalich. He prepared the table, and I think he's  
7 more knowledgeable and will save all of our time in  
8 talking about it.

9 Q. All right, even though it's attached to your  
10 testimony?

11 A. Yes.

12 COMMISSIONER OSHIE: Mr. Ffitch, if you  
13 could, I'm a little lost on where exactly you're at.

14 MR. FFITCH: All right.

15 COMMISSIONER OSHIE: And I believe, I don't  
16 know if the Chairman is but Commissioner Jones is as  
17 well, so can you tell us what exhibit you're on and  
18 where the table is, I'd appreciate it.

19 MR. FFITCH: I apologize, Your Honor, we are  
20 in Exhibit RLS-4.

21 COMMISSIONER OSHIE: Okay.

22 MR. FFITCH: And we are at page --

23 COMMISSIONER OSHIE: The Chairman is  
24 defending himself, he says that he wasn't lost.

25 COMMISSIONER JONES: That's why he's the

0767

1 Chairman.

2 COMMISSIONER OSHIE: That's why he's the

3 Chairman.

4 MR. FFITCH: Page 7 of the Exhibit RLS-4,

5 Table 3 study results.

6 COMMISSIONER OSHIE: Thank you, Mr. ffitch.

7 BY MR. FFITCH:

8 Q. This Exhibit RLS-4, Mr. Storro, is again an  
9 overview prepared in April of the transaction attached  
10 to your testimony supporting your testimony, correct?

11 A. That's true.

12 Q. And did you prepare this document RLS-4?

13 A. No, I did not.

14 Q. And you've asked us with regard to the  
15 questions on Table 3 to talk to Mr. Kalich; is that  
16 right?

17 A. Yes.

18 Q. All right.

19 Now I'm going to ask you to turn to page,  
20 excuse me, Exhibit RLS-6, it's also an exhibit to your  
21 testimony.

22 A. Yes.

23 Q. Just generally could you tell us what this  
24 document is?

25 A. It's really just an overview of the Lancaster

0768

1 power purchase agreement acquisition.

2 Q. Right. And this document is from November  
3 2007, correct?

4 A. That's correct.

5 Q. And could you turn to page 13 of this  
6 exhibit. Let me make sure I've got -- this has got  
7 parallel page numbers on it. In this case they match  
8 fortunately, so page 13 of the exhibit Table Number 10,  
9 do you have that?

10 A. I have that.

11 Q. And this shows the annual revenue requirement  
12 impact of Lancaster and some other combined cycle gas  
13 turbine CCGT alternatives, correct?

14 A. This is talking about revenue retirements of  
15 a green field plant, a brown field plant, or the  
16 Lancaster lease.

17 Q. All right. Now it appears that the first  
18 three columns labeled revenue requirement impact, the  
19 green field and the brown field alternates have zero  
20 impact in 2010, but the Lancaster PPA or PPA's would  
21 increase cost to Avista Utility customers by \$12.9  
22 Million per year, correct?

23 A. Yes, that's what this shows.

24 Q. And as a result, Avista's analysis showed the  
25 customers would bear net costs of \$12.9 Million in 2010

0769

1 before receiving any benefits, correct?

2 A. Well, I wouldn't say there would be no  
3 benefits in 2010, because there are quarterly. Some of  
4 the -- we do have quarterly deficits during that period.  
5 And additionally, even if you get it early in 2010,  
6 you're going to be looking at the value of that plant  
7 and running it into the market whenever possible also to  
8 defray the payments that are associated with it. The  
9 other thing you have to realize here, this is a  
10 long-term decision, it's not a one year decision, it's a  
11 long-term decision, and I think you have to look at it  
12 in that regard.

13 Q. All right. If we take out the \$12.9 Million  
14 from the top line here under Lancaster, wouldn't  
15 eliminating that negative cash flow in 2010 increase the  
16 value to customers shown as the levelized impact at the  
17 bottom of the page?

18 A. There would be some slight increase.

19 Q. All right. In this docket Avista has  
20 forecasted that the Lancaster PPA's will increase Avista  
21 Utilities costs in 2010; isn't that right, in general?

22 A. Yes.

23 Q. And, for example, in your initial filing,  
24 Avista forecast that the PPA would increase costs by  
25 \$16.6 Million on a system basis or \$10.7 Million upon a

0770

1 Washington allocated basis, that's in Mr. Johnson's  
2 testimony, right?

3 A. Okay.

4 Q. And it's true, is it not, that Avista  
5 provided an updated forecast that the Lancaster PPA's  
6 would increase costs by \$18.3 Million on the system  
7 basis later in the case, which is \$11.8 Million on a  
8 Washington allocated basis?

9 A. Subject to check, but I believe that's true.

10 Q. All right.

11 Please turn to your direct testimony, RLS-1,  
12 at page 9, lines 11 to 13.

13 A. I have that.

14 Q. And there you say that the opportunity to  
15 acquire the power purchase agreement or tolling rights  
16 for Lancaster was a result of negotiations related to  
17 the sale of Avista Energy, which held the rights to the  
18 tolling arrangement, correct?

19 A. Yes, as a result of the negotiations going on  
20 to sell Avista Energy, the opportunity came up to have  
21 the opportunity for us to take the output of Lancaster  
22 in 2009, 10, or 11, and we were asked to make that  
23 analysis.

24 Q. Okay.

25 A. We went through that analysis and determined

0771

1 that this PPA or this tolling arrangement worked very  
2 well for our needs going forward. We had identified  
3 previously and were in the process of working on our 07  
4 IRP that had I think 350 megawatts combined cycle  
5 combustion turbines in it.

6 Q. Excuse me, Mr. Storro, I appreciate you've  
7 addressed these things in your testimony, but if you  
8 could just follow with my questions.

9 A. I thought I was, so.

10 Q. Can you turn, please, to Exhibit 19-X,  
11 RLS-19-X, I'll ask you a bit more about the transaction.

12 A. I have that.

13 Q. And you just sort of referred to the sale of  
14 Avista Energy, and if we -- would you please turn to  
15 page 3 of this data request, Attachment A, and this  
16 provides a graphic depiction of the transaction,  
17 correct?

18 A. Yes, it does. It actually shows the -- all  
19 of the entities under Avista Capital and where Avista  
20 Energy was located and also Avista Turbine Power and  
21 some of the transactions that occurred.

22 Q. Okay. Is it correct to say that Avista  
23 Corporation was selling Avista Energy to Coral Energy?

24 A. That's correct, the assets, the top circle  
25 there, number 2, says based on June 30th Avista sold its

0772

1 assets to Coral Energy.

2 Q. All right. And as part of that deal, Avista  
3 Corporation is assigning the Lancaster PPA's to Avista  
4 Utilities; is that correct?

5 A. The Lancaster deal actually rests with Avista  
6 Turbine Power, and there's a short-term assignment of  
7 the output of the Lancaster tolling, the tolling  
8 agreement itself, the PPA, with -- to Coral Energy until  
9 12/31 of 09, and then on January 1 of 10, utility will  
10 take the output of the Lancaster project.

11 Q. All right. So right now Avista Turbine Power  
12 Incorporated is the owner of the Lancaster PPA rights;  
13 am I understanding that?

14 A. The owner of the rights that are temporarily  
15 assigned to Coral.

16 Q. So the Lancaster PPA rights are temporarily  
17 assigned to Coral but held by Avista Turbine Power?

18 A. I believe that's the case.

19 Q. Any of the entities shown on this page funded  
20 by rate payers?

21 A. I don't believe so.

22 Q. So all of these subsidiaries rely solely on  
23 revenues other than from Avista Utilities retail  
24 electric rates, correct?

25 A. I believe that's the case.

0773

1 Q. And right now that includes responsibility  
2 for the Lancaster related contracts until they are  
3 assigned to Avista Utilities, correct?

4 A. Yes.

5 Q. And Avista's proposal in this case would  
6 transfer the responsibility for those contracts to  
7 Avista Utilities as of January 1st, 2010?

8 A. That's correct. Avista has the opportunity  
9 which -- on a decision we made back in early March and  
10 April of 07 to take the output of the project.

11 Q. Okay, well, you're reading my mind on where  
12 my questions are going, because I wanted to ask you a  
13 little bit about the timeline.

14 A. That makes me nervous.

15 Q. So Avista Utilities energy resources unit was  
16 first asked to review the Lancaster contracts in March  
17 2007; is that right?

18 A. I believe that's the approximate date.

19 Q. And the decision to assign the contracts from  
20 Avista's unregulated affiliates to the utility rate  
21 payers as of January 1st, 2010, was made in the time  
22 frame of March 2007 to April 17th, 2007?

23 A. That's correct.

24 Q. All right.

25 A. That was made as a part of the negotiations



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1 after our initial assessment of the value and its fit  
2 with the utility's need.

3 Q. Okay. Can you please turn to Cross-Exhibit  
4 RLS-12-X.

5 A. I have that.

6 Q. All right. And this is a data request from  
7 Public Counsel asking some questions about your  
8 statement about the opportunity to acquire the PPA that  
9 we've already just referred to, a number of questions  
10 here. I'm sorry, I'm getting ahead of myself here.  
11 With regard to this data request, we asked you to in  
12 part D to identify the corporate officers who were  
13 involved in negotiations. In part D you answered Malyn  
14 Malquist, former Executive VP and CFO, and Marian  
15 Durkin, Senior Vice President and General Counsel, and  
16 other folks, correct?

17 A. That's true.

18 Q. And also numerous employees of Avista  
19 Utilities?

20 A. Yes.

21 Q. And if you turn to RLS-15-X, do that, please,  
22 there you were asked -- are you there?

23 A. Yes, I am.

24 Q. Okay. In this data request from Public  
25 Counsel you were asked to provide all internal

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1 communications within Avista including within Avista  
2 Utilities and among affiliates and subsidiaries related  
3 to the request that energy resources analyze the  
4 acquisition of the Lancaster PPA and also regarding  
5 subsequent analysis, correct? I mean I'm just reading  
6 it, I apologize, but --

7 A. No, that's okay, that's exactly true. But  
8 what happened, there wasn't any actual written  
9 communication, written stuff down on the initial  
10 communication relative to the output of the project. We  
11 were simply asked, I was asked by Malyn Malquist, we  
12 have this opportunity as a result of the negotiations  
13 with Avista Energy to get the output of the project. My  
14 answer, knowing what I knew about the project at the  
15 time, was yes. It's a project in our back yard, it's a  
16 project that's 300 feet from our 230 --

17 Q. Mr. Storro, I'm not asking --

18 MR. MEYER: Please, Your Honor, this witness  
19 is entitled to answer the question about the extent and  
20 the scope of internal communications, and that's  
21 directly responsive to the question.

22 JUDGE TOREM: Mr. ffitich, I'm going to  
23 respectfully disagree with Mr. Meyer.

24 Mr. Storro, when you talk about the internal  
25 communications, that's one thing. But all the

0776

1 justifications you're putting in behind it is  
2 nonresponsive. I'll overrule that objection and direct  
3 you, as Mr. ffitch did earlier, just try to stick with  
4 the questions.

5 THE WITNESS: Okay.

6 JUDGE TOREM: There will be an opportunity  
7 for redirect, and we have read your testimony.

8 THE WITNESS: Thank you.

9 MR. FFITCH: Thank you, Your Honor.

10 BY MR. FFITCH:

11 Q. So Avista has no documentation of how it  
12 balanced the interests of shareholders and rate payers  
13 with regard to the analysis of the assignment of the  
14 contract; is that right?

15 A. Once more, please.

16 Q. So Avista has no documentation of how it  
17 balanced the interests of shareholders and rate payers  
18 in these communications with regard to the contract  
19 assignment?

20 A. No. It was our analysis, it was my analysis  
21 that it was in the interest of rate payers because of  
22 the value of the project.

23 Q. All right.

24 Please turn to Exhibit RLS-22-X.

25 A. I have that.

0777

1 Q. And in Part A of this request, Public Counsel  
2 asked the Company what UTC cost recovery terms and  
3 conditions does Avista see as minimally necessary to  
4 satisfy the above conditions for regulatory approval.  
5 And the answer to that, you state, Avista states:

6 Avista sees the minimally necessary cost  
7 recovery terms and conditions regarding  
8 the Lancaster PPA as full cost recovery  
9 beginning January 1st, 2010.

10 Which is what was submitted for in this case,  
11 correct?

12 A. That's true.

13 Q. And what that seems to be suggesting is that  
14 if Avista does not receive every single penny of cost  
15 recovery that it has requested in this docket that it  
16 will -- that that's all it will settle for in this case,  
17 correct? And let's take a look at the answer to sub  
18 part D before you answer that question, and there you  
19 state:

20 If the UTC makes the determination on  
21 cost recovery that is not as submitted  
22 in this case, Avista Corporation would  
23 seek to remarket the Lancaster PPA for  
24 the rest of the contract period.

25 So essentially these two answers you're

0778

1 saying to the Commission it's an all or nothing  
2 situation, otherwise the power will be remarketed  
3 elsewhere; is that correct?

4 A. Well, we would expect full recovery, because  
5 this is a prudent acquisition, prudent long-term  
6 acquisition. I think if we do not get full recovery,  
7 corporately we will have to take another look at where  
8 we stand relative to this contract, and we would also  
9 have to take another look at what we do to meet our  
10 long-term energy needs.

11 Q. And any decision that Avista Utilities would  
12 make subsequent to a decision on the Lancaster contracts  
13 about acquiring power or remarketing would be subject to  
14 a further prudence review by this Commission, wouldn't  
15 it?

16 A. I don't know the answer to that.

17 Q. So essentially here Avista is insisting that  
18 the Commission require the rate payers to pay the cost  
19 for the contracts in 2010 as part of this deal even  
20 though Avista has known since early 2007 that the  
21 assignment in 2010 would increase rates in 2010,  
22 correct?

23 A. That's correct, this is a package deal as a  
24 part of the negotiations.

25 Q. All right.

0779

1                   I want to move on to talk a little bit about  
2 the BPA transmission contract that's part of this  
3 proposal.

4           A.     Okay.

5           Q.     There's essentially three pieces, correct,  
6 there's the power, there's the BPA transmission, and  
7 there's gas transportation, correct?

8           A.     Yes, that's true.

9           Q.     So can you turn to page 10 of your testimony,  
10 please.

11          A.     Yes.

12          Q.     And there you state starting at line 19 that  
13 the, and going on to the next page, that:

14                   The BPA transmission contract will also  
15                   be assigned to Avista Utilities along  
16                   with the Lancaster PPA itself.

17                   Correct?

18          A.     Yes.

19          Q.     And then on page -- on that next page 19, I'm  
20 sorry, page 11 at the top, you note that the Company is  
21 evaluating interconnecting Lancaster directly to the  
22 system, to its own system, correct?

23          A.     Yes, we are.

24          Q.     All right. Now I'm going to take you back to  
25 your exhibit RLS-4 again, this is the April 2007

0780

1 analysis, can you please turn to page 3, RLS-4, page 3,  
2 and there's a heading electric transportation  
3 (transmission), correct?

4 A. Yes.

5 Q. And in that section there you state that  
6 Avista is considering an interconnection between  
7 Lancaster and its own control area at an estimated cost  
8 of \$3 Million per year, right?

9 A. Right.

10 Q. That's in the first paragraph, and in the  
11 next paragraph you state that:

12 Under the assumption Avista can  
13 interconnect Lancaster directly to its  
14 system, Avista assumes it will recoverer  
15 75% of the costs of the BPA contract  
16 through remarketing or optimization.

17 Correct, that's what it says here in your --

18 A. That's right, our assumption is that between  
19 those two contracts we would have an opportunity to  
20 remarket 75% of the BPA transmission or possibly even  
21 terminate one of the agreements.

22 Q. All right. So if a direct interconnection is  
23 made with the Avista system, the BPA transmission  
24 contract appears to have limited or much reduced value  
25 to Avista Utility customers, doesn't it?

0781

1           A.     If it is interconnected to our system, the  
2 BPA contract would have less value to customers, because  
3 we won't require BPA transmission to provide service to  
4 our customers.  However, I will add to that that part of  
5 that BPA transmission could provide significant benefit  
6 to customers because of other uses we may have for it in  
7 conjunction with our other transmission needs and  
8 generation projects.

9           Q.     All right.  We asked you some more  
10 information about BPA transmission contract, if you  
11 could turn to Exhibit 23-X, RLS-23-X, and there we did  
12 ask essentially for more information about this matter,  
13 and the response is the Company anticipates having more  
14 information concerning studies and timelines in August  
15 2009, correct?

16          A.     Yes.

17          Q.     We asked this in late June 2009?

18          A.     Yeah, June 25th.

19          Q.     I may need to ask Mr. Lafferty these next  
20 questions, but you're aware that that information has  
21 not yet been forthcoming, correct?

22          A.     Well, if you say that hasn't been  
23 forthcoming, then I'll take your word on that.  We're  
24 still working on that, and I know Mr. Lafferty can talk  
25 very intelligently about that.



0782

1 Q. And we have a data request that he's  
2 responded to on that, I will take that up with him.

3 Can you please turn to the Thorndike Landing  
4 study now, that is marked as RLS-5 and is another  
5 exhibit to your direct testimony.

6 A. I have that.

7 Q. Okay. And just generally that is an  
8 independent evaluation by Thorndike Landing of the  
9 Lancaster PPA tolling agreement, correct?

10 A. Yes, it is.

11 Q. And could you please turn to Appendix C, the  
12 first page of that exhibit, that's page 28. I think  
13 this is the one that may require a magnifying glass.

14 A. That's why I took my glasses off.

15 Q. Page 28 of 31, okay, about halfway, this is  
16 a, excuse me, table entitled Lancaster toll base case,  
17 correct?

18 A. I see that.

19 Q. And about halfway down the table is the  
20 heading non-fuel fixed operating expenses, and then two  
21 lines further transmission, correct?

22 A. I see those lines.

23 Q. Now the line labeled transmission starts with  
24 a net cost in 2010 of \$1.17 Million; is that right?

25 A. Yes.

0783

1 Q. And that figure escalates annually  
2 thereafter, correct?

3 A. That's true.

4 Q. Is it your understanding that these net costs  
5 reflect the assumption that 75% of BPA transmission  
6 costs are remarketed because of the construction of the  
7 direct connect with Avista's system?

8 A. I don't know the answer to that. I would  
9 have to defer to Mr. Kalich for the specifics.

10 Q. Let's turn to page 12 of the Thorndike  
11 Landing study, the same exhibit. I believe this has  
12 mishmashed and mismatched page numbers, so this would  
13 be, give me a moment to find this, page 12 of 31, it's  
14 also shown as page 9 in the center at the bottom.

15 A. Yes.

16 Q. And in the paragraph at the top of the page  
17 about 4 lines down, Thorndike Landing states:

18 We have assumed that a portion, 75%, of  
19 the electric transmission capacity under  
20 the BPA agreement is remarketed at cost  
21 or otherwise used for utility load  
22 service and therefore not born by the  
23 facility/lessee.

24 Correct?

25 A. I believe that was their base case.

0784

1 Q. All right. So does that tell you that that  
2 assumption was indeed built into the table that we just  
3 looked at?

4 A. I don't know the answer to that.

5 Q. All right. Can we ask Mr. Kalich about that?

6 A. Of course.

7 Q. And Avista's proposal in this case as we saw  
8 when we looked at Exhibit 22-X is to require Avista  
9 Utilities rate payers to assume full responsibility for  
10 all of the fixed costs of the BPA transmission contract  
11 beginning January 2010?

12 A. Yes, it is.

13 Q. Can you take a look now, please, at the  
14 Thorndike Landing report on page 11 of 31, which is  
15 going back 1 page, now we're talking about the third  
16 element here, the gas transportation piece of the three  
17 components of the proposal. It's page 11 of 31, Exhibit  
18 RLS-5, it's also shown as page 8, and in the first  
19 section of text there Thorndike Landing states:

20 Note that the total gas transportation  
21 exceeds the total gas needs of the plant  
22 when operating at full capacity by  
23 approximately 20%.

24 Correct?

25 A. That's what they say in this report.

0785

1 Q. Right.

2 A. We believe that was an error on their part.

3 This was truly an independent study by Thorndike

4 Landing, we don't believe they approached that part

5 correctly.

6 Q. Okay. And a couple of lines down they also

7 say, note that we did not include the cost for the

8 excess gas supply, correct?

9 A. What line is that on?

10 Q. It's just two lines down from the 20%.

11 A. Oh, yes, I see.

12 Q. Perhaps this is what you were just referring

13 to, but Avista witness Lafferty has said that the gas

14 contract capacity's not really excess to Avista's needs?

15 A. That's correct, and Mr. Lafferty can talk

16 about that later, but it basically ties into the use of

17 the plant for the normal base plant and then with the

18 addition of the duct burner.

19 Q. Okay.

20 A. I think you also have to add into that the

21 issue of our other gas plants and the possibility of

22 using gas transportation and supply to supply those

23 other plants, so all together it works out to not have

24 any excess.

25 Q. Now I have a couple more questions about

0786

1 this, and I was going to return you to the chart in  
2 Appendix C with the very small print that we were just  
3 looking at. Let's try those, if you need to defer them,  
4 let me know. If you could please turn back to page 28  
5 of the exhibit, which is again Appendix C, page 1, it's  
6 the chart entitled Lancaster toll base case. And if you  
7 look at the line labeled gas transportation, do you have  
8 that?

9 A. Yes.

10 Q. That includes the costs that we were just  
11 talking about, does it not?

12 A. I would assume that it does, but I would  
13 again have to defer to Mr. Kalich for the specifics on  
14 this chart.

15 Q. Okay. They start at \$3.4 Million in 2010 and  
16 escalate from there, that's what the chart shows,  
17 correct?

18 A. Yes.

19 Q. I'm skipping a few things here that I will I  
20 think just take up with subsequent witnesses. Just to  
21 clarify, you're directing us to Mr. Lafferty on these  
22 matters or Mr. Kalich?

23 A. On both the -- on the electric transmission  
24 and gas transmission I would direct you to Mr. Lafferty.

25 Q. Okay.

0787

1                   Could you turn to page 16 of the Thorndike  
2 Landing study, that's still RLS-5. Actually, I  
3 apologize, it's page 19 of 31, I confused myself here  
4 with the page numbers. And look at the first bulleted  
5 paragraph, Avista, excuse me, Thorndike Landing there  
6 states that essentially Avista excluded gas  
7 transportation costs from its initial analysis and also  
8 that the internal assessment of gas transportation costs  
9 has not been completed as of the date of the preliminary  
10 analysis. Is that right, do you see that?

11           A.       That's what that first bullet talks about.

12           Q.       All right. That's based on discussions with  
13 Avista personnel?

14           A.       Yes.

15           Q.       Is that a correct statement?

16           A.       I would have to defer that to Mr. Kalich  
17 also.

18           Q.       And again with regard to this third  
19 component, the gas transportation contracts, Avista is  
20 requesting the Commission to assign full responsibility  
21 to rate payers for all of the fixed costs of the gas  
22 transportation contract beginning in 2010, correct?

23           A.       That's correct. In order to operate the  
24 plant, you have to have firm gas transportation to the  
25 plant.

0788

1 Q. And that would be even if the costs were  
2 excess according to the Thorndike Landing analysis  
3 including the excess 20% which the Company is disputing?

4 A. We don't believe that the costs are excess.  
5 We believe we have just sufficient capacity to provide  
6 gas to this project, so we still would believe that all  
7 the gas transportation costs should go along with the  
8 project.

9 Q. All right. And that's the case although  
10 Avista apparently has not completed its analysis with  
11 regard to gas costs or had not when it first made the  
12 decision to assign the contracts to Avista Utilities?

13 A. What we looked at when we first made the  
14 decision to sign the contract was based on the gas  
15 transmission, electric transmission costs that we knew  
16 at the time plus the cost of the PPA in general, and so  
17 all of those together, as it were, were what led us to  
18 the decision to determine that this was a good deal for  
19 customers.

20 Q. Okay. I'm going to move on to another topic  
21 now, take you back to your direct testimony, RLS-1, go  
22 to page 11 at lines 19 to 21. Do you have that?

23 A. Yes, I do.

24 Q. You state that of the CCGT or combined cycle  
25 gas turbine plants in the Pacific Northwest, Avista did

0789

1 not know if any were for sale at the time the study was  
2 completed, correct?

3 A. That's true.

4 Q. And in your Exhibit RLS-4, we can go there if  
5 we need to, you list in a table Pacific Northwest  
6 plants, and should I take you there?

7 A. Page 2?

8 Q. RLS-4, page 2, and there's a table.

9 A. That's correct.

10 Q. And there you also repeat the statement that  
11 none of the plants are for sale to Avista's knowledge,  
12 correct?

13 A. Yes.

14 Q. Can you please turn to RLS-25, 25-X.

15 A. I have that.

16 Q. Let me know if you want to defer these  
17 questions. There are three exhibits actually in a  
18 sequence, 25, 26, and 27-X, these are the documents from  
19 the Northwest Power Planning Council.

20 A. Yes.

21 Q. And if we look at Exhibit 25-X on the second  
22 page of that exhibit do you see a table 8-3 independent  
23 power producers, correct?

24 A. I see figure 8-11, am I looking at the  
25 wrong --



0790

1 COMMISSIONER JONES: It's the next page.

2 A. Oh, I got it now, thank you, yes.

3 Q. All right. And this table suggests that  
4 several gas fired combined cycle gas turbines have  
5 uncommitted capacity, correct?

6 A. That's the insinuation.

7 Q. All right. Big Hanaford, for example,  
8 Hermiston Power Plant, Klamath Cogeneration, Lancaster,  
9 all listed with uncommitted status?

10 A. That's what it says.

11 Q. All right. And this is from the Draft Sixth  
12 Power Plan of September 2009, right, that's the cover  
13 sheet of the exhibit?

14 A. That's right.

15 Q. Please turn to Exhibit 26-X, this is entitled  
16 Pacific Northwest Regional Resource Adequacy Assessment.

17 A. Yes.

18 Q. And this is dated from May 2008, correct, top  
19 left?

20 A. Yes.

21 Q. If you look at the last page of this exhibit,  
22 it should be page 8 of 8, there's a list of uncommitted  
23 IPP's, correct, independent power producers?

24 A. Right.

25 Q. And that list looks a lot like the list that

0791

1 we just saw in the previous exhibit, does it not?

2 A. Yeah, it does. However, I have to -- I don't  
3 know exactly what uncommitted means in this case, if  
4 that means uncommitted to just utilities in the  
5 Northwest or simply they just weren't aware of any  
6 offtake agreements associated with these projects.

7 Q. Okay.

8 A. Some of these projects are in the market  
9 daily, and I know that they're selling odds and ends,  
10 but I'm not sure about any -- the absence of any  
11 long-term commitment from any of these projects. And  
12 this is part of the resource adequacy assessment that  
13 talks about the ability to serve your load for certain  
14 durations of the time. It has nothing in -- I don't  
15 think it lines up at all with what assessment you would  
16 make for a long-term purchase.

17 Q. Can you turn to RLS-27-X, please, that's  
18 headed Power Plants in the Pacific Northwest, Northwest  
19 Power Planning Council, and if you turn to page 2 of  
20 that under the load column we again see a list of plants  
21 that's uncommitted as of March 2007?

22 A. Yes, that's true.

23 Q. Okay. And we again see a few of the combined  
24 cycle plants on this list that were also on the list we  
25 discussed earlier in the two previous exhibits, right?

0792

1 A. That's correct.

2 Q. Based on these reports, it appears that the  
3 Northwest Power Planning Council believed that some  
4 combined cycle plants were uncommitted, correct?

5 A. That was their analysis.

6 Q. Did Avista make any effort to make a formal  
7 offer to consider buying any of these, of this resource  
8 capacity such as through an RFP process?

9 A. No, we did not. Normally if these projects  
10 were for sale, they are out visiting with us, talking  
11 with us, letting us know that they're for sale, but to  
12 our best of our knowledge, none of these projects were  
13 for sale at the time we made this decision.

14 MR. FFITCH: Okay, thank you.

15 Can I have a moment, Your Honor.

16 Your Honor, those are all the questions I  
17 have for the witness.

18 Thank you, Mr. Storro.

19 JUDGE TOREM: All right, thank you,  
20 Mr. ffitich, you've cut in half your original estimate  
21 with this witness, so I appreciate we'll be definitely  
22 on schedule today. With that in mind, let's take 10  
23 minutes, gives us a chance to prepare our questions in  
24 light of what's already been asked, then we'll come back  
25 at 10:15.

0793

1 (Recess taken.)

2 JUDGE TOREM: All right, thank you for your  
3 patience as we took a little more extended break. I  
4 hope the extra 4 or 5 minutes spent will be worth 20 in  
5 the long run here. We're ready for the Commissioners I  
6 think to take up their questions of Mr. Storro, and  
7 we're going to start with Commissioner Jones today.

8

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

10 BY COMMISSIONER JONES:

11 Q. Good morning, Mr. Storro.

12 A. Good morning.

13 Q. Okay, I'm going to start with some timeline  
14 related questions, and so -- because it's still a bit  
15 confusing to me on the timeline of this transaction. So  
16 in your testimony, I think your direct testimony, you go  
17 through the evaluation overview, and then you state that  
18 the plant is an option to the utility as part of Avista  
19 Corporation's proposed sale of Avista Energy to Coral  
20 Energy. So when did Avista, I think it's February or  
21 March 2007, but what is your -- because you were -- you  
22 were in constant communication with Mr. Malquist,  
23 correct, on this or --

24 A. No, there wasn't constant communication.

25 Q. Okay.

0794

1           A.     What happened at that particular time was  
2 Malyn came down and asked were we interested in the  
3 output of the project because it came up as part of the  
4 negotiation. My answer at the time was, well, of course  
5 we are subsequent to some analysis. So after doing that  
6 analysis and looking at several years and looking at the  
7 plant characteristics and the cost, our analysis  
8 indicated it looked like a great deal for customers.  
9 This project was in the \$550 a kilowatt range.

10          Q.     Right.

11          A.     Other projects that had sold prior to that  
12 were in the \$700 plus kilowatt range.

13          Q.     Mr. Storro, if you would just hold to the  
14 question. I'm aware of that, I'm just interested in the  
15 timeline.

16          A.     Okay.

17          Q.     So when did he call you? Was Malquist the  
18 lead negotiator for the sale of Avista Energy?

19          A.     I believe he was.

20          Q.     Okay. When did he come to see you and ask --

21          A.     I believe it was toward the end of February  
22 or early March, I don't remember. I don't remember the  
23 exact date when we had the verbal conversation.

24          Q.     And as you stated in response to Mr. ffitich,  
25 you did no formal study, cost benefit, detail cost

0795

1 benefit study of the plant, it was a verbal  
2 representation of the values?

3 A. No, we did do a formal study at that time.  
4 That's when we looked at the value that the project  
5 would have to us in those - in 9, 10, and 11.

6 Q. Okay.

7 A. So we did do a formal study and did our own  
8 analysis of what we thought the value at least on a cost  
9 per kw basis was, and that's what we based our response  
10 on.

11 Q. Okay. Now is that RLS-4, could you refer to  
12 RLS-4, this is called Power Purchase Agreement  
13 Evaluation Overview dated April 11th, 2007, it's a  
14 6-page document.

15 A. Yes, that's correct.

16 Q. Is this the evaluation that you did?

17 A. Yes, it is, that's an overview of the  
18 evaluation.

19 Q. Is that the extent of the evaluation, are  
20 there any workpapers or notes or any other work  
21 associated?

22 A. I don't believe so, but I would defer that to  
23 Mr. Kalich, but I don't believe there are.

24 Q. Okay. And isn't it true that the Thorndike  
25 Landing study was done after the sale of Avista Energy,

0796

1 the Thorndike Landing study is dated October 30th, 2007?

2 A. That's correct. We contracted with them I  
3 believe in August, and then they conducted an  
4 independent study of the transaction.

5 Q. So that is after the fact of the sale, and  
6 RLS-6, which is called a white paper, I assume prepared  
7 by the Company, was done in November of 2007?

8 A. That's right.

9 Q. So both of those studies were done after the  
10 fact. So what the Commission has to rely on prior to  
11 the sale of Avista Energy is RLS-4?

12 A. I think RLS-4 talks about the initial  
13 analysis, but I think the other data is certainly  
14 supportive of that initial analysis.

15 Q. Okay. As I mentioned in my opening statement  
16 that the plant is an option to the utility, has Avista  
17 Utilities exercised that option yet?

18 A. No, the plant has not been assigned  
19 officially to the utility.

20 Q. What's the difference between assigned to the  
21 utility and temporarily assigned? I'm getting confused  
22 on the temporary assignment to --

23 A. The output right now is assigned to Coral  
24 Energy until the end of this year, and then on January 1  
25 of 2010, the project will be assigned to the utility.

0797

1 Q. And just to refer to the record on that,  
2 that's that flow chart I think in RLS-11-X that  
3 Mr. ffitch and you were discussing earlier?

4 A. Yes, I think that's right.

5 Q. And was this prepared by you?

6 A. No, it was not.

7 Q. Okay. Was this prepared by the Company?

8 A. Yes, it was.

9 Q. Okay. So yes, I think I'm beginning to  
10 understand the flow here, so it goes from steps 2, 1, 3,  
11 and 4. In step 2 here in the circle 2, Avista sold its  
12 assets to Coral Energy 6/30/2007.

13 A. Right.

14 Q. Is that correct?

15 A. Yes, that's the date of the closing.

16 Q. Yeah. And circle 1 is Avista Energy assigned  
17 the Lancaster PPA to Avista Turbine Power 6/11/1999.

18 A. Yes.

19 Q. And Avista Turbine Power has the contractual  
20 right to all of the capacity and electrical output of  
21 the facility.

22 A. That's right.

23 Q. Is that a correct statement?

24 A. Yes.

25 Q. Both capacity and energy, correct?



0798

1 A. Yes.

2 Q. And then circle 3 is Avista Turbine Power  
3 assigned Lancaster PPA to Coral Power LLC on 6/30/2007  
4 for 2 1/2 years?

5 A. Right.

6 Q. And circle 4 is, as you just stated,  
7 Mr. Storro, the assignment of Lancaster PPA ends on  
8 12/31 of this year?

9 A. Right, that's part of the overall  
10 negotiations.

11 Q. Okay. So you have not or Avista Utility has  
12 not exercised the option yet, okay.

13 When did the -- oh, first of all, who -- can  
14 you describe to the Bench what consists -- what is  
15 Avista Turbine Power, Inc., what it consists of and the  
16 governance of it, is the CEO and chairman the head of  
17 Avista Power, Avista Turbine Power, Inc., and who  
18 controls its decisions?

19 A. I do not know the answer to that question. I  
20 know that it has one employee at this particular time.

21 Q. Okay.

22 A. But I don't know the answer to that.

23 Q. Sounds to me like some sort of pass through  
24 entity?

25 A. Possibly.

0799

1 Q. Okay.

2 When did the board of directors of Avista  
3 Utilities approve the Lancaster contracts?

4 A. I don't know the exact date. I know there  
5 was a presentation made to the board. I can't remember  
6 whose testimony that is in or as part of a data request  
7 that talked about the overall deal, but I don't remember  
8 that date. We could find that and give that to you.

9 Q. I think that would be helpful.

10 Is there any other provision for canceling  
11 the obligation under the contract?

12 A. Relative to?

13 Q. The obligation of the --

14 A. Well, Avista Turbine Power has the  
15 obligation.

16 Q. Yeah, so Avista Turbine Power has the  
17 obligation?

18 A. Yes.

19 Q. Okay.

20 COMMISSIONER JONES: I think it would be, and  
21 this would be a Bench request, Judge, I think it would  
22 be helpful to the Bench if we had a copy of the contract  
23 that was negotiated between Avista Utilities or Avista  
24 Corp. doing business as Avista Utilities and Coral  
25 Energy, and could you also provide a copy of the minutes

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1 of any board meeting discussing or approving the  
2 Lancaster contracts, and provide any briefings officers  
3 or members of the board of Avista Utilities had prior to  
4 the approval of the contracts.

5 JUDGE TOREM: All right, if I understand  
6 correctly, Commissioner Jones, your first part of that  
7 Bench request which we'll label Number 10, and for those  
8 keeping track of the numbers the one I mentioned this  
9 morning that will go out in writing will be Bench  
10 Request 9, so this verbal only Bench request will be 10,  
11 Commissioner Jones you're focused on that flow chart in  
12 bubble number 2, getting the contractual documentation  
13 for Avista Energy's sale of its assets to Coral Energy?

14 COMMISSIONER JONES: Well, I'm interested in  
15 circle 2 and circle 3, both the sale of the assets to  
16 Coral Energy and the Avista Turbine Power assigning the  
17 Lancaster PPA to Coral.

