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BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,) DOCKETS UE-090134
) and UG-090135
Complainant,) (consolidated)
)
vs.) VOLUME IX
) Pages 480 to 749
AVISTA CORPORATION, d/b/a)
AVISTA UTILITIES,)
)
Respondent.)
_____)
)
In the Matter of the Petition) DOCKET UG-060518
of) (consolidated)
)
AVISTA CORPORATION, d/b/a) VOLUME IX
AVISTA UTILITIES,) Pages 480 to 749
)
For an Order Authorizing)
Implementation of a Natural)
Gas Decoupling Mechanism and)
to Record Accounting Entries)
Associated With the Mechanism.)
_____)

A hearing in the above matter was held on
October 7, 2009, from 9:30 a.m to 5:22 p.m., at 1300
South Evergreen Park Drive Southwest, Room 206, Olympia,
Washington, before Administrative Law Judge ADAM TOREM
and CHAIRMAN JEFFREY D. GOLTZ and Commissioner PATRICK
J. OSHIE and Commissioner PHILIP B. JONES.

Joan E. Kinn, CCR, RPR
Court Reporter

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

2 JUDGE TOREM: Good morning, this Judge Torem,
3 we're back on the record in the Avista rate case. It's
4 now Wednesday morning, the 7th of October, it's a little
5 after 9:30, and we've taken care of a little bit of
6 housekeeping. David Johnson from the Northwest Energy
7 Coalition is here today, but he may not be sitting at
8 the table with the other attorneys simply because he
9 doesn't have any cross planned for Company witnesses on
10 revenue requirements. I've discussed with him the issue
11 we mentioned yesterday about Steve Johnson and his prior
12 work with Public Counsel on decoupling. I understand
13 from Mr. Johnson, you're going to check with your client
14 later today and get back to me maybe over the lunch
15 hour, maybe later today, as to any position if any
16 objection.

17 MR. JOHNSON: That's correct, Your Honor.

18 JUDGE TOREM: Thank you, sir.

19 Were there any other housekeeping issues that
20 came up overnight?

21 MR. TRAUTMAN: I don't know if this is
22 housekeeping, but in terms of, I guess it is, in terms
23 of the witness cross, Staff will not have any cross for
24 Mr. Larkin. I think we had 10 minutes allotted, and
25 that was on revenue requirements, or for Mr. Brosch or

0487

1 for Ms. Kimball, and those were on decoupling, I believe
2 we had 10 minutes also for those.

3 JUDGE TOREM: All right, I will make a note
4 of that.

5 Any other housekeeping?

6 MR. TRAUTMAN: I just wanted to make one
7 statement to expand upon an answer I had given
8 yesterday, and the question involved Public Counsel's
9 adjustment to the Lancaster contracts or the proposed
10 adjustment. And as I indicated, the Staff has been
11 neutral to that adjustment, but I would add that Staff
12 did review and analyze the Lancaster contracts and did
13 not -- and has determined not to contest an adjustment
14 in its own case. And if you would like further
15 explanation of Staff's analysis and examination of those
16 contracts, Mr. Buckley would be available.

17 JUDGE TOREM: All right, thank you,
18 Mr. Trautman, that's one of the reasons we wanted to
19 have Mr. Buckley around so that when we get to
20 discussing the Lancaster adjustments if there's a
21 question as to Staff's view on Public Counsel's case as
22 put forward, we can then have a witness to ask, so thank
23 you.

24 Mr. Meyer, your witnesses are all here as
25 planned for today?

0488

1 MR. MEYER: They are, Your Honor.

2 JUDGE TOREM: All right, so I'm going to ask
3 Mr. Norwood to come up, and we've arranged the room so
4 the witness will be off to the Bench's left, so that way
5 the rest of you that are here to observe the hearing
6 don't have to just observe the back of the witness's
7 head, you can actually see a little bit of what's going
8 on as well. And while we have the setup we do where
9 it's not a crowded counsel table unless this fills up,
10 we'll keep this physical arrangement.

11 Mr. Norwood, I know you were part of the
12 panel yesterday and I swore you in then, but just to be
13 sure let's do the oath one more time.

14 (Witness KELLY O. NORWOOD was sworn.)

15 JUDGE TOREM: My schedule indicates that
16 Public Counsel and Commission Staff each have planned 30
17 minutes of cross-examination, so it's now a little after
18 9:35.

19 MR. TRAUTMAN: I believe we will have less
20 than that.

21 JUDGE TOREM: All right, we'll hold you to
22 these.

23 MR. TRAUTMAN: Based on our overnight work on
24 this.

25 JUDGE TOREM: So which of you wishes to open

0489

1 this questioning?

2 MR. TRAUTMAN: I think Staff will go first.

3 JUDGE TOREM: Mr. Trautman, the floor is
4 yours.

5 MR. MEYER: Excuse me, Your Honor, before we
6 go there, may I just have a minute with the witness. We
7 have a couple of clarifications to make to his
8 testimony, corrections.

9 JUDGE TOREM: Let me direct folks to page 11
10 and page 32 of Mr. Norwood's testimony, this is Exhibit
11 KON-1T, and if folks will go to page 11 and page 32,
12 Mr. Meyer will walk you through with the witness the
13 minor changes that need to be made.

14

15 Whereupon,

16 KELLY O. NORWOOD,
17 having been first duly sworn, was called as a witness
18 herein and was examined and testified as follows:

19

20 DIRECT EXAMINATION

21 BY MR. MEYER:

22 Q. Mr. Norwood, on page 11 would you speak to
23 the changes you have?

24 A. Yes, page 11, line 23, I'll wait just a
25 moment to make sure everyone is there. This is

0490

1 rebuttal.

2 JUDGE TOREM: That's correct, Mr. Norwood's
3 testimony came in only in rebuttal. There was nothing
4 in the opening case back from January.

5 A. Page 11, line 23, just before where it says
6 2009, insert 2008. And so it would read, during the
7 2008 and 2009 capital budgeting process.

8 And then on page 32, line 23, item number 3
9 listed there which begins, the evaluation of the
10 decoupling mechanism, strike lines 23 and 24.

11 MR. FFITCH: Could you repeat that, please.

12 A. Page 32, lines 23 and 24, strike those lines
13 completely. I do not cover that issue in my testimony.

14 And then on the next page there are some
15 items that continue with the numbering, those would need
16 to be renumbered 3 through 7 instead of 4 through 8.

17 Those are all the corrections I have.

18 MR. MEYER: Very well, with that, the witness
19 is available for cross.

20 MR. FFITCH: I apologize, Your Honor, I just
21 want to make sure I've got this, bringing up the rear,
22 page 32, lines 23 and 24; is that correct?

23 THE WITNESS: Yes.

24 MR. FFITCH: Items 2 and 3?

25 THE WITNESS: No.

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1 MR. FFITCH: Just item 3?

2 THE WITNESS: Just item 3, and then renumber
3 the items on the following page.

4 MR. FFITCH: Thank you.

5

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

7 BY MR. TRAUTMAN:

8 Q. Good morning, Mr. Norwood.

9 A. Good morning, Mr. Trautman.

10 Q. I would like to start by referring you to
11 page 9 of your rebuttal testimony.

12 A. Okay.

13 Q. And looking at lines 10 through 12, you point
14 out that a six year rolling average was used to
15 calculate the injuries and damages included in the test
16 year; is that right?

17 A. Yes.

18 Q. And is it correct that the six year average
19 is all historical, none of that is projected?

20 A. That's correct.

21 Q. And is it also correct that all of the
22 averages that would be used in determining cost included
23 in the test year are historical averages, none of those
24 are projected averages or projected amounts; is that
25 correct?

0492

1 A. That's correct.

2 Q. Okay. Turning to page 10, and on this page
3 you talk about Noxon; is that generally correct?

4 A. Yes.

5 Q. And regarding Noxon you've emphasized that
6 all parties have included Noxon as a pro forma
7 adjustment, correct?

8 A. Would you point me to a line?

9 Q. That would be lines 7 and 8 where you say the
10 upgrade has been pro formed into this case.

11 A. Yes.

12 Q. And it is not opposed by any party.

13 A. Thank you, I see that, yes.

14 Q. All right. And you mentioned among the other
15 parties is Staff included the Noxon 3 upgrade as a pro
16 forma rate base adjustment; is that correct?

17 A. Yes, that's correct.

18 Q. Will the benefits of Noxon be included in the
19 ERM monthly deferral calculation as a power supply
20 component?

21 A. Actually the benefits of the upgrade will be
22 reflected in base rates in this case because they were
23 reflected in the Aurora model which was included in the
24 partial stipulation, so the benefits are already built
25 into the partial stipulation.

0493

1 Q. Would they have gone through the deferral
2 calculation if the parties had not included the benefits
3 in the pro forma rate base?

4 A. They would have, but, you know, for rate
5 making in general rates it's appropriate to reflect the
6 known investment and the known benefits or changes in
7 costs, and that's what's been reflected in this filing.
8 We shouldn't rely on a tracking mechanism to pick up
9 dollar amounts that are known in the general rate case.

10 Q. Now the Company has an annual operating
11 budget; is that correct?

12 A. Yes.

13 Q. And that budget contains capital expenditures
14 as well as operating maintenance and administrative
15 costs; is that correct?

16 A. Yes.

17 Q. If you could turn to page 21 of your rebuttal
18 testimony, and at the bottom of that page in the bottom
19 paragraph you indicate that the Company applied a factor
20 to production plant in order to match loads and rates
21 that are set, correct?

22 A. Yes. And that's for purposes of the
23 illustration that I used here.

24 Q. Right.

25 A. Just to be clear.

0494

1 Q. And that's applied to as you say to both
2 production and transmission rate base?

3 A. That's correct.

4 Q. That factor has not been applied to the pro
5 forma level of distribution or general plant, right?

6 A. That's right, because we have excluded any
7 incremental distribution plant in this case, because
8 there are revenues associated with that incremental
9 investment.

10 Q. You mentioned yesterday that one of the cost
11 cutting measures that the Company has undertaken was to
12 reduce employees by 52 in 2009; is that correct?

13 A. Yes.

14 Q. And did the Company propose an adjustment to
15 reflect the reduced employees in this case?

16 A. No, we did not. But I believe it's important
17 to look at the total labor in context and not just look
18 at one piece.

19 Q. Right.

20 A. In isolation.

21 Q. But you did not propose an adjustment?

22 A. Not for that item, no.

23 Q. As part of the Company's recommendation,
24 you've proposed somewhat adjusting the ERM in
25 conjunction with the rate case, I say that generally; is

0495

1 that correct?

2 A. Yes, reduce the surcharge at the time your
3 rates go into place from this case.

4 Q. Is it generally -- is it true that as part of
5 the Company's existing ERM that once the deferred
6 balance amortizes to zero, then the rate will go to zero
7 until the deferred balance accumulates to at least 10%
8 of the general revenues?

9 A. That's correct.

10 Q. At which time the Company could file for
11 recovery; is that correct?

12 A. That's correct.

13 MR. TRAUTMAN: That's all the questions I
14 have, thank you.

15 JUDGE TOREM: Public Counsel.

16 MR. FFITCH: Thank you, Your Honor.

17

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

19 BY MR. FFITCH:

20 Q. Good morning, Mr. Norwood.

21 A. Good morning, Mr. ffitch.

22 Q. I just have a few brief questions. Avista
23 received a 9% increase in electric rates effective
24 January 1st, 2009, did it not?

25 A. Yes.

0496

1 Q. And that was a result of a settlement of the
2 2008 general rate case?

3 A. Yes, that's correct.

4 Q. And only three weeks later, Avista filed this
5 rate case asking for a 17.8% increase in electric rates;
6 is that correct?

7 A. In base rates, that's correct.

8 Q. Which adds up to 27.8% over two years if my
9 math is correct; is that right?

10 A. Over the course of two years, yes.

11 Q. And isn't it true that in the filing
12 documents and in Avista press statements, Avista
13 discussed both the rate increase, the base rate
14 increase, and the end of the ERM surcharge together?

15 A. Yes, and the purpose for that was to address
16 the rate impact to customers.

17 Q. And both the filing with the Commission and
18 Avista's press materials describe the net effect of the
19 filing as only an 8%, excuse me, 8.6% bill increase,
20 correct?

21 A. I think it's important, Mr. ffitch, to
22 recognize that in our documents, both the filing and the
23 news release, we were specific that there was a base
24 rate increase, and there was also an adjustment that we
25 were proposing related to the surcharge, two separate

0497

1 adjustments, but on a net basis we did reflect the net
2 in addition to the other numbers.

3 Q. All right, so that's a yes, the materials
4 including the press materials describe the net effect of
5 the filing as an 8.6% bill increase, correct?

6 A. As part of the materials, that is correct.

7 Q. And are you aware and would you agree that
8 some of the press coverage regarding this initial filing
9 described Avista's filing as creating an 8.6% increase
10 in rates?

11 A. The press has covered all the numbers,
12 whether it's 16%, 17.8%, or 8.6%, they've covered all
13 the numbers. It is accurate to say, Mr. ffitch, that
14 the proposed change in bills to the customer is the net
15 number.

16 Q. And are you aware that some of the press
17 coverage of the initial filing described this as an 8.6%
18 rate increase?

19 A. Mr. ffitch, although we would like to be able
20 to control the press and what they choose to say, we can
21 not do that. We've provided all the numbers to them,
22 and they have discussed all of those numbers that I
23 previously mentioned.

24 Q. Can you see how the confusion would arise on
25 the part of the media?

0498

1 MR. MEYER: Your Honor, object, that's
2 argumentative, and it's really a question that's been
3 asked and answered.

4 MR. FFITCH: I'll move on, Your Honor.

5 BY MR. FFITCH:

6 Q. The 8.6% bill increase that is referred to in
7 Avista's filings is based on a projection that Schedule
8 93 would be at zero in December of 2009, correct, that
9 was the projection at the time of the initial filing?

10 A. I don't think so. I think the expectation
11 was the balance would be very small at the end of 2009,
12 and that whatever the balance would be would be carried
13 forward to a future time to recover. Since that time,
14 we have modified our proposal through our rebuttal
15 testimony to ensure that we can accomplish two things,
16 one, reduce the impact, the bill impact to customers,
17 but also recover the balance over a 12 month period.

18 Q. All right, well, if you can just stick to
19 answering my questions, Mr. Norwood, I would appreciate
20 that.

21 The initial filing speaks for itself, but to
22 the extent it projected a zero balance in Schedule 93 by
23 the end of 2009, that projection is no longer accurate,
24 correct?

25 A. That's correct. I believe it's toward the

0499

1 end of January or early February 2010 is when the
2 balance is projected to go to zero.

3 Q. All right. And as you just stated and I
4 think you've stated in other statements and filings, the
5 Company's desire is to have the ERM change and the rate
6 change from this case occur at the same time, correct?

7 A. That is correct.

8 Q. But you are not proposing to delay the
9 effective date of any rates in this case until February
10 or January of 2010; is that correct?

11 A. That's correct.

12 Q. Instead you're proposing to alter the normal
13 operation of the ERM in order to make the balance be
14 zero at the time the rate change goes into effect; is
15 that right?

16 A. I'm not sure I understood your question, I'm
17 sorry. Could you repeat the question.

18 Q. Instead of delaying the effective date of any
19 rates approved in this case until the ERM moves to zero,
20 Avista is proposing to alter the normal operation of the
21 ERM to artificially make the balance zero for surcharge
22 purposes at the time the rates from this case would go
23 into effect?

24 A. No. The proposal is to reduce the surcharge
25 to a lower level at the time rates go into effect from

0500

1 this case. Whatever the balance is in the ERM at the
2 time rates go into effect from this case, we would
3 spread that balance over a 12 month period and reduce it
4 to zero. So it's not our expectation that the balance
5 would be exactly zero at the time rates go into effect
6 for this case.