18 JUDGE TOREM: Mr. Meyer, are you aware if  
19 that's all one contract, or is that multiple contracts?

20 MR. MEYER: I'll have to check.

21 JUDGE TOREM: All right, so that's the first  
22 part of the Bench request, circles 2 and 3 on this  
23 exhibit flow chart, and the latter part was also --

24 COMMISSIONER JONES: Well, the minutes of the  
25 board meeting, or if there was more than one then board

0801

1 meetings approving the Lancaster contracts and the  
2 resolution as well of the board.

3 JUDGE TOREM: All right, so this is a bit of  
4 a broad ranging Bench request, Mr. Meyer, but I want to  
5 make sure that you understand what we're asking for. It  
6 would be a copy of any contract having to do with Avista  
7 Energy selling its assets to coral, any contracts  
8 associated with the Turbine Power assignment of the  
9 Lancaster power rights to Coral for the 2 1/2 year  
10 period that ends the end of 2009, and also the copy of  
11 any board meeting minutes that are relevant to the  
12 Lancaster PPA, most particularly approval and any  
13 resolution relating to that. So if there are historical  
14 board meetings you're aware of where that came up where  
15 it was held over meeting to meeting, let's include those  
16 as well so we can see the development of any  
17 discussions.

18 MR. MEYER: Sure.

19 JUDGE TOREM: And that would help  
20 Commissioner Jones know how the board reached the  
21 decision that he's ultimately looking for.

22 Commissioner Jones, does that adequately  
23 summarize?

24 COMMISSIONER JONES: Yes, that's fine, Judge.

25 MR. MEYER: Happy to provide it.

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1                   JUDGE TOREM: All right, so that will be  
2 Bench Request 10, and if you're happy to provide it,  
3 when will we be so happy to receive it?

4                   MR. MEYER: Well, easy for me to say. I  
5 would think that by say Tuesday of next -- say Wednesday  
6 of next week. It's again easy for me to say.

7                   JUDGE TOREM: All right, so that's Wednesday,  
8 October the 14th, and again I won't -- I will remind you  
9 at the end of the day that we have this obligation  
10 outstanding but won't be sending any follow up in  
11 writing for this one.

12                   Commissioner Jones, back to you.

13                   COMMISSIONER JONES: Just a few more  
14 questions because I know my colleagues have questions as  
15 well.

16 BY COMMISSIONER JONES:

17           Q.       The next line of questioning is more the  
18 parties to the transaction, Mr. Storro, I'm still a bit  
19 confused with all these flow charts and circles and  
20 previous discussions, so just a few follow-up questions.  
21 You stated that the opportunity to acquire Lancaster  
22 contracts was a result of negotiations related to the  
23 sale of Avista Energy, and that January 1st, 2010, date  
24 ultimately became the agreed upon transfer date. Again,  
25 can you name for the record the negotiating team? I

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1 think this was in a Public Counsel data request, but  
2 could you just name the key employees? I think they  
3 were led by Mr. Malquist who led that negotiation.

4 A. I believe Malyn Malquist, our CFO at the  
5 time, was involved, Marian Durkin, our Chief Counsel was  
6 involved, and Ann Wilson who was our Treasurer  
7 Controller at the time was involved in the negotiations.  
8 And I don't know who was involved from Coral's side.

9 Q. Thank you. And is Mr. Malquist employed with  
10 the Company now?

11 A. He retired.

12 Q. Where does he live right now?

13 A. I don't know the answer to that.

14 Q. Is he living in the state of Washington?

15 A. I don't know that.

16 Q. Okay.

17 A. He did, I'm just not sure whether he moved or  
18 not.

19 MR. MEYER: He is.

20 Q. Were any of the employees who were involved  
21 in the negotiation of the Lancaster contracts for the  
22 utility, Avista Utilities, involved in the negotiations  
23 to sell Avista Energy or vice versa?

24 A. No.

25 Q. And I had a question on who owns Avista

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1 Turbine Power, Inc. and governance, and you said  
2 basically it's one person?

3 A. Well, the ownership is Avista, it's under the  
4 Avista Capital umbrella.

5 Q. Okay.

6 A. I believe it just has one employee at this  
7 particular time.

8 Q. So 100% of the equity or its worth is owned  
9 by Avista?

10 A. Capital.

11 Q. Capital.

12 Just one other question, Cogentrix is listed  
13 in the 6 Power Pan, you were going back and forth with  
14 Mr. ffitich on the available combined cycle power plants  
15 in the region and Lancaster was listed, but Cogentrix  
16 was listed as the owner. What is Cogentrix?

17 A. It's the same plant. Well, Cogentrix was a  
18 part owner of the project years ago, and now what's  
19 happened I believe, if I can get this right now, what's  
20 transpired over the years is Cogentrix is an entity of  
21 Goldman, and the project is now owned 80% by Goldman, I  
22 mean 20% by Goldman and 80% by another investment group  
23 that invests in power plants.

24 Q. Are the initials of that group EIF or  
25 something to that effect?

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1           A.     Yeah, first time I thought it was EIEIO, but  
2     it is something like that.

3           Q.     So 20% by Goldman Sachs, which is a very  
4     famous name these days on the front page of the Wall  
5     Street Journal, and 80% by EI something?

6           A.     Yes.

7           COMMISSIONER JONES:   Okay, that's all I have  
8     for now.

9           MR. MEYER:   Before we go on, may I just  
10    clarify with the witness one response he gave you,  
11    because I don't want there to be any confusion on this  
12    point?

13          COMMISSIONER JONES:   Sure.

14          MR. MEYER:   I think the question that you  
15    asked, Commissioner Jones, was whether there were any  
16    Avista Utilities employees involved in the negotiation  
17    of the Avista Energy transaction, and I think the  
18    witness said no, but I want to clarify right now with  
19    the witness if I might.

20          COMMISSIONER JONES:   Sure.

21          MR. FITCH:   Your Honor, this sounds like a  
22    leading question coming.

23          JUDGE TOREM:   It does, doesn't it?

24          So how are you going to ask this, Mr. Meyer?

25          MR. MEYER:   Well, I'm going to ask --



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

2 BY MR. MEYER:

3 Q. What was the status of Mr. Malquist and  
4 Ms. Durkin as members of the negotiating team, were they  
5 employees of Avista Corporation?

6 A. Oh, yes, of course they were.

7 Q. And is Avista Corporation --

8 A. I thought you meant other employees besides  
9 the ones I had mentioned previously that were involved,  
10 so I misunderstood.

11 COMMISSIONER JONES: So, Mr. Meyer, just so I  
12 understand your response, because I -- and of course it  
13 -- we approved the holding company for Avista, and this  
14 all would have been a little bit clearer but one state  
15 decided not to, but anyway I'm confused between Avista  
16 Corp., Avista Utilities, Avista Capital, but the way I  
17 understand it is Avista Corp. doing business as Avista  
18 Utilities.

19 MR. MEYER: Correct.

20 COMMISSIONER JONES: So was Mr. Malquist and  
21 Ms. Durkin, were they employees of Avista Corp., Avista  
22 Utilities, both?

23 MR. MEYER: Well, they're employees of Avista  
24 Corp., that's the corporation. They're doing business  
25 as Avista Utilities. It's not a separate entity, so

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1 they're not separately employed. No one is separately  
2 employed by Avista Utilities.

3 COMMISSIONER JONES: Okay.

4 MR. MEYER: It's the parent corporation, it's  
5 the Avista Corp. that writes the checks, they're the  
6 employer.

7 COMMISSIONER JONES: And you're employed by  
8 Avista Corp. as well?

9 MR. MEYER: Correct.

10 COMMISSIONER JONES: Thank you.

11 JUDGE TOREM: Commissioner Oshie.

12 COMMISSIONER OSHIE: Thank you.

13 And the clarification does help, thank you,  
14 Mr. Meyer.

15

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

17 BY COMMISSIONER OSHIE:

18 Q. I guess the -- I want to explore briefly,  
19 Mr. Storro, the relationship if there -- between Avista  
20 Turbine Power and Avista Utilities and the nature of  
21 this agreement, because it sounds to me that the --  
22 right now you say Avista Turbine Power holds the rights  
23 to the Lancaster plant?

24 A. They hold the rights to the tolling agreement  
25 with the Lancaster plant, that's correct.

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1 Q. To the tolling agreement, yes, thank you for  
2 that clarification. And what the Utility is asking us  
3 today is whether or not a result of this case, or at  
4 least as part of it, that we find that the agreement  
5 that has been reached between Avista Utilities and  
6 Avista Turbine Power is in the public interest, is  
7 prudent, and that the costs are just and reasonable?

8 A. That's correct.

9 Q. And so when the agreement, let's just start  
10 maybe from the negotiation between the parties. Were  
11 there any Avista Utility employees, I mean those that  
12 are employed by the utility, I mean for example like  
13 Mr. Kalich or, if he was even in that position then, or  
14 Mr. Norwood, did they negotiate the agreement with  
15 Avista Turbine Power? And we're talking about benefits  
16 on both sides of the fence here, Avista Turbine Power  
17 and then Avista Utilities for the benefit of the rate  
18 payers.

19 A. No, I don't believe any of those were  
20 involved in any of those negotiations.

21 Q. So if there was anyone there -- who would be  
22 representing the interests of the utility only in  
23 negotiations for the rights of the plant, the tolling  
24 agreement, with Avista Turbine Power?

25 A. Well, Malyn Malquist, Marian Durkin, and the

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1 people that were involved would be looking at both  
2 sides. I think it's important to note that although  
3 they were negotiating the sale of Avista Energy, at that  
4 time they were also very aware of the needs of the  
5 utility, and as a result of this opportunity presenting  
6 itself, there was very close alignment, very good  
7 alignment with the opportunity on one side and the need  
8 on the other side, and that's why it was brought to us.

9 Q. So it's basically then the same people that  
10 were negotiating on behalf of Avista Energy, on behalf  
11 of the parent corporation, and which includes the  
12 utility, and Avista Turbine Power were all wearing the  
13 same hats, the same people in the room, just but the  
14 roles perhaps were somehow severable. Avista Energy,  
15 it's all for the shareholders because there's no rate  
16 payer interest there, and Avista Utilities as sort of  
17 wears both hats if you will, one for the rate payers and  
18 one for the shareholders, typically in the regulated  
19 utility wears both of those hats, so is that the way to  
20 frame it?

21 A. I think that's true, except that I would also  
22 add that the reason they then came and presented that  
23 opportunity to me and to Mr. Kalich was to analyze the  
24 opportunity and for us to independently determine  
25 whether it had an advantage to customers, and our

0810

1 analysis indicated that it certainly did.

2 Q. Now if we were to -- I mean I would  
3 characterize just based on my understanding of the  
4 agreement right now then this agreement as one of  
5 between affiliated interests. This is an agreement on  
6 paper between Avista Turbine Power and Avista Utilities,  
7 Avista the utility, and so I think of that as an  
8 agreement between an affiliated interest. Do you  
9 disagree with my characterization?

10 A. No, I wouldn't disagree with that, they are  
11 affiliates, they're associated with the corporation, and  
12 that's why it's basically an at-cost agreement. The  
13 transfer of the contract from the obligation that Avista  
14 Energy had to the obligation that we would have under  
15 this agreement is the same agreement, it's at cost,  
16 there's no markup.

17 Q. And is there -- what's the -- I guess is that  
18 quite as simple a statement, is that actually true? In  
19 other words, the agreement, the plant was owned by  
20 Avista Energy, was it not?

21 A. The plant was not owned -- originally there  
22 was another entity that owned a portion of the plant  
23 that was an Avista entity.

24 Q. So what you're saying is that the cost to  
25 Avista Energy since it negotiated, since it was sort of

0811

1 dumped into Avista Turbine Power, is the same cost as  
2 the rate payers would be possibly purchasing the rights  
3 to that agreement today?

4 A. Yes.

5 Q. Okay. And is there any evidence in the  
6 record as to that cost other than your representation of  
7 what it is?

8 A. Well, I think the agreement would indicate  
9 that cost. Is that what you're talking about, the  
10 annual payment requirements?

11 Q. It would, but how would we, you know, how do  
12 we know what is behind the numbers in the agreement?

13 A. Well, I'm sure there's nothing behind the  
14 numbers in the agreement.

15 Q. Because I think our rule, and, you know, I'm  
16 pushing a little bit here because I think this is  
17 important and it's not, you know, this isn't a game of  
18 got you, it's a question of, you know, our rule is  
19 between affiliated transactions is that it's either the  
20 lower of cost or market.

21 A. Yes, that's correct.

22 Q. And so is there any -- we would be looking  
23 then to see in the record what the market value of that  
24 property is and then your actual cost, and so your  
25 actual cost in my mind is the cost of Avista, you know,

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1 Avista Energy's cost?

2 A. Yes.

3 Q. Or the market cost?

4 A. I think what we demonstrated very clearly in  
5 our testimony that the cost was substantially below  
6 market. This was a cost that we determined to be about  
7 \$550 a kilowatt. Market cost of previous sales, you  
8 know, prior to that were in excess of \$700 a kilowatt.  
9 I think Mr. Kalich's rebuttal testimony, and I want to  
10 talk more about this, that the costs -- plants that have  
11 sold since then have been at substantially higher cost  
12 than that.

13 Q. Isn't the difference is that there they're  
14 actually buying a plant and not a tolling agreement or  
15 the rights to operate a plant for a limited period of  
16 time?

17 A. What we try to do in our analysis is equate  
18 those two so that they're looked at in a similar  
19 fashion.

20 Q. It probably would have been easier if the  
21 Company had submitted a request for proposal or offered  
22 one to the market, and then it would be having that in  
23 hand, wouldn't it be easier to show what the market  
24 price would have been for that resource?

25 A. I think that's a true statement, but I would

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1 like to add if I may that a request for proposal really  
2 takes a long time to do. I think to do an adequate job  
3 on a request for proposal it takes anywhere from six to  
4 nine months. We typically work with Commission Staff,  
5 do whatever we can to get that out right takes a long  
6 time to do that.

7 Q. All right.

8 A. We had an opportunity that was basically was  
9 a short time frame, and in this business part of the  
10 deal is to know when the opportunity and sometimes you  
11 have to take action. We viewed this as a very positive  
12 deal for customers, and that's why we said yes to the  
13 output of the agreement.

14 Q. When -- and was the option for Avista  
15 Utilities that's locked in what, July of 2007?

16 A. I don't understand what you're asking.

17 Q. Wasn't the option that was agreed upon, in  
18 other words there's a contract, an option contract here  
19 that's -- I mean is there not? I mean I get -- maybe  
20 I'm trying to -- in my mind there's still three parties,  
21 you know, or at least there is the, excuse me, there's  
22 two parties, Avista Turbine Power unregulated.

23 A. Yes.

24 Q. And Avista the utility.

25 A. Okay.



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1 Q. And so Avista the utility has to take before  
2 2010 or Avista Turbine Power will you said try to  
3 remarket the PPA?

4 A. That would be one option I guess they would  
5 look at.

6 Q. Okay. So there's -- so that's I guess  
7 there's no real obligation to take by Avista Utility; is  
8 that true?

9 A. What we determined when we did the first  
10 analysis that this was a good deal to customers and  
11 indicated to senior management that that was the right  
12 decision for us to make in light of our long-term  
13 resource needs.

14 Q. Well, let's go back to my question. I mean  
15 as I understand it, your testimony today is that there's  
16 no obligation to take, for Avista Utilities to take  
17 power under this contract. It can -- and Avista Turbine  
18 Power would have the decision whether to keep it or not?

19 A. I think that's true.

20 Q. Okay. And so it seems to me that there would  
21 have been at least a period here between when that  
22 option was agreed upon and now that the Company could  
23 have gone to the market to say, hey, what's out there,  
24 we have to take by January 1, 2010, and so what are our  
25 options now, and is this still a good deal now for the

0815

1 rate payers?

2 A. And I think you'll find based on other sales  
3 that have been made since we did this, since we  
4 obligated, since we said we wanted this deal, are  
5 significantly higher priced. In our testimony we talk  
6 about green field plants or new turbine projects that  
7 are in the \$800 a kilowatt range.

8 Q. Now is there -- if Avista Turbine Power would  
9 remarket according to at least your representations as a  
10 possible outcome, if I understand the agreement, the  
11 decision has to be made by December 31st, 2009?

12 A. Yes, that's correct.

13 Q. Okay.

14 A. January 1 of 2010.

15 Q. Oh, okay, all right, thank you, Mr. Storro.  
16 And our order is at least the drop dead or, you know,  
17 time for us to get out of our obligation, if you will,  
18 we have to exit -- how can I put it in contract terms, I  
19 probably can't. We have to issue an order by December  
20 23rd. I don't know if you -- you don't need to agree to  
21 that but --

22 A. I heard it yesterday.

23 Q. Okay, that's all right. So there's -- if I  
24 understand both of those timelines, then there would be  
25 a week in which Avista Turbine Power would have to make

0816

1 a decision if we were to say no, that we don't -- that  
2 we would agree perhaps with the position of Public  
3 Counsel, that would leave a week for a decision to be  
4 made on what to do with it. And by it, I mean the  
5 Lancaster tolling agreement.

6 A. Well, January 1, 2010, Avista Turbine Power  
7 will still have the rights to the project, and they will  
8 -- and I'm sure they will -- and they'll operate the  
9 project. What we're presented in this case is that we  
10 think it's an opportunity for customers relative to  
11 other options to assume those contracts, the power  
12 purchase agreement and the transmission, gas and  
13 electric transmission agreements, and that's in the best  
14 interests of customers on a long-term basis.

15 Q. So does Avista Turbine Power have the -- do  
16 they own -- they've been assigned the tolling agreement  
17 until the end of until, what is it, 2026?

18 A. I assume that's the case, yes.

19 Q. Okay. And so if the -- because this is a  
20 insider deal, if we said no, then the utility could wait  
21 until 2011 or 2012 to -- I mean the resource is still  
22 there, it's Avista Turbine Power?

23 A. Well, Avista Turbine Power would have to  
24 decide what would happen to the -- what would we do with  
25 the tolling arrangement prior to that date, or what do

0817

1 we do in the meantime. My assessment, I guess we would  
2 have to look at that, but we would probably look at what  
3 other opportunities are out there in the market the  
4 output of the project. Our problem is that starting in  
5 2011 we have a deficit, capacity energy deficit, and  
6 we'll have to make some decision on some project. If  
7 it's not this project, it will be another project.

8 Q. Okay, well, I think that helps clarify it,  
9 because I was under the understanding that Avista  
10 Turbine Power had to act to exercise the option at the  
11 end of this year, and that was a decision that needed to  
12 be made by Avista Corporation, but apparently that's not  
13 true, all right.

14 JUDGE TOREM: So, Commissioner Oshie, again I  
15 want to make sure, Chairman Goltz and I are going back  
16 and forth, the question that started with Commissioner  
17 Jones and then now you've picked up is actually  
18 answered.

19

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

21 BY JUDGE TOREM:

22 Q. So, Mr. Storro, is there a contract between  
23 the utility and the turbine power portions of Avista?

24 A. Not that I know of.

25 Q. So simply when the assignment that Avista

0818

1 Turbine Power made in that same exhibit bubble number 3  
2 expires as shown in bubble number 4 on December 31st of  
3 this year, that power is now back with Avista Turbine?

4 A. That's correct.

5 Q. And the tolling agreement itself, now the  
6 rights belong to Avista Utility if we approve this  
7 proposed acquisition?

8 A. If in the end those rights are assigned to  
9 Avista Utilities, then Avista Utilities would have the  
10 obligation to make the payments under those agreements,  
11 but they wouldn't be assigned to the utility until  
12 there's a decision made about this.

13 JUDGE TOREM: And I think that question's  
14 answered now.

15 COMMISSIONER OSHIE: All right, thank you,  
16 but I think this has been helpful to clarify what  
17 exactly the obligations are and what entity is obligated  
18 for what.

19

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

21 BY COMMISSIONER OSHIE:

22 Q. Mr. Storro, are you familiar with our action  
23 in approving the settlement which created the energy  
24 recovery mechanism?

25 A. I can't say that I am.

0819

1 Q. Okay. Would you accept subject to check that  
2 that was Docket Number UE-011595?

3 A. Of course.

4 Q. Okay, thank you. And would you also accept  
5 subject to check that on page 7 of that agreement there  
6 is a paragraph, and I will read it for the record, and  
7 it's entitled transactions with Avista Energy:

8 The Company agrees that it will not  
9 enter into any electric or natural gas  
10 commodity transactions with Avista  
11 Energy related to Avista Utilities  
12 electric operations until the energy  
13 cost deferral balance carries a net  
14 credit balance.

15 Does that -- are you familiar with that  
16 provision?

17 A. Yes, I am.

18 Q. Okay. As this transaction originated with  
19 Avista Energy with the retention of rights by Avista  
20 Turbine Power with the possibility that it would go to  
21 Avista Utilities, is that transaction captured by that  
22 in your opinion, by that provision?

23 A. No, it's not, this is not a commodity  
24 transaction.

25 Q. It is a tolling agreement, it's -- what is

0820

1 the output of a tolling agreement?

2 A. A tolling agreement is basically a rental  
3 agreement. It's a lease agreement. It's we basically  
4 bring gas to the project, they convert it to  
5 electricity, and we take the electricity away. It's a  
6 rental agreement or lease agreement. There's no  
7 commodity transaction involved at all.

8 Q. There's no commodity output from that  
9 agreement that is beneficial to the rate payers of  
10 Avista Utilities?

11 A. The conversion itself and the transfer of the  
12 lease is not a commodity.

13 Q. Well, if you weren't producing electricity  
14 from that plant, why would you buy it?

15 A. Well, maybe I don't understand your question.

16 Q. Well, I'm just digging down a little bit  
17 deeper about your answer that no it's not a commodity  
18 agreement because it's just a lease of a plant. I mean  
19 what's the purpose of the plant?

20 A. Well, we are not buying gas or buying  
21 electricity from Avista Energy or from Avista Turbine  
22 Power. We are purchasing in this case the right to  
23 convert gas to electricity.

24 Q. And so I guess there's no relationship then  
25 for between, as a result of your answer in your opinion

0821

1 there's no relationship between Avista's interest in  
2 zeroing out the ERM by our order when we get it out and  
3 this provision in our original ERM settlement order?

4 A. Well, we don't believe that this deal  
5 violates the requirement.

6 COMMISSIONER OSHIE: All right, thank you.

7 I don't think I have any other questions,  
8 Judge.

9 JUDGE TOREM: Chairman Goltz.

10

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

12 BY CHAIRMAN GOLTZ:

13 Q. Forgive me if I ask a question that perhaps  
14 has been asked and answered already, I will do my best.

15 A. I'll try to answer it the same way.

16 Q. That's the test.

17 So you had stated first on Exhibit RLS-2-X at  
18 the bottom, page 1 of 1, and then orally who represented  
19 Avista Corporation and Avista Utilities in that  
20 transaction, and I gather when you say Avista  
21 Corporation or Avista Utilities it's synonymous, it's  
22 the same entity?

23 A. Yes.

24 Q. Okay. And then I believe you testified that  
25 you didn't know who was negotiating the deal on the side



0822

1 of Coral?

2 A. I do not.

3 Q. Okay. So then referring over to the chart  
4 with the bubbles and squares, which is page 3 of 3 of  
5 RLS-19-X, as part of the overall agreement was there a  
6 third party, in other words or that there was Avista  
7 Utilities, there was, I'm sorry, there's Avista Energy,  
8 there was Coral, and as part of the same agreement was  
9 Avista Turbine Power part of that same agreement?

10 A. The entities that -- the individuals that  
11 were negotiating on behalf of the corporation at that  
12 time would include the interests of Avista Turbine  
13 Power, so the same individuals.

14 Q. Okay. And so basically the agreement, the  
15 people that you listed as negotiating on behalf of  
16 Avista Utilities, Avista Utilities was not a signatory  
17 to this agreement, it was Turbine Power?

18 A. I don't know if I know the answer to that  
19 question.

20 JUDGE TOREM: Chairman Goltz, I think we'll  
21 have the document itself and see who the signatories  
22 were in response to that Bench request.

23 CHAIRMAN GOLTZ: Sure.

24 BY CHAIRMAN GOLTZ:

25 Q. As I understand it, so Turbine Power had the

0823

1 rights to the power starting in June 1999?

2 A. I believe that's the correct.

3 Q. And that's again --

4 A. Part of that chart.

5 Q. -- part of that chart, and I gather that they  
6 then were marketing the power from the plant?

7 A. Avista Energy was marketing the power on  
8 behalf of Avista Turbine Power, or basically the  
9 agreement was assigned to Avista Energy and Avista  
10 Energy was managing the agreement.

11 Q. That's right, because it was just one  
12 employee?

13 A. Yeah.

14 Q. Okay. So then was some of the power then  
15 sold to Avista Utilities?

16 A. No.

17 Q. None of the power was?

18 A. No.

19 Q. Now during from June 2000, June 30th, 2007,  
20 through the end of this year, Coral Power has the rights  
21 to the output of the plant?

22 A. That's correct.

23 Q. And is it your understanding that they're  
24 marketing the output?

25 A. Yes, they are.

0824

1 Q. And again, is Avista Utilities purchasing any  
2 of that power, if you know?

3 A. Well, Coral Energy is a separate entity, and  
4 it's quite possible that from time to time we can get  
5 matched up with them on the market. Whether the output  
6 actually comes from this project or not, I don't know,  
7 but I do know that we do business with Coral Energy.

8 Q. And on your Exhibit RLS-4, which I believe  
9 you stated was the evaluation, the only document  
10 evaluation of this transaction before it was entered  
11 into; is that correct?

12 A. Yes.

13 Q. Was there, to the extent that this has some  
14 sort of a, it's really not a formal cost benefit  
15 analysis but you're listing benefits, was among the  
16 benefits the opportunity to market some of the power  
17 that would not be needed?

18 A. Well, of course that's what we would look at.  
19 Any time that the project might be surplus, we would be  
20 looking at opportunities to optimize the value of the  
21 project.

22 Q. Just going through this very quickly, I  
23 didn't see that as sort of a described opportunity, but  
24 maybe it's in here. Do you recall that being part of  
25 the --

0825

1 A. I'm sure it was, absolutely.

2 Q. In your Exhibit 6, RLS-6, page 11 of 14, I'm  
3 sorry, that's not right, page 13 of 14, Mr. ffitch  
4 directed you to this, it showed the revenue requirement  
5 impact of the Lancaster agreement as \$12.9 Million in  
6 2010, and I believe he was making the point that you  
7 didn't need the power in that year, and your response  
8 was, well, yes, but we can -- we'll be marketing some of  
9 that power, is that --

10 A. Well, yeah, the point is that there are some  
11 quarters of the year that we do need the power, and  
12 there's other quarters that we do not, but it's the same  
13 as we have with any of our other resources.

14 Q. All right. And your -- I thought you were  
15 saying that, well, yeah, we don't need the power all the  
16 time, and some of the time, and then for the times when  
17 we don't need, we'll be able to at least some of the  
18 remaining time we will market that power?

19 A. Absolutely, we would optimize the project,  
20 any time don't need the energy or if it's surplus and  
21 it's still valuable in the market, we'll sell it into  
22 the market.

23 Q. And one question that I will have, and I  
24 don't know if -- I think you're the witness for this but  
25 I can maybe ask Mr. Buckley or someone else as to how

0826

1 that then revenue gets factored into rates, if at all?

2 A. I think Mr. Johnson would be the right  
3 witness to ask that question.

4 Q. But as far as you recall, when you were  
5 evaluating this project, there was -- was there any  
6 really specific analysis of here's how much we think we  
7 can get for marketing this power?

8 A. I'm sure there was. Based on prices at the  
9 time, there was an analysis made.

10 Q. But if there was an analysis made, it would  
11 have shown up in your Exhibit RLS-4, wouldn't it?

12 A. I'm not sure, I think it would show up later  
13 in another financial part of the project, so.

14 Q. Right.

15 A. Although I would have to admit, that was part  
16 of the decisionmaking process too, that this showed that  
17 it still had value to us in 2010.

18 Q. I guess that goes back to what I thought was  
19 your testimony I believe in response to Commissioner  
20 Jones was that the only document, the only pre-agreement  
21 documentation was this what is RLS-4?

22 A. That's correct.

23 Q. And I believe in response to a question or  
24 data request from Mr. ffitich you said there was no other  
25 -- you have no documents of internal communications?

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1 A. No.

2 Q. So it sounds like other than RLS-4, the  
3 evaluation was oral?

4 A. Well, keep in mind that what we were  
5 evaluating was not whether this -- first thing we've got  
6 to establish that I think there's general recognition  
7 that we had a need for energy resources. This analysis  
8 was really was this the right way to meet the need, was  
9 this the right resource, did this make sense relative to  
10 other purchases in the market. That's what that  
11 analysis was based on, and we believe we demonstrated  
12 that.

13 Q. So is there a separate agreement between  
14 Turbine Power and Avista Utilities that's basically the  
15 option that the utilities has to exercise before the end  
16 of this year?

17 A. I don't know that there's an agreement like  
18 that exists.

19 Q. Because I believe you said that sometime by  
20 the end of the year the utilities, Avista Utilities has  
21 to figure out if it's going to take it or not?

22 A. Well, we've already made the decision that we  
23 want to take it, but I guess it's subject to this  
24 discussion and the action of this Commission.

25 Q. I understand, but hypothetically if the

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1 Commission were to agree with Public Counsel, then I  
2 thought you said the utilities, Avista Utilities would  
3 have to kind of revisit that intent?

4 A. The corporation would have to revisit the  
5 entire issue.

6 Q. Right. So my question is, if they have an  
7 agreement with turbine power which gives them an out or  
8 if there's no agreement at all?

9 A. I'm not aware of any agreement that the  
10 utility has with turbine power.

11 CHAIRMAN GOLTZ: I have no further questions.

12

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

14 BY JUDGE TOREM:

15 Q. Mr. Storro, I just want to follow up on the  
16 Chairman's point. If the Commission hypothetically  
17 agrees with Public Counsel's position, you'll still have  
18 the energy deficits you laid out for those two quarters  
19 of 2010; is that right?

20 A. Yes.

21 Q. And how would you propose to address that if  
22 the Lancaster PPA was disallowed?

23 A. What would happen in those cases, we would  
24 factor that into our power -- we put it basically in our  
25 position report, and we would, you know, look at the

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1 market and do our best to fill those needs.

2 Q. And in 2011, how many quarters are you  
3 projecting a deficit?

4 A. Three. In 2011 we deficit in all quarters  
5 there on out except for second quarter which is  
6 typically a high hydro quarter, so it's significant  
7 deficits in those quarters that we'll have to look at  
8 separately. The point is it's a long-term need, it's  
9 not a short-term need.

10 Q. No, I understand it's a 16 year power  
11 purchase agreement.

12 My next question was going to be, would a 15  
13 year power purchase agreement still be available to the  
14 Company?

15 A. I don't know the answer to that.

16

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

18 BY CHAIRMAN GOLTZ:

19 Q. I'm sorry, I made notes here but I apparently  
20 can't read them, but so if you recall during the  
21 negotiations where this was arranged, what -- there is  
22 there a 2 1/2 year assignment back to Coral and then the  
23 date picked of January 1, 2010, for Turbine Power to  
24 then get the output, you know, how were those dates  
25 picked? I mean was there negotiation, was there part of



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1 the negotiation like, okay, how about January 1, 2011,  
2 2012?

3 A. You know, I wasn't involved in the  
4 negotiations, so I don't know the answer to that. It  
5 was part of the overall negotiation of the sale of  
6 Avista Energy, and the parties involved not only were  
7 aware of what was trying to be accomplished there but  
8 also aware of what the utility's need was. Saw that  
9 opportunity, and the two line up very well, and it's  
10 basically an at-cost low cost opportunity for the  
11 Company.

12 Q. Well, then why wasn't it January 1, 2009?

13 A. I don't know the answer to that.

14 JUDGE TOREM: Commissioner Jones.

15

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

17 BY COMMISSIONER JONES:

18 Q. Mr. Storro, when you say that the Company  
19 needs the plant on a longer term basis, I think you've  
20 stated that several times, energy, that you need the  
21 energy, but isn't the point that you need capacity?

22 A. Oh, yes, of course, yes, energy and capacity  
23 both.

24 Q. And the value of this plant is both for  
25 capacity --

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1 A. Absolutely.

2 Q. -- and energy?

3 A. Yes.

4 Q. And as you build more renewables into the  
5 system, that this plant might be valuable in providing  
6 capacity?

7 A. Considerably more valuable, that's correct.

8 Q. I have a couple questions about the what we  
9 call the following the money of the sale of Avista  
10 Energy. Maybe you are not the appropriate person to ask  
11 this, maybe Mr. Kalich or Norwood is, but I'll try.  
12 Does Avista consider the moneys from the sale of Avista  
13 Energy in April of 2007 as belonging to the balance  
14 sheet of Avista Utilities or the shareholders, how was  
15 that done at the time of the sale of Avista Energy?

16 A. I'm sure that whether it was a loss or a gain  
17 it belonged to the shareholders.

18 Q. Do you recall where the net proceeds from the  
19 sale of Avista Energy went? As I recall, and there's  
20 nothing in the record that I see, there was a  
21 substantial gain from the sale, and a certain amount was  
22 injected I think as equity into the utility.

23 A. I don't know the answer to that.

24 COMMISSIONER JONES: Mr. Meyer, who would be  
25 the appropriate person to direct these questions to?

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1                   MR. MEYER: Well, in this room probably  
2 Mr. Norwood.

3                   COMMISSIONER JONES: Well, Judge, I suggest  
4 at some point, maybe after lunch or the appropriate  
5 time, that we ask these questions to Mr. Norwood then.

6                   JUDGE TOREM: Sounds like you're changing  
7 Mr. Norwood's lunch plans.

8                   All right, Commissioners, any other  
9 questions?

10                  COMMISSIONER JONES: Just one more.

11 BY COMMISSIONER JONES:

12           Q.       Either in your own study or in the Thorndike  
13 Landing study, was the evaluation of the purchase of the  
14 plant seriously considered, not the tolling agreement?

15           A.       Yes.

16           Q.       Answer that first.

17           A.       Yes, it was. Both in our analysis and then I  
18 believe both theirs, it definitely was looked at, and it  
19 looked like a good opportunity. A better opportunity  
20 would be to purchase the plant. In fact, we did submit  
21 a bid after this, because when this project was for sale  
22 with 13 other projects that Goldman had, we submitted a  
23 bid into that deal. And they wanted to sell all of  
24 them, we only wanted to buy the one, and our bid was  
25 rejected. But that is an opportunity that we will

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1 continue to pursue.

2 COMMISSIONER JONES: Thank you, that's all I  
3 have.

4 JUDGE TOREM: All right, I'm not sure,  
5 Mr. Meyer, if you want to take any redirect or if I  
6 should go back to Mr. ffitch for any recross and you can  
7 have all the redirect at the end.

8 MR. MEYER: I'll stay at the end.

9 JUDGE TOREM: Mr. ffitch.

10 MR. FFITCH: Thank you, Your Honor.

11

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

13 BY MR. FFITCH:

14 Q. I'm going to ask the burning question that's  
15 on everybody's mind perhaps, who is the sole employee of  
16 Avista Turbine?

17 A. I believe it's Brent Guier.

18 COMMISSIONER JONES: Mr. ffitch, remember in  
19 a previous proceeding you had a chart that you referred  
20 to?

21 MR. FFITCH: I do recall.

22 BY MR. FFITCH:

23 Q. And could you spell that name, please, for  
24 the record.

25 A. G-U-I-E-R, first name is Brent.

0834

1 Q. Brent, B-R-E-N-T?

2 A. Yes.

3 Q. Is that person also an employee of any other  
4 Avista entities?

5 A. Not that I know of.

6 Q. If Avista -- do you know what the duties of  
7 that employee are?

8 A. I wouldn't say that I know all the duties.

9 Q. Any of the duties?

10 A. I think he's basically representing the  
11 interests of Avista Turbine Power in relationship with  
12 the plant owner.

13 Q. Where is the workplace of, is it Guier?

14 A. Guier, G-U-I-E-R.

15 Q. Where is the workplace of Mr. Guier?

16 A. I believe he works in an office downtown  
17 Spokane.

18 Q. And what are his professional qualifications?

19 A. I know he was -- he worked at Avista Energy  
20 previously, he's an electrical engineer, he worked at  
21 Avista Utility, you know, prior to going to Avista  
22 Energy, and then he was of course involved when the  
23 project was built and has worked there. I think his  
24 main duties had to do with the operation of the plant.

25 Q. If Avista Turbine Power has to make a

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1 decision about what to do with the tolling agreement if  
2 the UTC disallows the transaction, who would be making  
3 that decision for Avista Turbine Power?