7 Q. Well, that's a new proposal that just
8 appeared in rebuttal, correct?

9 A. Yes, it is, in response to the testimony that
10 was filed by other parties.

11 Q. All right. And that proposal that you have
12 for some type of amortization or overlay deferral is not
13 currently a part of the ERM mechanism, is it?

14 A. No, but the Commission has the discretion to
15 do what makes sense and is in the best interests of the
16 customers and the Company.

17 Q. Am I correct that Schedule 93 began as a
18 means to essentially ask rate payers to help Avista with
19 a very large -- very large explosion in its power costs
20 resulting from the decisions Avista made in the 2000 and
21 2001 Western energy crisis?

22 A. No, I would not characterize it that way at
23 all. The mechanism was designed to track changes in
24 costs, power supply costs, from those built into base
25 rates, whether they be positive or negative. But during

0501

1 the early period we had costs that exceeded those in
2 base rates, and there's a dead band and sharing
3 mechanism, and so all those factors were considered in
4 designing the mechanism, but it does go both directions,
5 and we have had deferrals in both directions.

6 Q. Well, you're not testifying, are you, that
7 the creation of Schedule 93 and the ERM has nothing to
8 do with the Western energy crisis of 2000, 2001 and
9 Avista's experience in that crisis?

10 A. No.

11 Q. You're not testifying to that?

12 A. No.

13 Q. And a very large portion of the deferrals
14 contained in or recovered through Schedule 93 are a
15 result of that, those initial excessive power costs, are
16 they not?

17 A. No, I would not consider them excessive.
18 They were costs the Commission reviewed as part of an
19 earlier filing. We had requested a deferred accounting
20 petition in the period prior to June of 2002, which is
21 when the ERM came into place. The deferrals subsequent
22 to June 2002, my recollection is they're not near as big
23 as the deferrals that the Commission reviewed and
24 approved for recovery prior to June of 2002. So the
25 balance that we carried forward from the energy crisis

0502

1 occurred prior to adoption and approval of the ERM which
2 began in June of 2002.

3 Q. All right. And I'm willing to change my term
4 excessive, which I meant in the sense of very large, and
5 just try to rephrase the question, and perhaps you've
6 answered it, but those very large balances from those
7 early years related to the energy crisis then became
8 part of the deferral that customers have been recovering
9 through Schedule 93, correct, or the Company's been
10 recovering through the Schedule 93 surcharge?

11 A. Those dollars have long been recovered from
12 customers, the initial dollars from the energy crisis.
13 I believe we recovered those in the 2003/2004 time
14 frame. The dollars that are in the balance right now
15 are the result of multiple years of below normal stream
16 flow conditions that we've experienced in the past five
17 to six years.

18 Q. And the reason why the balance in this
19 account is going to zero is a result of the efforts of
20 Avista rate payers, is it not?

21 A. It's a result of recovering those dollars
22 through the ERM surcharge, that's correct.

23 Q. And that's completely independent of this
24 2009 rate case, is it not?

25 A. It is.

0503

1 Q. And that's kind of a milestone for Avista
2 customers, is it not, that they have managed to pay down
3 this account to zero?

4 A. I think it's good for everyone that that
5 balance is approaching zero.

6 MR. FFITCH: Those are all the question I
7 have, Your Honor.

8 JUDGE TOREM: Mr. Trautman, any follow-up
9 before I give it back to Mr. Meyer?

10 MR. TRAUTMAN: No, Your Honor.

11 JUDGE TOREM: Thank you, Mr. ffitch.

12 Mr. Meyer, any short redirect?

13 MR. MEYER: I thought I might defer that if I
14 could until after the Commissioners have had a chance to
15 ask any questions.

16 JUDGE TOREM: All right.

17 Commissioners, start with Commissioner Oshie,
18 any questions for Mr. Norwood?

19 COMMISSIONER OSHIE: No questions, I think
20 your responses to Mr. ffitch's cross-examination cleared
21 up an issue at least I had about your earlier testimony
22 in response to one of his questions, so I have no
23 questions.

24 JUDGE TOREM: Commissioner Jones.

25 COMMISSIONER JONES: Just a couple of

0504

1 questions.

2

3

E X A M I N A T I O N

4 BY COMMISSIONER JONES:

5 Q. Mr. Norwood, good morning.

6 A. Good morning.

7 Q. I think Mr. Meyer said yesterday your CapX
8 budget for 2009 and 2010 has been revised downward; is
9 that correct?

10 A. Yes, it has.

11 Q. So could you just restate for the Bench what
12 the CapX budget finally determined by the board is for
13 after any final adjustments is for 2009 and 2010?

14 A. For 2009 the original capital budget that was
15 proposed by the departments was approximately \$270
16 Million. The senior officers did not approve that, they
17 reduced that down to \$210 Million for 2009. During the
18 course, early course of 2009, that budget was further
19 reduced down to \$202 Million. It's my understanding
20 that that is the current budget for 2009. And I guess I
21 will have to seek some help or circle back with you as
22 to what the capital budget is for 2010, I don't have
23 that information ready.

24 Q. My recollection is that it was on the order
25 for two years of about \$420 Million as proposed in your

0505

1 rebuttal testimony.

2 A. Yes.

3 Q. For two years.

4 A. Yes, I think the budget for 2010 is in the
5 neighborhood of \$210 Million.

6 Q. Then my follow-up question to that would be
7 those final adjustments, have they been pro formed into
8 your adjustments that you proposed on rebuttal or not,
9 or is the pro forma adjustment based on very
10 specifically the \$210 Million or the \$202 Million?

11 A. The capital included in this rate case did
12 not include the additional capital for 2009 related to
13 distribution plant. The reduction from \$210 Million
14 down to \$202 Million was distribution related, so it was
15 not originally included in this filing, so there wasn't
16 a need to adjust that.

17 Q. My next line of questioning, and this could
18 be for Mr. Kinney, so if you want to wait on this, you
19 can, but since you're the big witness, the overall
20 witness, I thought I would ask that because it relates
21 to capital expenditures. And this relates to your asset
22 management plan and specifically vegetation management
23 and NERC reliability issues, but can you show in your
24 testimony or in Mr. Kinney's testimony where Avista has
25 specific contractual obligations to do the work that is

0506

1 planned under the asset management program for the year
2 2010?

3 A. I'm going to have to defer to Mr. Kinney on
4 that, because he can speak to the specific provisions
5 that NERC requires, and it's our obligation to make sure
6 we comply with that, which drives the need for certain
7 investments, and he would be the one to speak to that.

8 Q. Okay.

9 The key distinction there, just to warm up
10 Mr. Kinney, is expected versus contractually obligated.

11 A. Yes.

12 Q. And what sort of contractual obligations you
13 have, so I will wait on that one.

14 The last line of questioning for you is I
15 think Mr. Meyer mentioned in response or in his opening
16 statement yesterday that the Company expected the timing
17 of the rate increases to occur sometime in December.

18 A. Yes.

19 Q. Can you be more specific, because your
20 continual rate filings with us have always asked for
21 January 1st, so this is something that kind of struck me
22 yesterday from the Bench?

23 A. Yes. As we've seen in this filing and other
24 filings, you know, the statutory period is 11 months,
25 and we've seen in this one that it appears that it's

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1 going to run that course. Also when we propose rates,
2 we're only allowed really to propose -- include our
3 costs for the next year, which means in order to keep up
4 we have to file every year unless we're able to somehow
5 get rates effective sooner than the 11 month period.
6 So, you know, we filed January 23rd I think, the
7 statutory period I believe is December 23rd, in that
8 neighborhood, and so we are, as we state in our
9 testimony, already behind on cost recovery, and so we
10 need rates effective as soon as possible to try to get
11 -- improve the recovery of the costs that we have.

12 Q. So the specific date you're asking both for
13 the effective date of the base rate increases as well as
14 the ERM balance, and I don't want to get into the
15 dispute between Public Counsel and the Company over the
16 timing of the ERM balance surcharge going to zero, but
17 the timing you're requesting is what, December 15th,
18 December 10th?

19 A. As soon as the Commission is able to get an
20 order out. As I mentioned, we are underrecovering our
21 costs, so the sooner rates are effective, the closer
22 cost recovery is going to be. If it's possible for
23 December 1, then that would be wonderful. So it comes
24 down to the timing of the Commission's opportunity to
25 get the order out.