4 A. I assume it would be the officers of the  
5 corporation, senior officers of the corporation.

6 Q. You had indicated in response to Commissioner  
7 Oshie's question that Avista Turbine holds the rights to  
8 the tolling agreement. There are some other components  
9 to what we're referring to as the Lancaster contracts  
10 and who is holding -- and the other components as I  
11 understand it are the gas transportation contract and  
12 the Bonneville Power transmission piece. Can you tell  
13 me who holds the rights to those components of the  
14 Lancaster contract?

15 A. I believe that, well, I know that Avista  
16 Energy originally held the transmission agreements, and  
17 I'm not sure what has transpired relative to those  
18 agreements. I know they're temporarily assigned to  
19 Coral, but I'm not familiar with who is the actual  
20 holder of the agreements.

21 Q. That's the Bonneville?

22 A. Bonneville one and the gas agreements.

23 Q. So right now they're temporarily assigned to  
24 Coral?

25 A. Yes. They're integral to the operation of

0836

1 the plant, both the gas and electric transmission  
2 agreements.

3 MR. FFITCH: This next question, Your Honor,  
4 may be a little cumbersome. Commissioner Oshie asked a  
5 question towards the end of his time about the need of I  
6 believe Avista Turbine to make a decision or not to make  
7 a decision by December 31st, 2009, and the witness did  
8 not actually answer the question, was silent at that  
9 time. And I tried to recreate the question in my notes  
10 and could not. So what I thought I would request, Your  
11 Honor, is if the court reporter could go back to  
12 Commissioner Oshie's question and read the question back  
13 and we could get an answer from the witness on that  
14 point.

15 JUDGE TOREM: Let me see if there's an easier  
16 way that Commissioner Oshie may just be able to restate  
17 his own question.

18 COMMISSIONER OSHIE: I don't think so, Judge,  
19 but thank you for the opportunity. If I had written  
20 cross questions, maybe I could, but.

21 JUDGE TOREM: All right, well, then let's see  
22 if we can go back on the record, we'll just stop for a  
23 minute and see what we can get read back on the screen.

24 (Recess taken.)

25 JUDGE TOREM: All right, I think we're ready

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1 to go back on the record. I understand that we've been  
2 able to locate the question.

3 MR. FFITCH: Yes, Your Honor, and if I may, I  
4 would like to ask the court reporter to read the  
5 question back.

6 (Record read as follows.)

7 Okay, well, I think that helps clarify  
8 it, because I was under the  
9 understanding that Avista Turbine Power  
10 had to act to exercise the option at the  
11 end of this year, and that was a  
12 decision that needed to be made by  
13 Avista Corporation, but apparently  
14 that's not true, all right.

15 BY MR. FFITCH:

16 Q. And, Mr. Storro, my question is, is  
17 Commissioner Oshie's statement a correct statement?

18 THE WITNESS: Read it one more time.

19 (Record read as follows.)

20 Okay, well, I think that helps clarify  
21 it, because I was under the  
22 understanding that Avista Turbine Power  
23 had to act to exercise the option at the  
24 end of this year, and that was a  
25 decision that needed to be made by



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1 Avista Corporation, but apparently  
2 that's not true, all right.

3 A. There isn't any option that has to be  
4 exercised.

5 MR. FFITCH: All right, thank you.

6 I believe that's all my questions if I may  
7 just check.

8 Oh, there was one other matter.

9 BY MR. FFITCH:

10 Q. Mr. Storro, could you please turn to Exhibit  
11 RLS-6, which is the November 2007 analysis attached to  
12 your direct, and go to Table 10 on page 13 of 14.  
13 Chairman Goltz was asking you about this in his  
14 questioning.

15 COMMISSIONER OSHIE: Excuse me, counsel, if  
16 you could cite again where you would like us to be.

17 MR. FFITCH: It's Exhibit RLS-6, and it is  
18 page 13 of 14, Table Number 10.

19 COMMISSIONER OSHIE: Thank you.

20 BY MR. FFITCH:

21 Q. Do you have that, Mr. Storro?

22 A. Yes, I do.

23 Q. And if you will recall that Chairman Goltz  
24 was asking you about essentially your previous answer  
25 that the \$12.9 Million revenue requirement impact might

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1 be -- I think you were suggesting it might be mitigated  
2 somewhat by other sales during the year 2010. Is that a  
3 fair summary of your point?

4 A. Well, what I'm not sure about on that  
5 particular chart is whether that number isn't already a  
6 reflection of some sales.

7 Q. Okay, well, let's look up at the second  
8 paragraph of the statement. Well, first of all in your  
9 response to Chairman Goltz you stated that this number  
10 was essentially going to be lower because there would be  
11 other sales, correct?

12 A. That's true.

13 Q. If you could look at the second paragraph of  
14 the document.

15 A. It basically says that the revenue  
16 requirement impact is calculated by subtracting the spot  
17 market energy value of the plant from the total plant  
18 cost.

19 Q. All right, so these numbers shown on Table  
20 Number 10 are net numbers, correct?

21 A. They should be net numbers.

22 MR. FFITCH: Thank you, those are all my  
23 questions.

24 Thank you, Your Honor.

25 Thank you, Mr. Storro.

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1 JUDGE TOREM: Commissioners, anything else  
2 before redirect?

3

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

5 BY CHAIRMAN GOLTZ:

6 Q. Just on the question that was read and  
7 reread, there's no option to be exercised by Turbine,  
8 there's an option to be exercised by the utility,  
9 correct?

10 A. No option exists. The utility has the  
11 opportunity to take assignment of the contracts prior to  
12 January 1, 2010, to be effective on January 1, 2010.

13 Q. But has no contractual option?

14 A. No.

15 JUDGE TOREM: Mr. Meyer.

16 MR. MEYER: Thank you.

17

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

19 BY MR. MEYER:

20 Q. Mr. Storro, to the best of your knowledge is  
21 there or was there any obligation on the part of Avista  
22 Energy to put this Lancaster PPA to Avista Utilities in  
23 2007?

24 A. No, there was not.

25 Q. So Avista Energy at the time could have taken

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1 this opportunity elsewhere?

2 A. Yes.

3 Q. Now if Avista had passed on this opportunity  
4 in 2007, is there any assurance that Avista Energy  
5 wouldn't have remarketed this elsewhere?

6 A. If we would have passed on the opportunity in  
7 2007, in order to indicate value to the customers, other  
8 -- I'm sure they would have had to look at other options  
9 to do with this agreement at that time, and we would  
10 have missed the opportunity.

11 Q. So would you comment then on whether this  
12 would have represented a lost opportunity for the  
13 utility?

14 A. It certainly would have been a lost  
15 opportunity for the utility. This basically is an  
16 at-cost agreement based on a project that was built for  
17 \$130 Million, so it's a good opportunity. We believe we  
18 demonstrated in testimony it's a good opportunity  
19 relative to other projects that have been sold and other  
20 projects that have been sold since.

21 Q. Now because Avista Utilities did elect to go  
22 forward with the expression of interest to acquire this,  
23 to the best of your knowledge did that result in the  
24 structuring of the transaction to essentially create a  
25 way of keeping this in reserve until such time as it

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1 would come into the utility on January 1 of 2010?

2 MR. FFITCH: Objection, leading.

3 JUDGE TOREM: Sustained.

4 BY MR. MEYER:

5 Q. Would you comment on the impact of the  
6 corporate structure that was put in place set forth in  
7 RLS-19-X and how it relates to this transaction?

8 A. I'm confident that that overall structure  
9 would have been different had we not elected to take the  
10 output of the project on January 1 of 2010. As a part  
11 of the negotiations, they were all negotiations, Coral  
12 wanted the project or at least accepted the project  
13 through that date an assignment with assignment to the  
14 utility afterwards. And had that not occurred, had we  
15 not expressed an interest, there would have been some  
16 other arrangement that would have been put in place to  
17 deal with the output of the project in the meantime or  
18 long term.

19 Q. So do you know whether if that expression of  
20 interest had not taken place whether Avista Energy would  
21 have taken this elsewhere?

22 A. They would have had to.

23 Q. Now next question, to what extent does the  
24 Avista 2007 IRP call for a combustion turbine, any  
25 combustion turbine, as its next resource of choice?

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1           A.     Well, as a part of the preferred resource  
2 strategy in the IRP I believe we identified 300 or 350  
3 megawatts of combined cycle turbine capacity. Same  
4 thing happened in our 2009 IRP and about the same  
5 amount, combined cycle turbine capacity requirement  
6 substantially greater than the Lancaster plant.

7           Q.     So has anything substantially changed in that  
8 regard between the 2007 and the 2009 IRP's?

9           A.     Not substantially, no.

10          Q.     So did you just testify that the next  
11 resource of choice is still a combustion turbine?

12          A.     Absolutely it is.

13          Q.     Would you please comment on what Avista  
14 Utilities would do if it were to pass on this  
15 opportunity to acquire the Lancaster BPA?

16          A.     Well, as I commented earlier, we have a need,  
17 significant need, starting 2011, that we would have to  
18 make other arrangements to meet that need. But it's a  
19 long-term need, so our-- likely our response would be  
20 to look at another combined cycle turbine.

21          Q.     And do you have any sense for what that other  
22 combined cycle combustion turbine might cost relative to  
23 the Lancaster BPA?

24          A.     Based on what we've seen in the market, based  
25 on what we've seen costs that others have advertised, if

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1 we decided to build another project probably in excess  
2 of \$800 a kilowatt.

3 Q. And are you aware of any information  
4 contained within Mr. Kalich's testimony that calculates  
5 or shares recent pricing information with respect to  
6 what's available?

7 A. Right. There's a table in Mr. Kalich's  
8 testimony, I believe it's Table 2, that shows all the  
9 costs of various plants that have been built or  
10 proposed.

11 Q. Now the opportunity that you spoke about  
12 earlier in terms of your discussion with the  
13 Commissioners regarding the sequence of events, was that  
14 in a sense a narrow window of opportunity, and in what  
15 sense was it?

16 A. Well, it was an extremely narrow opportunity.  
17 We had literally a few weeks, because the negotiation  
18 was going on, to analyze. So basically what happened at  
19 that time, Mr. Kalich's group kind of dropped what they  
20 were doing now and devoted their time to looking at the  
21 value of this agreement.

22 Q. And as you testified just a few moments ago,  
23 again if Avista Energy during or if Avista Utilities  
24 during this narrow window of opportunity had passed on  
25 this opportunity, I believe your earlier testimony was

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1 that Avista Energy, no guaranty that Avista Energy  
2 wouldn't have taken this project elsewhere, correct?

3 A. If we would have not expressed an interest  
4 and another utility would have a need for it, they would  
5 have -- I am confident they would have been forced to  
6 take it elsewhere.

7 Q. All right. Now why did you do the --  
8 commission a Thorndike study after the fact, if you  
9 will?

10 A. Well, we typically do that any time we're  
11 looking at a decision, a resource decision, it's been  
12 our practice to normally employ an independent third  
13 party to take a look at our decisionmaking process. Did  
14 we cover everything, did we look at everything, were we  
15 looking at this properly, you know. In this case  
16 Thorndike not only validated the decision, but they also  
17 validated the methodology, so that's another issue of  
18 concern about -- it's just another set of eyes to verify  
19 that you made the right decision.

20 Q. So are you testifying that it essentially  
21 confirmed the decision that was made earlier?

22 A. Yes, it did.

23 Q. All right.

24 The question was raised in terms of what  
25 benefit this project has starting in 2010 for the



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1 utility and why it should essentially be brought into  
2 rates at that time. Would you please comment.

3 A. Well, I think the main point there is that  
4 the 2010 date was established as a result of the overall  
5 negotiations. This is a long-term deal. It's no  
6 different than a construction contract or any other type  
7 of deal where you're not going to necessarily control  
8 exactly the timing. As a result of that, in this case  
9 we have a specific date, and although people contend  
10 it's a little bit early, we still have needs in that  
11 time, we still have needs in 2010, and basically it  
12 aligns very closely with the need, whether it was this  
13 project or whether we would have engaged in a  
14 construction project.

15 Q. There was a question about the transfer by  
16 Avista Energy of the PPA at cost; do you recall that  
17 exchange?

18 A. Yes, I do.

19 Q. Now I believe Commissioner Jones expressed  
20 some interest in identifying where that documentation of  
21 an at-cost transfer might be found; do you recall that?

22 A. Yes, I do.

23 Q. Now do you understand that the Company will  
24 be responding to Bench Request Number 10, which will  
25 have copies of tolling arrangements and of the other

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1 transactional documents?

2 A. Yes.

3 Q. To the best of your knowledge, would that be  
4 a source for purposes of answering that question?

5 A. Should be.

6 MR. FFITCH: Excuse me, Your Honor, could we  
7 clarify whether the witness said could be or should be.

8 A. It will be.

9 Q. All right, now can one infer from the  
10 negotiation process that occurred between or as part of  
11 the Avista Energy sale -- strike that, ask it  
12 differently.

13 Because this PPA was transferred at cost, by  
14 definition does that mean that there was no markup of  
15 any kind as it was transferred or will be transferred to  
16 the utility?

17 A. That's correct. We were assuming the exact  
18 agreement that Avista Energy had relative to payment  
19 obligations.

20 Q. And what makes that transfer at cost so  
21 valuable to the utility's rate payers?

22 A. Well, in this particular case that cost, that  
23 PPA, that tolling arrangement was -- is based on a  
24 project that was built, you know, in -- I believe on  
25 line in 2001 at a cost of about \$130 Million, so the

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1 cost of that project is about \$400 a kilowatt. And even  
2 if you take that and mark it up, of course which they  
3 did to get the PPA, it's still a significantly lower  
4 cost than any project that has been purchased or any  
5 project that -- or almost half the cost of a new  
6 project.

7 Q. So irrespective of how the negotiation  
8 process occurred or who was involved, isn't it true that  
9 the final result was a transfer at cost?

10 A. Yes.

11 Q. Would you have expected it be to transferred  
12 at less than cost?

13 A. No.

14 Q. A word or two or a question about commodity  
15 transactions. Commissioner Oshie asked you why this  
16 isn't a commodity transaction, and I would like you to  
17 please elaborate on your response at this time.

18 A. Well, in this case we buy the commodity and  
19 bring it to the plant. We're paying the plant to  
20 convert one commodity to another, but there's no  
21 commodity transaction in this case with any affiliates.

22 Q. Well, I believe your analogy before was to  
23 essentially renting a plant or leasing a plant?

24 A. That's correct.

25 Q. Can you provide perhaps another example if

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1 any comes to mind, an analogy?

2 MR. FFITCH: Your Honor, I'm going to object,  
3 I think there's an attempt to lead the witness here by  
4 simply repeating earlier testimony and fishing for  
5 something.

6 MR. MEYER: I just want to make sure the  
7 Commissioners understand, whether they agree or not,  
8 with our point of view on what a tolling arrangement  
9 really is, because that phrase gets bandied about a lot,  
10 but there may not be a common understanding.

11 JUDGE TOREM: I'm going to overrule the  
12 objection. And, Mr. Storro, if you have a ready  
13 analogy, you can give it. And if you would like to give  
14 a legal portion of your brief as to what tolling  
15 agreements are and what a commodity is and how one can  
16 be converted into another and it not be a commodity  
17 arrangement under this affiliate transaction, the brief  
18 is the perfect place. Because it sounds like this is  
19 going to be a definitional and a legal issue in the long  
20 run. So, Mr. Storro, do you have an additional analogy.

21 A. Well, I assume one analogy would be the  
22 rental of an automobile where you're buying gas to move  
23 that vehicle. The gas is off leased commodity, but the  
24 rental agreement you make with the car company is not a  
25 commodity. So in this case what we're doing is we're

0850

1 renting the right to convert one commodity to another.

2 JUDGE TOREM: And you have to return the  
3 plant full, right?

4 THE WITNESS: Yes.

5 JUDGE TOREM: Any further questions,  
6 Mr. Meyer?

7 MR. MEYER: Just one or two more, it will  
8 just take a minute.

9 BY MR. MEYER:

10 Q. There were some questions early on about the  
11 transmission and transportation agreements associated  
12 with the Lancaster PPA; do you recall that?

13 A. Yes, I do.

14 Q. To what extent were those part and parcel of  
15 the deal?

16 A. Those agreements are integral to the deal.  
17 In order to operate the plant, in order to get any value  
18 out of the plant, you have to have gas transportation to  
19 get to the plant and you have to have electric  
20 transmission to move the product away from the plant, so  
21 they're integral to the agreement.

22 Q. And to what extent, if any, would the utility  
23 be oversubscribed over the life of the plant to either  
24 transmission or transportation?

25 A. Oh, we don't believe we're oversubscribed at

0851

1 all.

2 MR. MEYER: All right, that's all my  
3 redirect, thank you.

4

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

6 BY JUDGE TOREM:

7 Q. Mr. Storro, I want to go back to RLS-19-X,  
8 and something that's come up in the course of the  
9 beginning of Mr. Meyer's questions were a follow-up on  
10 what this narrow window of opportunity -- what was going  
11 on then. It appears that the sale that Avista Energy  
12 made to Coral in bubble 2 was June 30th, 2007, and on  
13 that same date Avista Turbine Power assigned PPA to  
14 Coral for 2 1/2 years.

15 A. Well, June 30th is the sale of the Avista  
16 Energy assets to Coral, and at the same time this  
17 project, the PPA and the transmission agreements were  
18 temporarily assigned to Coral so that for this period of  
19 time they can operate the plant just the same as we  
20 propose to do on January 1 of 2010, so all of the  
21 agreements were temporarily assigned.

22 Q. Do you have any idea why they chose 2 1/2  
23 years?

24 A. I'm sure that's a part of the negotiations,  
25 but I don't know the reason.

0852

1 Q. Would there have been any consequence to  
2 Avista Utilities' ability to seek out this reassignment  
3 of the rights back from Avista Turbine Power to the  
4 utility had it only been 1 1/2 years, say it was January  
5 1st of 2009?

6 A. I guess I don't understand the question.

7 Q. I'm just trying -- there's a lot of things  
8 that are rolling up right here to January 1st, 2010.

9 A. Yes.

10 Q. And I don't even watch CSI, but I just have  
11 seen a lot of things focus on this one date, and I'm now  
12 looking to see if there was a good reason why it was  
13 just 2 1/2 years, Coral only needed a power outlet for  
14 that period of time?

15 A. I'm sure it was just a part of the  
16 negotiation process. For all I know, Coral wanted it  
17 longer. I don't know the answer to that question. It  
18 was a part of the negotiation as a part of the overall  
19 package the, you know, January 1 date was arrived at.

20 Q. And the RLS-4 exhibit had the date right on  
21 that was within about five or six weeks of the sale, it  
22 was an August document of 2007; is that correct?

23 A. Which document?

24 Q. This is the power purchase agreement  
25 evaluation, I'm sorry, it's April 11th.

0853

1 A. Right.

2 Q. So was this viewed, this evaluation done then  
3 prior to the actual sale?

4 A. Right, the sale was done -- finalized on June  
5 30th.

6 Q. So Avista Utilities based on RLS-4 knew it  
7 wanted the power at some point in the future, so did  
8 Avista Utilities can I assume have some input into how  
9 long they would allow Coral to take the power so they  
10 would retain their interest?

11 A. The question to us was, does this plant have  
12 value to customers and what is the value in 9, 10, and  
13 11. We indicated that it had value since it was a  
14 long-term deal in each of those years, and as a result  
15 of the negotiations it ended up on January 1, 2010.

16 Q. But you said in this document it also had  
17 potential value in 2009?

18 A. Keep in mind that what we're looking at here  
19 is a long-term arrangement, and what we want, we did not  
20 want to give up the opportunity to miss the long-term  
21 opportunity.

22 Q. No, I see that, I just thought that if Coral  
23 got a short-term opportunity, and I'm trying to just  
24 sort out what, if any, arrangement, and maybe this is  
25 just there's nothing there, but if there was a reason



0854

1 why Coral only got 2 1/2 years, I would like to know any  
2 insight you have?

3 A. Well, I couldn't speculate why they only got  
4 2 1/2. I mean for all I know they wanted 5 1/2 and only  
5 got this period of time. I don't know the answer to  
6 that. The point is that an energy marketing company  
7 like Coral operates from a different set, a different  
8 business plan than the utility. We're looking at a need  
9 to serve our customers. That obligation is not a case  
10 of choosing whether to buy a resource or not, in our  
11 case it's which resource do you buy to meet that  
12 obligation. Coral isn't operating under that same  
13 scenario.

14 COMMISSIONER JONES: Judge, are you finished,  
15 I have a question very much related to your line of  
16 inquiry here, and it's on RLS-4.

17 JUDGE TOREM: Please go ahead, Commissioner  
18 Jones.

19

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

21 BY COMMISSIONER JONES:

22 Q. Could you turn to page 5 of your analysis  
23 overview. This relates to the PPA availability date,  
24 Mr. Storro. Tell me when you're there.

25 A. I have it.

0855

1 Q. Do you see the header called PPA availability  
2 date?

3 A. Yes, I do.

4 Q. So you were asked by Mr. Malquist I assume  
5 and the negotiators for the sale of AE to look at these  
6 three dates?

7 A. That's correct.

8 Q. And you did at least on April, and you say  
9 negotiations were ongoing with Coral Energy at that  
10 point, and the date of this document is April 1st, 2007,  
11 right, correct?

12 A. April 11th.

13 Q. Yes. So you did do an analysis of these  
14 various dates for when the PPA would become effective?

15 A. That's correct.

16 Q. Did Mr. Malquist or the negotiators at any  
17 point after you did this analysis come back to you and  
18 ask for more information, for example say, well, could  
19 you do a little bit more on 2010 or 2009?

20 A. No, I don't believe so.

21 Q. So this is the only analysis that you did on  
22 the availability date of the PPA?

23 A. That's correct.

24 Q. And as it says here that you did do in this  
25 analysis an identification as you say where the PPA is

0856

1 transferred to Avista in 2009 and the IRP methodology  
2 identifies a 2011 deficit, PPA costs and benefits begin  
3 in 2009?

4 A. Yes.

5 Q. So you did do an analysis of that?

6 A. Right.

7 Q. Okay. But that analysis is not, at least the  
8 details of that analysis is not in this record?

9 A. Well, there was only one analysis. Maybe I  
10 misunderstood your question. The analysis we did was to  
11 look at the value in those three particular years and  
12 indicate then, as a result of that, indicate it to  
13 Mr. Malquist that it did have value, especially had  
14 long-term value. So, you know, I guess what I would ask  
15 is that if there's any other particular questions about  
16 that, Mr. Kalich's group did the analysis, and maybe he  
17 will comment on that better than I can.

18 Q. And just a final question before we adjourn  
19 to lunch, who owns the plant, not the rights of the PPA,  
20 but my understanding is the plant is actually owned by  
21 whom?

22 A. There's a data request here, and I would have  
23 to look that up, but I could find out the exact  
24 ownership. I know it's 20% Goldman and 80% that other  
25 entity that I don't remember the exact acronym or the

0857

1 name of.

2 Q. So in essence Coral Energy is acting as a  
3 marketer on behalf of that ownership entity, they are  
4 marketing temporarily at least during this 2 1/2 year  
5 period, they have the rights to market that energy in  
6 the wholesale market?

7 A. Yeah, they are the holder of the agreements  
8 and are a -- they're a party to the agreement, not  
9 actually necessarily on behalf of the owners, but  
10 they're acting as an off -- as the tolling controller in  
11 this case, so.

12 Q. So the appropriate description of them is  
13 tolling controller?

14 A. I never heard that one before, but it sounds  
15 pretty descriptive, so.

16 Q. I think you just said it.

17 A. Okay.

18 COMMISSIONER JONES: Thank you, Mr. Storro.

19 MR. FFITCH: Your Honor, for the assistance  
20 of the Bench, I believe that Exhibit RLS-19-X is the one  
21 the witness was referring to. He can confirm that, but  
22 that contains information about the plant ownership.

23 THE WITNESS: That's correct, that's good,  
24 thank you.

25 JUDGE TOREM: All right, we're at 12:07 or 8

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1 depending on how you read that clock, I think we'll take  
2 an hour and a quarter for lunch, so let's gather back  
3 here at 1:25. If we can get on the record before 1:30,  
4 we will, and I believe we'll start with Mr. Kalich.

5 CHAIRMAN GOLTZ: Why don't we say 1:30.

6 JUDGE TOREM: You guys like round numbers,  
7 all right, 1:30, 1:30 for Mr. Kalich.

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

9

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

11 (1:30 p.m.)

12 JUDGE TOREM: All right we're back after the  
13 lunch break, it's a little after 1:30. During the lunch  
14 break I was able to reduce Bench Request 9 to writing,  
15 and that went out electronic service. It will go in the  
16 mail I imagine later this afternoon. If folks need a  
17 hard copy because they're not where they can get their  
18 E-mail or not where they can get their mail, let me know  
19 and I can get hard copies to you at the end of the day.  
20 The due date is going to be Monday, October 12th at  
21 3:00. That's when I was advised Mr. Kermode would be  
22 able to provide that. I do note Monday is Columbus Day,  
23 so the service by mail, the postmark date will be the  
24 following day, and that's referenced in the Bench  
25 request thanks to our attentive staff downstairs

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1 reminding me of Columbus's importance at least to the  
2 federal government.

3 All right, any other housekeeping matters?

4 Mr. Meyer.

5 MR. MEYER: Yes, I do, and I would like to do  
6 this on the record. As always, we try and make sure  
7 that what goes into the record is accurate, and I  
8 believe that at one point Mr. Storro may have indicated  
9 that there was, other than just what you see here in  
10 RLS-4, which is that April 11th study of Lancaster,  
11 there wasn't any other supporting documentation. Well,  
12 during the lunch hour we reviewed our files, and in fact  
13 we had provided some even in response to a Public  
14 Counsel data request, and that request dealt with one  
15 aspect of it, and so even that response to that request  
16 wouldn't be the complete package of things. So I guess  
17 I would invite a Bench request asking us to provide any  
18 and all backup on that RLS-4 exhibit, and we would be  
19 happy to provide that.

20 MR. FFITCH: Your Honor, I'm going to object  
21 to the proposal by the Company. We've essentially had  
22 Mr. Meyer testifying not under oath and trying to change  
23 the testimony under oath of one of the Company witnesses  
24 and making representations about what is and is not in  
25 the record. We'd be happy to take a look at the data

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1 request that he's talking about, I don't know which one  
2 that is yet, but I don't think this is an appropriate  
3 way to modify the record or to change the testimony of a  
4 witness.

5 MR. MEYER: Well, Your Honor, as an officer  
6 of the court I have to bring to your attention a  
7 misstatement when I'm aware of it. I'm aware of a  
8 misstatement by a witness, whether it helps us or hurts  
9 us.

10 JUDGE TOREM: If I understand, Mr. Meyer,  
11 what you're suggesting is there are documents that are  
12 not in the record at this time that were produced to  
13 some party or other from a data request, but they're not  
14 a cross-exhibit or another exhibit to your knowledge.

15 MR. MEYER: Correct. And even in that  
16 regard, only part of them were produced in response to a  
17 data request, because the data request didn't ask for  
18 everything. So the point being we have backup  
19 documentation for this which we can provide, but the  
20 record as it stands now is not accurate.

21 JUDGE TOREM: Can you proffer for me what  
22 sort of documents these might be?

23 MR. MEYER: You know, Mr. Kalich who's now on  
24 the stand can speak to those. He is familiar with those  
25 files.

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1                   MR. FFITCH: Your Honor, may I make a  
2 comment?

3                   JUDGE TOREM: Certainly.

4                   MR. FFITCH: We have conducted extensive  
5 discovery with Avista regarding the Lancaster  
6 transaction and will be happy to go back and look at our  
7 discovery, but at the present time we're not aware of  
8 the documents that Mr. Meyer is referring to.

9                   MR. MEYER: I can help, Your Honor, Public  
10 Counsel Data Request 108C.

11                   Please provide data and workpapers  
12 documenting the assumption that the cost  
13 of the Lancaster Cascade PPA would rise  
14 by \$66 Million if no transmission  
15 capacity is remarketed or otherwise  
16 optimized as stated on page 3 of RLS-4  
17 to the direct testimony.

18                   And we responded to that aspect of RLS-4 with  
19 several sheets of backup. But if the question is, is  
20 there additional documentation supporting all of RLS-4,  
21 I think the answer that you can verify with this witness  
22 is that there is, and I don't want the record to be  
23 wrong.

24                   JUDGE TOREM: All right, let me suggest first  
25 that if there are backup documents as you described that



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1 explain how RLS-4 was created and any of the backup  
2 discussions, studies, or otherwise, find all of them,  
3 show them to the other parties, and then come back with  
4 a proffer of that as an exhibit to be sponsored by an  
5 appropriate witness. That way we all know what it is.  
6 The Bench has already asked the question, so I'm not  
7 going to issue a Bench request for items that were  
8 already asked and answered by that witness. That  
9 question may yet get reposed given the posture of the  
10 case with further witnesses this afternoon who have  
11 better knowledge than Mr. Storro of his own exhibits.  
12 So with that said, we'll see those documents to  
13 Mr. Ffitch and any other interested parties and see if  
14 there will still be an objection. There may not be once  
15 he's aware of what they are. I certainly would expect  
16 an objection if there was another full-blown analysis  
17 that's not described either as the Thorndike or the  
18 overview study and that suddenly comes out of the  
19 woodwork, but it doesn't sound like that's what we're  
20 anticipating.

21 MR. MEYER: I'm not aware of it as I speak.

22 JUDGE TOREM: So to be clear, the evidence is  
23 that there were two studies, one in April and one after  
24 the fact as it was called. As to what went into  
25 creating the April 2007 document, you are going to

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1 provide to other parties these backup documents now,  
2 which are not currently in the record but you believe  
3 some or all of which have already come to other parties'  
4 attention and just simply were not offered into  
5 evidence.

6 MR. MEYER: Correct. And what we will do yet  
7 this afternoon is, and a lot of them I think, I haven't  
8 seen them, are spreadsheets and calculations, but I  
9 think it's pretty voluminous, and so we may be printing  
10 out a stack of sheets with numbers on them. I haven't  
11 seen them, so I can't accurately describe them, but  
12 whatever it is, you got it to look at it.

13 JUDGE TOREM: All right, and I don't think  
14 any of us are anticipating that the numbers came out of  
15 thin air and there wasn't some work to put them  
16 together. In those documents there are a variety of  
17 tables, essentially having the workpapers for those,  
18 we'll see again if there's an objection later.

19 If you have documents now, you can start with  
20 those this afternoon, but it may be -- I'll leave it to  
21 your discretion as to offer them all at once today,  
22 tomorrow, how long into the night your mobile printers  
23 are working we'll see.

24 MR. MEYER: All right, I just had to bring it  
25 to your attention.

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1 JUDGE TOREM: I appreciate that.

2 Is there any other housekeeping or questions  
3 on that matter?

4 Mr. ffitch, is that going to work for you?

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

6 JUDGE TOREM: All right, seeing no other  
7 housekeeping matters, welcome, Mr. Roseman, we'll note  
8 for the record you joined us before lunch and are now at  
9 the table.

10 MR. ROSEMAN: Thank you.

11 JUDGE TOREM: No baseball score update?

12 MR. ROSEMAN: Not when I was driving down.

13 JUDGE TOREM: All right, 4 nothing Rockies I  
14 think in the 6th.

15 Mr. Kalich, if you'll stand and take the  
16 oath.

17 (Witness CLINT G. KALICH was sworn.)

18 JUDGE TOREM: All right, Mr. Kalich has been  
19 sworn, Mr. Meyer, any updates to this witness's  
20 testimony?

21 MR. MEYER: No.

22 JUDGE TOREM: Not yet, okay.

23 Mr. ffitch.

24 MR. FFITCH: Thank you, Your Honor.

25

0865

1 Whereupon,

2 CLINT G. KALICH,

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

4 herein and was examined and testified as follows:

5

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

7 BY MR. FFITCH:

8 Q. Good afternoon, Mr. Kalich.

9 A. Good afternoon.

10 Q. And I'm going to start by retracing some  
11 steps. A couple of questions were deferred to you by  
12 Mr. Storro, so I'm going to try to go back and  
13 reconstruct those. First of all could you please turn  
14 to Exhibit RLS-4, which is Mr. Storro's April study  
15 exhibit, and go to the Table 3 which was on page 7.

16 A. I'm there.

17 Q. That's entitled study results, and the first  
18 line of information is entitled Lancaster lease value  
19 cost of lease, correct?

20 A. Yes.

21 Q. And if you read across the first line with  
22 numbers in it, this indicates that the cost of the  
23 Lancaster PPA declines as the start date is delayed from  
24 2009 to 2010 and then declines further if the start date  
25 is delayed from 2010 to 2011, correct?

0866

1 A. Yes.

2 Q. And then if you look at the last set of three  
3 lines with numbers, which is entitled lease savings  
4 versus, the savings appear to increase as the start date  
5 is delayed from 2009 to 2010 and then again increase as  
6 the start date is delayed from 2010 to 2011; is that  
7 correct?

8 A. Yes.

9 MR. MEYER: I'm sorry, may I have that  
10 reference to that cross-exhibit again.

11 MR. FFITCH: This is RLS-4.

12 MR. MEYER: RLS-4.

13 MR. FFITCH: Page 7, which is Table 3.

14 MR. MEYER: Got you, thank you so much.

15 BY MR. FFITCH:

16 Q. Isn't it true then, Mr. Kalich, that when  
17 Avista was analyzing the appropriate time for assigning  
18 the Lancaster contracts to rate payers in early 2007,  
19 April 2007, that Avista's analysis showed that the  
20 lowest cost outcome was for Avista Utilities to take on  
21 the Lancaster PPA starting in 2011, correct, not in  
22 2010?

23 A. The analysis as I think witness Storro  
24 explained was we were asked to look at three different  
25 years, and certainly your mathematics are correct,

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1 assuming we had the choice to pick one of those three  
2 years. I was asked and I performed this analysis to  
3 determine if the utility would be interested in  
4 procuring the resource in any of those years. In other  
5 words, would the resource provide long-term value to our  
6 customers, and this was the result you see here. But  
7 your specific question, does the value go down as the  
8 plant comes to the utility sooner, yes.

9 Q. All right, thank you.

10 Next we're going to another table,  
11 unfortunately it's the table with the very small  
12 numbers, that's the Thorndike Landing study which is  
13 marked as Exhibit RLS-5, very next one, and it's page  
14 28 --

15 A. I'm there.

16 Q. -- of 31. Now this again is Exhibit RLS-5,  
17 and this is the Thorndike Landing study, correct?

18 A. Yes, it is.

19 Q. And this is Appendix C to that study, which  
20 is the Lancaster toll base case. And if we look halfway  
21 down, about halfway down the table, we see the  
22 transmission line. Do you have that?

23 A. Yes.

24 Q. And that line starts with a net cost of \$1.17  
25 Million and then escalates annually thereafter, correct?

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1 A. Yes.

2 Q. And we I think confirmed with Mr. Storro that  
3 that includes the assumption that 75% of the BPA  
4 transmission costs are remarketed because of the  
5 construction of the direct connect. Do you agree with  
6 that?

7 A. My recollection was he asked for me to answer  
8 that question, but that is my understanding.

9 Q. Okay.

10 A. That this is 25% of the cost of that  
11 contract.

12 Q. All right. Now if in fact the  
13 interconnection is not built, would not the figures in  
14 these lines be four times the amount that is shown here  
15 in this exhibit?

16 A. Probably in the simplest form the answer  
17 would be yes. However, as we would not run the plant  
18 year round, we likely would recover some of those  
19 revenues through surplus sales or other optimization of  
20 other assets in our portfolio.

21 Q. All right. If the numbers did increase by 4,  
22 a factor of 4 in 2010, the figure would be in excess of  
23 \$4 Million rather than \$1.17 Million, correct?

24 A. 4.5, 4.7, sure.

25 Q. All right. And wouldn't any such increases

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1 in those costs reduce the value of Lancaster shown at  
2 the bottom of the table under total NPV, net present  
3 value?

4 A. It would, but I don't believe it would push  
5 it into negative territory.

6 Q. All right. And the greater the number of  
7 years that pass before a direct connect is built, the  
8 lower will be the project's value; is that right?

9 A. That's true, and I guess the statement I made  
10 earlier was under the assumption that you made earlier  
11 whereas over the entire term we would retain the  
12 transmission.

13 Q. All right. Can you please turn to page 19 of  
14 the study, and that's Table 6 if that's the right page.  
15 I apologize, that's page 22 of 31 in the lower left-hand  
16 corner, and I'm asking you to look at Table 6, which is  
17 the base case total values as a function of the BPA  
18 transmission cost to remarket it, correct?