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1 COMMISSIONER JONES: Thank you, Mr. Norwood,
2 that's all I have on this round.

3 JUDGE TOREM: Chairman Goltz.

4

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

6 BY CHAIRMAN GOLTZ:

7 Q. Good morning.

8 A. Good morning.

9 Q. Just following up a little bit on the
10 questions asked by Mr. Trautman and by Commissioner
11 Jones, first regarding the capital budgets and the
12 changes in those that you mentioned yesterday and then
13 reaffirmed today. You mentioned that the 2009 budget
14 went from 210 to 202, but that doesn't impact the
15 adjustments in this case?

16 A. That's correct.

17 Q. Is the 2010 budget similar to that and the
18 reductions in the 2010 budget also related to just the
19 distribution?

20 A. I think we're in the process right now of
21 revisiting the 2010 capital budget. My understanding is
22 it's still in the neighborhood of \$210 Million. For
23 this case, the filing that's before you, we have no
24 capital additions in this case for 2010 with the
25 exception of the one Noxon unit 3 upgrade. So although

0509

1 it would have been appropriate to include it in this
2 case because that's when rates are going to be
3 effective, we chose for this case to limit the request
4 to just the year end 2009 addition. So in that sense,
5 as we roll through 2010, we're actually going to
6 underrecover our costs because we have not asked for
7 that capital in 2010.

8 Q. And then so I understand then your response
9 to the question asked by Mr. Trautman, there are some
10 expense operating expenses that are being reduced in a
11 sense that you're reducing, for example, reducing staff
12 by 52, so that would reflect a decrease in the test year
13 expenses going forward?

14 A. I couldn't say that the -- for 2010 what the
15 staffing level will be. What's built into the test year
16 would include most of that 52 that we talked about. We
17 have made both short-term and long-term adjustments. At
18 some point we can't continue to operate without new
19 people, and we are setting rates for 2010, not 2009,
20 we're through 2009.

21 Q. Understand.

22 A. So I would not expect that we would realize
23 that full 52 reduction in 2010.

24 Q. Also following up a bit on the question asked
25 by Mr. Trautman an page 9 of your rebuttal testimony,

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1 and I may not fully understand this, but you stated that
2 your pro forma expense for injuries and damages is based
3 on a six year rolling average, and is the reason for
4 this adjustment because the actual expense during the
5 test year was below the six year rolling average?

6 A. No, actually Ms. Andrews would know whether
7 the test year was above or below. This six year rolling
8 average is not something that's just unilaterally
9 proposed by the Company. It's something that's been
10 used in the past, and it's used not because the number
11 for the test year is higher or lower for some reason,
12 it's just that over the course of time you don't know
13 what that number is going to be, so for purposes of
14 setting rates we choose to use an average so that over
15 time you may be a little high in some cases, you may be
16 a little lower in other cases, but over time it's going
17 to be pretty close to what customers are going to --
18 what we're going to see and what customers experience
19 over the course of time. And we do that for a number of
20 other expense categories or revenue categories. Since
21 we really don't know what the exact number is going to
22 be, we have proposed and the parties have supported
23 using an average. And it's not that it's -- the
24 question was, well, is it based on historicals, yes, it
25 is, but we're using it as an estimate of what we expect

0511

1 to see in the future. And that's what we have to look
2 at in setting rates is, what do we expect our costs and
3 our revenues to be during the period that rates are in
4 effect. So we use the historical because that's the
5 best information for that particular account.

6 Q. So in the event that in a given year you have
7 an unusually high amount of payouts for injuries and
8 damages, if that's in the test year you would still use
9 the six years rolling averages to pro form it into the
10 rates?

11 A. Absolutely.

12 Q. Just one final question just occurred to me
13 that, you know, you chose to file this case in a manner
14 so the rates would become effective January 1, correct?

15 A. Not January 1 but sometime in December. We
16 filed on January 23rd, and so we would hope that rates
17 would be effective sometime in December. As I mentioned
18 earlier, we are underearning, and so the sooner we get
19 rates effective, the more improvement we're going to
20 see, and so we need rates effective right now. Our
21 earnings in '08 were 7.2% ROE. For this year our
22 earnings are going to be well below where they should
23 be. And if we continue to have rate cases that go on,
24 then we're not going to be able to get to the point
25 where we have earnings that are anywhere close to what's

0512

1 left.

2 Q. No, I was just asking a calendar question, I
3 thought the rates were to be effective January 1; was I
4 wrong on that?

5 A. No, the end of the statutory period is
6 December 23rd, so our proposal is for rates to be
7 effective on or before December 23rd.

8 Q. Okay. So but our order is due December 23rd?

9 A. I will defer to counsel.

10 MR. MEYER: That's correct.

11 Q. And I just want to point out that that makes
12 the announcement of it in the press December 24th, which
13 could be considered unfortunate.

14 A. We understand.

15 JUDGE TOREM: Commissioner Jones, you had a
16 follow-up?

17 COMMISSIONER JONES: Judge, just since
18 Chairman Goltz had this question, just to clarify for
19 the record.

20

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

22 BY COMMISSIONER JONES:

23 Q. You are not asking for any capital
24 expenditures to be pro formed from 2010 into rates
25 except Noxon, but you are asking for a pro form on end

0513

1 expenses, correct?

2 A. We have proposed labor expenses for 2010 to
3 be included in this case. There are some expense
4 categories like thermal O&M where we pro formed out
5 through 2010, but through the partial stipulation we've
6 excluded those. So there are some components in 2010,
7 and that's -- what we've done in the past is we are to
8 reflect in our case pro form adjustments that are known
9 and measurable so that when rates are set then they
10 reflect those costs that we're going to experience to
11 serve customers.

12 Q. Well, maybe, Mr. Norwood, this is a question
13 for Mr. Kinney, but I think his testimony talks about
14 compared to the test year an increase in O&M expenses of
15 \$4.7 Million?

16 A. Yes, I'm sorry, yes, for some of those cost
17 categories which would be like tree trimming, asset
18 management.

19 Q. Right.

20 A. We do have -- that's right. And there's also
21 some costs for information services that Mr. Kensock can
22 talk to where we are trying to reflect in our pro forma
23 the costs that we expect to experience during the period
24 that rates are in effect.

25 Q. Mr. Norwood, stop there. So that's expect,

0514

1 so are those truly known and measurable costs?

2 A. Absolutely.

3 Q. Or are they expected costs?

4 A. So let's dissect known and measurable.

5 Number one, do we know the change is going to occur, are
6 you going to commit the dollars. And you can speak to
7 those witnesses, but we do know that we are going to
8 commit the dollars to spend those, so in that sense we
9 know we're going to spend those dollars. The question
10 then is, are the dollars measurable. And as we set
11 rates to the future, if we look at the Washington
12 Administrative Code, if we look at prior orders that
13 have been issued with the Commission, it's been clear
14 that we have used estimates in some cases to reflect the
15 costs that we're going to experience. I noted the
16 Rainier View Water Company where it says, for known and
17 measurable events that will occur prospectively pro
18 forma adjustments to best estimate the relationship
19 between the company's costs and revenues. So if you
20 look at the rest of this case, if you look at power
21 supply especially, we don't use actual specific certain
22 numbers to set rates. For decades we have used
23 estimates for thermal availability, estimates for loads,
24 estimates for fuel costs, even in the past in the last
25 case where we had labor for the rate year you'll note in

0515

1 Public Counsel's testimony in the last case that they
2 didn't oppose that adjustment, because it's one of those
3 things that is going to occur for the Company.

4 COMMISSIONER JONES: Well, let's defer the
5 question to Mr. Kinney, my question was not the broad
6 question, I'm quite familiar with your testimony on
7 that, it was narrowly focused on the asset management
8 program and whether or not you have contractual
9 obligations, et cetera, to really distinguish expected
10 from known and measurable, but let's save that question
11 for Mr. Kinney.

12 JUDGE TOREM: Commissioners, any other
13 questions?

14 Seeing none, Mr. Meyer.

15 MR. MEYER: I do have some limited redirect.
16

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

18 BY MR. MEYER:

19 Q. Mr. Norwood, this may be more appropriately
20 deferred to witness Andrews, but there was a reference
21 to a reduction I believe of 54 employees that there was
22 questioning to you from the Bench on. Is it your
23 understanding that that level of reduction was primarily
24 related to reductions in capital projects, more
25 specifically new distribution to hook up new customers?

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1 A. I will defer that to Ms. Andrews.

2 Q. Fair enough.

3 A. For those specifics.

4 MR. MEYER: Okay, we'll do so, and if I might
5 pose those questions to Ms. Andrews, thank you.

6 And with that, I have no further cross,
7 thanks.

8 JUDGE TOREM: Mr. ffitch, Mr. Trautman, any
9 reattack?

10 MR. TRAUTMAN: No, Your Honor.

11 MR. FFITCH: I have one follow-up, Your
12 Honor.

13

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

15 BY MR. FFITCH:

16 Q. Mr. Norwood, with regard to your statements
17 about power cost estimates, power costs are run through
18 the ERM, are they not?

19 A. Variations in power costs from those built
20 into rates are, that's correct.

21 Q. And so if there are changes, if the power
22 costs turn out to be different than the estimates,
23 that's picked up and trued up through the ERM process,
24 is it not?

25 A. That is not appropriate though in terms of

0517

1 setting base retail rates. To know that there is a cost
2 that will occur during the pro forma period and to
3 exclude it from base rates and just let a mechanism pick
4 it up, it's appropriate --

5 MR. FFITCH: Excuse me, Your Honor, the
6 witness is not answering my question. I asked if the
7 ERM process trues up changes in power costs that occur
8 which are different from the projections.

9 A. To the extent that they vary from those built
10 into base rates, that would be correct after application
11 of the dead band and the sharing mechanism. But again,
12 it is not appropriate to rely on a tracking mechanism to
13 recover costs that should be built into base rates.

14 MR. FFITCH: No further questions, thank you,
15 Your Honor.

16 JUDGE TOREM: All right, thank you.

17 Is there anything else for Mr. Norwood?

18 All right, seeing none, thank you, we'll see
19 you again later in the week.

20 The next witness on the schedule is Elizabeth
21 Andrews. It's now 10:15, I propose we get started with
22 Ms. Andrews and probably between 10:30 and 10:45 we'll
23 take a little break, so if we can have the witnesses
24 switch places.

25 Ms. Andrews, before you get comfortable, I

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1 will have you raise your right hand.

2 (Witness ELIZABETH M. ANDREWS was sworn.)

3 JUDGE TOREM: We're going to start,
4 Mr. Meyer, with your few questions for Ms. Andrews. If
5 we go as scheduled, Mr. ffitch, you had suggested an
6 hour and three quarters. Ms. Shifley is going to cover
7 this. And then, Mr. Trautman, you had 15 minutes,
8 Mr. Trautman, do you have any update on that?

9 MR. TRAUTMAN: It might be a little more than
10 15 minutes, but it shouldn't be much.

11 JUDGE TOREM: Ms. Shifley.

12 MS. SHIFLEY: I believe that Mr. ffitch will
13 be asking a few questions of Ms. Andrews, and I believe
14 that his time estimate was a little bit generous, it
15 might be shorter.

16 JUDGE TOREM: All right, well, I will have
17 him weigh in as soon as we get through Mr. Meyer's
18 questions, Mr. ffitch, I'll ask you about your time
19 estimates again.

20 Mr. Meyer, you had a couple of introductory
21 things you wanted to cover that were deferred from the
22 previous witness.

23 MR. MEYER: I did, thank you, Your Honor.

24

25

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1 Whereupon,

2 ELIZABETH M. ANDREWS,

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. There was a reference to a reduction of some
9 52 employees in the prior discussion with Mr. Norwood,
10 were those reductions primarily due to reductions in
11 capital projects such as new distribution to hook up new
12 customers?

13 A. Yes, the Company -- this is a combination of
14 temporary employees, not filling behind vacancies, and
15 not filling new positions that we normally bring on in
16 April to assist in the construction work.

17 Q. And would those dollars therefore have been,
18 associated with those crews or those employees, been
19 characterized as capital labor dollars?

20 A. Yes, they would.

21 Q. And what is the significance of that
22 characterization?

23 A. Well, when we did our pro forma out to 2010,
24 we only included the O&M type labor expenses included in
25 that, and we -- since we did not include 2010 capital

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1 projects, those labor dollars would not -- it would not
2 be appropriate to do some sort of reduction to our test
3 period case for those dollars.

4 Q. Would those capital projects otherwise have
5 been excluded in any event as revenue producing
6 projects?

7 A. Yes, to the extent that they're related to
8 distribution capital, new additions for example, new
9 hookups for customers, we excluded all those projects
10 for both for -- even in 2009 because those would have
11 been new revenue projects.

12 Q. Very well, thank you, that's all I have by
13 way of further follow-up.

14 And with that, Ms. Andrews, do you have any
15 other corrections to make to any of your testimony or
16 exhibits?

17 A. No, I do not.

18 MR. MEYER: Okay, thank you.

19 And she's available for cross.

20 JUDGE TOREM: Thank you, sir.

21 Mr. ffitch, maybe you want to update us on if
22 the hour and three quarters would still be accurate.

23 MR. FFITCH: It will be shorter than that,
24 Your Honor, I hope reasonably shorter.

25 JUDGE TOREM: All right.

0521

1 THE WITNESS: Me too.

2 JUDGE TOREM: All right, I think that
3 depending on how long Mr. Trautman's exam takes, we may
4 take a break between you and then come back on and see
5 if we can wrap up with that testimony before lunch.

6 Mr. Trautman, go ahead.

7 MR. TRAUTMAN: All right, thank you.

8

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

10 BY MR. TRAUTMAN:

11 Q. Good morning, Ms. Andrews.

12 A. Good morning.

13 Q. I would like to start by referring you to
14 page 9 of your rebuttal testimony.

15 A. Okay.

16 Q. And at the bottom of that page, and this is
17 referring to 2010 labor increases, you refer on line 21
18 to market studies and union analysis.

19 A. Yes, I do.

20 JUDGE TOREM: Mr. Trautman, so I'm clear,
21 which EMA exhibit is this?

22 MR. TRAUTMAN: EMA-4T.

23 JUDGE TOREM: 4T, thank you.

24 A. I'm sorry, yes.

25 BY MR. TRAUTMAN:

0522

1 Q. And in referring to the market studies, what
2 study are you referring to here?

3 A. If you go to my Exhibit Number 8, page 6, I'm
4 referring to a conference board market study. I will
5 let you get there, sorry. I'm sorry, it's page 6, EMA
6 Exhibit 8, page 6, it's a conference board market study.
7 We use this study on an annual basis to review and
8 analyze what we expect our salary increases to be in the
9 upcoming year.

10 Q. And is this referred to as the Towers Perin
11 Study?

12 A. No, this is different.

13 Q. This is different?

14 A. This is a little bit different, yes. This is
15 a combination of basically peer companies that we
16 compete with in the market to hire and retain employees.

17 Q. And does Avista provide the information for
18 this study?

19 A. We are one that do participate in this study,
20 but as you can see it's got a long list of the industry
21 and others that provide information to this study.

22 Q. And then Avista would use the next study to
23 establish the next round of salary increases?

24 A. Correct, we use this, this particular study
25 is the 2009/2010 salary study, and we have used this

0523

1 typically on an annual basis to reflect or review what
2 our upcoming salary increases might be.

3 Q. Turning to page 30 of your rebuttal, and this
4 page refers to D&O insurance, directors and officers
5 insurance.

6 A. Okay.

7 Q. You propose using a 90/10 split for that; is
8 that correct?

9 A. I said if the Commission felt that it was
10 appropriate to do a sharing that I would not expect it
11 to be more than a 90/10. I don't think anything more
12 than 90/10 would be appropriate.