19 A. Yes.

20 Q. And this shows that if the assumption is that  
21 only 25% of the transmission costs are remarketed, the  
22 Lancaster contracts have a minimal value there of \$2 per  
23 kilowatt hour, correct?

24 A. Based on this scenario that was performed by  
25 Thorndike Landing. I'm not so certain that this --



0870

1 well, I know it's not a perfect comparison with the  
2 utility perspective or utility look. But just under a  
3 merchant tolling arrangement, this table would imply a  
4 modest value associated with that contract.

5 Q. Okay. And in the line above that, it  
6 actually indicates that if none of the power is  
7 remarketed, the contracts have a value of negative \$29  
8 per kilowatt hour, correct?

9 A. Yes, this table implies the only circumstance  
10 where the project would be negative would be if we could  
11 remarket absolutely none of the transmission.

12 Q. All right.

13 One other deferred matter, give me a moment,  
14 and if you could turn to page 16, I'm sorry, page 19 of  
15 31 in the study, and we did discuss this with Mr. Storro  
16 also, can you confirm that in the first two sentences of  
17 the bulleted paragraph Thorndike Landing is indicating  
18 that Avista did two things, excluded gas transportation  
19 costs from its initial analysis, and (b) "internal  
20 assessment of gas transportation costs had not been  
21 completed as of the date of the preliminary analysis".  
22 Are those correct statements?

23 A. Well, having been the analyst who performed  
24 the work, I would view those two sentences as maybe not  
25 the best representation of the analysis performed. I

0871

1 can certainly extrapolate on that if you would like, but  
2 I guess I can't agree with the verbatim statement there  
3 in those two sentences.

4 Q. Okay, well, let's take the first one,  
5 representation by Thorndike Landing that Avista excluded  
6 gas transportation costs from its initial analysis; do  
7 you disagree with that?

8 A. I disagree with what I think folks are  
9 thinking it implies. Again, Thorndike Landing performed  
10 four different evaluations of the Lancaster lease, only  
11 one of which I would suggest is very similar to the way  
12 the utility did the analysis. When we did our analysis,  
13 we looked at identical plants essentially that would  
14 come in, so in other words, Lancaster, green field, or  
15 brown field plants. In all cases, those plants would  
16 require substantially the same amount of natural gas  
17 transportation and a generally similar relative level of  
18 cost. So it's not that we ignored, it was the fact that  
19 because we essentially were doing apples to apples  
20 comparison, it would be like adding the number 10 to  
21 each one of those scenarios. Each one of them would not  
22 affect the outcome of the result.

23 Q. Okay. So that's the reason why you excluded  
24 them?

25 A. We didn't exclude them analytically, we

0872

1 excluded them from the numbers in the analysis. Because  
2 again, on the comparative basis it's like adding 10 to  
3 each side of an equal sign, you get 10.

4 Q. And then on the second point regarding the  
5 completion of the internal assessment, do you believe  
6 that this is an incorrect statement by Thorndike  
7 Landing? And I believe it says based on our discussion  
8 with Avista personnel that they reached this conclusion.

9 A. Again, I think one can miss -- can read too  
10 much into that statement. Again, based on my  
11 understanding of the analysis at the time, I was  
12 informed that the plant would come with appropriate  
13 amount of transportation to allow the plant to operate  
14 to its capacity. So again, I think I definitely would  
15 agree to the extent that I hadn't seen the contracts  
16 yet, which I had not, but it had been represented to me  
17 that there was gas contracts available to bring gas to  
18 the plant.

19 Q. Okay. I think that concludes the follow-up  
20 hand-off questions, I just have a couple more areas to  
21 cover.

22 Can you turn to your rebuttal testimony,  
23 which is CGK-4T at page 3.

24 A. I'm there.

25 Q. Lines 1 through 5, basically there you're

0873

1 stating that resources don't always come into service at  
2 the ideal time due to the "lumpiness" factor, correct?

3 A. Yeah, I think that's an ex -- this resource  
4 is an excellent example of that.

5 Q. Okay. And you -- I don't think we need to go  
6 to this exhibit, it's pretty clear throughout the record  
7 that the Lancaster plant comes into service -- came into  
8 service in 2001, correct?

9 A. That's my understanding, yes.

10 Q. And that's shown in Exhibit 6-X, your  
11 response to a data request if you want to look at that  
12 but -- just to confirm that.

13 A. Yes.

14 Q. So the lumpiness issue with the Lancaster  
15 plant is not based on the uncertainty of construction of  
16 a new plant, is it?

17 A. No, it's surely not. In fact, that's one of  
18 the items we identified as a value of this plant, we  
19 would not have any construction risk associated with it.

20 Q. Okay. So it's based instead on when the  
21 contracts for Lancaster could be made available either  
22 externally or on an intracompany basis, that's the cause  
23 of the lumpiness?

24 A. In this specific example, all things equal  
25 the utility would take it in 2011. However, as we've --

0874

1 there's been lots of testimony in this case, the utility  
2 was afforded an option to grab the -- an option isn't  
3 the right word actually. We were afforded the project  
4 in 2010 if it was something we were interested in.

5 Q. Okay.

6 Please turn to your Cross-Exhibit CGK-7-X.  
7 Do you have that?

8 A. I do.

9 Q. And there you stated in the response that  
10 Avista did not compare the Lancaster contracts to a  
11 CCGT, combined cycle gas turbine, built in 2009 or 2010  
12 because you did not need a plant until 2011, correct?

13 A. That's true.

14 Q. And then you go on to say that procuring  
15 Lancaster in 2010 when it was made available would be  
16 2.3% lower in cost relative to a new 2011, pardon me,  
17 relative to a 2011 new CCGT plant that the Company would  
18 otherwise construct; is that right?

19 A. Yes.

20 Q. So there you're appearing to state that the  
21 alternative to the Lancaster contracts is the  
22 construction of a new plant as of January 1st, 2011, at  
23 least that's the alternative against which Avista  
24 measured the value of the contracts, correct?

25 A. Well, this was just one evaluation we took.

0875

1 Certainly the analysis that was in witness Storro's  
2 Exhibit 4 indicates another look. Since that time  
3 there's lots of information out there identifying the  
4 cost of new and even potentially green field plants that  
5 have transacted since that time. But all I was trying  
6 to do in this data response was explain our integrated  
7 resource plan. The draft, essentially final draft  
8 preferred resource strategy was in place at the time  
9 that this plant was offered to us, and because we were  
10 right there, it was in the flesh, we decided to go ahead  
11 and put into our preferred -- I get a model that  
12 identifies the preferred resource strategy or at least  
13 helps management do that, so what we did is a test to  
14 try to determine what the value of Lancaster would be  
15 and try to help illustrate for management what the trade  
16 outs would be as though if they were picking up  
17 Lancaster versus waiting another year to 2011 was to go  
18 ahead and put that resource into our mix and rerun the  
19 preferred -- the Prism model that identifies our  
20 strategy. And what it showed was that the cost to  
21 customers over the life of the integrated resource plan  
22 was \$43 Million lower than if we took the plan absent  
23 Lancaster and went in another direction in other words.

24 Q. Okay. But one of the measures that you did  
25 use was a comparison with the construction of a new

0876

1 plant?

2 A. Oh, yes, certainly. Actually the Prism model  
3 was able to look more broadly at all the resource  
4 options available in the integrated resource plan. When  
5 we put Lancaster in, what we found was it reduced the  
6 additional amount of combine cycle plant by a resource  
7 that would be selected by the Prism model.

8 Q. How long does it take to site permit, build,  
9 and bring to operation a new combined cycle plant in the  
10 Pacific Northwest approximately?

11 A. That's a great question. I think -- it  
12 really is. Used to be maybe a little less of a good  
13 question. We used to think that wind plants could go in  
14 in about a year, but we're not so certain any more. But  
15 I think I will just rely on the Power Council for lack  
16 of better information, I have no reason at least in this  
17 instance to disagree, you know, two to three years.

18 Q. Okay. And the Commission in this case is set  
19 to reach a decision in December of this year, just about  
20 a year before January 1, 2011, correct?

21 A. Yes.

22 Q. So if the Commission rejects the proposed  
23 assignment or Avista rejects any conditions that the  
24 Commission places on the assignment, Avista will not be  
25 filling its short-term capacity needs with construction

0877

1 of a new plant, will it?

2 A. I don't know if I can answer that. I mean I  
3 suppose the utility potentially would have the  
4 opportunity to acquire a resource maybe that has gone  
5 substantially through permitting that we're not aware of  
6 today. But if we built the resource ourselves, in my  
7 professional opinion it might take us a couple of years,  
8 which would be beyond that term, yes.

9 Q. So Avista would be doing something else if  
10 that set of circumstances evolved to acquire power?

11 A. I think that's the whole premise here and  
12 that was the concern when I was afforded the opportunity  
13 to look at this analysis, do this analysis, was could I  
14 get a plant in 2010 that would be, you know, \$500 plus a  
15 kilowatt, or would my alternative be to do something  
16 else that would be quite a bit more expensive for  
17 customers. And just speaking personally about the  
18 evaluation at the time, I was very excited to be able to  
19 have this opportunity for customers just because of the  
20 savings we've identified here today in our testimony.

21 Q. Well, if this scenario occurs, wouldn't  
22 Avista instead rather than building a plant which there  
23 would not be time for, wouldn't Avista try to procure  
24 some combined cycle capacity from the market?

25 A. You're getting into an area of speculation



0878

1 there. I don't know where -- what we would end up  
2 acquiring in that short a period of time. As likely as  
3 any could be a combined cycle combustion turbine plant,  
4 but, you know, the question would be could you actually  
5 procure one for one year. You'd probably be more likely  
6 to enter into some other type of an arrangement. But  
7 you certainly aren't going to -- my fear would be we  
8 would lose the opportunity for this resource over time  
9 potentially.

10 Q. Would Avista issue an RFP in order to get the  
11 capacity for this time period?

12 A. Again I think we're speculating here, I mean  
13 that certainly would be one option. But given the time  
14 frame, I think witness Storro talked about the time  
15 frame required to do an RFP, but I'm sure we would do  
16 some sort of competitive acquisition.

17 Q. And if Avista's unregulated affiliates were  
18 to bid into the RFP, wouldn't they be required to do so  
19 based on their cost of service?

20 A. I don't think I can answer that.

21 Q. Would they have to bid in the Lancaster power  
22 at cost?

23 A. I'll have to speculate if you would like me  
24 to answer that question.

25 Q. Sure.

0879

1           A.     I would speculate that they would bid in  
2 competitively at a market price which would be  
3 substantially higher than the cost being afforded the  
4 utility today, again through an RFP bidding process.  
5 Again just speculation.

6           MR. FFITCH: All right, no further questions  
7 for Mr. Kalich, Your Honor.

8           Thank you, Mr. Kalich.

9           JUDGE TOREM: Commissioner Jones, any  
10 questions for Mr. Kalich?

11          COMMISSIONER JONES: Yes, Your Honor.

12

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

14 BY COMMISSIONER JONES:

15          Q.     Good afternoon.

16          A.     Good afternoon.

17          Q.     How are you? I'm going to go back to your  
18 rebuttal testimony, and I think Mr. ffitch had you at  
19 pages 4 and 5 so let's turn to page 5. And I think  
20 Mr. Storro got into this issue of acquiring Lancaster at  
21 cost, and at the top there, lines 1 and 2, you state the  
22 contracts will provide -- will be provided to Avista  
23 Utility customers at cost without any markups. Can you  
24 justify that statement? I mean what's your analysis  
25 behind that statement?

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1           A.     My analysis is based upon the contracts that  
2 I was provided in doing my analysis, and what was  
3 related to me by senior management was that we would  
4 assume those exact contracts.  Therefore, the analyses  
5 we did were based upon the costs contained within those  
6 contracts.

7           Q.     So it was based on information provided by  
8 senior management?

9           A.     That's right.

10          Q.     Okay.  I'm not talking about an affiliated  
11 transaction here, but is that common in the competitive  
12 marketplace for contracts to be offered at no cost?

13          A.     I don't know that it's common per se.  I  
14 guess it would depend upon the circumstances and what  
15 the other party felt.  I think in this case we were --  
16 we had some side boards up based upon our obligations to  
17 our customers where it has to be the lower of market or  
18 cost.  I don't think it would have been reasonable to  
19 get anything besides that.

20          Q.     Okay.

21                 Now let's get into the issue of other CCGT  
22 plants available, and I think you cite four of them  
23 including Lancaster on page 5, but what -- and then in  
24 another part of your testimony you talk about how cost  
25 effective the acquisition was based on plants acquired

0881

1 in the last I think four or five years. But let's talk  
2 about 2007, because our prudence determination at the  
3 Commission really rests on what was available at the  
4 time and based on the information at that time. So what  
5 were the specific plants that you being the lead analyst  
6 looked at, other CCGT plants in the region as being the  
7 most comparable to Lancaster?

8 A. Okay, and for that I think I would reference  
9 us back to witness Storro's exhibit, direct filed  
10 testimony, Exhibit 4, which lists the plants and what  
11 the numbers we looked at. If you want to go back there,  
12 certainly can.

13 Q. Okay, I have it in front of me, so those are  
14 -- do you have that in front of you?

15 A. Give me one moment.

16 Q. Okay. I think those are in Table 1.

17 A. Thank you.

18 Q. But we have a Table 2 as well.

19 A. Yes. So, yeah, table --

20 Q. I think we're talking about Table 2, aren't  
21 we, Fredrickson?

22 A. Yes.

23 Q. To talk about them specifically, Fredrickson  
24 of PSE?

25 A. That's right.

0882

1 Q. Coyote Springs 2 of you, and Goldendale of  
2 PSE?

3 A. Yes, exactly.

4 Q. Okay. So could you just state for the record  
5 what the purchase price was?

6 A. Yes, and Table 2 provides two data points.  
7 One is the purchase price in the calendar year.

8 Q. Yes.

9 A. The other is the 2010 purchase price with  
10 inflation adjusted, you know, if we went to 2010. I  
11 would also ask the Commission to consider the fact that  
12 we were in this analysis not addressing the significant  
13 differences which I include in my rebuttal testimony we  
14 were aware of at the time but didn't have time to  
15 analyze associated with some of the characteristics of  
16 having a plant located in Idaho in our service  
17 territory, which is a substantial additional cost,  
18 probably in the range of \$250 a kilowatt. But what this  
19 shows at least if it's okay if I use the 2010 price,  
20 because that would be equivalent to the time, Goldendale  
21 from Puget Sound Energy was at 525, Coyote was at 533,  
22 Fredrickson was at 726. And then of course the year  
23 purchases is listed in here as well. Goldendale is  
24 interesting -- go ahead.

25 Q. Let me stop you there for a minute, let's go

0883

1 through each of those again. Was Goldendale acquired  
2 out of bankruptcy to your knowledge?

3 A. You know, I'm proud to say I don't recall.

4 Q. I think it was, but subject to check.

5 Fredrickson, was that -- how was that  
6 acquired, according to open market purchase, was it  
7 subject to an RFP?

8 A. Again that was a while back. I'm all but  
9 certain it was not acquired through an RFP. In fact, my  
10 understanding is Puget -- none of Puget's three plants  
11 they've acquired were acquired through an RFP.

12 Q. And then Avista, your Coyote Springs 2 plant,  
13 that's a self build, right?

14 A. That was actually the second half of Coyote  
15 Springs 2 so --

16 Q. Purchased from --

17 A. -- purchased from --

18 Q. So to summarize, it was purchased from a  
19 independent power producer?

20 A. That's correct.

21 Q. So those were the plants available at the  
22 time in April of 2007?

23 A. They were recent transactions.

24 Q. Right.

25 A. I guess at the time, but they were indicative

0884

1 of what the market recently had been.

2 Q. Okay. And then what you did is that you  
3 projected forward to the 2010 costs, or Mr. Storro did  
4 that, and you were involved in this analysis deeply,  
5 weren't you deeply involved with Mr. Storro and the  
6 analysis in RLS-4?

7 A. Yes, I actually performed all of that  
8 analysis myself.

9 Q. Okay.

10 A. While working for Mr. Storro.

11 Q. And the purpose of, if you could turn to page  
12 2 of your testimony, your rebuttal testimony, the  
13 purpose of including these recent -- excuse me, are you  
14 there?

15 A. My rebuttal or direct?

16 Q. Your rebuttal.

17 A. Okay, thank you.

18 Q. The purpose of including this chart in your  
19 rebuttal testimony is not to demonstrate to the  
20 Commission that these plants were around at the time of  
21 2007, which is what we have to look at for our prudence  
22 determination, but you included these just to show  
23 regional CCT projects in the region had come in roughly  
24 at these costs per installed kilowatt?

25 A. That's correct, and I think it was also to

0885

1 illustrate the fact that Avista -- that this resource  
2 procurement was one of the lowest cost procurements  
3 opportunities out there in -- prior to and post the  
4 decision. But you're correct, a number of these plants,  
5 not all of them, were after the 2007 decision.

6 COMMISSIONER JONES: Okay, I think that's all  
7 I have for now, thank you, Judge.

8 JUDGE TOREM: Commissioner Oshie.

9

10 EXAMINATION

11 BY COMMISSIONER OSHIE:

12 Q. Mr. Kalich, I have just a couple questions,  
13 but one first I guess is that you weren't part of the  
14 negotiating team that was part of the Avista Energy to  
15 Goldman Sachs contract negotiations?

16 A. No, I was not.

17 Q. And so the information that you're testifying  
18 to today has either been, as you said earlier, it was  
19 represented to you by management, that was with regard  
20 to the cost, the actual cost of the contract, and then  
21 if I understand it was also represented to you that the  
22 contract wouldn't have been available in 2011, the start  
23 date?

24 A. That's --

25 Q. Maybe I can rephrase it. You were told that



0886

1 the start date of contract was 2010?

2 A. That's what I was told it would be made  
3 available to the utility.

4 Q. All right, okay. Most of the, you know, the  
5 comparisons here both in your testimony and I think even  
6 in the work that was done by Thorndike Landing use a CCT  
7 purchase, in other words the plant purchase in  
8 comparison to this PPA purchase; is that true?

9 A. Yes, it is.

10 Q. Is there any value to obtaining the plant  
11 itself, taking ownership, over a PPA?

12 A. There are, and in fact in our analysis in --  
13 that was done in April accounted for things such as end  
14 effects. In other words, if we owned an asset versus  
15 having a PPA, at the end of October 2026 we would still  
16 retain that asset, and it may have another 10 year  
17 useful life for example. Thorndike actually in their  
18 study somewhat to my surprise, although I've also  
19 learned later this isn't entirely unique, assumed no  
20 residual value at the end of the life of the plant. We  
21 actually in this analysis assumed a residual value and  
22 assumed we had to replace it with another combined cycle  
23 combustion turbine at inflation adjusted cost for the  
24 last 2 years to get a relative comparison as if we had  
25 owned the plant itself. We did try to account for and I

0887

1 think did account for well the fact that it was a PPA  
2 and not an actual, you know, owned asset.

3 Q. And did Thorndike just look at it as far as  
4 the depreciated value over the life of its assumed  
5 useful life?

6 A. What they assumed at the end, my  
7 understanding is they did not credit any value to an  
8 existing asset beyond the term of the PPA. We did in  
9 ours, however.

10 Q. And as a matter of fact, the utility owns  
11 many facilities that have useful lives perhaps greater  
12 than what was -- than may have been anticipated when  
13 they were built, for example your hydroelectric  
14 facilities that are many, many, many, decades old?

15 A. Absolutely, and certainly there's major  
16 upgrades and so forth that have to go into those  
17 projects, but I'm sure you're getting to the point where  
18 there's added value to retaining that site if nothing  
19 else. Yes, you're right.

20 COMMISSIONER OSHIE: I don't have any other  
21 questions, Mr. Kalich, thank you.

22 JUDGE TOREM: Chairman Goltz.

23 CHAIRMAN GOLTZ: Yes, thank you.

24

25

0888

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

2   BY CHAIRMAN GOLTZ:

3           Q.   Following up on a question that Commissioner  
4 Jones had referring to page 5 of your rebuttal testimony  
5 where you say at the top, Avista will acquire Lancaster  
6 at cost. Does that -- when you say Avista there, do you  
7 mean Avista Utilities or do you mean Avista Turbine  
8 Power?

9           A.   I wasn't thinking Turbine Power so Avista  
10 Utilities.

11          Q.   Then who is it acquiring it from?

12          A.   It will be transferred from Avista Turbine  
13 Power.

14          Q.   So it will be acquired at the cost of Avista  
15 Turbine Power? In other words, that's what you're  
16 comparing, the cost to the utility would be the same as  
17 the cost to Avista Turbine Power?

18          A.   Which is just for clarification is the same  
19 cost as when the contract was struck back in 2000 for  
20 starting 2001, so it's the same contract, it's just  
21 getting handed off to a couple different entities over  
22 time and we will be the latest.

23          Q.   I'm sorry, 2001?

24          A.   Well, the plant entered, as we just talked  
25 earlier, it entered service in 2001 when Avista Energy

0889

1 had the contract, and then with the sale of Avista  
2 Energy to Coral, and again I may have this maybe not  
3 quite correctly, maybe some redirect, but with the sale  
4 ultimately in 2010 that contract comes back to Turbine  
5 Power, and then that contract will be assigned to  
6 Avista, you know, Avista Utilities. But again all the  
7 way through the ownership of that tolling arrangement,  
8 the cost structure stayed exactly the same, the terms  
9 and conditions associated with the tolling arrangement  
10 itself.

11 CHAIRMAN GOLTZ: Okay, and that is one of the  
12 items that we're getting in the Bench request?

13 MR. MEYER: We will provide the source  
14 documents that should describe the cost amount of this,  
15 they're part of the transactional documents.

16 BY CHAIRMAN GOLTZ:

17 Q. And I was looking at Exhibit 19-X, RLS-19-X,  
18 which is the chart that we -- do you have that?

19 A. I do.

20 Q. Okay. And I see that in a bubble kind of in  
21 the middle of the page it says Avista Energy assigned  
22 the Lancaster PPA to Avista Turbine Power in June of  
23 1999.

24 A. I was sitting in the back of the room hoping  
25 to goodness I would not have to look at this chart on

0890

1 the stand. I'm not familiar with it. I certainly could  
2 study it if you would like me to.

3 Q. No, I'm just wondering that June of 1999, and  
4 you're saying the plant started production in 2001?

5 A. I misspoke I guess this would say. Took the  
6 risk of trying to clarify, and I just confused the  
7 issue, I'm sorry.

8 Q. So the cost would have been -- what you're  
9 saying is that ultimately after all this series of  
10 transactions, Avista Utilities will receive the  
11 Lancaster PPA at Avista Energy's cost when it assigned  
12 the PPA to Avista Turbine?

13 A. Way back in '99, yes.

14 Q. We have an exhibit that shows the plant  
15 didn't come into service until 2001, so you did not  
16 misspeak, but there must have been -- it looks to me  
17 like there's some transaction that took place prior to  
18 the plant coming in service?

19 A. Yeah, again I would have to speculate, but  
20 often times entities sign the contract, and then the  
21 construction will begin, and then --

22 Q. About two years to build the project?

23 A. There you go. Those were the good old days  
24 though.

25 Q. One other, again following up on what

0891

1 Commissioner Oshie asked, so you performed the analysis  
2 in April of 2007, that was your work?

3 A. That's correct, it was completed in April.  
4 My recollection is I started in late March.

5 Q. Right. And there's no one else -- of all the  
6 analysis that was done, you were aware of it all, you  
7 either did it all or you were aware of it all?

8 A. Yes.

9 Q. And did you do it all?

10 A. Yes.

11 Q. Okay. So then that information went to the  
12 negotiators, and off they went to negotiate the  
13 contract?

14 A. You know, I don't, to be honest with you, I  
15 don't recall -- I'm trying to think of who I handed that  
16 information off to. I would have no -- I wouldn't be  
17 surprised if that was the result. But I was asked to --  
18 if the Company would be interested in the plant in one  
19 of those -- in any of those three years or all of those  
20 years, and I provided that analysis to senior  
21 management.

22 Q. And as I recall, your analysis said that the  
23 contract had less value the earlier you acquired it?

24 A. Yes. For example, had we been assigned the  
25 contract in 2009, which I suppose could have been an

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1 outcome, there would have been less value for customers  
2 in 2009, but it came in 2010.

3 Q. And there would have been more value in 2011?

4 A. Sure.

5 Q. Those are the three years that you evaluated?

6 A. That's right.

7 Q. So you provided that information to Company  
8 management, which I assume includes the negotiators; is  
9 that true?

10 A. Again, I guess I would have to infer that  
11 that's the case.

12 Q. And you don't know whether there was  
13 negotiation about the start date, whether it was there  
14 was some deal said, oh, we really want 2011, but we  
15 can't get it, so we'll negotiate some other -- there was  
16 some give and take and they ended up on 2010, you don't  
17 know how that happened?

18 A. Yeah, I really handed the analysis off, and  
19 then pretty much the next thing I knew we in my opinion  
20 fortunate enough to be assigned the contract in 2010.

21 Q. What was the time lag between when you were  
22 done with your analysis and when you heard that it was a  
23 done deal?

24 A. Well, I think it was pretty much the public  
25 information, the press release of the sale of the

0893

1 project, that was the June 30 date, yeah.

2 Q. Now this was raised by Mr. Meyer, and I know  
3 there's going to be some discussion, but since you did  
4 all the analysis, what -- can you just briefly describe  
5 the other documents that you prepared in the March,  
6 April time frame of 2007?

7 A. Oh, that were referenced by Mr. Meyer earlier  
8 today?

9 Q. Or which weren't referenced by Mr. Meyer,  
10 whatever you prepared.

11 A. The summary you see in RLS-4, which has a  
12 summary Table 3, that's the culmination of -- I think  
13 they were going to print it out at lunch but then  
14 realized that 1,300 pages would take a little longer  
15 than --

16 MR. MEYER: May I, I'm sorry to interrupt,  
17 but we actually have people as we speak printing out  
18 1,300 pages, and do I tell them to print out at this  
19 point in time multiple copies or just one copy for  
20 people to look at?

21 CHAIRMAN GOLTZ: I think one copy.

22 MR. MEYER: Just one copy, thank you.

23 CHAIRMAN GOLTZ: That's my view anyway.

24 A. So I guess the point I'm making is we try to  
25 make concise the -- concise results provided in the



0894

1 document. There was a substantial amount of work behind  
2 that analysis that's contained in Public Counsel Data  
3 Request 108C, which again they may not have been aware  
4 just because the question -- it was a more comprehensive  
5 answer to a less comprehensive question, but all that  
6 information is contained within that spread -- it's just  
7 an 8 megabyte spreadsheet, which could be bigger, could  
8 be smaller.

9 BY CHAIRMAN GOLTZ:

10 Q. Just 8 megabytes?

11 A. 1,300 pages, yeah.

12 Q. So but it sounds like what you're saying is  
13 that all of that, the data request -- so you described  
14 two things, the response to data requests.

15 A. Which is that file.

16 Q. Which is that file, so basically you're  
17 saying that the only thing besides RLS-4 is 1,300 pages  
18 or 8 megabytes of background to RLS-4?

19 A. Yes. RLS-4 again in the time frame I had was  
20 an attempt to explain the analyses that were performed  
21 substantially in one location, one file. I tend to try  
22 to do that just to not have to be chasing lots of  
23 different documents, so there's a lot of analysis  
24 contained within that. So RLS-4 is an explanation at a  
25 level people can actually comprehend. And I will admit

0895

1 going back to that spreadsheet myself, it was all --

2 Q. Is it all Excel type spreadsheets of data, or  
3 is there also narrative?

4 A. The spreadsheet has very little, if any,  
5 narrative in it. I think there's a little discussion  
6 about some of the apples to apples comparison with a  
7 plant like Fredrickson that sits within the state of  
8 Washington, dispatches many, many, maybe two thirds as  
9 much as a plant located outside of the state, primarily  
10 due to the gas taxes placed on the state of Washington.  
11 Washington state gas plants are the last dispatch in the  
12 stack just because of that 4% gas tax. They all have a  
13 similar heat rate so Washington state plants are 4% more  
14 expensive to run than --

15 Q. So just to maybe oversimplify, RLS-4 is sort  
16 of the executive summary of an 8 megabyte file?

17 A. Yeah, that's a great way to describe it.

18 Q. And that's -- and between RLS-4 and the 8  
19 megabyte file, that's the universe of analysis?

20 A. Of the documented analysis completed, yes.

21 CHAIRMAN GOLTZ: Okay, I have no further  
22 questions.

23 JUDGE TOREM: Commissioners, any other  
24 questions?

25 All right, seeing none, Mr. ffitch, did you

0896

1 want to do any further cross which the Commissioners  
2 brought up?

3 MR. FFITCH: I had a couple, yes, Your Honor,  
4 I had a couple of questions, just one or two, if I may  
5 have just a moment.

6

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

8 BY MR. FFITCH:

9 Q. Can you turn to or perhaps have your counsel  
10 give you one of Mr. Storro's cross exhibits, RLS-18-X.

11 MR. MEYER: Do you have that?

12 A. I have it, I'm there.

13 Q. You were asked by the Commission, one of the  
14 Commissioners, essentially about the time frame in which  
15 your work product in RLS-4 was delivered to the  
16 negotiating team and how that fit in with the whole  
17 process. RLS-4 which you produced was dated April 11,  
18 2007, correct?

19 A. Yes.

20 Q. And in RLS-18-X, this is the DR where Public  
21 Counsel asked for the decisional time frame for the  
22 analysis and the decision regarding the transaction, we  
23 asked Mr. Storro about this, and the response here  
24 indicates that it was between March 2007 and the public  
25 announcement on April 17th, 2007, correct?

0897

1           A.     Yes.  And by that I misspoke earlier on the  
2     June announcement, so clearly I would have been made  
3     aware of this April 17th.  I hadn't realized that it was  
4     that soon earlier than the actual transaction was  
5     completed.

6           Q.     So obviously just by calendar reading the  
7     work product in RLS-4 was produced six days prior to the  
8     public announcement?

9           A.     I can say that it was produced six days after  
10    the documents were arranged and it was actually written  
11    up so that there would be a written documentation of the  
12    analysis, and I can't -- it certainly wasn't going to be  
13    weeks prior to that because I was doing the analysis in  
14    late March, early April.

15                   MR. FFITCH:  All right, that was the only  
16    question as it turns out, Your Honor, thank you.

17                   JUDGE TOREM:  Redirect.

18                   MR. MEYER:  Yes, and thanks for correcting  
19    that date, I was going to do that on redirect.

20

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

22    BY MR. MEYER:

23           Q.     Let's go back to your cross exhibit that was  
24    CGK-7.

25           A.     Okay, I'm there.

0898

1 Q. All right. As I recall, was it your  
2 testimony a few minutes ago that the acquisition, the  
3 point here in this response to this DR is that in  
4 Avista's view the acquisition of the PPA in 2010 was --

5 MR. FFITCH: Your Honor, I'm going to object  
6 to counsel essentially testifying and recharacterizing a  
7 document that we have in the record in front of us that  
8 speaks for itself. Recharacterization of it for the  
9 witness is inappropriate.

10 JUDGE TOREM: Mr. Meyer, can you just  
11 rephrase the question.

12 MR. MEYER: Surely.

13 BY MR. MEYER:

14 Q. Do you have anything to say about whether or  
15 not the Company was still better off taking this PPA in  
16 2010 rather than 2011, even assuming it was not needed  
17 until 2011?

18 MR. FFITCH: I'm going to object, Your Honor,  
19 for the record, this is simply an open ended request for  
20 a narrative. I'm not sure that it's tied to anything  
21 specific in either cross-examination or specific  
22 Commissioner questions.

23 MR. MEYER: Your Honor, I don't know how to  
24 more simply direct the question to the witness. He was  
25 asked a couple of questions about this particular

0899

1 exhibit, and I'm entitled to inquire of the witness what  
2 the take away is, what he concludes from this.

3 JUDGE TOREM: Let's try this.

4

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

6 BY JUDGE TOREM:

7 Q. Mr. Kalich, you said you were happy to know  
8 you could get the plant in 2010, would you still have  
9 been as happy to get it in 2011 if that was presented to  
10 you?

11 JUDGE TOREM: Does that suffice? Not quite?

12 MR. MEYER: Not really, but let's see where  
13 the witness goes with it.

14 BY JUDGE TOREM:

15 Q. So, Mr. Kalich, what would be your response  
16 if you were told you were getting the plant but not  
17 until 2011?

18 A. I would have been happy with that just as I  
19 would have had it in 2010 or 2009.

20 Q. So was there any degree of happiness we can  
21 put between those three years?

22 A. Sure would have made today a lot simpler.

23 JUDGE TOREM: All right, so from that point,  
24 Mr. Meyer, let's go ahead.

25 MR. MEYER: All right, well, we can all read

0900

1 the last sentence of that response, do it in the brief.

2

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

4 BY MR. MEYER:

5 Q. Next thing I would like to draw your  
6 attention to is there was some questioning by  
7 Commissioner Jones with reference to the at cost, I  
8 think Chairman Goltz also had some questions in that  
9 regard. To what extent was your testimony premised on  
10 information provided only by senior management, or was  
11 it also based on review of the underlying contracts?

12 MR. FFITCH: Objection, leading.

13 MR. MEYER: It's going to be a long  
14 afternoon, Your Honor, if we don't cut to the heart of  
15 some of these things. I'll be happy to rephrase it, but  
16 the question could be simply --

17 BY MR. MEYER:

18 Q. What information, if any, besides what senior  
19 management provided did you rely on for your assessment  
20 that this was transferred at cost?

21 A. Well, I think that probably the number one  
22 thing was actually obtaining the contract itself, so our  
23 model costs were based on that contract. I was provided  
24 copies of the contract that was signed in 1998, 1999.

25 MR. MEYER: All right, and that's all, thank

0901

1 you.

2 JUDGE TOREM: Thank you.

3 Anything further for Mr. Kalich?

4 Thank you very much, sir, appreciate it.

5 Mr. Lafferty is next.

6 MR. MEYER: May I inquire of the Bench, at  
7 some point there was a question deferred to Mr. Norwood,  
8 and were you intending to take him after Mr. Lafferty?

9 JUDGE TOREM: After Mr. Lafferty or after  
10 Mr. Johnson?

11 MR. MEYER: Do you have a preference?

12 JUDGE TOREM: Mr. ffitch.

13 MR. FFITCH: Your Honor, we have no questions  
14 for Mr. Johnson.

15 JUDGE TOREM: Oh, so that's new to my  
16 attention, so we won't be calling him?

17 MR. FFITCH: That's correct, Your Honor, we  
18 determined over the lunch hour. I apologize for not --

19 JUDGE TOREM: So the Bench will still call  
20 him, so then it doesn't make any difference to me  
21 whether we take Mr. Johnson or Mr. Norwood.

22 Commissioners, any preference after  
23 Mr. Lafferty?

24 CHAIRMAN GOLTZ: I don't recall the question  
25 deferred to Mr. Norwood.



0902

1 JUDGE TOREM: It's Commissioner Jones'  
2 question, I know he will recall it, the money trail --

3 COMMISSIONER JONES: Yeah, it's the money  
4 trail question on the sale of Avista Energy.

5 I think Mr. Norwood would be fine after this,  
6 it's not going to take a long time.

7 JUDGE TOREM: All right.

8 COMMISSIONER JONES: It will be relatively  
9 short.

10 JUDGE TOREM: So I'll swear in Mr. Lafferty,  
11 then, Mr. Norwood, you can be ready to answer the money  
12 trail question, and then we'll take Mr. Johnson since  
13 the Bench has questions.

14 Mr. Lafferty, raise your right hand.

15 (Witness ROBERT J. LAFFERTY was sworn.)

16 MR. MEYER: Your Honor, we do have one very  
17 minor correction to make to one page of his testimony,  
18 so this is page 6 of his rebuttal testimony marked  
19 RJL-1T, and once you're there, I will direct your  
20 attention to it.

21 JUDGE TOREM: Page 6?

22 MR. MEYER: Yes, line 8.

23 JUDGE TOREM: Go ahead.

24

25

0903

1 Whereupon,

2 ROBERT J. LAFFERTY,

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

4 herein and was examined and testified as follows:

5

6 DIRECT EXAMINATION

7 BY MR. MEYER:

8 Q. The reference in the parenthetical there is  
9 to Exhibit RLS-6, it should be RLS-5, and the page  
10 reference should not be page 11, it should be page 8.

11 Mr. Lafferty, have I correctly read those?

12 A. That is correct.

13 JUDGE TOREM: So it's simply on RJL-1T, page  
14 6, line 8, you're correcting the parenthetical response  
15 to the Thorndike Landing evaluation, and it should be  
16 RLS-5, page 8, okay, that's now part of the record.