13 Q. So are you proposing that split because you
14 believe that shareholders benefit 10% from that
15 insurance?

16 A. 90/10, I've used that as an -- I've referred
17 to that 90/10 even with the Commission meeting fees --
18 or director fees, these are costs when we -- let me back
19 up a little bit. I think -- am I on the right page,
20 page 30, D&O insurance.

21 Q. 30 and continues to 31.

22 A. Oh, I'm sorry, I'm -- I was in my direct
23 testimony, sorry, and that was all related to O&M
24 expense, it didn't make any sense, sorry.

25 JUDGE TOREM: Just so we're all on the same

0524

1 page, you started on page 29 of Exhibit EMA-4T.

2 MR. TRAUTMAN: Page 30.

3 JUDGE TOREM: Her original position was to
4 reject the Staff and Public Counsel 50/50 split
5 recommendation, and you now have taken her to if she's
6 going to recommend a split to the 90/10.

7 MR. TRAUTMAN: I'm referring to the bottom of
8 page 30.

9 JUDGE TOREM: That's on the bottom of page
10 30, so he wants you to justify those numbers.

11 THE WITNESS: Yes, thank you, I'm sorry, I
12 was looking at my direct, and the line of questioning
13 didn't make sense for that.

14 A. Yes, for D&O insurance we did propose the
15 90/10 sharing if the Commissioners felt it was
16 appropriate for those types of costs. We have typically
17 for types of activities where there is either, you know,
18 I think what I refer to in my testimony is it's similar
19 to the expenses that we -- for compensation for
20 officers, so we have allocated costs between 90/10
21 because, you know, if --

22 BY MR. TRAUTMAN:

23 Q. So you proposed this because it's the split
24 that's used by the Company for officer compensation?

25 A. Right, for our senior officers we do use a

0525

1 90/10 sharing of costs that -- to reflect where there
2 might be subsidiary or non-utility activities.

3 Q. So it wasn't because you specifically had a
4 belief that shareholders benefit 10% from the insurance?

5 A. Directors and officers -- directors and
6 officers insurance is there not as a benefit to
7 shareholders. Directors and officers insurance is there
8 to protect the directors and officers from liability
9 that might or lawsuits or that sort of thing that might
10 be imposed against them. I don't believe that directors
11 and officers -- the purpose of directors and officers
12 insurance is not there to benefit customers. That's why
13 we haven't typically done any form of sharing other than
14 that related to what might be appropriate for the
15 subsidiary, but it's not there to benefit shareholders.

16 Q. If you could turn back to page --

17 JUDGE TOREM: Mr. Trautman, let me interrupt.

18

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

20 BY JUDGE TOREM:

21 Q. I think you said it's not there to benefit
22 customers and then later said shareholders.

23 A. Oh, I'm sorry.

24 Q. Can you please clarify that?

25 A. Yes. D&O insurance is not there to benefit

1 shareholders. It is there to protect the directors and
2 officers of the utility in their operations, which
3 obviously their responsibility is to run the utility.

4

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

6 BY MR. TRAUTMAN:

7 Q. So you would say shareholders benefit what,
8 0%; is that what you're saying?

9 A. Shareholders benefit from -- I guess from
10 anything that we do in the company from the fact that,
11 you know, if we have a well-run utility. But, you know,
12 we -- we are a large capital intensive company, we have
13 to go into -- we have to go out in the market to access
14 capital markets in order to attain a reasonable
15 financing at reasonable terms, and this obviously is
16 necessary in order to maintain the infrastructure that
17 we use those funds for, and this provides -- obviously
18 this provides safe, reliable service for the utility for
19 customers. I guess I should just say customers are the
20 major benefit of the activities that are done by the
21 board.

22 Q. All right.

23 Now if you could turn back to page 26, also
24 your rebuttal, and this also is related to D&O
25 insurance. On line 21, and you refer to a proposal, the

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1 proposal to disallow half of the amount charged to the
2 rate payers, you say that this is not based on any
3 demonstration whatsoever of imprudence. Can you point
4 to anywhere in the Staff testimony where Staff used the
5 word imprudent?

6 A. No, but I think just by the fact that you
7 want to remove or a 50 -- by doing a 50/50 sharing, that
8 means we're basically disallowing 50%, and I'm just
9 saying that typically if we're going to disallow certain
10 costs, maybe those costs have been excessive or
11 imprudent. I'm just saying there was no -- other than
12 an arbitrary calculation of a 50/50 percentage
13 reduction, I don't think that there was enough
14 justification for this 50/50 split.

15 Q. But you're not suggesting that Staff based
16 its determination on imprudence?

17 A. No, I just simply meant that Staff nor Public
18 Counsel has provided any reasonable explanation of why
19 50% of the D&O insurance should be excluded from
20 customer rates.

21 Q. If you could turn to, I guess I'm going
22 backwards now, but page 16 of the rebuttal, and this
23 involves the incentive payouts, correct?

24 A. Yes.

25 Q. And on page 16 in the paragraph that's set

0528

1 forth on lines 15 to 21 you reference Mr. Kermode's
2 testimony, and this was in a prior docket, that stated:

3 The incentive payout from 1999 to 2006
4 varied from zero to \$5,862,642 according
5 to the Company's response to Staff Data
6 Request Number 232 Supplemental.

7 Do you see that?

8 A. Yes.

9 Q. All right. And if you look at what's been
10 marked as Exhibit EMA-9-X, it's a cross-exhibit, that is
11 that data request response; is that correct?

12 A. That's correct.

13 Q. All right. Now looking at the figures from
14 1999 to 2006 that are in that, isn't it correct that the
15 figures go up and down and up and down throughout the
16 period?

17 A. That's correct, that's --

18 Q. And they --

19 A. I'm sorry.

20 Q. And they range from zero to \$5.8 Million; is
21 that right?

22 A. That's correct, they do in this particular
23 data request. You know, and that's exactly, you know,
24 what -- what the Company proposes is to use a six year
25 average using starting with 2002 through 2008.

0529

1 Q. That wasn't my question.

2 A. Yes, it -- okay.

3 Q. I mean do you agree that that's what is
4 reflected in this exhibit?

5 A. That is what is reflected in here. There is
6 zero starting in 1999, which would make sense because
7 there was actually no plan in place at that time, so
8 they do range anywhere from zero to at this point \$5.8
9 Million.

10 Q. So it increased in 2000, and then it
11 decreased in 2001 back to zero, and then it increased in
12 2002 and 2003, but then it decreased down to \$2.7
13 Million in 2004, and then it increased in 2005 and went
14 down again.

15 A. That's correct.

16 Q. Is that correct?

17 A. That's correct, but that's exactly why the
18 Company has proposed an average because of that
19 volatility.

20 Q. All right. Now if you would turn to page 14
21 of your rebuttal testimony and look at the table at the
22 top of the page.

23 A. Yes.

24 Q. Isn't it correct there if you look at the six
25 years reflected that there's an increase from 2003 and

0530

1 in fact a spike, \$6.1 Million in 2005, and following
2 that there's a steady trend downwards to \$2.8 Million;
3 is that correct?

4 A. These numbers do reflect that. However, as I
5 mentioned, the Company used a six year average from 2003
6 through 2008. In 2002 the Company changed its plan to
7 reflect O&M savings that are -- that reflect that these
8 plans only have payouts if there's O&M savings
9 associated with these plans, meaning that there has to
10 be a reduction to the Company's O&M costs in order for
11 there to be any payout. These plans are similar. I did
12 not use any plans prior to 2002 because those plans
13 either were non-existent or they were not relative to
14 the plan that is in place today. They do vary year to
15 year, and I don't know that I would characterize it that
16 they -- I mean that they increase and then they steadily
17 decrease, that's just been based on the plan results and
18 what is paid out.

19 Q. But that is what in fact has happened, is it
20 not, since 2005 they've steadily decreased?

21 A. They have, but that does not mean that in
22 future years they're going to continue to go down.
23 There really is no -- there's really no -- we really
24 don't know what each year the payout is going to be,
25 which is exactly why a six year average for this type of

0531

1 expense is appropriate, because it would help reduce the
2 volatility and remove those peaks and valleys to provide
3 a normal level of expense.