17 No other corrections?

18 Then we'll tender this witness to Mr. ffitch  
19 for cross and then the Bench.

20 MR. FFITCH: Thank you, Your Honor.

21

22 CROSS - EXAMINATION

23 BY MR. FFITCH:

24 Q. Good afternoon, Mr. Lafferty.

25 A. Good afternoon.

0904

1 Q. I've cut out some of my questions, so I might  
2 be stopping and starting as I make sure where we're  
3 going here.

4 We heard from Mr. Storro earlier today that  
5 the possible interconnection between the plant and  
6 Avista's system was noted as early as April 2007; is  
7 that correct? That was in RLS-4.

8 A. It was included in the analysis, is that your  
9 statement?

10 Q. Yes. Is that correct?

11 A. Yes, it was included in the analysis.

12 Q. And this showed that -- well, I'm sorry,  
13 let's first have you turn to Exhibit 3-X, what's been  
14 marked as RJL-3-X.

15 A. Okay, I'm there.

16 Q. Okay, I'm not yet.

17 All right, now this is a data request  
18 numbered 529 from Public Counsel, and in the request we  
19 note that in response to an earlier DR the Company  
20 stated that more information about the studies and  
21 projected timelines for interconnection would be  
22 available in August 2009, and then we -- and more  
23 details would be available later. And then we asked in  
24 September, on September 17th, 2009, we asked if the  
25 information had become available. That's essentially

0905

1 what the question says, right?

2 A. Correct.

3 Q. And that earlier response was provided by  
4 Mr. Storro, correct?

5 A. I'll accept that.

6 Q. All right. And now this response is provided  
7 by you September 17th, and I just need to correct  
8 myself, I think I stated that we asked this on the 17th,  
9 that was the date of your response.

10 A. Response, right, I know what you meant.

11 Q. And we asked, please state when the  
12 information will be available and provide such  
13 information. Your answer is first you say, no, which is  
14 a statement that the information was not available in  
15 August 2009, correct?

16 A. That is correct.

17 Q. Then you go on to explain simply what's going  
18 on with the Bonneville transmission matter, and you  
19 state there that the process is essentially just  
20 beginning now. Am I correct in that general  
21 characterization?

22 A. That's right, the process is underway. And  
23 as a matter of fact, yesterday just before coming to  
24 this hearing I was able to listen to a portion of the  
25 initial conference meeting that's referred to in the BPA

0906

1 letter where they're starting to lay out the work plan  
2 for the project, the joint work plan between the  
3 parties.

4 Q. All right.

5 And let's go to the previous Cross-Exhibit  
6 RJL-2-X, and in part B of this data request we asked the  
7 range of potential on line dates for this  
8 interconnection, did we not?

9 A. Correct.

10 Q. And your answer to part B states that the  
11 timeline will be approximately two years, "this would  
12 indicate an operational date of approximately January  
13 2012", correct?

14 A. That would be an estimate, mm-hm.

15 Q. So customers will it appears need full BPA  
16 contract capacity for at least 2010, correct?

17 A. They would need it until such time as an  
18 interconnection could be built and would become  
19 operational.

20 Q. Right, so that could be 2010, it could  
21 include 2011, it might even be beyond that date?

22 A. Yeah, this estimate says January 2012.

23 Q. All right. So for those years customers  
24 would not benefit from the remarketing of 75% of  
25 Bonneville capacity, correct?

0907

1           A.     Yeah, we would probably estimate that some  
2     portion -- because the plant will run throughout the  
3     whole year, so to the extent that we had excess  
4     transmission as we do today, we use excess transmission  
5     on a fairly regular basis for optimization of all of our  
6     resources, or if it's in excess we would have the  
7     opportunity to remarket that.

8           Q.     But this Bonneville transmission would be  
9     fully utilized for the Lancaster plant during this  
10    period?

11          A.     When the plant is operating.

12          Q.     And would not be available for remarketing?

13          A.     That is correct, when the plant is operating.

14                 MR. FFITCH:  If I can just have one more  
15    moment, Your Honor, I think I am close to being  
16    finished.

17    BY MR. FFITCH:

18          Q.     Can you please turn to your Cross-Exhibit  
19    5-X, RJL-5-X, and this relates to gas transportation  
20    costs, doesn't it, generally?

21          A.     Yes.

22          Q.     All right.  And in your testimony you state  
23    that there's a \$3.4 Million worth of gas transportation  
24    costs in Mr. Storro's testimony?

25          A.     Can you refer me to that?

0908

1 Q. It's in the Thorndike Landing study.

2 A. Oh, okay. I may not have -- I was noticing I  
3 don't have all the same page numbers you have, so you  
4 might have to direct me to a page.

5 Q. At least a couple sets.

6 A. I think I have the original page numbers.

7 Q. This is the small print base case document  
8 that we have been looking at a little bit here, it's  
9 page 28 of 31 in Exhibit RLS-5.

10 JUDGE TOREM: I see that Mr. Kalich is  
11 bringing forward a copy that corresponds to your page  
12 numbers, Mr. Ffitch.

13 A. I think we have it, mine just doesn't have a  
14 page number on it.

15 Okay, it says Lancaster toll base case.

16 Q. Correct.

17 A. Appendix C, page 1, okay.

18 Q. That is correct.

19 All right, and so under gas transportation in  
20 the column under 2010 it reads \$3.4 Million of costs,  
21 correct?

22 A. In year 2010 it says 3.41, yes.

23 Q. All right. Now how does that compare to the  
24 Lancaster related gas costs which are shown on your  
25 Exhibit RJL-5-X where I had you a minute ago? Apologize

0909

1 for the back and forth.

2 A. Okay.

3 Q. You show \$5.3 Million worth of Lancaster gas  
4 related costs in your own exhibit, do you not?

5 A. That appears to be the fixed cost, yes.

6 Q. All right. And that's in Attachment B to  
7 RJL-5-X?

8 A. That's correct.

9 Q. So the costs in the Thorndike Landing study  
10 appear to be quite a bit lower than your projections;  
11 isn't that true?

12 A. I observe they are different.

13 Q. Wouldn't any such increase -- I'm sorry, were  
14 you finished?

15 A. Well, I think we maybe missed an opportunity  
16 to ask Mr. Kalich a little bit more in detail about  
17 these assumptions in this study.

18 Q. Well, I guess what I'm really interested in  
19 is your number being higher.

20 A. Well, okay.

21 Q. The number in your exhibit is now a couple of  
22 million dollars higher than this number, correct?

23 A. The number is higher, but if you're implying  
24 -- if that's a comment on the Thorndike study itself,  
25 then I would have to get additional information about



0910

1 the dynamics, the whole dynamics of their study.

2 Q. All right, well --

3 A. I'm not going to comment on their study.

4 Q. All right. That's not exactly where my  
5 question was going, so let me ask my question and see  
6 how we go.

7 Wouldn't any such increases in these costs  
8 reduce the value of Lancaster that is shown at the  
9 bottom of the table that we were just looking at, the  
10 Thorndike Landing table under total net present value?  
11 In other words, if we plug in your number into the table  
12 on page 28, the Thorndike Landing study, doesn't that  
13 reduce the net present value?

14 A. I'm honestly not sure how to answer this  
15 question, because if you change any of the numbers in  
16 the table, you certainly change the answer. The  
17 important thing I think is the reason why you would  
18 change a number on the table, and that implies to have  
19 knowledge of how the study was done in some more detail  
20 than I have. Does that make sense? I think you're  
21 asking me to draw a conclusion about the study and the  
22 knowledge about how they included the gas costs  
23 specifically in this table, and if I substituted one  
24 number for the other, doesn't that change the answer.

25 Q. Well, I understand your comment, my question

0911

1 is -- well, and I'll --

2 A. If you change the number, I would expect the  
3 number at the bottom to change.

4 Q. All right, it's a matter of mathematics.

5 A. Is it appropriate to change the number,  
6 that's a different kind of question.

7 JUDGE TOREM: Mr. Lafferty, the Bench  
8 understands the concern.

9 THE WITNESS: Okay.

10 JUDGE TOREM: If we just assume they are  
11 apples and apples and you do the math that Mr. ffitch is  
12 requesting, can you answer the question that way.

13 A. Okay, so your question is if I change this to  
14 \$5.3 Million, how does that change the answer at the  
15 bottom, which is the 40.5 net present value number?

16 BY MR. FFITCH:

17 Q. And that would reduce the net present value  
18 number, correct?

19 A. If I can take a minute here.

20 Yes, subject to check it appears to change  
21 that number that direction.

22 Q. And are you confident about the number in  
23 your own Exhibit 5-X in Appendix B, that is the \$5.3  
24 Million number?

25 A. We're confident about those numbers.

0912

1 MR. FFITCH: Thank you.

2 JUDGE TOREM: Anything else, Mr. ffitch?

3 MR. FFITCH: I don't believe so, no, thank  
4 you, Your Honor.

5 Thank you, Mr. Lafferty.

6 JUDGE TOREM: Commissioner Jones,  
7 Commissioner Oshie, any questions?

8 COMMISSIONER OSHIE: No questions, Judge.

9 COMMISSIONER JONES: No questions.

10

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

12 BY JUDGE TOREM:

13 Q. Mr. Lafferty, are you confident that the  
14 numbers in your study in RJL-5-X mean the same as the  
15 numbers in the Thorndike Landing study?

16 A. I am not, I would have to get more  
17 information.

18 JUDGE TOREM: I just wanted to make sure out  
19 of fairness that we were clear on that as well.

20 Mr. Meyer.

21 MR. MEYER: No redirect, thank you.

22 JUDGE TOREM: Thank you very much,  
23 Mr. Lafferty.

24 I think we're ready for Mr. Norwood. Does  
25 the Bench want to take a break before we hear about the

0913

1 money trail?

2 Does the court reporter want to take a break?

3 All right, then we'll put Mr. Norwood on.

4 Mr. Norwood, since we've done it twice  
5 already I'm going to assume the warranty on my oath has  
6 not expired quite yet, I think I asked you for the  
7 course of the proceeding, so I won't reswear you in.

8 THE WITNESS: I will tell the truth.

9 JUDGE TOREM: Commissioner Jones has a  
10 question for you.

11

12 Whereupon,

13 KELLY O. NORWOOD,  
14 having been previously duly sworn, was called as a  
15 witness herein and was examined and testified as  
16 follows:

17

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

19 BY COMMISSIONER JONES:

20 Q. Mr. Norwood, good afternoon again.

21 A. Good afternoon.

22 Q. So this will be fairly short I think. You  
23 are not the CFO of the company, but I think you know  
24 where the money goes from sales of affiliates, so  
25 basically where did the proceeds and how much were the

0914

1 net proceeds from the sale of Avista Energy in April of  
2 2007; do you recall?

3 A. I actually had the opportunity to ask some  
4 questions to verify my recollection. The sale did  
5 conclude at June 30th, '07, and as a result of that sale  
6 I believe there was \$169 Million that went into Avista  
7 Energy. After that time in September of '07 there was  
8 \$155 Million that was transferred from Avista Capital  
9 into Avista Corp., basically into the utility. And then  
10 in December of '07 there was another \$6 Million that was  
11 transferred from Avista Capital into Avista Corp. for  
12 Avista Utilities. And in prior cases we had had the  
13 discussion and in fact in a Commission order here,  
14 Commission had directed the utility to increase its  
15 equity layer, and so these dollars were brought into  
16 utility in part to address that issue. And it was used  
17 to pay down debt as well as invest in and cover part of  
18 the capital budget that we've already talked about.

19 You also had talked about or asked the  
20 question at the time about whether there was a gain or  
21 loss associated with the sale of Avista Energy, and  
22 there was a loss recognized at the time that we sold  
23 Avista Energy of \$4.3 Million, and that was recorded in  
24 the second quarter of 2007, and that's included in our  
25 report to the Securities and Exchange Commission for the

0915

1 second quarter 2007.

2 Q. So just to summarize, \$155 Million was  
3 injected from Avista Capital, Avista Corp., September  
4 and \$6 Million in December of that year, that gets you a  
5 total of \$161 Million?

6 A. That's right, and that is not a profit or  
7 loss.

8 Q. Right.

9 A. It's we basically cashed out the assets of  
10 Avista Energy and brought it into the utility.

11 Q. And when you injected that into the utility,  
12 you used it both to increase the equity layer in the  
13 capital structure, which as you correctly state the  
14 Commission did have an equity building mechanism?

15 A. Yes.

16 Q. I think we called it EBM, so that supported  
17 that goal of increasing the equity layer, and you also  
18 used part of it to pay down some of the high interest  
19 bearing debt?

20 A. That's correct.

21 COMMISSIONER JONES: That's all I have.

22 JUDGE TOREM: Thank you.

23 Other Commissioner questions?

24 Parties with additional questions for

25 Mr. Norwood or, Mr. Meyer, anything to clear up from

0916

1 that?

2 MR. MEYER: No, thank you.

3 JUDGE TOREM: All right, thank you,  
4 Mr. Norwood.

5 All right, then we'll get to William Johnson  
6 for questions from the Bench, and I think at that point  
7 we'll take a brief break before we hear Public Counsel's  
8 witness, Kevin Woodruff.

9 (Witness WILLIAM G. JOHNSON was sworn.)

10 JUDGE TOREM: Okay, Mr. Johnson has been  
11 sworn, Mr. Meyer, was there anything about his testimony  
12 to clarify before I turn him over to the Bench for  
13 questions?

14 MR. MEYER: I'm not aware of any.

15 JUDGE TOREM: Commissioners, who had the  
16 questions for Mr. Johnson?

17 CHAIRMAN GOLTZ: I have some.

18 JUDGE TOREM: We'll start with the Chairman  
19 then.

20

21 Whereupon,

22 WILLIAM G. JOHNSON,  
23 having been first duly sworn, was called as a witness  
24 herein and was examined and testified as follows:

25

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

2    BY CHAIRMAN GOLTZ:

3            Q.    Good afternoon. I believe this question was  
4    deferred to you by an earlier witness. I had some  
5    inquiries about the revenues from marketing of power  
6    from the Lancaster plant that was not needed by the  
7    Company. And the question was, assuming that, focusing  
8    on the year 2010 when the testimony was not as much of  
9    the power from Lancaster would be needed by the utility  
10    and some of the power, unneeded power, could be marketed  
11    perhaps, how does the revenues from that sale of power,  
12    how are those -- flow into rates, if at all?

13           A.    Yes, Chairman Goltz, when we put together the  
14    pro forma for the rate case, we dispatch all the power  
15    plants based on the economics. And to the extent the  
16    resources are needed to serve retail load, they serve  
17    retail load, and any surplus resources are sold in the  
18    short-term market within our Aurora modeling that we use  
19    to develop pro forma. So all the power that isn't going  
20    to serve retail load is sold in the marketplace.

21           Q.    Right, and so how are those revenues  
22    accounted for, are the revenues from that just go to the  
23    Company, or is there to rate payers in some way?

24           A.    They go completely 100% to the rate payers.  
25    There is a line item called short-term power sales in



0918

1 our pro forma, and all the revenue goes to reducing our  
2 revenue requirement.

3 Q. Is that through the energy recovery  
4 mechanism?

5 A. No, that's through our base rate setting in  
6 developing the pro forma power supply expense in the  
7 case.

8 Q. Okay. And that is a -- and so if the power  
9 sales are higher than modeled, that still goes to the  
10 rate payers?

11 A. If the power sales are higher than modeled,  
12 that would go through the energy recovery mechanism.

13 Q. And if they're lower than modeled?

14 A. That would also flow through the ERM.

15 Q. And so I don't know if there's anything in  
16 the record on the ERM, is it possible for you to explain  
17 that just very briefly?

18 A. Briefly what that does is track the  
19 difference between our actual power supply expenses in  
20 the rate year and our -- the pro forma model, basically  
21 the amount built into base rates in the rate here.

22 Q. So if these power sales of Lancaster are  
23 higher than modeled, then the benefit of that is shared  
24 between the Company and the rate payers; is that  
25 correct?

0919

1           A.     The benefit would all flow through the ERM,  
2     and depending on where you were with the dead band, some  
3     percentage or maybe all or maybe none depending on where  
4     you were would flow through to the rate payers.

5           Q.     Could you explain the dead band?

6           A.     The dead band operates as the first \$4  
7     Million deviation from the base rates, either plus or  
8     minus, is absorbed by the Company. The next \$6 Million  
9     is absorbed 50/50 if costs are higher and 75% to the  
10    customer if costs are lower. And then beyond \$10  
11    Million it's a 90/10 sharing, 90% to the customers and  
12    10% to the Company.

13          Q.     So if everything was just as modeled -- I'm  
14    sorry, going back, and this is done on an annual basis?

15          A.     On an annual basis, yes.

16          Q.     So if everything is done just exactly as  
17    modeled and the Lancaster contract in 2010 shows \$2  
18    Million in excess of what was modeled of revenues, then  
19    all that \$2 Million would go to the Company?

20          A.     That's correct.

21          Q.     And likewise if it showed \$2 Million less,  
22    the Company would eat that?

23          A.     Would absorb the full \$2 Million.

24          Q.     And so you may recall and I don't know if you  
25    have in front of you Exhibit RLS-6?

0920

1 A. I don't have that.

2 MR. MEYER: May I provide a copy?

3 CHAIRMAN GOLTZ: Sure.

4 THE WITNESS: Okay.

5 BY CHAIRMAN GOLTZ:

6 Q. And I'm looking at page 13 of 14.

7 A. I've got it.

8 Q. And at Table 10 in the year 2010 in the third  
9 column over, it's the revenue requirement impact for the  
10 Lancaster lease, it says \$12.9 Million. Am I correct,  
11 again then referring up to the second full paragraph,  
12 second to the last sentence where it says, the revenue  
13 requirement impact is calculated by subtracting the spot  
14 market energy value of the plant from the total plant  
15 cost, that that \$12.9 Million is net of some wholesale  
16 power sales?

17 A. That is correct, that's my understanding,  
18 that that number is net of the wholesale power sales.

19 Q. Okay. So then that determination of the net  
20 is the modeling that you described?

21 A. Correct, that is the modeling of any  
22 surpluses are sold in the wholesale market and credited  
23 back to the customers.

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

0921

1 JUDGE TOREM: Commissioner Jones.

2

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

4 BY COMMISSIONER JONES:

5 Q. Afternoon, Mr. Johnson.

6 A. Afternoon.

7 Q. Could you please confirm that the Lancaster  
8 revenue and costs are included in the determination of  
9 power costs incorporated in the settlement agreement?

10 A. I think you need to clarify, maybe clarify  
11 that. You asked me if the Lancaster costs were included  
12 in settlement power supply costs?

13 Q. Yeah, I think there's an attachment to the  
14 settlement agreement, isn't there, where there's a  
15 calculation of power costs and adjustments? I don't  
16 have that in front of me.

17 MR. MEYER: We'll get a copy.

18 A. Okay, I have that.

19 Q. So to take you through that, at least the one  
20 I have, this has changed a little bit, and Mr. Meyer  
21 provided something to the Bench yesterday, I don't know  
22 if it's the same, but there is a calculation if you go  
23 to Attachment A, the original settlement agreement, you  
24 have power supply, and it consists of sub 3, 4, 5, 6, 7,  
25 8, and then you have a total power supply adjustment.

0922

1 So the question is, are the Lancaster revenues and costs  
2 included in this calculation, overall calculation of  
3 power supply?

4 A. Yes, this calculation of power supply expense  
5 for the settlement still includes the Lancaster plant,  
6 so it still includes the Lancaster expenses and the  
7 Lancaster revenues.

8 Q. Both?

9 A. That's correct.

10 COMMISSIONER JONES: That's all, thank you.

11 JUDGE TOREM: It appears there's no further  
12 questions from the Bench, any other parties have  
13 questions for this witness?

14 Mr. Meyer, anything on redirect?

15 MR. MEYER: No, thank you.

16 JUDGE TOREM: All right, it is 3:00,  
17 Commissioners, 10 minute break before we get to  
18 Mr. Woodruff. All right, so we'll come back with Kevin  
19 Woodruff on the stand as close to 10 after 3:00 as  
20 possible, thank you.

21 (Recess taken.)

22 JUDGE TOREM: We're back on the record, it's  
23 now 20 after 3:00. Mr. Meyer, you informed me and  
24 Mr. ffitich as well that you've located the documents to  
25 this inquiry made by Public Counsel, a much more narrow

0923

1 inquiry I think it was, what was the Public Counsel data  
2 request number again?

3 MR. MEYER: It was PC 108C for confidential,  
4 PC 108C.

5 JUDGE TOREM: And so I see in front of you  
6 the stack that's been printed out is all confidential  
7 numbers from an Aurora modeling run, and you indicated  
8 that's probably 1,300 or so pages, the first 8 to 10 of  
9 which may have some narrative comments, and you've shown  
10 it to Mr. Ffitch, he wants his witness Mr. Woodruff,  
11 once we're done with cross-exam here, to take a look at  
12 the electronic version of that and determine Public  
13 Counsel's position whether they would be lodging an  
14 objection to making that part of the record or not, so  
15 that's where we stand on that.

16 MR. FFITCH: Thank you, Your Honor, and also  
17 we might wish an opportunity to examine the appropriate  
18 Avista witness, Mr. Kalich or other witness, with regard  
19 to this once we've had a chance to look at it.

20 JUDGE TOREM: All right, so let me know once  
21 Mr. Woodruff reaches a decision on what relevance or  
22 irrelevance it might have.

23 Mr. Woodruff, I need to swear you in, and I  
24 think we'll turn you over to Mr. Meyer for cross-exam,  
25 and then we'll see if the Bench has questions after

0924

1 that.

2 (Witness KEVIN D. WOODRUFF was sworn.)

3 MR. FFITCH: And, Your Honor, I just have a  
4 preliminary matter or two.

5

6 Whereupon,

7 KEVIN D. WOODRUFF,

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

10

11 DIRECT EXAMINATION

12 BY MR. FFITCH:

13 Q. Good afternoon, Mr. Woodruff.

14 A. Good afternoon.

15 JUDGE TOREM: Before you go forward, I do see  
16 on my notes I have a preliminary matter for those that  
17 might be on the bridge line. We've had it on mute, and  
18 I've just unmuted it, I don't hear the baseball game  
19 still coming in that apparently some of the callers on  
20 the bridge line were enjoying. I do know that the  
21 Rockies were ahead by 1 in the bottom of the 9th, but  
22 apparently we're not going to be advised of that over  
23 the bridge line. Whoever might have their phone  
24 unmuted, please do the courtesy of muting it for the  
25 other callers, thank you.

0925

1                   Now we can get back to you, Mr. ffitch, after  
2 this commercial interruption.

3                   MR. FFITCH: Thank you, Your Honor.

4 BY MR. FFITCH:

5           Q.     Good afternoon, Mr. Woodruff.

6           A.     Good afternoon.

7           Q.     And you were retained by Public Counsel to  
8 provide testimony with regard to Avista's power costs in  
9 this case; is that correct?

10          A.     That's correct.

11          Q.     And you filed direct testimony in this case  
12 and exhibits, correct?

13          A.     Correct.

14          Q.     And those include a revised piece of  
15 testimony, revised direct testimony dated September 2nd,  
16 2009, correct?

17          A.     Correct.

18          Q.     So that's what we'll be referring to in the  
19 hearing. Those documents have been admitted to the  
20 record. Do you have any changes or corrections to your  
21 revised testimony at this time?

22          A.     Just one.

23          Q.     Could you take us to that place in the  
24 testimony, please.

25          A.     Certainly. It's at page 13, line 18, and



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1 there's a phrase there in the middle of the line,  
2 prepared in early 2007, the word early should be  
3 November.

4 Q. Thank you.

5 Do you have any other changes or corrections  
6 to your testimony?

7 A. No.

8 MR. FFITCH: Your Honor, Mr. Woodruff is  
9 available for cross-examination.

10 JUDGE TOREM: Mr. Meyer.

11 MR. MEYER: Thank you.

12

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

14 BY MR. MEYER:

15 Q. Good afternoon.

16 A. Good afternoon.

17 Q. I would like you first to turn to your  
18 resume' of qualifications, that would be Exhibit KDW-2  
19 as well as KDW-3.

20 A. It's just KDW-2.

21 Q. You have a listing of I think representative  
22 clients there that appear as well as part of that  
23 resume' of qualifications, correct?

24 A. Correct.

25 Q. Okay. Now as we look through this exhibit, I

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1 see you've done work for a number of different clients  
2 in various capacities. You've worked on a project in  
3 Arkansas; is that correct?

4 A. Correct.

5 Q. Worked on a project in Maine; is that  
6 correct?

7 A. Correct.

8 Q. You've done several items of consulting work  
9 in California; is that correct?

10 A. More than several, but I -- a dozen or two  
11 you might say depending on how you count.

12 Q. I see. Now other than this case where you're  
13 appearing on behalf of Public Counsel, have you done any  
14 prior consulting work in the Pacific Northwest?

15 A. At my prior employer, Henwood Energy  
16 Services, I know I worked on a few engagements for  
17 entities based in the Northwest. I remember one  
18 independent power developer in particular. I don't have  
19 memory, it was, you know, I was there a long time and,  
20 you know, in a managerial position and supervised a lot  
21 of different things, but I remember one independent  
22 developer up here I was involved with. There may have  
23 been some other --

24 Q. Do you remember when that was and who that  
25 was?

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1           A.     Oh, that was the mid to late 1990's, and I'm  
2 not even sure I can get the name of the firm right.  
3 They're not around any more.  Might have been Northwest  
4 Power Enterprises, but I don't recall the name.

5           Q.     So is this -- is it fair then to say that  
6 this really is your first opportunity to testify before  
7 this Commission on Northwest power supply related  
8 issues?

9           A.     This is the first time I've testified before  
10 this Commission, yes.

11          Q.     On any issues?

12          A.     On any issue, correct.

13          Q.     And then have you had any prior occasion to  
14 review in this region prior to your engagement in this  
15 case any power projects or transmission projects or  
16 natural gas transportation projects?

17          A.     Yes.

18          Q.     Okay.  And when specifically did you and who  
19 did you consult with on which specific power projects in  
20 this region?

21          A.     On specific power projects?

22          Q.     Yes.

23          A.     I mentioned a client before that I know we  
24 looked at one particular project they were trying to  
25 develop.  We helped a developer, not based in the

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1 Northwest, in the early '90's trying to sell a project  
2 to Northwestern utilities. I've had occasion to look at  
3 the Northwestern power system on behalf of clients  
4 outside the Northwest, you know, over the years as well.  
5 Another project comes to mind that we looked at in an  
6 Oregon based project, natural gas fire combined cycle.  
7 In fact, it was the Klamath Cogen project. We had an  
8 engagement for the PacifiCorp subsidiary that was  
9 developing that.

10 Q. Do you recall when that was?

11 A. In the 1990's sometime.

12 Q. Sometime in the 1990's?

13 A. Right.

14 Q. All right.

15 A. When the project was being developed.

16 Q. How would you characterize generally your  
17 familiarity even now with the Northwest transmission  
18 grid?

19 A. The Northwest transmission grid?

20 Q. Yeah.

21 A. I'm trying to pick the right word. I'll say  
22 it's modest. It's not -- I'm not completely unfamiliar,  
23 but I'm not as familiar with the details of the various  
24 cut plains and substations as, you know, I assume you or  
25 your staff is.

0930

1 Q. I see. And in particular even Avista's  
2 transmission and distribution system, would you say  
3 you're quite familiar or only as you say modestly  
4 familiar?

5 A. Modestly at best for Avista.

6 Q. At best?

7 A. For Avista's system.

8 Q. Sure.

9 And also with respect to the natural gas  
10 transportation pipelines that serve the Pacific  
11 Northwest, do you have a -- would you characterize it as  
12 a very good understanding of the physical configuration  
13 as well as the capacities?

14 A. Modest I would say again, although I used to  
15 -- I mean up through the mid '90's I knew it a lot  
16 better, because I helped clients up here that were  
17 developing -- actually other clients I was working with  
18 on projects are coming to mind as I speak, because I had  
19 to deal with pipelines and, you know, gas commodity  
20 developers in the process of helping people develop  
21 their projects. I also helped a California client, an  
22 electric utility that was bidding on what was then the  
23 PGT pipeline expansion, which is now the GTM pipeline  
24 between Canada and Northern California. So I've had,  
25 you know, some exposure to the pipeline grid up here

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1 over the years.

2 Q. When were you engaged to appear on behalf of  
3 Public Counsel in this case, just the month and the  
4 year, please?

5 A. My resume' says February of 2009, and I would  
6 be virtually certain that's when we signed the contract.

7 Q. All right. So prior to February of 2009, had  
8 you had any reason to familiarize yourself with  
9 available green field and brown field projects specific  
10 to the Northwest?

11 A. I think I was more familiar back in the  
12 '90's. If you look, you know, before February 2009 for  
13 the couple years before that or the few years before  
14 that I didn't have a working knowledge of them. I would  
15 see the names in trade press because I would see them  
16 through clearing up every week, but I --

17 Q. Okay.

18 A. So I recognize the names of virtually all of  
19 these projects, but I've not, you know, followed their  
20 status.

21 Q. And I believe you just testified for at least  
22 certainly the few years prior to this engagement prior  
23 to 2009 you hadn't had a reason to familiarize yourself  
24 with those projects?

25 A. No particular client driven reason, no.

0932

1           Q.     I see.  So is it safe to assume that you did  
2 not bring with you to this hearing any knowledge gained  
3 through your involvement in the 2007 through 2009 time  
4 period with respect to available green field or brown  
5 field projects?

6           A.     I don't agree with the way you've asked that  
7 question.  Prior to February 2009 I didn't.  During the  
8 course of this, my work during this year, I've gotten  
9 more familiar in the course of doing some research for  
10 this project.

11          Q.     At the time Avista made its decision in 2007  
12 to acquire the project or the PPA from Lancaster, were  
13 you involved and did you become familiar with in 2007  
14 available projects or PPA's available in the region?

15          A.     No.

16          Q.     Okay.  So after you became engaged in 2009,  
17 then do I read your testimony to be that you then  
18 attempted to familiarize yourself with the universe of  
19 available combustion turbines in the 2007 through 2009  
20 time frame, or did you do it even then?

21          A.     I did some research on them.  I don't want to  
22 overstate the research I've done, but I read your  
23 testimony, I did some independent research, you know,  
24 looking through various web sites.  But yeah, I made  
25 myself more familiar with the various projects up here.

0933

1 Q. So you're not here to testify today that  
2 based on your familiarity in 2007 that you're aware of  
3 any green field or brown field site that Avista could  
4 have acquired that was less expensive than the Lancaster  
5 PPA?

6 A. Yeah, I don't know what would or would not  
7 have been available to them as of that date.

8 Q. I see. Nor have you in your testimony  
9 provided a single example of a green field or a brown  
10 field site that would have been less expensive, have  
11 you?

12 A. No, I didn't, I don't have the burden of  
13 proof here, so.

14 Q. Lastly, were you -- am I to assume that since  
15 your involvement prior to 2009 in the Pacific Northwest  
16 was limited that you did not find yourself involved in  
17 any way in the review of Avista's 2007 IRP or even its  
18 2009 IRP?

19 A. I did not review their 2007 IRP at all. I  
20 have looked at the 2009 IRP postings on their web site  
21 from time to time during my engagement on this case.

22 MR. MEYER: That's all I have, thank you.

23 JUDGE TOREM: That's all the cross for this  
24 witness total?

25 MR. MEYER: It is.



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1 JUDGE TOREM: Okay.

2 Commissioners, anything for Mr. Woodruff?

3 COMMISSIONER OSHIE: I have no questions.

4 CHAIRMAN GOLTZ: No questions.

5 JUDGE TOREM: Okay, no questions from the  
6 Bench.

7 Mr. ffitch, anything that you wanted to  
8 follow up on?

9 MR. FFITCH: Just one question, Your Honor,  
10 along the lines of the inquiry from Company counsel.

11

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

13 BY MR FFITCH:

14 Q. Mr. Woodruff, could you please comment on the  
15 scope and extent of the research and discovery that you  
16 conducted in investigating Avista's proposal in this  
17 case after you were retained by Public Counsel?

18 A. Certainly. I was retained in February to  
19 look at Avista's power supply cost issues in general. I  
20 read through the testimony of the various witnesses, all  
21 the various witnesses. The Lancaster power, you know,  
22 those set of Lancaster contracts seemed like a  
23 particularly large issue. And I, you know, read in  
24 detail the testimony, propounded a lot of data requests,  
25 read them all, and, you know, considered them all in my

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1 -- in preparing my testimony. I also did some  
2 independent research on Pacific Northwest power issues  
3 including some of the, you know, issues that, you know,  
4 Mr. Meyer discussed, you know, to reach my conclusions.  
5 And since I filed my testimony in August I've, you know,  
6 tried to stay current as well including developing some  
7 of the exhibits, you know, cross-examination exhibits  
8 for the witnesses. So I did I think a reasonably  
9 complete research project on the Lancaster power  
10 purchase agreements, this Commission's policies about  
11 prudence and the like, and how they should have decided  
12 to procure resources. It's also the case that you don't  
13 really know what's on the market until you ask, so it's  
14 very difficult for a consultant working for a non-market  
15 participating party to get the kind of market  
16 information that a utility can get when they ask.

17 Q. If you recall, how many data requests did you  
18 propound through Public Counsel office to the Company?

19 A. I don't recall. It's in the dozens, tens or  
20 dozens, maybe close to 100 on my own. That were all  
21 mixed in with others, so I don't remember the sequential  
22 numbering, I don't remember from that, but.

23 Q. Do you remember you characterized the amount  
24 of time that you spent analyzing the Lancaster issue as  
25 part of your work for Public Counsel in terms of hours,

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1 if you can?

2 A. Let me think about that. Probably on  
3 Lancaster alone I've probably spent the bulk of my time,  
4 probably going to be 160 hours of the, you know, of the  
5 200 or so I billed to this project or will have billed.

6 MR. FFITCH: Those are all my questions,  
7 thank you, Your Honor.

8 Thank you, Mr. Woodruff.

9 JUDGE TOREM: Counsel, Commissioners, any  
10 last questions for Mr. Woodruff?

11 He does have a large pile of yellow paper  
12 awaiting him or an electronic version thereof, all  
13 right, Mr. Woodruff, I will let you get to that.

14 I believe that exhausts the list of witnesses  
15 for the Lancaster forecast. However, Mr. Buckley, I  
16 haven't forgotten, Commissioners have some questions for  
17 Alan Buckley regarding Staff's position on the Lancaster  
18 contracts. Commissioners, after hearing everything  
19 today, do we still have questions for Mr. Buckley?

20 All right, I'm seeing the nods of heads, so,  
21 Mr. Buckley, if you'll come take the witness stand, have  
22 a seat here, and I'll note that you do have a  
23 qualifications page in the resume' that was attached to  
24 your joint testimony with Mr. Schoenbeck on other  
25 issues, so if counsel are wondering about it, we don't

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1 need to do a Bench request for your qualifications,  
2 they've already been admitted to the record. So I'm  
3 going to swear you in, and then we'll see where the  
4 Commissioners want to go.

5 (Witness ALAN P. BUCKLEY was sworn.)

6 JUDGE TOREM: Commissioner Jones.

7

8 Whereupon,

9

ALAN P. BUCKLEY,

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

12

13

E X A M I N A T I O N

14

BY COMMISSIONER JONES:

15

Q. Good afternoon, Mr. Buckley.

16

A. Good afternoon.

17

Q. You're been patiently waiting in the back, so

18

I guess I'll start, and I'm sure my colleagues will or

19

may chime in as well. The first question really relates

20

to your review of this material, so did you review the

21

Company's inclusion of the Lancaster contract costs in

22

this rate request?

23

A. Yes, we did. We carried out not only an

24

initial review based on the Company's filing,

25

workpapers, and some initial data requests by Staff, but

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1 also, you know, as the case progressed we also looked at  
2 the DR responses from Public Counsel and others on the  
3 issue, and so we did do an analysis. What we did not do  
4 related to Lancaster was we did not submit separate  
5 testimony regarding our position on that. I took the  
6 approach that Lancaster, although large, was one of many  
7 of the power supply expense line items that were in  
8 there. It is an expense item that's not going into rate  
9 base, so I took the approach that it didn't need a  
10 separate finding of prudence like we pretty much do for  
11 large resources such as going on with the other utility  
12 now regarding Mint Farm and Chehalis. So, you know, in  
13 retrospect perhaps that was not the right way to do it,  
14 but that's the way that it came out so that our ultimate  
15 recommendation, even though it was backed by lots of  
16 analysis similar to all the other items on the power  
17 supply portfolio, was just not to -- our position is  
18 that we're not contesting the Company's inclusion of  
19 these costs into the power supply base rates.