4 Q. It will make the number higher, right?

5 A. In this particular case.

6 Q. Quite apparently?

7 A. In this particular case, however, in the case
8 where Staff actually had proposed an average, it had --
9 because remember that's why I was -- that's my point by
10 that point in the testimony is that in two cases prior
11 Staff had actually proposed an average.

12 Q. I understand.

13 MR. MEYER: Your Honor, I'm sorry, counsel
14 keeps interrupting the witness, and she's trying to
15 clean her answer, and he's sort of stepping over her, so
16 may she have a chance to complete her answer.

17 JUDGE TOREM: I've got it, Mr. Meyer, and I
18 think Mr. Trautman and Ms. Andrews are just sort of
19 going back and forth. It's the court reporter that's
20 suffering the most, so I will just ask both counsel and
21 the witness and for all witnesses forward to do the same
22 thing, we started down this path a little bit early on
23 Wednesday, so let's try to answer the question, and if
24 you need to keep going just signal me, I'm paying
25 attention.

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1 THE WITNESS: Okay.

2 JUDGE TOREM: Mr. Trautman, where were we?

3 MR. TRAUTMAN: I don't know, I know generally
4 the question, I don't remember the specific one. I have
5 the answer that I needed.

6 BY MR. TRAUTMAN:

7 Q. All right, if we could go, this is just for
8 clarification, on the pro forma mercury emission O&M
9 there's a slight discrepancy between the number
10 reflected on your Exhibit EMA-6, which is \$937,000 I
11 believe, and that would be on page 11 of 12.

12 A. Let me get there.

13 Q. And it would be on line 11, and then on
14 EMA-8, page 10, I believe you reflect \$968,850. Could
15 you explain why those two numbers are --

16 A. Yes, I'm -- what I had done in the -- what I
17 had reflected in the -- what's shown on my Exhibit EMA-8
18 is appropriate, the \$968,000 rather than the \$937,000.
19 I believe the 937, what I did originally when I did the
20 adjustment was I had reduced the -- I had reduced the
21 adjustment in half when I -- when I -- when I recorded
22 this amount, I basically just reduced it in half. What
23 I should have done was taken Washington's share of \$1.5
24 Million, which is slightly lower because our original
25 request was not \$3 Million, it was actually \$2.9

0533

1 Million, so I had taken 50% of \$2.9 Million rather than
2 \$1.5 Million as shown on here. So this \$968,000 is
3 actually the appropriate expense, so I actually did
4 understate this. The 937 is actually an understatement
5 by whatever that is, \$30,000.

6 Q. Okay.

7 I just have a few questions related to the
8 asset management and information service programs.
9 Let's see, if you could turn to page 19 of EMA-4T, which
10 is your rebuttal.

11 A. Yes, I'm there.

12 Q. On lines 17 and 18 you say that the asset
13 management costs that are included by the Company in the
14 test year "are not merely budgeted costs", correct?

15 A. That's correct.

16 Q. And then you continue to state on lines 19
17 and 20 that:

18 It is founded on sound historical
19 experience administered by employees in
20 the Company with many years of utility
21 experience.

22 Is that correct?

23 A. That's correct.

24 Q. Okay. Is it correct that you have no
25 invoices or payments that substantiate the amount you're

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1 proposing to include for asset management?

2 A. I'm trying to think. Not specific invoices,
3 because these are, you know, this is the level of
4 expense that the Company feels is appropriate for 2010.
5 However, you know, these projects have been -- many of
6 these projects included in asset management may be -- we
7 may be labeling them as asset management, but many of
8 these programs have been continued on for several years,
9 and so we have the knowledge and the experience to know
10 what we expect those level of expenses are going to be
11 or what is needed in order to reach the -- reach the
12 benefits associated with the asset management projects.

13 Q. So is it correct that the amounts that you've
14 adjusted for asset management are the amounts taken from
15 the Company's budget?

16 A. They have been expected -- these are expected
17 costs that we have included in our budget and other
18 forecasting means of what we expect these costs to be,
19 yes.

20 Q. On line 20 of your rebuttal or page 20, line
21 11, at the end of that line you say:

22 There are no specific benefits net
23 reduction to expense in the short term
24 through 2010 that the Company can offset
25 against the proposed expenses included

0535

1 in the Company's case. Rather the
2 benefits will be realized through
3 avoiding even greater increases in costs
4 well into the future.

5 Do you see that?

6 A. I do.

7 Q. Does that mean that there will be benefits at
8 some time, but they just won't occur in 2010?

9 A. Mr. Kinney explains I think fairly well in
10 his direct and again in his rebuttal testimony discusses
11 that there are benefits with certain of the pro -- with
12 certain of the projects. But as he -- for -- in the
13 short term, he's -- he specifically states in his
14 testimony that although there are benefits from the
15 projects, there is also some increases in O&M costs so
16 that the net effect in 2010 is actually an increase to
17 O&M expense. As far as savings, what the expectation is
18 is that this will be -- this will be -- these projects
19 allow us to reduce future capital expenditures that
20 would happen, would occur without these types of
21 programs, and there is expectation that with some mature
22 programs that there may be some O&M savings, but the
23 expectation in the future is that these O&M savings are
24 -- what we are really doing is mitigating increased O&M
25 costs in the future. So I don't know that you're, you

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1 know, I mean it's difficult to quantify anything that
2 would be lower than where we are --

3 Q. But that would be --

4 A. -- today or in the 2010 testimony.

5 Q. But that would be a yes answer then, right?

6 A. Yes.

7 Q. There would be benefits at some time, but --

8 A. But as it --

9 Q. -- but not in 2010?

10 A. Yes.

11 Q. Okay.

12 Now is the asset management program a new
13 program, or has the Company been implementing it for a
14 number of years?

15 A. I think I actually just covered that.

16 Q. Oh.

17 A. We have, you know, some of these programs
18 have been -- have been occurring over time. We've kind
19 of packaged them and called them asset management --

20 Q. Well, that's what I want --

21 A. -- so that we can --

22 Q. That's what I wanted to --

23 A. Yes.

24 Q. -- to know.

25 A. Yes.

0537

1 Q. You've had them but --

2 A. Yes, we have.

3 Q. -- now you've repackaged them under a new
4 title or --

5 You said you've had them but you've
6 repackaged them under a new title or --

7 A. Well, we just -- we grouped them as a way for
8 the Company to be able to manage all of our asset
9 management or all of our assets, so that's why we've
10 called it asset management is to be able to manage the
11 Company in what makes sense for the business. But
12 again, Mr. Kinney would probably be the best person to
13 specifically ask questions about the projects.

14 Q. Were there any benefits from any of these
15 types of programs, well, let me say were there any of
16 these types of programs that were in place in the year
17 that ended September 2008?

18 A. Yes, and Mr. Kinney discusses in his direct
19 testimony specific projects and dollar savings that are
20 -- that were actually already included in the test
21 period.

22 Q. Okay. So would it be correct that the
23 benefits of the programs that were paid for by rate
24 payers in 2008 would be in part reflected in the year
25 2010?

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1 A. As stated in the savings associated with what
2 was in Mr. Kinney's testimony, yes.

3 Q. And would they not be reflected in tests for
4 2008?

5 A. I'm sorry, what, I didn't understand that?

6 Q. Okay, they would be reflected in the year
7 2010, correct?

8 A. Yes, the level of these particular projects
9 that are mature, we, like you said, we've done many of
10 -- some of these things for a period of time, and so we
11 do have some successful mature projects that are in
12 2008, and the benefits with those projects are -- would
13 be reflected in 2008, and those savings would continue
14 along with the expense in the 2010 time frame.

15 Q. If you could turn to page 23 on lines 23 at
16 the bottom to page 24, line 1 at the top, you state that
17 the cost of the information services were in part --

18 A. I'm sorry, am I on the wrong -- oh, I'm
19 sorry, you said line 1, I'm sorry.

20 Q. Yeah, it's a carryover.

21 A. Page 23, oh, line 1 of 24?

22 Q. Right.

23 A. I'm sorry, okay.

24 Q. You say that the cost of the information
25 services were in part you say "for increased labor to

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1 support existing applications"; is that correct?