20 Q. So just to fine tune this a little bit more,  
21 so you had an opportunity to review and study the  
22 documents that have been discussed during the hearing  
23 today, and I'm referring to the RLS-4 study in April of  
24 2007, that study, that 6-page study that Avista did?

25 A. Yes. I can't say that, you know, I reviewed

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1     them to the extent of Public Counsel's witness,  
2     Mr. Woodruff, because we knew at the time that, you  
3     know, Public Counsel was concentrating on this issue,  
4     and we also had other issues to address. But, you know,  
5     in general we did look at all those items.

6           Q.     And the Thorndike Landing study as well?

7           A.     Yes.

8           Q.     Do you support the inclusion, I guess you're  
9     saying that you are not contesting the inclusion of  
10    Lancaster, the three contracts, in the calculation of  
11    power costs that was settled, but does that mean that  
12    you support the inclusion of Lancaster contracts in  
13    rates?

14          A.     Yes.

15          Q.     Pursuant to the settlement agreement?

16          A.     Yes, we do.

17          Q.     Okay.

18                   And you mentioned the prudence issue, and one  
19    of the reasons that you didn't file testimony was  
20    related that you didn't -- you weren't going to file  
21    testimony on a finding of prudence, so what's your  
22    recommendation to the Commission on this question of  
23    prudence, is it necessary, and would you support a  
24    finding of prudence for the Lancaster contracts?

25          A.     Yes, I would now. In retrospect I think

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1 given the attention paid to it that we would have  
2 probably submitted separate testimony and maybe asked  
3 for a separate finding of prudence. We never know quite  
4 where to draw that line. There's no official line  
5 that's drawn between a power supply expense, you know,  
6 of a couple million dollars a year versus a acquisition  
7 of a 500 megawatt plant. Obviously plants that go into  
8 rate base need a separate finding, but I don't believe  
9 we have one necessarily for large, you know, PPA's such  
10 as this, although I have a suspicion that we probably  
11 now have one. So yes, I would, given Staff's  
12 perspective of how we looked at the case, which is  
13 different than I'm guessing Public Counsel's, and we can  
14 get into that if you like, we would say that we believe  
15 that the acquisition of the PPA's, Lancaster PPA's, is  
16 prudent.

17 Q. Just a final question and then I'm done, so  
18 is there any other PPA, you know, of this magnitude or  
19 smaller, it could be smaller or larger, is there any  
20 other purchase power agreement that the Commission has  
21 reviewed recently that you would compare this to, you  
22 know, by this utility or I guess maybe not Avista but  
23 another utility that you've had the chance to review?

24 A. Probably not of this magnitude. I think most  
25 purchase power agreements tend to be in the 50 to 100 to

0941

1 150 megawatt range. Most of the large acquisitions that  
2 we're dealing with now in the recent past are basically  
3 purchases that would go into rate base. So this is a  
4 bit of an anomaly having something this big, which is  
5 why I go back to saying perhaps now we have a standard  
6 on submitting specific testimony on ones this large.

7 COMMISSIONER JONES: Thank you.

8 JUDGE TOREM: Commissioner Oshie.

9 COMMISSIONER OSHIE: Thank you, Judge.

10

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

12 BY COMMISSIONER OSHIE:

13 Q. Mr. Buckley, were you here present in the  
14 hearing room when we were cross-examining Mr. Storro?

15 A. Yes, I was here for most of it I believe.

16 Q. Do you recall the line of questioning that  
17 had to do with the order UE-011595 and the settlement  
18 regarding the ERM mechanism?

19 A. Yes.

20 Q. And just to refresh on page 7 of that  
21 settlement stipulation, there is a section, Section E:

22 Transactions with Avista Energy. The  
23 Company agrees it will not enter into  
24 any electric or natural gas commodity  
25 transactions with Avista Energy related



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1           to Avista Utilities electric operations  
2           until the energy cost deferral balance  
3           carries a net credit balance.

4        A.    Yes, I'm familiar with that.

5        Q.    Do you believe that that section of the  
6 settlement stipulation is applicable to the Lancaster  
7 transaction?

8        A.    No, I do not. I was part of that settlement,  
9 and although we always have to admit that people have  
10 different viewpoints even on settlement, that was meant  
11 more to address the concerns at the time of making  
12 hourly, more secondary market purchases, hourly market  
13 purchases, from Avista Energy to the Company, not what I  
14 would characterize this as, is essentially a  
15 acquisition, if nothing else, in the full operating  
16 rights of a large power plant. To me they're two  
17 separate, not even close. And I think, you know, as far  
18 as issues that were brought up by Public Counsel, that's  
19 probably the one that we may disagree on. I understand  
20 there are other issues they raise perfectly and we just  
21 come to different conclusions in regard to those, but  
22 this is the one that I think we probably disagree with.

23        Q.    What was the issue then with the, you know,  
24 with the parties with this particular paragraph of the  
25 stipulation when you made reference to, well, it really

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1 applies to maybe hourly purchases, I don't know, daily  
2 purchases, short-term, you know, purchases of  
3 electricity or natural gas, so why was that an issue  
4 with the parties, was it because they didn't like Avista  
5 Energy, or was there another reason?

6 A. No, I think it was more of just one way to  
7 avoid potential problems is to don't get into the same  
8 room with those parties you may have problems with.

9 Q. What kind of problems are you talking about?

10 A. Well, arms length, the idea of arms length  
11 issues on small day-to-day transactions. At the time,  
12 you know, Avista Energy was having -- had access to what  
13 we call iron, so they were out selling basically  
14 commodities on an hourly basis into the market, and at  
15 the time just to be safe in the settlement we didn't  
16 want the two companies really to be interacting together  
17 on something on a day-to-day basis like that. And it  
18 was -- it would be hard to during the reviews of costs  
19 and the ERM to separate out things, and we just kind of  
20 felt like let's just keep it separate. It was just a  
21 precautionary kind of inclusion. It wasn't meant that  
22 we didn't, you know, the parties disliked Avista Energy,  
23 it was just let's not get into this issue. The Company  
24 volunteered that and said, fine, you know, we won't be  
25 selling basically on an hourly basis to Avista

0944

1 Utilities, we'll just stay out of that market.

2 Q. Well, that's not what this stipulation  
3 paragraph says, is it, that it's only limited to hourly  
4 basis contracts?

5 A. No, I'm sorry, in my definition of commodity,  
6 commodity in this business is, at least as I would  
7 define it as, would be more the short-term transactions,  
8 both on the gas and the electric side.

9 Q. And so --

10 A. I don't think we anticipated the events that  
11 would happen later, and settlements never do, and we're  
12 always going back and looking at settlements, but at the  
13 time it was more these short-term secondary  
14 transactions.

15 Q. So the Staff wouldn't consider a power  
16 purchase agreement to be an agreement to acquire a  
17 commodity?

18 A. Not of 275 to 300 megawatts, no.

19 Q. Why does the number of megawatts make a  
20 difference?

21 A. Well, I think it's not only the size of the  
22 purchase, it's the length, it's the ability of the  
23 utility to completely control essentially the operations  
24 of the plant. We don't picture it as a -- I don't  
25 picture that as a market transaction that's made over

0945

1 the phone from one entity or in a marketing room or a  
2 marketing situation the same as hopefully negotiations  
3 where you're dealing with full operating rights and a  
4 long term of a resource.

5 Q. Does the Staff believe that the -- our  
6 treatment of affiliated transactions, that being the  
7 cost to the rate payer would be the lower of cost or  
8 market, to have an effect on this transaction?

9 A. On the Lancaster transaction?

10 Q. Yes.

11 A. I think in that -- obviously it's a gray area  
12 in this case, and that's part of my analysis conclusion.  
13 But yes, I do consider it a affiliate transaction, so  
14 therefore what I tried to do was kind of cut through the  
15 middle part and get to the point, and the point is what  
16 we're trying to do with our affiliated action,  
17 affiliated --

18 Q. Transaction.

19 A. Pardon me, transaction rules is to protect  
20 the rate payer and try to maintain sort of hands off or  
21 arms lengths transactions, and hopefully that's the  
22 case. In this case I felt that ultimately when you  
23 looked at the questionable or the questions surrounding  
24 the affiliated transaction nature of this versus the end  
25 result of what I believe is a fairly low cost resource

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1 compared to others that were out there in the market and  
2 others that we were familiar with, along with many other  
3 factors I looked at in our analysis, that in that  
4 conclusion that it overrode, if you will, my concerns on  
5 the affiliated transactions. I was confident enough  
6 that the price, the terms, and how this resource fit in  
7 using more qualitative measures, more qualitative  
8 measures, were enough to override my, you know, any  
9 concerns we would have on the affiliated transaction.

10 Q. Was Staff aware in its analysis that there's  
11 no contract between Avista Utilities, that being the  
12 electric utility in this circumstance, and Avista  
13 Turbine, who's holding the rights to the Lancaster  
14 facility?

15 A. Well, I think there's an agreement.

16 Q. Did Staff review that agreement?

17 A. Yes, we looked at the agreements if I recall  
18 long, you know, at the very beginning of the case.

19 Q. Well, Mr. Storro said there was no written  
20 agreement between Avista Utilities, that being the real  
21 utility, not the umbrella corporation, and Avista  
22 Turbine.

23 A. Well, we looked at what was provided to us,  
24 which essentially is in their filing, plus one of the  
25 very first things we look at is the board meeting

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1 minutes of the approval, so we did look at that. And I  
2 don't recall just off hand if it specifically was a  
3 contract or a written agreement. There's memos that  
4 passed me, so copies of memos and numerous E-mails and  
5 things like that, you know, the whole package.

6 Q. Well, I guess it was a surprise, at least it  
7 was to me, that there's no written agreement between  
8 Avista the utility and Avista Turbine for the assignment  
9 for the option to take control of the Lancaster  
10 facility.

11 A. And I would agree to that, I would think  
12 that's such an obvious thing that you wouldn't think  
13 that you need to find it because you would believe it  
14 would be there, so I agree with you.

15 Q. Did you borrow that one from Yogi Berra? I  
16 think I've heard it before.

17 A. I don't think I can say it again.

18 Q. The court reporter is adept at rereading  
19 things back into the record.

20 Well, if there's a -- did Staff look at the  
21 -- other than what the Company had provided to you,  
22 which it probably would have been -- why don't you --  
23 what in your opinion was the most influential filing or  
24 influential piece of information that the utility gave  
25 you in your analysis of the Lancaster contract that

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1 persuaded you that it was a good deal for Avista the  
2 utility?

3 A. Well, I have to say I don't think there was a  
4 single one, I think it's worth discussing a little bit  
5 about how it fits in with our perspective of looking at  
6 these transactions plus the context in which it was  
7 made. It was sort of this evaluation of all the items  
8 are given plus the context, and I'll discuss that in a  
9 second. But I guess I can admit that the bottom line  
10 often comes down to one of price and the benefits to  
11 rate payers or the combination of those two. However,  
12 there are other issues, and it's worth discussing just  
13 for a few minutes.

14 When we evaluate these, we have a perspective  
15 of a balancing act between shareholders, rate payers,  
16 and the Company. That's our perspective of the way we  
17 look at these. So when we're evaluating all the  
18 studies, everything else, you know, we're trying to  
19 maintain that balance. So that's one of the  
20 perspectives we looked at or I looked at.

21 The other one that's important and may be  
22 ultimately the most important is the long-term effect on  
23 rates, not the effect today, the next year, but more on  
24 a long-term basis. For power supply expenses, which are  
25 calculated on a normalized basis unlike many of the

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1 accounting adjustments, I tend to concentrate on that  
2 long-term effect on what the Company does.

3           The other issue maybe perspective is one of  
4 what kind of administrative burden, if you will, or  
5 administrative workload does it create for us. And what  
6 I mean by that is you can have an issue or an item, and  
7 let's just take this for an example, when you're  
8 evaluating these costs down the line, whether it be for  
9 base rates or whether it be for the annual ERM review,  
10 that it is -- it may be less burdensome, easier to deal  
11 with plants or contracts or whatever that the Company  
12 has kind of in house versus looking at something that's  
13 exterior such as market purchases. And an example of  
14 that would be it's easier to kind of have a control over  
15 if you had a resource that you were putting in rate  
16 base, you had a rate base component, you have an O&M  
17 component which is in house to the Company, and you have  
18 typically gas prices, which are somewhat transparent.  
19 And then you analyze that versus -- you compare that to  
20 the potential to have some large amount of transactions,  
21 market transactions, on an hour-to-hour basis for 365  
22 day of the year, 24 hours a day, that you would have to  
23 or could analyze. So that's what I mean by one of the  
24 perspectives is looking at administrative burden.

25           Then there's when I looked at this, and I



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1 will be specific on Lancaster, is it's also the kind of  
2 qualitative context of the way that I'm looking at the  
3 Company's case and the subsequent data responses. I had  
4 to take into consideration, you know, frankly that what  
5 the other utilities were acquiring. We have a history,  
6 recent history, of the utilities acquiring opportunistic  
7 resources, if you will, that, you know, are somewhat  
8 similar to this in that you might say that there's a  
9 short time frame, there's negotiations going on, there's  
10 a bankruptcy, there's some third party that wants to get  
11 out of something, and we have companies -- we have some  
12 before us now before you now on other cases and we've  
13 done some in the past that we have to kind of consider  
14 how this fits in with that.

15 Q. And what projects are you referring to,  
16 Mr. Buckley?

17 A. Well, most significantly, well, ones that are  
18 before you now or will be before you are Mint Farm that  
19 Puget has and Chehalis which is PacifiCorp.

20 Q. Were there others that --

21 A. In the past we've had there was the second  
22 half of Coyote Springs 2, which was, you know, one of  
23 these deals that the Company got some resources at we  
24 think a fairly good price. I believe Fredrickson,  
25 Goldendale, a number of these, and that's been the norm

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1 for the last few years rather than put out an RFP, get  
2 RFP responses, you know, and then proceed that way.  
3 That's worked well for some, but that's the norm  
4 nowadays.

5 Q. Let me ask you a question about these  
6 resources. Let's start with Coyote Springs 2, do you  
7 know if the Company acquired that facility at a market  
8 price or one that -- or the price that the seller paid  
9 for that project?

10 A. Coyote, the second part of Coyote Springs 2,  
11 the latest?

12 Q. Coyote Springs 2.

13 A. Right this second I could not say with any  
14 certainty. I believe it was -- I know that the price  
15 compared or installed to a kilowatt hour basis was very  
16 favorable, but I don't recall how it fits in.

17 Q. What about the Goldendale project, do you  
18 recall any information about that project that would  
19 tell you that the price that was paid by the utility was  
20 the market price at the time or what the owner, what it  
21 actually cost the owner to acquire or build?

22 A. Well, I think it was -- I did not work on  
23 those particular cases, one of the other Staff members  
24 did, but I did -- I don't believe it was at market, I  
25 believe it was below market, but how it compares to the

0952

1 actual price, that I'm not sure on.

2 Q. Would you say the same would be true for  
3 Fredrickson?

4 A. Yes.

5 Q. And I'm not going to ask you about Mint Farm  
6 or Chehalis because they're both coming up, but wasn't  
7 the idea that the certain projects were available to the  
8 utility at a cost lower than it could build of course,  
9 but also at a cost that was essentially a fire sale and  
10 which I assume means that the seller was selling it for  
11 less than its cost?

12 A. That's the way I would characterize it I  
13 think. I mean it depends on your definition of what --  
14 how fire sale -- how much a fire sale is. But yes, we  
15 think they were acquired at very favorable rates. They  
16 were resources that were within the companies' control  
17 area typically or located very good for purposes of  
18 generation, as is Lancaster. The ones that I can  
19 remember, and again we won't get into the ones that will  
20 be before you now, but I believe that the ones in the  
21 past were favorably priced. Whether you define it as a  
22 fire sale depends on your viewpoint.

23 Q. It's just a term.

24 A. Yes.

25 There's also other issues, you know, that we

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1 have that I looked at in these. It's like there's,  
2 well, we discussed a little bit about the location. One  
3 of the -- some of the other items that don't show up in  
4 a dollar evaluation are future potential for reserves.  
5 We are having lots of wind projects come in and other  
6 renewables. Well, every wind project that's built has  
7 to have reserves from somewhere. So even though it may  
8 not be incorporated into the analysis of that specific  
9 resource, we can kind of look ahead and go, well, as  
10 compared to a market purchase which may not provide any  
11 reserves, as compared to having to take up reserves of  
12 existing hydro plants, you will have either through  
13 ownership or through a PPA such as this the ability to  
14 count that as reserves in your service territory.

15           There's also one kind maybe other kind of  
16 major item that I looked at when I was coming to my  
17 ultimate recommendation, or lack of recommendation, is  
18 that you take a look at what you're -- what's going on  
19 right now and how the Company should react, and one of  
20 those is, and this addresses maybe the timing issue a  
21 little bit, timing is never perfect on these, but for  
22 example this -- we started evaluating this in relatively  
23 early 2009. Well, what happened in early 2009 is one of  
24 the Colstrip units went out and has been out for an  
25 extended period of time. So part of the thinking in

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1 whether this, and this is a qualitative thinking, of  
2 whether this resource is appropriate is, okay, if the  
3 Company had had this, what would its effect be on  
4 customer rates, and would it be like we're going to have  
5 which is where you're going to be relying upon the  
6 market, which usually is -- usually your outages are  
7 going to happen when market prices are not favorable,  
8 versus having a resource that allows you, you know, to  
9 fill those needs. So just these external kind of  
10 qualitative things that are out there is also what  
11 ultimately came to my conclusion of accepting the  
12 Company's case.

13 Q. How did Staff evaluate the market price of  
14 Lancaster?

15 A. The --

16 Q. Maybe I can -- go ahead.

17 A. Well, I think in general it's market price is  
18 I think at the most fundamental level is the cost for  
19 this type resource is the basically the dollar cost per  
20 kw installed. These are -- can be base load plants, so  
21 that works out well. We relied upon the information  
22 from the Company which was -- had, you know, I think was  
23 in line with what I remember from what happened in  
24 previous cases, what other Staff members remember from  
25 previous cases, plus we knew prices that resources were

0955

1 being paid for by other regulated utilities. We have  
2 kind of a long-term history of in general knowing the --  
3 following the price of installed capacity of combustion  
4 cycle turbines. At one point the old rate used to be  
5 \$800 was the standard, and I think even in the  
6 short-term period when we were short on turbines it went  
7 up to \$1,200, maybe higher than that back during the  
8 energy crisis. So this was done in a kind of a  
9 qualitative analysis looking ahead at information and  
10 came to the conclusion that at the price this was, it  
11 was reasonable for rate payers.

12 Q. Did it make any difference to Staff that this  
13 was a tolling agreement and not actual acquisition of a  
14 plant, for example as it was for Fredrickson or  
15 Goldendale or Coyote Springs 2?

16 A. Given the length of the time, it did not.  
17 And I also kind of looked at this and fully expect  
18 something in the not too distant future where perhaps it  
19 will become something other than tolling and more of an  
20 ownership situation. But as long as -- for operations  
21 purposes and for rates purposes, which are the two main  
22 things I looked at, it really is about the same.

23 Q. So --

24 A. And in some cases maybe a little bit better  
25 because of the maintenance contracts and things along

0956

1 those lines.

2 Q. So Staff made a judgment call, let me just  
3 restate your testimony, that other than the information  
4 that was provided by the Company, which I believe is  
5 we've seen today in evidence, thank you, Mr. Buckley,  
6 that Staff made a judgment call that this was a good  
7 deal and it's satisfied that it meets the test of the  
8 lower of cost or market?

9 A. Yes, I do.

10 Q. And I believe this is already in the record  
11 and but I just want to perhaps state it again and see if  
12 you agree that when this contract was first -- well,  
13 let's put it this way. When Avista Utility, Avista  
14 Turbine acquired the rights to Lancaster in 2007, you've  
15 said that there's no -- you haven't seen a contract  
16 between Avista Turbine and Avista the utility to acquire  
17 the Lancaster facility; is that right?

18 JUDGE TOREM: Can I make a correction,  
19 Commissioner Oshie, I think Avista Turbine may have had  
20 the rights long before, and they assigned them for the 2  
21 1/2 year period.

22 COMMISSIONER OSHIE: That's right.

23 A. Yes, because that's not something we would  
24 have concentrated on for some of the other material. I  
25 think that would have come in more in place when you

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1 were more talking about the affiliated transaction  
2 problem or issue, if you will. And I have to admit  
3 that, you know, I looked at that, but with all the other  
4 issues kind of weighing in on a more favorable side, I  
5 won't say I turned a cheek, but said that I think it  
6 outweighs it and these other things satisfied those  
7 concerns. So it was not the structure between  
8 affiliates, and who holds what in the contracts was not  
9 something that I spent a lot of time on. It was  
10 definitely more the bottom line and the operational side  
11 of things.

12 BY COMMISSIONER OSHIE:

13 Q. Would it have made a difference to Staff if  
14 the Company had gone to the market with a request for  
15 proposal for a resource similar to a Lancaster between  
16 2007 and the end of 2009?

17 A. Would it have made a difference in?

18 Q. In your thinking of the market value of this  
19 facility.

20 A. Well, I don't think my ultimate conclusion  
21 would have changed, because we did have I believe some  
22 RFP's from other utilities, and you had other  
23 transactions that were being made. I think in  
24 retrospect the Company may have -- should have tried to,  
25 perhaps realizing that this would be an issue, may have



0958

1    tried to put out some kind of a quick RFP, if you will,  
2    to see what was out there.  When I looked at their  
3    information of what their conclusions of what was out  
4    there, I didn't see anything that was inconsistent of  
5    what we already knew by following our other regulated  
6    companies and the transactions that they've been  
7    entering into in the same area.  So I think obviously  
8    more information would help anybody's decision, I don't  
9    think it would change the results.

10        Q.     Does Staff, you know, when does Staff believe  
11    that an RFP is required for the utilities that are  
12    looking to fulfill a resource need?

13        A.     Well, we have specific rules on when the  
14    companies are required to file RFP's.

15        Q.     Was an RFP required to be filed by Avista in  
16    2007?

17        A.     I do not know.

18        Q.     Would that be important information?

19        A.     I can certainly find out.  We have had --

20        Q.     Just in a general way, Mr. Buckley.

21        A.     Yes, and, well, first of all, I have to go  
22    back, the companies, none of the companies are required  
23    to file an RFP before acquiring a resource.  If they  
24    acquire something, a resource outside an RFP, then they  
25    have obviously a little bit more of a burden of proof to

0959

1 do that. So when this came up and, you know, it was not  
2 the result of an RFP, I knew that, but, you know, I did  
3 not concentrate on the RFP nature of it because they're  
4 perfectly allowed to acquire resources outside an RFP as  
5 long as they provide all the information and their  
6 justification for doing so. So it, you know, I knew  
7 that they had not had one for combustion turbines, most  
8 of the ones that have been recent years have been for  
9 renewables, but, you know, it wasn't a stumbling block  
10 to continue the analysis on whether this was a resource  
11 that would be prudent for them to acquire.

12 Q. Let me perhaps restate your testimony that  
13 when Staff looked at this agreement or the PPA, it took  
14 the long-term look and agreed that this, by looking at  
15 it long term, this contract was in the public interest,  
16 to use that term, just, reasonable, prudent, actually  
17 didn't make a prudency judgment on it, but I guess you  
18 perhaps did in your earlier testimony, excuse me, but  
19 it's the long term that Staff's really concerned about  
20 here?

21 A. Yes.

22 Q. Okay. Staff's aware that the analysis that's  
23 been provided by the Company and I think was focused on  
24 by Public Counsel's cross-examination was that this  
25 project if it were to be acquired by Avista the utility

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1 in the beginning of 2010 has the potential to be a  
2 loser, it's forecasted to be a loser by \$12.9 Million  
3 for that period?

4 A. Well, I'm aware of that analysis, and that  
5 conclusion is based on the parameters that were given  
6 that analysis.

7 Q. Isn't that the -- aren't those the same  
8 parameters that Staff used in part to analyze the  
9 contract? I mean wasn't that part of the evidence that  
10 the utility supplied to Staff and the other parties to  
11 support the agreement?

12 A. Yes, it was, but again because we look at the  
13 long-term nature of acquisitions, we don't concentrate  
14 on, you know, a first year effect as compared to some  
15 other alternative that may or may not have certain other  
16 issues built into it. There's no certainty that, you  
17 know, as compared to that other alternative that there's  
18 -- it could have been built, there's no certainty that  
19 the alternative, let's say starting it in 2011, would  
20 have been available. Again by taking the long-term  
21 approach in many cases there may be a short-term  
22 detrimental effect in favor of the long term.

23 Q. Does it -- how does Staff view at least what  
24 I believe to be the evidence as presented today or  
25 that's in the record that Avista Turbine with no

0961

1 agreement, from at least the way I interpret it because  
2 there's no agreement between Avista Turbine and Avista  
3 Utility, there's no obligation to take this PPA in 2010,  
4 it could be 2011, matter of fact that was one of the  
5 analytical details that went into the study, it could  
6 have been 2009. And Mr. Kalich said, well, the longer  
7 we wait, the better the deal it is for the rate payers.

8 A. Again, I think you start getting into a  
9 situation of two things. One is you're forgetting the  
10 longer term approach, and we often --

11 Q. Well, now wait, hold on, Mr. Buckley, I  
12 understand, and I just wanted to -- I'm not forgetting  
13 the longer term approach, that's the backbone of Staff's  
14 analysis. What I'm saying is that the evidence as I've  
15 heard it is there's no binding legal agreement for  
16 Avista the utility to take this project in 2010.  
17 There's an understanding. And if they could wait until  
18 2011, wouldn't that be a better deal for the rate payers  
19 and then get the long-term benefits from this PPA?

20 A. I think the numbers show that, but I honestly  
21 believe that there's other things besides just the  
22 numbers. I think we start getting into a kind of a  
23 dangerous situation where you can -- the Company may not  
24 want to make some transactions that are beneficial in  
25 the long term if, you know, you kind of get into this

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1 situation almost like a should have, could have way.  
2 And I recognize that with no binding contract it's  
3 something they can change now, but that's this  
4 particular maybe transaction that's a little odd. If  
5 you --

6 Q. Well, are you saying then that the Company  
7 would walk away from this longer term deal if the  
8 Commission said that, you know, we agree that this is in  
9 the best interests but not until 2011?

10 A. I can't speak to that, because I can't  
11 speculate whether it would be even available in 2011.  
12 For the companies that are out there right now,  
13 primarily because of needing to acquire new resources,  
14 we have several companies that are out there, that  
15 whether this resource would still be available then,  
16 that's the question mark. And then you get a situation,  
17 well, of course it's being controlled right now by, no  
18 matter how you look at it, it's being controlled, the  
19 decision is being controlled by Avista, but, you know,  
20 are you going to have them hold off maybe some other  
21 transaction that they could handle these plants with or  
22 do with some other utility to save this for Avista  
23 Utilities in 2011. Is that prudent for them to do from  
24 a, you know, maybe a shareholder standpoint perhaps. It  
25 might be prudent to do from a rate payer, pure rate

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1 payer standpoint if you have that ability to do so, but  
2 what I was trying to make a point is maybe transactions  
3 aren't quite like this. I would hate to see them not  
4 make transactions that are at least beneficial in the  
5 long term because there are some short-term problems or  
6 some issues that said, well, we could have, you know,  
7 this can be delayed a year or another year or another  
8 year.

9           When I looked at this, it was a hope that,  
10 two things, we recognized that there was some issues  
11 related to the short-term cost, but we're kind of also  
12 hoping that through the ERM either we would get some  
13 more benefits that would counter those costs, or if it  
14 went the other way, frankly all else given equal, the  
15 Company would be eating the first \$4 Million of those  
16 costs plus sharing 50/50 in the rest. So there was less  
17 risk to rate payers, and this is what I don't think some  
18 of those studies do because it doesn't recognize the  
19 operation of the ERM, there is less risk to rate payers  
20 than what you might expect from that \$12.9 Million for  
21 the first year. And I think that's kind of an important  
22 thing to realize that the ERM is out there.

23           Q.     And I think you would agree that there is  
24 certainly less risk to shareholders if the utility picks  
25 this project up in 2010?

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1           A.     That depends on the market prices and what  
2 happens and what they could do with the energy.

3           Q.     And there's nothing really in the record  
4 about the market prices today for that facility?

5           A.     No, I think we have in the Company's analysis  
6 their Aurora runs, there's market price assumptions in  
7 that, it's selling at a -- into the market at those  
8 prices.

9           Q.     But the value of the project is what I was  
10 getting at.

11          A.     Oh.

12          Q.     Other than the Aurora runs.

13          A.     Yes.

14          Q.     Okay.

15                 Do you know what this project has been doing  
16 since 2007, has it been operating?

17          A.     Yes, I believe it has.

18          Q.     Okay. Do you know whether the project has  
19 been in the money in 2007?

20          A.     No, I don't have that information.

21          Q.     2008, 2009?

22          A.     Well, I don't -- when you say in the money, I  
23 guess we need to define, go backwards, we need to define  
24 it. We have not been following the operations of it as  
25 -- I guess. It's out there, it's available, but whether

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1 it's been the spark spread analysis running for the  
2 owner of it and the operator of the plant now, we don't  
3 have their -- it's a non-regulated company, we don't  
4 have their financials to determine how they analyzed  
5 their spark spread decisions.

6 Q. Okay. Would you agree that if a project is  
7 in the money it's worth more to a potential buyer?

8 A. I think there's so many complicated things  
9 that go with that, you just can't say yes or no.  
10 There's the effective reserves that it has. I mean  
11 obviously if a resource has a favorable load factor and  
12 therefore is in the money more than one without a  
13 favorable load factor, then its value to anybody is  
14 better with or without consideration of reserves or any  
15 other factor that goes with that plan. And, you know,  
16 this one is a fairly good efficient plant.

17 COMMISSIONER OSHIE: All right, well, it's  
18 been quite a while, Mr. Buckley, thank you for your  
19 testimony.

20 THE WITNESS: Thank you.

21 CHAIRMAN GOLTZ: Just very brief I hope.

22

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

24 BY CHAIRMAN GOLTZ:

25 Q. Following up a little bit on what



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1 Commissioner Oshie was saying, listening to all of this  
2 today and reading the testimony, I understand that you  
3 take the position as this Company, you have to look at  
4 the big picture, the long view. And we heard testimony  
5 from the Company, and this was also a suggestion of  
6 Mr. Ffitch, that while that may be true, looking in the  
7 near term, at least in the first year, 2010, 2011,  
8 perhaps it's really not that good of a deal. And I  
9 gather you're saying, well, yeah, but you have to take  
10 the long view. One of the sort of set of facts that  
11 gives me pause, and we may get some clarification in the  
12 brief on this, is during the analysis that Mr. Kalich  
13 did in March and April of 2007 where he said it would be  
14 a better deal if we started in 2011, and that went into  
15 negotiations, and that's sort of a black box, and, you  
16 know, I don't know if it would have been possible for  
17 the Company to have negotiated a better deal or not. So  
18 my question is, in your review of all of this did you  
19 get any insights into that black box, or is that just  
20 not, the negotiations, or is that just not something you  
21 would look at?

22 A. That really is not something I looked at. I  
23 took the fact that it was coming in in 2010, you know,  
24 one, knew that it was part of a negotiation and try the  
25 deal with just what was there, what we were looking at

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1 before us. And, you know, particularly in that kind of  
2 negotiation of somewhat -- I mean any resource, you can  
3 get in a situation I believe that when you're acquiring  
4 bulky resources where you may have a need of 10  
5 megawatts but the resource comes in 50 megawatt blocks,  
6 you're always going to have a timing issue, and it is  
7 always, unless market prices are virtually nothing, it  
8 usually, I said almost always, is going to be favorable  
9 to wait.

10           The issue becomes, you know, just how much  
11 can you wait and at what risk. When there was no plants  
12 out there and we had to build everything, it became one  
13 of, well, how much were costs going up, was siting going  
14 to be available, so a bird in the hand was something  
15 definitely worth money even though on paper it didn't  
16 maybe pencil out that you would have been better to  
17 wait. And this one, although it's not quite as simple  
18 because there apparently was some kind of ability to  
19 delay it, you know, a year, I didn't really consider  
20 that as an option and just took, you know, 2010, how it  
21 fits in in 2010 and the long term and with all the  
22 other, you know, qualitative things I mentioned and said  
23 that I believe it is good enough without an adjustment.  
24 That's my perspective, not Public Counsel's.

25           Q.     That's my question is I just don't -- it's

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1 fuzzy to me whether or not there was some potential  
2 ability to delay this a year from the record we have.

3           The only other question I have is I asked  
4 Mr. Johnson of the Company to just describe briefly how  
5 say hypothetically in 2010 where there is not as much  
6 need for this power from Lancaster and there's sales  
7 into the wholesale market how the revenues from those  
8 sales would be put into rates, and he gave an answer,  
9 and I was just wondering if you heard the answer and if  
10 you agree with that?

11           A.     Yes, and it's not only the sales from  
12 Lancaster, but also the transmission and the gas  
13 transportation would flow through the ERM. I think the  
14 thing I would add to his, I believe he did say this  
15 once, was that the actual effect at the time it may  
16 happen depends on where you sit in the dead band at  
17 whatever month that it may happen.

18           Q.     Right.

19           A.     And so it's kind of hard to tell whether it  
20 would be within the \$4 Million or out of the \$4 Million,  
21 it depends, because everything gets kind of thrown into  
22 the pot.

23           CHAIRMAN GOLTZ: Thank you, I have nothing  
24 further.

25           JUDGE TOREM: Commissioner Jones, follow up?

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1                   COMMISSIONER JONES: Just a -- this will  
2 hopefully be short.

3

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

5 BY COMMISSIONER JONES:

6           Q.       Just to follow on Commissioner Oshie's  
7 questions and your comments about other CCT plants in  
8 the region, I think you mentioned a figure of, you know,  
9 \$800 per installed kilowatt or something. Have you had  
10 a chance to review Mr. Kalich's rebuttal testimony?

11          A.       I've looked at it briefly, I don't have --

12          Q.       There's a chart in there, and I'm sure you  
13 have all these perhaps memorized, but it basically cites  
14 that the average in recent CCGT projects is \$865 per  
15 installed kilowatt. Is that roughly your understanding  
16 of the marketplace in the Northwest?

17          A.       I believe so, yes.

18          Q.       And did you -- do you agree with his  
19 characterization of Lancaster costs in that graph of  
20 roughly he has it posted at \$550 per installed kilowatt?

21          A.       Yes.

22          Q.       You're familiar with the process of the  
23 Commission if an IPP has an objection to the RFP process  
24 there's an ability to complain?

25          A.       Yes.

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1 Q. Has there -- have you heard anything from the  
2 IPP groups in the region complaining about this project  
3 or the nature of the project, do you have any  
4 recollection of that?

5 A. Not on this project, I don't have any  
6 recollection.

7 Q. Okay. On others perhaps?

8 A. On others I believe there has been some where  
9 similar situations have happened and potential bid  
10 parties have raised questions. Whether it's been done  
11 formally or informally I don't remember.

12 Q. And just the last one on prudence, so what  
13 are you recommending, are you advising the Commission  
14 that we don't have to make a determination of prudence  
15 in this because it's a PPA or not?

16 A. Well, that's the way I initially structured  
17 my testimony.

18 Q. Yeah.

19 A. And through potential cross answering  
20 testimony I think given now that I probably would have  
21 made specific requests for a finding that this PPA is  
22 prudent given the cost and the size of it. I think it  
23 might be a good idea sometime in the future to discuss  
24 some type of size standard or cost standard for what the  
25 Commission wants to see on some of these power supply

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1 items.

2 Q. And then, Mr. Buckley, as the Commission  
3 makes the determination of prudence, what other proxy  
4 plants should we be looking at in your view? Should we  
5 be going back just to April 2007 based on what you heard  
6 today, or should we look at the total universe of --  
7 obviously we can't look at pending cases before us, but  
8 there have been other transactions in the recent past,  
9 should we be able to look at all that in your view?

10 A. Yes, obviously we have the plants that are  
11 pending before you in the other dockets, but I think  
12 it's a good idea to do recent ones, and I think it's a  
13 good idea not necessarily to spend a lot of time on but  
14 don't forget what may have happened, you know, six,  
15 seven, eight years ago during the energy crisis when  
16 certain events happened that caused some of these things  
17 to go way up. So I think it's just -- it's a good idea  
18 not to forget history, so I think it's a good idea to  
19 remember that things have a tendency to go up much more  
20 than they do down, so I think that's an important  
21 consideration too besides the more recent.

22 COMMISSIONER JONES: I am a student of  
23 history, so I appreciate that comment. Thank you,  
24 Mr. Buckley.

25 JUDGE TOREM: Additional Bench questions for

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1 Mr. Buckley?

2

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

4 BY JUDGE TOREM:

5 Q. I just have one that I want to try to sum up.  
6 In listening intently, Mr. Buckley, to what you've been  
7 saying, I appreciate the qualitative/quantitative  
8 approaches and what I would roughly call just the  
9 judgment call approach that you appeared to initially  
10 put to and still now reiterate here that this was a good  
11 idea for the Company, shareholders, and rate payers,  
12 particularly when you look at it at the long term. But  
13 at the end of the day for the Bench, Public Counsel has  
14 raised what I see as a legal standard objection, and  
15 unless I'm understanding you now to say that that legal  
16 standard just doesn't apply, assuming for a moment that  
17 it does, the legal standard of prudence and further  
18 arguments under affiliate transactions, did the Staff  
19 look at this again or would you today and say they've  
20 met, the Company has met the burden of proving prudence  
21 under a legal standard that does apply?

22 A. The legal standard that I think I'm more  
23 familiar with is what would reasonable management have  
24 done at the time, that line of it, without getting into  
25 the affiliated interest side it, because that's -- I'm

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1 not an expert on affiliated interest. I think that the  
2 Company's filing as filed and the workpapers and the  
3 exhibits meets that standard.

4 Q. And we can make that analysis without knowing  
5 the 2007 forecast for market prices for 2009 or 2010?

6 A. Within the Company's analysis, there's  
7 forecasts out, you'll probably see in the Aurora runs,  
8 of what market prices will be back in 2007. Their  
9 analysis that Mr. Kalich did is based on the prices at  
10 the time and such, along with not just the prices at the  
11 time, but the analysis also takes into consideration  
12 higher prices, lower prices, a range, so that analysis  
13 is in there. And that's why there's a range of benefits  
14 as well as all this being normalized as well. So yes,  
15 there is on the record, there is pricing information  
16 inherent in that analysis of a range. Looking at things  
17 today, the range may be different, it may be the same,  
18 you know, we don't know depending on whether that range  
19 would be the high-low gas case is typically how we  
20 analyze this.

21 I think that some of the issues probably that  
22 they did not capture in the analysis is some of those  
23 qualitative ones, talking about particularly, you know,  
24 reserves being available for wind and things like  
25 location, although they did cover some of the location



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1 issues based on the difference in the gas tax. Some of  
2 that is in the analysis.

3 But, you know, when I relied upon their  
4 analysis in the past prudency cases, Staff has done, you  
5 know, their own independent analysis if they disagree  
6 with the Company's analysis. The first step is looking  
7 at what's been done, and so I think what's available and  
8 so I think that is sufficient there. I do agree that  
9 there is some weakness on the affiliated transaction  
10 side of it, but I think ultimately I tried to get for  
11 purposes of this just kind of bottom line it, and I  
12 think that probably was and continues to be a problem.

13 Q. All right. So we don't have that same easy  
14 way out writing an opinion on this, so I just wanted to  
15 see what your thoughts or guidance might be today.

16 A. And I think, you know, from, you know, Public  
17 Counsel's, you know, I definitely respect their  
18 analysis. They did a lot of work on this case, and, you  
19 know, a lot of analysis and a lot of good analysis.  
20 There are issues I think fundamentally where we come  
21 that we just disagree on the conclusion of those, of the  
22 various package of issues that are out there. You can,  
23 you know, draw a conclusion, and they can be different,  
24 and that's why I think we had this issue the other day  
25 of what Staff's position even though we in this case we

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1 did not -- we were silent in the sense that we agreed  
2 with the Company's costs that were put into this, we  
3 were silent, and we said the other day that we were  
4 neutral, we're not taking a position on Public Counsel's  
5 case, and that is really due out of respect for their  
6 analysis and their analysis coming from their  
7 perspective.

8 JUDGE TOREM: Well, this was an hour well  
9 spent in fleshing out the difference between Staff's  
10 approach and Public Counsel's and telling us Staff's  
11 position affirmatively, I appreciate you being available  
12 for this.

13 THE WITNESS: It will be in testimony next  
14 time.

15 JUDGE TOREM: We'll see.

16 It's now a chance for the other counsel to  
17 let me know from what they've heard here what, if any,  
18 questions they want to put forth today or what other  
19 option, Mr. ffitch particularly, you would want to have  
20 to cross-examine Mr. Buckley at some other time you  
21 might recommend.

22 MR. FFITCH: Your Honor, I would like to  
23 request a few minutes to talk with my expert witness  
24 before we make a request or a proposal about procedure.

25 JUDGE TOREM: All right, given the time is

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1 4:35, why don't we take 5 minutes. Is that going to be  
2 sufficient? Your witness is nodding his head. So we'll  
3 come back in 5 minutes, everybody stay close, and we'll  
4 see what you can do. If you can talk to Mr. Meyer at  
5 the end of that 5 minutes and let him know, he may also  
6 have some cross-exam, although I would, given the  
7 substance of what we heard, have to call it friendly  
8 cross, so I'm hoping that Mr. Meyer won't have a whole  
9 lot of friendly cross for this witness, but let him know  
10 your intent at the end of the next 5 minutes.

11 MR. FFITCH: We will do that.

12 (Recess taken.)

13 JUDGE TOREM: All right, it's 10 minutes to  
14 5, we'll be back on the record. Mr. ffitch, I saw you  
15 had a proposal there for Mr. Meyer, on bended knee.

16 MR. FFITCH: Yes, thank you, Your Honor,  
17 appreciate the opportunity for a brief recess so we  
18 could consult. Essentially Mr. Buckley has provided  
19 what amounts to rebuttal testimony, or excuse me,  
20 responsive testimony to the Company proposal on  
21 Lancaster in his comments from the stand just now in  
22 lieu of filing written testimony in the case on August  
23 17th. What we would request, Your Honor, is two things.  
24 We would like the opportunity to cross-examine  
25 Mr. Buckley on his testimony in the morning after we

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1 have an opportunity to prepare that cross-examination,  
2 and we would also request the opportunity for  
3 Mr. Woodruff to take the stand and provide oral  
4 cross-rebuttal. If Mr. Buckley had filed this testimony  
5 on August 17th, we would have filed oral cross-rebuttal  
6 I expect through Mr. Woodruff on September 11th, and so  
7 we would request the opportunity for Mr. Woodruff to  
8 make some comments in the nature of cross-rebuttal to  
9 Mr. Buckley's testimony.

10 JUDGE TOREM: All right, so if I understand  
11 correctly, we wouldn't take any further testimony on the  
12 Lancaster contracts today, we would put Mr. Buckley back  
13 on the stand tomorrow. He's nodding his head that he  
14 thinks he's not available, but assuming we make him so,  
15 then Mr. Woodruff would offer his verbal testimony in  
16 cross-answering or rebuttal?

17 MR. FFITCH: Yes, Your Honor, that's correct,  
18 and then he would be available for any questions.

19 JUDGE TOREM: Now assuming this is all made  
20 to work somehow, how long do you think each of those  
21 segments might take?

22 MR. FFITCH: Your Honor, I would expect that  
23 that would take no more than 1 hour, each of the  
24 segments, Your Honor, I would estimate approximately 30  
25 minutes for Mr. Buckley and I'm going to say 30 minutes

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1 for Mr. Woodruff, but I suspect that that's quite  
2 generous.

3 JUDGE TOREM: Let's be off the record for a  
4 minute.

5 (Discussion on the Bench.)

6 JUDGE TOREM: Mr. ffitch, would all of those  
7 segments still work, particularly the examination you  
8 have for Mr. Buckley, for him to appear by telephone? I  
9 know it may not be optimal, but could we make that work,  
10 because that would make things work better for the  
11 witness as well.

12 MR. FFITCH: Yes, Your Honor, that would be  
13 workable for us if the witness were to appear by  
14 telephone.

15 JUDGE TOREM: All right, so let me check with  
16 the other parties and make sure if they have any  
17 concerns on the suggestion that Mr. ffitch has just made  
18 as well as the modification that Mr. Buckley's segment  
19 of cross-exam be by telephone.

20 Mr. Meyer?

21 MR. MEYER: Well, I don't think so. And I  
22 say I don't think so because I don't know what is going  
23 to be said by Mr. Woodruff. I would not anticipate we  
24 would have any cross of Mr. Buckley. Number two, I  
25 would not anticipate -- I don't know if we're going to

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1 have any cross of Mr. Woodruff, and it may be, and I'm  
2 not suggesting we even want to go down this path, but we  
3 might want to recall for 10 minutes one of our witnesses  
4 depending on what Mr. Woodruff says. Those are the sort  
5 of thoughts going through my mind not knowing how this  
6 will play out tomorrow, but we don't intend to belabor  
7 this point.

8 JUDGE TOREM: Commissioners, any input on  
9 this?

10 CHAIRMAN GOLTZ: Why don't we just pick a  
11 time, it doesn't have to be first thing.

12 MR. BUCKLEY: First thing.

13 CHAIRMAN GOLTZ: If that's what's most  
14 convenient, Mr. Buckley, first thing?

15 MR. BUCKLEY: Yes.

16 JUDGE TOREM: Is 8:30 going to work for  
17 everybody to be ready to go on the record tomorrow?

18 MR. MEYER: Works for Avista.

19 MR. FFITCH: Yes, Your Honor, that will work,  
20 thank you.

21 JUDGE TOREM: All right, then tomorrow  
22 morning if it works for our court reporter we'll  
23 schedule 8:30 for Mr. Buckley to call in on the bridge  
24 line.

25 MR. BUCKLEY: Yes, and if other arrangements

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1 can be made, then I will come down and be here in person  
2 if tonight I can make those arrangements.

3 JUDGE TOREM: All right, I appreciate that.  
4 So tomorrow morning if everybody will mark their  
5 calendars we'll start at 8:30 a.m., we'll begin with  
6 Mr. Buckley and then follow on as necessary with the  
7 rebuttal verbal testimony from Mr. Woodruff, and then  
8 we'll check in again as to where other parties are on  
9 necessary further cross of Mr. Woodruff on his rebuttal  
10 testimony and/or additional witnesses to be recalled.

11 All right, that puts us at 5 minutes to 5:00  
12 today.

13 Mr. Buckley, thank you, you can step down for  
14 the afternoon.

15 The estimates for decoupling that came in are  
16 somewhere in the neighborhood of 10 hours, and we're  
17 going to take the first hour tomorrow it sounds like or  
18 thereabouts to complete this. In consulting with the  
19 Commissioners, and I gave I think most of you fair  
20 warning, we think it's best to get started on the  
21 decoupling issues today. So Mr. Norwood is scheduled  
22 for cross-exam by Commission Staff, Public Counsel, The  
23 Energy Project, and the Northwest Energy Coalition for a  
24 total of 90 minutes. It's now almost 5:00. The  
25 cross-estimates have been generous up to this point, so

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1 if we were to push all the way through Mr. Norwood's  
2 scheduled cross it would take us to 6:30 if it was  
3 accurate. I'm hoping it's not, I'm hoping it's an  
4 overestimate and we'll get done closer to 6:00. It's at  
5 that point of the day where the court reporter's comfort  
6 is, well, in question just to keep going, but she's  
7 agreed to go and will let me know when she needs to take  
8 a break, and we'll go by her schedule so that she can  
9 continue to do her job. So let's get started and put  
10 Mr. Norwood back on the stand. He's already been sworn.

11 Counsel, who is going to initiate the cross,  
12 Mr. Trautman?

13 MR. TRAUTMAN: Yes.

14 JUDGE TOREM: All right, so if everybody will  
15 switch their minds over to decoupling.

16 MR. FFITCH: Your Honor, may our witness  
17 Mr. Woodruff be excused from the hearing room?

18 JUDGE TOREM: Up to you, Simon, he's not on  
19 my payroll.

20 MR. FFITCH: Thank you, Your Honor.

21 JUDGE TOREM: Mr. Trautman, all yours.

22

23 Whereupon,

24

KELLY O. NORWOOD,

25 having been previously duly sworn, was called as a



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1 witness herein and was examined and testified as  
2 follows:

3

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

5 BY MR. TRAUTMAN:

6 Q. Good evening, Mr. Norwood.

7 A. Good evening.

8 Q. I just have a few questions which are related  
9 to your rebuttal testimony, and that's KON-1T, and if  
10 you could turn to page 36.

11 A. I'm there.

12 Q. And looking at your discussion of DSM  
13 programs in the paragraph starting at line 13, has  
14 electric DSM program investment increased more than  
15 natural gas DSM program investment?

16 A. I'm not sure what the answer to that would  
17 be. Mr. Folsom I'm sure would know or Mr. Powell.

18 Q. Perhaps Mr. Powell, okay.

19 A. Yes.

20 Q. Powell or Folsom?

21 A. Yes.

22 Q. All right.

23 And if you could turn to page 40.

24 A. Yes.

25 Q. On line 15 you state that the Company ramped

0983

1 up natural gas DSM prior to the approval of the  
2 decoupling mechanism; is that correct?

3 A. Yes, that's correct.

4 Q. Do you intend to ramp down natural gas DSM if  
5 decoupling is not approved?

6 A. As I mentioned in my testimony, the presence  
7 of some form of mechanism to recover fixed costs  
8 associated with energy efficiency is a really important  
9 factor in the decisionmaking process as we look at our  
10 DSM programs. And the ramp up that we did is with the  
11 expectation to be some form there which we have one  
12 today. I would not speculate as to what the Company  
13 might do through the future depending on the outcome of  
14 this case, but I will tell you that we are committed to  
15 DSM, and I would expect us to continue to have a  
16 meaningful DSM program going forward.

17 Q. So are you saying you do not plan to ramp it  
18 down if decoupling is not approved?

19 A. I would not be the one to make that decision.  
20 Senior management would make that decision, and I don't  
21 know what the answer to that would be.

22 Q. On line 16 of the same page, you state that  
23 the Company has continued growth in electric and natural  
24 gas DSM offerings for its other jurisdictions; is that  
25 correct?

0984

1 A. That is correct.

2 Q. Is Idaho one of those other jurisdictions?

3 A. Yes, it is.

4 Q. And do you have decoupling in Idaho?

5 A. We do not.

6 Q. Turning to page 43, line 6, here you speak of  
7 the time spent by the advisory group developing the  
8 evaluation plan. Do you know, have you -- and you used  
9 the term significant, you say a significant amount of  
10 time was devoted to that. Do you see that?

11 A. Yes, I do.

12 Q. Do you know how many hours Avista staff spent  
13 on the evaluation advisory group in the last year?

14 A. I do not, but I do believe that significant  
15 is representative of that.

16 Q. But you don't know how many hours they spent?

17 A. I do not. I know Mr. Hirschhorn is one who  
18 reports to me, I know that he has spent a lot of hours  
19 on this. Mr. Powell also has spent a lot of hours on  
20 this. So they might be able to give you a sense for how  
21 many hours they've dedicated to this.

22 Q. Do you know how much time was spent by Avista  
23 staff on decoupling in general?

24 A. I do not.

25 Q. And turning to page 45, you start your

0985

1 discussion of issue 5, rate design issues, with a  
2 parenthetical saying specifically straight fixed  
3 variable.

4 A. Yes, I see that.

5 Q. Is Staff's proposal a straight fixed variable  
6 design?

7 A. No, I would not consider it a straight fixed  
8 variable. My view of that would be where you would  
9 identify the fixed, all the fixed costs associated with  
10 providing service to customers, and those would be  
11 charged to customers in a fixed charge. The variable  
12 rate would apply primarily to just the commodity piece.

13 MR. TRAUTMAN: Thank you, that's all I have.

14 JUDGE TOREM: Mr. ffitch.

15 MR. FFITCH: Thank you.

16

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

18 BY MR. FFITCH:

19 Q. If the evening starts at 5:00 p.m. I will say  
20 good evening, Mr. Norwood.

21 A. Good evening, Mr. ffitch.

22 Q. At least it's happy hour.

23 Just following up on a question from Staff,  
24 Mr. Norwood, you indicated that I think in your  
25 testimony a significant amount of time was spent on the

0986

1 evaluation process. I think in that same testimony you  
2 ascribed at least part of that to participation of one  
3 or more parties who were opposed to decoupling; is that  
4 correct?

5 A. That's correct.

6 Q. All right. It's not your position that the  
7 advisory committee should have been comprised of only  
8 parties who advocated for or supported decoupling, is  
9 it?

10 A. No, it is not.

11 Q. All right. If we can talk now about your  
12 rebuttal, other parts of your rebuttal testimony, you  
13 propose in your rebuttal to continue decoupling but to  
14 revise the Company's deferral level from 90% downward to  
15 70%; is that correct?

16 A. That is correct.

17 Q. Was there any analytical support provided in  
18 this testimony for the 70% value that was included in  
19 your recommendation?

20 A. No, that was a judgment call on our part to  
21 try to balance the issues that have been raised through  
22 the course of the pilot itself as well as the testimony  
23 and information that has been presented through this  
24 case. Our conclusion based on the pilot itself and the  
25 testimony was that it would be reasonable to reduce the

0987

1 deferral down somewhat from 90%, but we felt like it was  
2 important that it remain in that 70% range to account  
3 for the fixed costs, lost margin essentially related to  
4 both the programmatic DSM programs as well as the what I  
5 will call non-programmatic, which would be education  
6 efforts and communications around energy efficiency.

7 Q. All right. It was a change of position,  
8 because in direct testimony for Avista Mr. Hirschhorn  
9 advocated continuation of decoupling at the previous 90%  
10 level, correct?

11 A. That is correct.

12 Q. So as you stated, this is essentially an  
13 attempt to moderate the request in response to  
14 opposition from other parties in the case, correct?

15 A. That's correct.

16 Q. And in your testimony you also state that  
17 decoupling, and I will take you to this since I'm going  
18 to quote you, this is on page 32, line 13, of your  
19 testimony.

20 A. I'm there.

21 Q. And you state there that the decoupling  
22 mechanism "removed the disincentive for the Company to  
23 expand its natural gas DSM offerings"; is that correct?

24 A. Yes, it is.

25 Q. Has Avista to your knowledge ever refused to

0988

1 implement any DSM measure that was reviewed and  
2 acknowledged by the Commission as part of the IRP  
3 process?

4 A. I'm sorry, I didn't follow the question.

5 Q. Has Avista ever refused to implement any DSM  
6 measure that was reviewed and acknowledged by the  
7 Commission as part of its IRP process?

8 A. I think the answer is no. I think what  
9 confuses me is the DSM programs that we have implemented  
10 were ones that were proposed by the Company together  
11 with -- worked with EEE board and others, and so it's  
12 really a recommendation to the Commission which they  
13 have approved funding for through Schedule 91, 191.

14 Q. All right. But none of those programs, the  
15 Company has never declined to proceed on any of those  
16 programs?

17 A. Not to my knowledge.

18 Q. Does the Company have any decoupling  
19 mechanism for its electric business?

20 A. Not at this time.

21 Q. Does Avista have a complete set of electric  
22 DSM programs?

23 A. Yes, we do.

24 Q. And is it the case that these receive greater  
25 funding than the Company's gas DSM programs?

0989

1           A.     I believe that's correct.

2           Q.     And it's true, is it not, that Avista has  
3 increased its electric DSM spending in recent years  
4 although there is no decoupling mechanism in place for  
5 Avista to reduce the disincentive that you spoke of in  
6 your testimony?

7           A.     You would have to confirm with Mr. Folsom or  
8 Mr. Powell as to the change in DSM funding. But as I  
9 mentioned before in response to your question, these  
10 programs have been implemented with the expectation that  
11 in the future there will be some kind of mechanism to  
12 address lost margin. And we are planning to file in the  
13 other jurisdictions decoupling mechanisms. We are in  
14 this for the long term, and with the changes in  
15 commodity costs, higher prices, it's DSM is more  
16 important, and it's increasingly important to address  
17 the lost margin issue. This is a pilot that we've been  
18 through, we will learn from this, you can see that we've  
19 made modifications to it, and through what we've learned  
20 here it will shape what we choose to file likely very  
21 soon in the other jurisdictions.

22          Q.     Now I just want to I guess understand your  
23 testimony. Are you testifying that the DSM programs  
24 that Avista has have been adopted in anticipation of  
25 some future approval of decoupling on the electric side?



0990

1 A. Yes.

2 Q. Is it your testimony that the only reason why  
3 Avista has adopted any gas or electric DSM programs is  
4 because of the anticipation that some day decoupling  
5 will be approved for both electric and gas?

6 A. Not the only reason, no.

7 Q. Is it your testimony that Avista will  
8 discontinue its electric and gas DSM programs if  
9 decoupling is not approved for gas DSM or in the future  
10 for electric DSM?

11 A. We would not discontinue the programs, but as  
12 I mentioned earlier, the presence or absence would be  
13 taken into consideration as we look for programs to the  
14 future.

15 Q. Would you please turn to page 38 of your  
16 rebuttal. Here you're describing the increases in DSM  
17 acquisitions noted in the evaluation report, and you  
18 summarize this in Chart 1 on the next page?

19 A. Yes.

20 Q. Have you presented any chart comparable to  
21 Chart 1 comparing electric to gas DSM results?

22 A. I have not.

23 Q. Have you -- and if we go to the next page, we  
24 see Chart 2, which is a depiction of gas DSM  
25 expenditures, correct?

0991

1 A. Yes.

2 Q. And have you prepared any chart comparable to  
3 Chart 2 comparing electric to gas DSM spending trends?

4 A. I personally have not, no.

5 Q. Can you please turn to page 41, the next page  
6 of the exhibit. Are you there?

7 A. Yes, I am.

8 Q. At line 3 of that testimony, you agree at  
9 line 3 with Mr. Brosch that the Company has least cost  
10 planning requirements as part of electric and gas IRP  
11 procedures, and you refer to the targets, and then you  
12 go on to argue at line 7 about the, "disincentive for  
13 the Company to push for programmatic DSM above IRP  
14 targets, to push for tougher building and appliance  
15 codes, and to support non-programmatic DSM programming  
16 and messaging", and I have a couple questions about  
17 that. That's a correct quote from your testimony,  
18 correct?

19 A. Yes, it is.

20 Q. And I believe you just actually referred to  
21 those same factors a moment ago in your testimony also.  
22 First question, has the Company been lax or reluctant in  
23 pushing for electric DSM achievement due to the lack of  
24 decoupling for the electric business?

25 A. To my knowledge in recent years, no.

0992

1 Q. Second question, if Avista has any impact  
2 upon building codes, wouldn't that impact touch both its  
3 gas and electric businesses?

4 A. Yes.

5 Q. Third question, if Avista's Every Little Bit  
6 non-programmatic advertising messages have an impact  
7 upon gas usage levels as you suggest in your testimony,  
8 wouldn't that message also touch electric consumption  
9 habits of your customers?

10 A. Yes, it would.

11 Q. Can you please turn back to page 33, line 14.

12 A. I'm there.

13 Q. And there you state:

14 When the majority of fixed costs are  
15 recovered through sales volumes and the  
16 sales volumes are lower than expected,  
17 the recovery of fixed costs falls short  
18 of the level authorized by the  
19 Commission.

20 Correct?

21 A. Yes.

22 Q. Do you mean to imply that gas expenses other  
23 than purchased gas are truly fixed and do not change  
24 from year to year?

25 A. No, they would change from year to year.

0993

1 Q. All right. And would you agree that these  
2 costs are subject to inflation, changes in regulations,  
3 economic conditions, commodity prices for example for  
4 steel and plastic, and productivity gains, and maybe  
5 other factors as well?

6 A. Yes, that's correct. But as I point out in  
7 my testimony, the mechanism is not designed to track  
8 those costs, only the ones that were reviewed and  
9 approved in the last rate case.

10 Q. All right. Has the Washington Commission  
11 ever included in its gas rate case orders a directive  
12 that Avista shall recover a specific amount of fixed  
13 costs without regard to changes in future sales volumes?

14 A. I don't recall that specific language, no.

15 Q. Is it your testimony that if overall costs do  
16 not change after a test year but sales and margin  
17 revenue decline, the Company will have trouble earning  
18 the authorized return?

19 A. I'm sorry, would you repeat the question.

20 Q. Are you saying in your testimony that if  
21 overall costs do not change after a test year but sales  
22 and margin revenues decline, the Company will have  
23 trouble earning its authorized rate of return?

24 A. Yes, the Company would not recover its rate  
25 of return, but the focus of this mechanism in particular

0994

1 is related to those changes related to energy  
2 efficiency, whether programmatic or non-programmatic,  
3 and the fact that we're looking at a 70% recognizing  
4 that there are other factors that will affect that  
5 usage.

6 Q. To the extent that you've agreed with my  
7 question about difficulty earning the authorized return,  
8 isn't decoupling really just a form of an attrition  
9 remedy?

10 A. No, not at all. The mechanism is designed  
11 specifically to address the energy efficiency issue and  
12 the reduction in fixed cost recovery related to energy  
13 efficiency.

14 Q. Is it your understanding that the Commission  
15 projects future sales volumes in rate case test years to  
16 estimate what sales are expected in the later years?

17 A. On the gas side? Would you repeat your  
18 question, please.

19 Q. Yes, it is on the gas side. Is it your  
20 understanding that the Commission projects future sales  
21 volumes in rate case test years to estimate what sales  
22 are expected in the later years?

23 A. You may need to address this question to  
24 Mr. Hirschhorn. I'm not sure on the gas side for the  
25 rate case that we use the projected load.

0995

1 Q. All right, I'll make a note for  
2 Mr. Hirschhorn.

3 You used the phrase in your testimony sales  
4 volumes lower than expected, that's the initial quote  
5 that I read to you at the beginning of this line of  
6 questioning, starts at line 14. With respect to that  
7 phrase, should we assume that --

8 A. I'm sorry, are we on page 33?

9 Q. Still on page 33.

10 A. Okay.

11 Q. And the quote starting at line 14 uses the  
12 phrase sales volumes lower than expected.

13 A. I see that.

14 Q. Should we assume by that reference that you  
15 would exclude the large gains in sales volumes Avista  
16 has enjoyed from serving new customers?

17 A. We've explained in our testimony that when we  
18 have new customers there are increased revenues  
19 associated with that, but Mr. Hirschhorn goes into  
20 detail to explain the increased costs associated with  
21 adding those customers, and what it shows at least the  
22 last couple of years there is no net increase in margin  
23 to the Company associated with that increase in  
24 customers.

25 Q. All right, but your reference to sales

0996

1 volumes or lower sales volumes does exclude, does it  
2 not, any gains in sales volumes from new customers when  
3 you use that phrase here?

4 A. Yes, it does.

5 Q. Thank you, I'll also pursue this with  
6 Mr. Hirschkorn.

7 Okay, at line 16, we're moving on 2 more  
8 lines, you state recovery of just the fixed costs  
9 resulting from programmatic DSM savings is just one  
10 piece of this, not the whole picture, and that's a  
11 correct statement, right?

12 A. Yes.

13 Q. Is the Every Little Bit program you next  
14 discuss another part of what you're calling the whole  
15 picture that Avista would like to have considered?

16 A. It's another component, yes.

17 Q. Can you please turn to page 41 of your  
18 testimony.

19 A. I'm there.

20 Q. And line 8, you mention tougher building  
21 codes and appliance standards, correct?

22 A. Yes.

23 Q. And are those changes also part of your whole  
24 picture where these regulatory changes, federal and  
25 local, help to justify a continuation of decoupling?

0997

1 A. Yes.

2 Q. Which, if any, of the appliance standards  
3 that you reference would not exist but for Avista's work  
4 and support?

5 A. I think you'll have to talk to Mr. Powell  
6 about that, who is directly involved in Avista's  
7 involvement in those standards.

8 Q. And same question with respect to tougher  
9 building codes, which building codes would not exist but  
10 for Avista's work and support?

11 A. Mr. Powell would also need to address that.

12 Q. Would you please take a look at your  
13 cross-examination Exhibit KON-2-X.

14 A. I have it.

15 Q. Which of the bullet point items listed in  
16 this response relate to measures that would reduce  
17 electric rather than gas only energy consumption?

18 A. Well, we can go down the list here. Turning  
19 off lights, electronic equipment, in some cases  
20 thermostat settings, compact florescent bulbs, in some  
21 cases avoid heating unoccupied areas, in some cases wash  
22 clothes or dishes, although it would also involve  
23 possibly natural gas heat for hot water.

24 Q. All right, I'm sorry, let me just interrupt  
25 for clarification. So far you're identifying those as



0998

1 items that would involve electricity --

2 A. Yes.

3 Q. -- in whole or in part?

4 A. That's correct.

5 Q. You may continue.

6 A. With drying clothes it could be both gas and  
7 electric, lower water temperature could be gas or  
8 electric, heating system could be gas or electric, and  
9 weather stripping could be gas or electric.

10 Q. All right.

11 Can you please go to page 42 of your  
12 testimony, that's the next page, and starting at line  
13 14.

14 A. I'm there.

15 Q. You quarrel with the conclusion of Mr. Brosch  
16 and Ms. Reynolds for Staff that the decoupling process  
17 is complicated and time consuming, and you provide a  
18 summarization of the monthly deferral process in seven  
19 numbered steps below that; is that correct?

20 A. Yes.

21 Q. Starting with item 1, and you may have a  
22 moment there if you --

23 A. I think I'm okay, go ahead, thank you.

24 Q. Starting with item 1, Schedule 101 actual  
25 billed therms are collected monthly, correct?

0999

1 A. That's correct.

2 Q. Is this derived from accounting data?

3 A. Yes, our billing records.

4 Q. And when you say billed therms, isn't there a  
5 monthly accrual and reversal of unbilled revenues on the  
6 books that establishes therms sold that have not yet  
7 been billed to customers?

8 A. That's correct.

9 Q. And is this the separate calculation at  
10 numbered item number 3?

11 A. That's correct.

12 Q. What is meant by using previously applied  
13 methodology?

14 A. Methodologies that we have used in the most  
15 recent rate case to calculate unbilled revenue.

16 Q. And this phrase in item number 3 says  
17 previously approved methodology, not previously applied  
18 methodology, so can you clarify what is the meaning of  
19 previously approved methodology?

20 A. I guess that may be a good point, that the  
21 specific methodology may not be specifically identified  
22 or specifically approved, but it's a methodology that  
23 we've consistently used in the past for rate making  
24 purposes. And Ms. Knox can provide a little more  
25 information related to this particular calculation.

1000

1 Q. All right.

2 Does that mean at least in theory that if it  
3 hasn't been previously approved it could be a matter of  
4 dispute as to the methodology for calculating unbilled  
5 therms?

6 A. It could be, but in prior rate cases we've  
7 addressed the unbilled revenue calculation. You know,  
8 once you establish a methodology, then I think it's  
9 pretty straightforward to use it going forward.

10 Q. All right.

11 Could you explain for the Commission what  
12 input data from which internal Avista data sources are  
13 used by the Company's accountants to estimate and price  
14 out the unbilled therms and revenues each month?

15 A. Ms. Knox can answer that question.

16 Q. I don't think we had her down as a decoupling  
17 witness, but maybe she's on the list.

18 How specifically is the unbilled revenue  
19 adjusted for weather, if you know?

20 A. I don't know. In fact, Ms. Knox, I'm  
21 wondering also if Mr. Hirschhorn could do that since he  
22 is a witness related to decoupling. Perhaps that would  
23 be most appropriate, and he could probably also address  
24 the unbilled revenue.

25 Q. All right, we can try him first, and if he

1001

1 needs to call on Ms. Knox, then call on her.

2                   Going back to item 2, you would deduct new  
3 customer usage, correct?

4           A.     That's correct.

5           Q.     What accounting reports are used to isolate  
6 each of the new customers and their individual usage?

7           A.     Mr. Hirschhorn can talk to the specifics of  
8 that.

9           Q.     If one wanted to audit these reports of new  
10 customer usage, would billing records for each new  
11 customer need to be sampled and analyzed?

12          A.     Again I think Mr. Hirschhorn can speak to the  
13 detail there.

14          Q.     Okay.

15                   Do you know whether or not it's true that in  
16 2009 Avista identified an error it had made regarding  
17 the new customer adjustment?

18          A.     I don't recall. Seems like I do remember  
19 something to that effect.

20          Q.     Would you accept that this error is described  
21 in the Titus Report?

22          A.     I would accept that.

23          Q.     And that the error was corrected in 2009  
24 decreasing decoupling deferrals by about \$22,000; do you  
25 recall that?

1002

1           A.     I don't recall that, but I would accept it  
2 subject to check.

3           Q.     All right, that's a report at page 9 of the  
4 Titus Report.

5           A.     Thank you.

6           Q.     If you wanted to check that.

7                     Item 4 is weather adjustment, which you  
8 characterize as the most complicated part of the process  
9 so far, correct?

10          A.     Yes.

11          Q.     Can you step us through the input data and  
12 sources for that data that is required each month to  
13 calculate the weather normalization piece of decoupling?

14          A.     Again I would point to Mr. Hirschhorn for  
15 those details.

16          Q.     All right. I will just, the other weather  
17 questions I have here, shall I reserve those for  
18 Mr. Hirschhorn if I have other questions related to  
19 the --

20          A.     That is correct.

21          Q.     All right.

22          A.     And of course Mr. Hirschhorn and Ms. Knox  
23 report to me, and this testimony is based on our working  
24 relationship and knowledge of the mechanism.

25          Q.     All right.

1003

1           After the weather adjustments are made, are  
2 the therm input values, that's therm input values, and  
3 margin rates applied to steps 5 and 6 carried forward  
4 from workpapers used in the most recent rate case?

5           A.     Again, Mr. ffitch, I would point you to  
6 Mr. Hirschhorn for those detailed questions.

7           Q.     All right.

8           And you list in item 7 in your rebuttal, you  
9 say multiplied by 90%, under your proposal now it would  
10 be multiplied by 70%; is that correct?

11          A.     That is correct.

12          Q.     There are items involved with the decoupling  
13 calculation that are not included on your list; isn't  
14 that right?

15          A.     I'm sure there are other adjustments that are  
16 a part of it. These are the major components of it.

17          Q.     You do not include the new rate switching  
18 modification proposed in Mr. Hirschhorn's -- rate  
19 schedule switching modification proposed in  
20 Mr. Hirschhorn's testimony; is that correct?

21          A.     That's correct, that is an addition that's  
22 proposed in this case.

23          Q.     And then in addition to that, there is a  
24 process missing through which DSM savings must be  
25 estimated and verified independently and then applied to

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1 a matrix to see if any deferrals up to the maximum are  
2 recoverable under the DSM test, correct?

3 A. That's correct, but again that's pretty  
4 straightforward, we're going to measure the savings in  
5 any event.

6 Q. And can we turn to page 36 of your testimony,  
7 lines 2 through 9.

8 A. I'm on page 36.

9 Q. All right. At the top of page 36 there's two  
10 tables.

11 A. Yes.

12 Q. And that shows the current and proposed new  
13 DSM performance matrixes or matrices to be used as part  
14 of the decoupling DSM test, correct?

15 A. Yes.

16 Q. In addition to the other tests or  
17 calculations that we've just been discussing that are  
18 involved in decoupling, isn't there also an earnings  
19 test that requires the preparation of a rate of return  
20 calculation to see if decoupling deferrals should be  
21 reduced or eliminated due to excessive earnings?

22 A. That's correct, and that report is put  
23 together every year by April 30th in any event.

24 Q. If rigorously analyzed, would you agree that  
25 the earnings test could become nearly as complicated as

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1 a rate case where adjustments may be needed for any  
2 abnormal transactions that are embedded within per book  
3 results?

4 A. I'm not sure it would be necessary to do  
5 that. The report's put together every year, and it's  
6 filed with the Commission, and obviously we pay  
7 attention to and try to do that correctly.

8 Q. But it's true, is it not, that if another  
9 party such as the Commission Staff or Public Counsel or  
10 the Northwest Energy Coalition or The Energy Project or  
11 another party wish to check your work rigorously, that  
12 could potentially become almost as complicated as a rate  
13 case?

14 A. It could involve more time, yes.

15 Q. And isn't there another missing step that we  
16 haven't talked about yet, namely the application of the  
17 2% test to see if the resulting rate changes are  
18 acceptable or not?

19 A. Yes, but I think that's pretty  
20 straightforward to compare the number to 2%.

21 Q. What must be calculated in order to apply the  
22 2% test?

23 A. Well, all the adjustments that we've talked  
24 about before, the calculations to arrive at the deferred  
25 cost, and then there would be an accumulation of the 12



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1 months of deferred costs, and then that total dollar  
2 amount would be calculated and divided by term sales to  
3 determine the price change to customers, and then there  
4 would be a change, a comparison to the 2%.

5 Q. All right.

6 And there's a further step, is there not,  
7 Mr. Norwood?

8 A. I'm listening.

9 Q. The Company's recommended the application of  
10 a new limited income test in which 5% of programmatic  
11 DSM savings must come from the limited income sector,  
12 and that's on page 42 of your testimony.

13 A. That's correct, we've included that in  
14 response to testimony filed in this case.

15 Q. If we go to page 42, this is -- see if I'm  
16 giving you the correct reference. I'm sorry, I've  
17 referred you to the wrong page, it's page 49, line 1,  
18 apologize.

19 A. That's okay, I'm there.

20 Q. All right. In that box at the top of the  
21 page is the so-called two-trigger DSM test?

22 A. Yes.

23 Q. All right. And that's used with the  
24 procedures that are set forth at the bottom of the page?

25 A. That's correct.

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1 Q. And what data would need to be gathered and  
2 analyzed to calculate and apply the new two-trigger  
3 limited income test?

4 A. Mr. Powell would be familiar with the data  
5 that we collect and have available related to limited  
6 income customers.

7 Q. All right.

8 I don't know if you've been counting, I  
9 believe we're up to 12 steps.

10 A. I have not been counting.

11 Q. All right.

12 A. But many of them are very straightforward as  
13 we've heard.

14 Q. And you do suggest in your testimony that  
15 going forward the time spent evaluating the mechanism  
16 should decrease substantially, correct?

17 A. Absolutely.

18 Q. Is this based upon your evaluation that when  
19 the Company calculates the decoupling deferral, there's  
20 little potential for any errors due to the simplicity of  
21 the calculations?

22 A. No, any time you're dealing with a lot of  
23 numbers, there's going to be occasional errors that do  
24 occur.

25 MR. FFITCH: May I have a moment, Your Honor,

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1 getting close to the end of the testimony.

2 I think I just have one other question, your  
3 honor.

4 BY MR. FFITCH:

5 Q. Mr. Norwood, could you state, please, to the  
6 Commission what the Company's present plans are for  
7 filing its next general rate case or when that would  
8 occur?

9 A. We have not made a decision in that regard,  
10 but my expectation is that it would be early in 2010.

11 Q. All right. Is it possible that that rate  
12 case would be filed in January of 2010?

13 A. It's possible, but as I noted, we have not  
14 made that decision.

15 Q. All right. And you haven't ruled out filing  
16 it in January of 2010?

17 A. Have not.

18 MR. FFITCH: I don't have any further  
19 questions, Your Honor.

20 Thank you, Mr. Norwood.

21 JUDGE TOREM: We have questions remaining  
22 from Mr. Roseman and Mr. Johnson. Mr. Roseman, why  
23 don't you proceed.

24 MR. ROSEMAN: Thank you, Your Honor.

25

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

2 BY MR. ROSEMAN:

3 Q. Mr. Norwood, it sounds like you caught  
4 Mr. Meyer's --

5 A. I have been blaming him for my cold.

6 Q. Well, I hope I won't prolong this too much.  
7 I have a few questions, and as no surprise to you, most  
8 of my focus will be on the limited income customers.

9 A. Yes.

10 Q. Okay. I guess would the Company agree that  
11 there is a capital barrier for limited income customers  
12 to take advantage of the conservation rebate programs  
13 offered by the Company?

14 A. Yes, I think one of the other witnesses,  
15 either Mr. Powell or Mr. Folsom, addressed that issue.

16 Q. And you agree with that?

17 A. I believe that's the case, yes.

18 Q. Okay. And then at page -- I could read --  
19 well, let me tell you, at page 34, line 1 and 3, I think  
20 it's an answer to the question of where -- well, I will  
21 read the question.

22 Mr. Brosch, an Energy Project witness,  
23 and Ms. Alexander both discuss  
24 non-programmatic DSM efforts the Company  
25 has undertaken, specifically its Every

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1 Little Bit program. Do you believe that  
2 this program has led to declining use  
3 per customer?

4 A. Absolutely.

5 Q. Okay. Will you go on and read the second,  
6 the sentence that follows absolutely, you say absolutely  
7 and then it continues.

8 A. How far would you like me to go?

9 Q. Just the first sentence.

10 A. (Reading.)

11 The Every Little Bit web site provides  
12 extensive information to customers  
13 regarding the Company's DSM programs and  
14 rebates as well as low cost/no cost  
15 steps customers can take to reduce their  
16 energy usage.

17 Q. Have there been any studies or surveys or  
18 analysis or projections that would document the validity  
19 of that assertion?

20 A. Not a study in the last couple of years, but  
21 in response to actually it's Exhibit KON-2-X there's a  
22 reference there to a survey that was conducted in 2006,  
23 and the information that's provided there is from that  
24 survey. And what it shows is that more than three  
25 quarters, I'm reading from the second paragraph in the

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1 response from KON-5-X, I'm sorry, I gave you the wrong  
2 reference, it's KON-2-X:

3 More than three quarters of the  
4 customers surveyed initiated some action  
5 based on the home energy center  
6 recommendations.

7 And I looked through that survey, and the  
8 survey said that over 52% of the individuals in that  
9 particular survey actually went to Avista Utilities' web  
10 site looking for no cost/low cost ideas. So even though  
11 we don't have a recent survey, this one certainly  
12 indicates that customers are looking for energy  
13 efficiency ideas and are looking for Avista to help them  
14 with that.

15 Q. Okay. Now I want to break it down to the  
16 group that I'm interested in asking questions about.  
17 Regarding that survey, do you know how many of those  
18 individuals were limited income customers?

19 A. I do not know.

20 Q. Okay. Do you know if the Company knows which  
21 customers participate in the low income programs LIRAP,  
22 LIHEAP, or Limited Income DSM?

23 A. I do not, but Mr. Powell probably would have  
24 more information related to that.

25 Q. I have a couple more questions, and they

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1 regard the limited income DSM test at pages 48 and 49  
2 where if the Company achieves 5% or more from the low  
3 income sector they will recover 100% of the allowed  
4 deferral amount.

5 A. Yes.

6 Q. I think is how that works.

7 A. That's correct. Well, it's 100% of the 70%.

8 Q. Okay. I would like you to look at

9 Cross-Exhibit KON-4-X.

10 A. I have it.

11 Q. And for year 2006, did the Company meet that  
12 5% test?

13 A. Yes, we did, it shows 6.81%.

14 Q. And in 2007?

15 A. 5.41%.

16 Q. And in 2008?

17 A. 5.43%. But I will also note that as our  
18 therm savings increase in our overall programs, then  
19 there would be also a corresponding increase with the 5%  
20 for low income.

21 MR. ROSEMAN: Thank you, and I hope you feel  
22 better.

23 THE WITNESS: Thank you.

24 JUDGE TOREM: Mr. Johnson.

25

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

2 BY MR. JOHNSON:

3 Q. Good evening, Mr. Norwood.

4 A. Good evening.

5 Q. I hope I don't catch your cold.

6 A. I hope you don't either.

7 Q. Could you turn to page 40, line 17 through  
8 19, of your testimony, please.

9 A. I'm there.

10 Q. You're faster than me. And can you read the  
11 first full sentence beginning on line 17.

12 A. Yes.

13 One reason for the decision by senior  
14 management to ramp up energy efficiency  
15 was the expectation that the commissions  
16 would provide some form of recovery of  
17 fixed costs related to our DSM efforts.

18 Q. Now earlier in response to a question from  
19 Mr. Trautman, you referred to the need for senior  
20 management to make a decision regarding potentially  
21 ramping down DSM efforts, and you said, if I recall your  
22 testimony correctly, that you were not part -- are not  
23 part of that senior management group; is that correct?

24 A. My reference was to the senior officers of  
25 the Company who would ultimately make that decision, but



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1 I would have the opportunity to weigh in on that.

2 Q. Okay. My question though now on page 40  
3 referring to the reference to senior management here on  
4 line 17, would you consider yourself or were you part of  
5 that decision that you reference to ramp up energy  
6 efficiency?

7 A. I was consulted by Mr. Morris in relation to  
8 our DSM efforts.

9 Q. So it would be fair to say, would it not,  
10 that you are familiar with the decision that was made?

11 A. Yes, I am.

12 Q. And this decision I believe you testified was  
13 made prior to the adoption of the pilot program; is that  
14 correct?

15 A. That's right.

16 Q. Okay. To your knowledge, was this decision  
17 one discreet decision reached by management, or were  
18 there a number of decisions that you lumped together on  
19 line 17?

20 A. I think the DSM programs and what we choose  
21 to do as a company is something that will change over  
22 time depending on what the opportunities are, what the  
23 funding is, a number of factors that I think I mention  
24 in another part of my testimony. So there was I  
25 remember one point in time where Mr. Morris specifically

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1 said we really want to focus on energy efficiency, but  
2 he also made it clear that we need some mechanism to  
3 deal with the loss of margin issue. But since that  
4 time, there is indication, discussion related to what  
5 the plans are going forward related to energy  
6 efficiency. Mr. Folsom is the one who oversees that  
7 group, and he might have more to add in terms of how  
8 regularly those conversations occur.

9 Q. To your recollection and referring back to  
10 that conversation that you had with Mr. Morris, did he  
11 specifically refer to the decoupling pilot in the  
12 conversation that you had with him?

13 A. That is one form of addressing the  
14 disincentive that was addressed, yes.

15 Q. Okay.

16 Now, Mr. Norwood, we've been talking about  
17 the decision that senior management made prior to the  
18 mechanism being put in place. To your knowledge, has  
19 there been a decision reached by senior management or by  
20 Avista generally to further ramp up energy efficiency  
21 made after the mechanism first became effective?

22 MR. FFITCH: Your Honor, I'm going to object,  
23 I am concerned that the Coalition attorney, Mr. Johnson,  
24 is entering into an area of friendly cross-examination.  
25 I believe that the position of The Energy Project with

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1 respect to the corporate, excuse me, the Energy  
2 Coalition with respect to corporate culture and the  
3 incentive effects of DSM is virtually identical to that  
4 of the Company. So if Mr. Johnson is eliciting on  
5 direct testimony the Company's views and actions along  
6 those lines, I believe that's friendly  
7 cross-examination.

8 JUDGE TOREM: You would be right.

9 Let me ask Mr. Johnson how far down this road  
10 he wants to go.

11 MR. JOHNSON: Your Honor, my only intent here  
12 was because Mr. Norwood had referred to a prior decision  
13 but not to a -- and by that I mean a decision reached  
14 prior to the mechanism. He didn't talk at all about  
15 anything that's been done since the mechanism was put in  
16 place. I'm simply trying to elicit his testimony to  
17 fill that hole. And to your point, I'm not intending to  
18 take the issue any further than whether such a decision  
19 was made.

20 MR. FFITCH: Same objection, Your Honor.

21 JUDGE TOREM: I'll overrule the objection  
22 this time and note, Mr. ffitich, that I had anticipated  
23 that given the overlapping interests and advocacy  
24 positions of the Company and Mr. Johnson's client that  
25 this could occur. And I will just caution Mr. Johnson

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1 that I don't want to take away your right to  
2 cross-examine witnesses from the Company, but when you  
3 do so, having them reread testimony into the record  
4 that's already there should be minimal and get to other  
5 points that you would want to highlight that are not  
6 already in the record.

7 MR. JOHNSON: I will keep that in mind, Your  
8 Honor.

9 JUDGE TOREM: Thank you. And we'll just try  
10 to move it along today. I know there will be perhaps  
11 more cross-exam that's not friendly when we get to folks  
12 that don't share the same positions.

13 BY MR. JOHNSON:

14 Q. Do you understand the question, Mr. Norwood?

15 A. I do, and we have continued to ramp up our  
16 DSM programs over the past couple of years, and I think  
17 that's evidenced by the increased funding, increased  
18 dollars that we have committed to that as well as the  
19 increased emphasis on low cost/no cost through the Every  
20 Little Bit and other programs that we've implemented,  
21 and again Mr. Folsom could speak to that in more detail.

22 Q. Could you refer to page 31 of your testimony,  
23 please.

24 A. I'm there.

25 Q. And you refer on lines 22 to 23 to the

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1 limited income test that you are now proposing, correct?

2 A. Yes.

3 Q. And earlier in response to questions I  
4 believe from Mr. ffitch you stated that this proposal  
5 was in response to other proposals made in this  
6 proceeding; is that right?

7 A. Yes.

8 Q. And did those proposals include the  
9 Coalition's?

10 A. Yes.

11 Q. Okay. But it's fair to say, is it not, that  
12 the Coalition's limited income test is different than  
13 yours; is that correct?

14 A. That's correct.

15 Q. Okay.

16 Now going to page 49 of your testimony, and  
17 let me know when you're there.

18 A. I'm there.

19 Q. Let me just ask you, Mr. Norwood, and I don't  
20 believe you addressed this issue with Mr. Roseman, the  
21 specific percentage levels that you are proposing on the  
22 left-hand column at the top of page 49, how did you  
23 derive those, or I should say how did the Company derive  
24 those?

25 A. I believe those numbers came from either

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1 Mr. Powell or Mr. Hirschhorn. We discussed those  
2 numbers, and I agreed that that was a reasonable  
3 approach to include a low income measure here. So  
4 either Mr. Hirschhorn or Mr. Powell could probably speak  
5 to how those numbers were derived.

6 Q. Okay.

7 A. But I think it suffice to say that it would  
8 -- they're designed in a way to provide an incentive to  
9 achieve that 5% in that the recovery of the deferred  
10 lost margin would be less if we didn't achieve that, so  
11 I think it's a form of incentive to get to that 5%.

12 Q. But in response to a question from  
13 Mr. Roseman, didn't you acknowledge that in each of the  
14 three years that he asked you about the Company more  
15 than met that 5% level; is that right?

16 A. Yes, although in the last couple of years it  
17 was just barely over 5%. And as other witnesses have  
18 testified, the achievement of low income energy  
19 efficiency is to some degree out of the Company's  
20 control. We work with the community action partnerships  
21 to achieve these savings. It's a good relationship, we  
22 want to support this sector. And as I mentioned, as we  
23 ramp up the overall energy efficiency programs, there  
24 will be more therm savings in this low income sector.  
25 So the other factor that I consider and we consider is

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1 that the energy efficiency for low income is just one  
2 part of the overall support that we provide for limited  
3 income or low income customers. There's a LIRAP  
4 program, and from our perspective I think we have to be  
5 sensitive to the total funding that we are charging the  
6 rest of our customer base to fund the limited income DSM  
7 and LIRAP and other programs that we have, so we try to  
8 achieve that balance.

9 Q. Are you generally familiar with the term  
10 stretch goal?

11 A. Yes, I am.

12 Q. What does that mean to you?

13 A. To me it means something going I guess well  
14 beyond what your normal goal might be.

15 Q. Okay. Would you characterize the 5% figure  
16 here as a stretch goal?

17 A. I think it probably falls into the same ball  
18 park in that as I mentioned before we have limited  
19 control over the therm savings that actually come out of  
20 the limited income group, so it's more difficult for us  
21 to achieve that, and so I'm concerned about setting that  
22 target too high because of that. The other factor is  
23 with that limited income group we fund 100% of the  
24 energy efficiency measure, whereas for the non-limited  
25 income I believe the percentage is more in the 40% to

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1 50% or less. So those are other considerations I think  
2 that are important that go into the determination of the  
3 5% number versus something else.

4 Q. Now you referred to the Company's limited  
5 control over the acquisition of DSM savings, but I want  
6 to refer you to lines 3 and 4 of your testimony, also on  
7 page 49, where you say that the control over the  
8 acquisition of savings from the limited income sector  
9 falls on the CAP agencies and not the Company; do you  
10 see that?

11 A. Yes, and that's consistent with what I just  
12 stated.

13 Q. But didn't you say --

14 A. We have --

15 Q. Excuse me, I'm asking the question here.

16 But didn't you say before that the Company  
17 did have limited control, some degree of control, but  
18 this testimony here seems to say that it's all in the  
19 hands of the CAP agencies; which is right?

20 A. It is primarily under the CAP agencies,  
21 although it's my understanding, and Mr. Powell can speak  
22 to this also, is that we work with the CAP agencies, and  
23 as I mentioned before we have a good relationship with  
24 them, work with them on the contracts we have with them  
25 to provide some level of flexibility in the way they



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1 apply the energy efficiency dollars, whether it be for  
2 electric or natural gas. So I wouldn't say that we have  
3 no control, because I think we have some ability through  
4 the contracts we have with them to influence where the  
5 dollars go.

6 Q. So if I understand your testimony correctly,  
7 you're not saying that the Company is a completely  
8 passive actor in this process, are you?

9 A. Absolutely not.

10 MR. JOHNSON: That's all I have, Your Honor.

11 JUDGE TOREM: Commissioners, Commissioner  
12 Jones.

13

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

15 BY COMMISSIONER JONES:

16 Q. Getting close to the witching hour,  
17 Mr. Norwood.

18 A. Yes, we are.

19 Q. I'm going to step back from the details and  
20 maybe this will just be one question before we adjourn  
21 perhaps, and it's kind of a global question, big  
22 picture, that relates to decoupling versus other  
23 possible energy efficiency or conservation programs.  
24 Are you aware that the Commission's authority to adopt  
25 policies and approve mechanisms to encourage

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1 conservation is not limited to decoupling?

2 A. Yes.

3 Q. And are you specifically familiar with a  
4 Statute 80.28.260 that provides an incentive rate of  
5 return for conservation?

6 A. I'm aware that it's there, yes.

7 Q. Okay. So I'm curious about the Company's  
8 views about approaches to conservation that provide  
9 incentives or offset disincentives other than  
10 decoupling. For example, we have approved conservation  
11 performance incentive programs.

12 A. Yes.

13 Q. For other utilities.

14 A. Yes, I'm aware of that.

15 Q. Have you considered such programs?

16 A. We have, and as I mentioned in my testimony,  
17 we are willing to discuss that going forward.

18 Q. So a little more specific, from your point of  
19 view, how do they compare, just give me a few specifics  
20 to decoupling?

21 A. I think it's totally dependent on the design  
22 of the incentive or the mechanism. There's a number of  
23 ways to do this, so I'm not here saying that it has to  
24 be decoupling and nothing else. But whatever mechanism  
25 that we choose, I believe it's important to address the

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1 issue related to the disincentive to try to get our  
2 customers to use less energy and the result that that  
3 has in non-recovery of fixed cost just because the way  
4 rate making is done. So our interest is in having the  
5 opportunity to go out and do both programmatic and  
6 non-programmatic, the communication and the education,  
7 in a way that's effective and yet still have the  
8 opportunity to recover our fixed costs. And if there's  
9 an incentive mechanism that allows us to do that, then  
10 we're certainly open to that.

11 Q. Mr. Norwood, isn't it -- wouldn't you agree  
12 that it's difficult to measure qualitatively things like  
13 disincentives or corporate changes, changes in corporate  
14 culture? And we'll get into a lot of this in the next  
15 day I think.

16 A. Yes, it can. I think that that issue has  
17 changed in the last two or three years in that with  
18 commodity prices being as high as they are, and I think  
19 they're going to go up, not down, from here, I think it  
20 makes energy efficiency a lot more important today than  
21 what it has been in the past. And because of that, I  
22 think we need -- the issue is different today than what  
23 it was before.

24 Q. Right. But based on the line of Public  
25 Counsel's question today and what the Company will

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1 endure over the next 8 to 10 hours, I think my personal  
2 view is that it is difficult to measure.

3 A. Yes, it is.

4 Q. Incentive. So my question is, isn't it true  
5 that an incentive rate of return like a 2% ROE adder  
6 would be easier to measure?

7 A. Yes, it would. And in that event, I'm  
8 assuming you're talking about capitalizing DSM and --

9 Q. Yes.

10 A. -- having a return on it.

11 Q. So would that be easier to measure?

12 A. I think it would be.

13 Q. Easier to track?

14 A. Yes, it would.

15 Q. So my question to you as a Company, have you  
16 proposed, have you discussed this internally? Because  
17 the Commission has approved these sorts of performance  
18 based incentives in the past, so have you discussed that  
19 internally, and how would you compare that specific  
20 approach of an ROE adder to a very it seems to be  
21 complicated decoupling mechanism?

22 A. We actually have discussed this route of  
23 capitalizing all or part of DSM and having this return  
24 on that, so that is something that I think might be  
25 workable to the future.

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1 Q. And then just to end up, what would be the  
2 advantages of that approach versus a decoupling  
3 mechanism?

4 A. Well, one is, as you point out, it would be  
5 more simple. The other thing that it would do is it  
6 would actually place DSM on a more equal footing to  
7 other investments made by the Company in that there  
8 would be a return related to it as opposed to just a  
9 pass through where there's no return to the shareholder.

10 COMMISSIONER JONES: Okay, well, have a good  
11 dinner tonight.

12 THE WITNESS: Thank you.

13 JUDGE TOREM: Standing between you and that  
14 dinner, Commissioner Oshie.

15 COMMISSIONER OSHIE: I have no questions.

16 JUDGE TOREM: Chairman Goltz.

17 CHAIRMAN GOLTZ: And I will try to be brief,  
18 I recommend the chicken curry.

19 THE WITNESS: Thank you.

20

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

22 BY CHAIRMAN GOLTZ:

23 Q. So I wasn't on the Commission when this pilot  
24 was commenced, so forgive me if I'm again sort of at the  
25 10,000 foot level or higher.

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1 A. I prefer that level.

2 Q. Okay. So I gather that the basis for this  
3 is, the justification for a decoupling mechanism is that  
4 without one the utility may have an incentive to sell  
5 more energy rather than to encourage conservation?

6 A. I think it's two issues here. One is there  
7 is an incentive to sell more, but I think that's less of  
8 an issue than if you're successful at getting customers  
9 to use less, you simply don't recover the fixed costs  
10 that were set in the last case. That's the bigger  
11 issue.

12 Q. All right, but they're related?

13 A. They are.

14 Q. So a failure to recover fixed costs, that's  
15 an issue that's been around for probably decades?

16 A. It has.

17 Q. And it can be caused by a number of factors,  
18 one of which is customers using less?

19 A. Yes.

20 Q. Another is weather?

21 A. Yes.

22 Q. Another might be an economic downturn?

23 A. Yes.

24 Q. And another one perhaps more recent would be  
25 as opposed to people using less energy, kind of similar,

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1 but converting, so people might say perhaps solar hot  
2 water and therefore I don't need natural gas hot water?

3 A. Yes, that's correct.

4 Q. Now am I correct that what you're really  
5 trying to get at here with this recovery mechanism is  
6 the lost margin caused by conservation?

7 A. Yes, and that would include programmatic and  
8 non-programmatic.

9 Q. Right. And I might even -- so you would say  
10 programmatic would be the DSM measures that the Company  
11 undertakes itself?

12 A. Directly funds.

13 Q. Directly funds.

14 A. To pay for part of the measure.

15 Q. And then is it also true that there's, when  
16 you say non-programmatic would be is that everything  
17 else?

18 A. That is, yes, Every Little Bit, educating  
19 customers, materials on the web site to inform them of  
20 low cost/no cost ideas to conserve energy.

21 Q. Okay. So I understand that these are  
22 measures that you would encourage people to undertake?

23 A. Yes.

24 Q. But is there yet kind of a third type where  
25 if someone just, you know, goes out and insulates their

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1 house, you know, in other words it's not something  
2 that's either caused by the Company or about which the  
3 Company provides an incentive, it might be something as  
4 simple as a new building code, it might be something as  
5 simple as I'm remodeling our house and as part of that  
6 we put in more insulation in the roof?

7 A. Yes, that's true.

8 Q. Okay. So but what you're trying to -- the  
9 issue that you're getting at in this mechanism is all  
10 those conservation, I guess I categorized it in kind of  
11 three parts, or is just the part of the Company's, your  
12 programmatic, and then those about which you're  
13 advertising?

14 A. Yes, primarily those two.

15 Q. And obviously in one of the in Mr. ffitch  
16 referred to as your 12 steps here, one of them is  
17 weather normalization?

18 A. Yes.

19 Q. So that's taken out of the program?

20 A. It is.

21 Q. What about just lost margin due to economic  
22 downturn?

23 A. That would be picked up.

24 Q. That would be picked up.

25 A. Through this mechanism. Although that is



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1 part of why we are willing to entertain a 70% deferral  
2 instead of 100% or 90%, to recognize there's some other  
3 factors that would cause that.

4 Q. So that's the way that you're in some kind of  
5 a rough approximation you're trying to focus the program  
6 just on those what you call your programmatic and  
7 non-programmatic conservation or lost margin due to your  
8 programmatic and non-programmatic conservation efforts?

9 A. Right. And let me give you one more  
10 comparison that addresses that very thing. There is  
11 Public Counsel I believe recommended that there be a 25  
12 basis point reduction in ROE related to the program. If  
13 you look at the deferrals that have occurred over the  
14 last 2 1/2 years of the pilot, they're roughly \$750,000  
15 per year. 30% of that is in the neighborhood of  
16 \$230,000. A 25 basis point adjustment on the gas side  
17 is roughly \$300,000. So this reduction to 70% then is  
18 roughly equivalent to a 25 basis point reduction on ROE.

19 Q. What you're saying is those are kind of two  
20 -- those would be two different ways of kind of getting  
21 at the same thing?

22 A. Yes.

23 Q. Although wouldn't it also be true that less  
24 volatility, or perhaps put a different way, a assured  
25 way of recovering your fixed costs on the conservation

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1 side is also reduces risk in the same way that  
2 Mr. ffitch would argue that there should be a reduction  
3 of 25 basis points overall?

4 A. You would have to look at what is designed  
5 there, but it really comes down to, you know, clearly  
6 it's a conflict right now between the way rates are set  
7 and energy efficiency.

8 Q. Right.

9 A. And so we're trying to find that right way to  
10 address that so that the Company can feel free to go out  
11 and aggressively pursue that.

12 Q. I wasn't going to ask you about the ROR issue  
13 because Mr. Hirschhorn testified briefly at least to  
14 that so is than an issue I can discuss with him?

15 A. The return on equity?

16 Q. Yes.

17 A. Actually that's probably better addressed to  
18 me.

19 Q. Okay, I wasn't ready to do that.

20 A. I'm sorry.

21 Q. But I guess focusing on that for a second, I  
22 mean isn't it true that without a decoupling or other  
23 similar mechanism that there is more volatility and  
24 therefore more risk?

25 A. Yeah, I would agree that these types of

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1 mechanisms can have an effect on the amount of risk that  
2 the utility bears in its business. But what you have to  
3 look at is how is the mechanism designed, how much risk  
4 does it address. And as you already mentioned, weather  
5 is out, it's only Schedule 101, it's only 70%, it does  
6 not pick up the inflation that occurs in the fixed cost.  
7 So this is really a slim or light version of decoupling,  
8 and therefore I think the amount of risk that changes is  
9 pretty minimal because you don't have weather and these  
10 other factors.

11 Q. So maybe you can just -- you've been with the  
12 company for 25 years?

13 A. 28 years.

14 Q. So you can speak with some institutional  
15 memory I gather. So one of the potential solutions I  
16 believe proposed by Staff, I don't know if it's a  
17 solution or an option at least, is to increase the fixed  
18 charge.

19 A. Yes.

20 Q. And I gather from it's either your testimony  
21 or Mr. Hirschhorn's that in a -- that's one way to do  
22 that would be to raise the fixed charge to cover all of  
23 the fixed or the base charge to cover all of the fixed  
24 costs, but -- and that would accomplish your goal from  
25 the Company's perspective, but that would have downside

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1 impacts for the rate payers?

2 A. Potentially it could for rate payers, yes.

3 Q. And I gather that's because the incentive to  
4 conserve on the part of the customer would be less  
5 because the incremental cost of the next unit of power  
6 is lower?

7 A. Less expensive, that's right.

8 Q. Historically over the last 25 years if you  
9 know or recall, has the fixed charge in the gas retail,  
10 for retail customers in the gas industry, always been  
11 inadequate to cover the fixed costs?

12 A. My understanding is yes, but Mr.  
13 Hirschhorn --

14 Q. There you go.

15 A. -- has been here, I'm trying to remember, I  
16 think he's been with the Company 31 years, so he has  
17 lots of institutional knowledge on that issue.

18 Q. Okay.

19 Let me just -- a couple other 10,000 foot,  
20 one other 10,000 foot question, and that is, is the  
21 system that you are proposing similar to other state  
22 systems, or is there a wide variety of systems around?

23 A. There is a variety, but if you look at for  
24 example Northwest Natural in Oregon or Cascade, there's  
25 a lot of similarities in the way the mechanism is

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1 designed, although for Northwest Natural they have a  
2 weather component where they pick that up, but in  
3 general terms. It's the mechanics may be slightly  
4 different, but the outcome is similar once you choose  
5 the components that you're going after.

6 Q. And historically again, when would you say if  
7 you could verbally articulate sort of a graph of how the  
8 conservation effort by the Company and the public has  
9 been over the past 25 years, I mean is it -- when did it  
10 really start to pick up? Let me rephrase that, let me  
11 add this. When would you say this problem of lost  
12 margin due to programmatic and non-programmatic  
13 conservation efforts become more noticeable, is there  
14 some sort of break point in that?

15 A. Right. You know, I think I probably want to  
16 look back at some data to pinpoint the time, but I think  
17 it's certainly in probably the last three to five years  
18 where I believe it's become much more of a problem given  
19 the fact that prices are fairly high, and so it really  
20 justifies spending more dollars on energy efficiency,  
21 which creates the bigger conflict that we have.

22 Q. One final question, not at 10,000 feet, this  
23 is probably in the record or I should know it, but how  
24 is this decoupling charge placed on the bill, how is the  
25 customer aware of it?

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1           A.     I'm probably going to defer this to  
2 Mr. Hirschhorn. I know that we file it, we make it  
3 known, we send a notice to customers. Whether it shows  
4 up as a line item, I'm not sure.

5           CHAIRMAN GOLTZ: I will just mark that note  
6 for Mr. Hirschhorn tomorrow. That's all I have.

7           THE WITNESS: Thank you.

8           JUDGE TOREM: Commissioners?  
9 Additional questions?

10          MR. FITCH: Yes, Your Honor, I do have a  
11 couple of follow-ups if I may.

12          JUDGE TOREM: All right, if they're quick,  
13 we'll take them tonight, more for the court reporter's  
14 sake than anyone else.

15

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

17 BY MR. FITCH:

18          Q.     Mr. Norwood, you were asked by Commissioner  
19 Jones if the Company was willing to consider incentive  
20 programs. You said that the Company was willing to  
21 consider incentive programs. Isn't it the case that in  
22 your testimony you state that you're willing to consider  
23 an incentive program on top of decoupling, in addition  
24 to decoupling?

25          A.     As I mentioned, there's a number of ways to

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1 address the lost margin issue, and it could be through  
2 decoupling, incentives plus something, the ROE adder  
3 that Commissioner Jones mentioned, or other factors.

4 Q. All right. But in your testimony you say  
5 that you would like to have an incentive program and  
6 decoupling, do you not?

7 A. If there's an incentive mechanism that  
8 addresses the lost margin issue along with it, then  
9 that's certainly something we would be willing to look  
10 at.

11 Q. All right. So that if that were to occur,  
12 customers would be paying for the DSM programs in full  
13 through the DSM tariff rider, they would be paying for  
14 the DSM, for the decoupling program, and then they would  
15 also be paying an additional incentive to the Company;  
16 isn't that correct?

17 A. You would want to balance all of those to  
18 ensure that the incentive recovery of fixed costs would  
19 be appropriate under the circumstances.

20 Q. Isn't it the case that this Commission can  
21 simply direct regulated utilities to engage in DSM  
22 programs at certain levels by direct instruction or  
23 through rule making?

24 A. I don't know the answer to that, but my guess  
25 is probably yes.

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1 Q. Isn't it the case that on the electric side  
2 that the State legislature and potentially through  
3 federal legislation, utility companies are being  
4 required by law to pursue energy efficiency at certain  
5 prescribed levels?

6 A. On the electric side, yes.

7 Q. All right.

8 When Avista raises its rates, when a rate  
9 increase is about to go into effect, it's true, isn't  
10 it, that Avista notifies its customers as part of that  
11 process about the energy efficiency and savings programs  
12 that the Company offers so that the customers can have  
13 opportunities to mitigate the impact of the rate  
14 increase?

15 A. I'm sorry, I missed the first part of your  
16 statement or your question.

17 Q. Whenever Avista is -- whenever a rate  
18 increase is going into effect for Avista, isn't it the  
19 case that Avista simultaneously notifies its customers  
20 at that time of the availability of Company DSM programs  
21 as a way for customers to deal with the impact of the  
22 rate increase?

23 A. Yes, I believe we do that on a consistent  
24 basis.

25 Q. Is it Avista's position, Mr. Norwood, that



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1 the Company has a right to guaranteed recovery of its  
2 fixed costs?

3 A. Not guaranteed, no.

4 Q. All right.

5 And Chairman Goltz asked you about different  
6 kinds of customer usage reduction behaviors resulting  
7 from different causes, and you put them into three  
8 different categories, direct program related,  
9 non-programmatic related, and essentially everything  
10 else such as economic factors. Isn't it the case that  
11 Avista's current decoupling mechanism and the mechanism  
12 that you're recommending to be continued recovers for  
13 all of those activities?

14 A. A portion of it, yes.

15 Q. And when you say a portion, you're talking  
16 about the 90% or the 70%?

17 A. The proposed 70%, that's correct.

18 Q. That all of those usage changes for all of  
19 the reasons that Chairman Goltz mentioned are captured  
20 in the current and proposed mechanism, correct?

21 A. That's correct.

22 Q. Are you aware or would you agree,  
23 Mr. Norwood, that the decoupling concept has actually  
24 been around for 25 or at least 25 or 30 years?

25 A. I would agree, for a long time.

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1 Q. And isn't it the case that Puget Sound Energy  
2 had a decoupling mechanism in place in Washington state  
3 known as the PRAM in the I believe 1970's or '80's, I  
4 don't know for sure, quite a long time ago?

5 A. I don't know.

6 Q. And you're not aware that that program was  
7 discontinued as having been found to be unsuccessful and  
8 problematic?

9 A. I guess I'm drawing a blank on that specific  
10 program.

11 MR. FFITCH: All right, those are all my  
12 questions, thank you, Your Honor.

13 JUDGE TOREM: Mr. Roseman.

14

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

16 BY MR. ROSEMAN:

17 Q. I will try not to belabor this, but you said  
18 something in a question from Mr. Johnson, I think you  
19 said that the Company had a limited control but you  
20 supported low income through I thought you said low  
21 income DSM, between your DSM program and LIRAP; is that  
22 what you said?

23 A. Yes.

24 Q. Will you give me what the acronym for LIRAP  
25 is?

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1 A. Low Income Rate Assistance Program.

2 Q. So this is the point of my confusion,  
3 Mr. Norwood, if it is a rate assistance program, it's  
4 not a DSM program?

5 A. That's correct. My comments really were  
6 directed to recognizing some of the comments that we  
7 hear at the public hearings for example where customers  
8 are concerned about some of these programs. In fact,  
9 there was a comment at the hearing regarding the level  
10 of DSM programs and the funding for that. At some point  
11 we have to recognize the total dollars that go into many  
12 of these programs and ensure that there's a reasonable  
13 balance there. So my point related to LIRAP and low  
14 income DSM is that we have to take into consideration  
15 the funding related to those and the impact it has on  
16 our customer base.

17 Q. But you were commenting I believe that the  
18 Company had limited control because the CAP agencies  
19 controlled the DSM program. I guess my question to you  
20 is, isn't in large part low income or limited income DSM  
21 savings primarily directed by how much funding at 100%  
22 per measure is available for these low income homes or  
23 customers?

24 A. That is a major factor, but as I mentioned  
25 earlier, there's some flexibility there as to whether

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1 that funding that we provide goes, or customers provide,  
2 whether it goes to the electric side or the gas side.  
3 So in that sense as we're looking at measuring therm  
4 savings, there's some other variables in there that  
5 could impact that.

6 MR. ROSEMAN: Thank you.

7 MR. JOHNSON: No further questions, Your  
8 Honor.

9 JUDGE TOREM: I don't see any further  
10 cross-exam questions.

11 Mr. Meyer?

12 MR. MEYER: No, no thanks.

13 JUDGE TOREM: All right, it's now 6:20, we  
14 are going to resume at 8:30 tomorrow morning with  
15 Mr. Buckley either in person or by phone, followed by  
16 Mr. Woodruff, and we'll find out from there when the  
17 next witness on decoupling will be. I anticipate that's  
18 going to be Mr. Hirschhorn for about an hour and a half  
19 after that. So we are adjourned until tomorrow, thank  
20 you.

21 (Hearing adjourned at 6:20 p.m.)

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