2 A. That's correct.

3 Q. Does supporting an existing application by
4 maintaining it so that it won't fail, does that increase
5 the productivity of the system?

6 A. You know, the labor dollars associated, like
7 you said, are supporting existing applications. For
8 example, our outage management tool for example, those
9 types of savings occurring in the test period would
10 already be reflected, but reflected in that area versus
11 the IS area here. These labor dollars are just
12 supporting, you know, what I'm referring to here are
13 these labor dollars are supporting applications that
14 already exist, and they're as these -- as these
15 applications continue, there's just more IS work that's
16 involved in order to support those applications. I'm
17 not sure if I've answered your question though.

18 Q. Was there a cost benefit analysis of the
19 information services program that was performed?

20 A. There would have been at the time of the
21 applications, the determination to do those projects.
22 But something like outage management for example, has
23 been in place for a while. But when they did the --
24 when they made the decision to make -- to do that
25 project, they would have done analysis on the benefits

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1 of that project.

2 Q. So let me reask the question. So if you
3 support an existing application as you say and if you do
4 that by maintaining it so that it won't fail, so that
5 system doesn't fail, does that increase the productivity
6 of that system?

7 A. No, not necessarily. It may just be
8 supporting it to continue -- to allow it to maintain at
9 the level it -- the way that application should work.
10 But Mr. Kensock would probably be the best person to,
11 you know, may be the best person depending on where
12 you're going with this.

13 Q. To determine how we could determine the
14 benefits, so to speak?

15 A. Right.

16 Q. When the Company originally filed this case,
17 you indicated that the cost of the information system
18 was known and measurable; is that correct?

19 A. Yes, the majority of these costs we felt were
20 known and measurable because -- or would be by the time
21 that the -- most of these costs, they -- most of these
22 projects that is included we have either been incurring
23 or will be incurred before the end of the year.

24 Q. But now on page 24 of your rebuttal in the
25 middle of the page you're indicating that the costs need

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1 to be reduced for additional information you found out;
2 is that correct?

3 A. That's right. One of the projects, the work
4 management system, is -- the work management system was
5 a Company or was a project that we've had for a long
6 time. It is at basically its end of its useful life, so
7 they could determine, like even though this was a
8 project that was going to occur in 2010, due to the
9 history with this and the experience of our IS group,
10 they knew what these costs -- they were -- they knew
11 what these costs would be. But we have removed, as it
12 says here, and Mr. Kensock can clarify more, the work
13 management system is a project that we've determined to
14 postpone until 2010, it will now be a capital project in
15 2010, and the expense associated with it would not occur
16 until 2011, so we have removed these costs, this
17 particular project, from the cost identified in my
18 direct testimony. And there are some additional dollars
19 that have been included that as 2009 unfolded
20 Mr. Kensock was able to negotiate a better contract
21 price. We were not aware of that reduction obviously in
22 2008, we were not aware of that reduction, so we've
23 built that savings into this case, or I should say in my
24 rebuttal testimony.

25 MR. TRAUTMAN: I think that's all I have,

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1 thank you.

2 JUDGE TOREM: All right, counsel, it's now
3 almost 10 minutes to 11:00, Commissioners, I would
4 propose we just take a break until 11:00 and start up
5 again at 11:00 sharp with Mr. ffitch's testimony. We'll
6 see how much that can be tailored into one hour and get
7 an estimate as we go toward 12:00 when we want to take
8 our lunch break, so we'll be at recess until 11:00.

9 (Recess taken.)

10 JUDGE TOREM: All right, thank you all for
11 promptly reassembling, we're back on the record.
12 Mr. ffitch, apparently you're not going to testify,
13 you're going to cross-examine.

14 MR. FFITCH: I would be happy to testify,
15 Your Honor.

16 THE WITNESS: I'll trade you places.

17 JUDGE TOREM: I realize I left you an opening
18 there.

19 THE WITNESS: I will trade you places.

20 MR. FFITCH: Actually maybe I'm not so happy.

21 CHAIRMAN GOLTZ: Someone would like to
22 cross-examine you probably.

23 MR. FFITCH: Your Honor, I apologize for not
24 being here when you asked about our cross estimates, I
25 think they are shorter, we hope to finish by noon, I

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1 will make an effort to do that.

2

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

4 BY MR. FFITCH:

5 Q. I have a couple of follow-ups to Staff
6 questioning, Ms. Andrews. You stated in one of your
7 answers to Mr. Trautman that Public Counsel along with
8 Staff had not made any prudence arguments with respect
9 to I believe it's directors and officers liability?

10 A. Yes.

11 Q. Now I'm not asking you a legal question here,
12 but isn't it the case that the Commission can disallow
13 expenses from recovery for reasons other than
14 imprudence?

15 A. Absolutely.

16 Q. And on this next question, while it's not --
17 I'm not contending that this is precedential, but you're
18 aware, are you not, that Avista agreed to a 50/50 split
19 of directors and officers liability costs in a previous
20 rate case settlement; are you aware of that?

21 A. Yes, we have done that.

22 Q. For settlement purposes?

23 A. For settlement purposes, mm-hm.

24 Q. My next question is also a follow-up to Staff
25 questions and your answers about incentive payments, and

0544

1 you were asked about an apparent declining trend in the
2 payment of incentive compensation, and you stated that
3 the incentive compensation would or might increase
4 because the payments are tied potentially to future
5 decreases in O&M that are caused by employees and
6 thereby entitling them to incentive payments; is that
7 correct?

8 A. Right, it would be tied to that particular
9 year in plan.

10 Q. All right. And if those incentive payments
11 are made in the future and are related to future
12 decreases in O&M, how are the reduced future O&M costs
13 reflected in the test year ended September 30th, 2008?

14 A. My point in making that statement was simply
15 that it was -- I think it's difficult to determine today
16 that just because there has been a trend of decreases
17 that that's necessarily going to continue in future --
18 in future incentive plans. My intent of that was to say
19 that our plan is based on accomplishing O&M savings.
20 That's before any payouts are made. So if a payout --
21 if reduction to O&M occurs, then that's a benefit to
22 customers. So whether that be now or in the future, I
23 guess what I meant is today -- the incentive plan that
24 we had in 2008 for example had reduced O&M savings that
25 occurred, and that continues to benefit customers

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1 because our base costs are lower, those O&M base costs
2 are lower in the current year, and therefore that means
3 that lower savings continues in future years.

4 Q. But isn't it the case that Avista is
5 disagreeing with Staff's position and with Public
6 Counsel's position which recognizes the downward trend
7 by arguing that the incentive compensation recognized
8 for rates in this case be somewhat higher based on an
9 assumption or a projection that some time in the future
10 those incentive payments will go up based on future O&M
11 savings; isn't that the case?

12 A. No, what I -- the -- we are simply trying to
13 incorporate an average so that we can normalize what
14 these type of expenses can be. It could very well be
15 that in the next case there could be 100% payout in the
16 plan because we met, we have met the 100% plan targets.
17 In that -- so therefore in the next year's case for
18 example, if we have, you know, it would -- the average
19 would probably cause a reduction to those incentive
20 expenses that will be included in the test period. And
21 so all that we are trying to do is normalize those costs
22 as we go forward because I'm -- my assumption would be
23 that if it was the other direction there would have
24 been, you know, no argument for doing an average if it
25 was reducing the incentive expense that had been

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1 included in the test period.

2 Q. You were also asked a number of questions
3 about the asset management program, and I would like to
4 go back to that area now.

5 A. Okay.

6 Q. Could you please turn to page 21 of your
7 rebuttal testimony, which is marked as EMA-4T.

8 A. Page 21?

9 Q. Page 21 starting at line 4.

10 A. Yes.

11 Q. Are you there?

12 A. Yes.

13 Q. And at that place you acknowledge that in
14 Avista's recent rate case in Idaho, cost savings were
15 recognized in connection with the asset management
16 program, correct?

17 A. Yes, I did.

18 Q. And at line 11 on this page, Avista through
19 your testimony offers to make some offsets sort of in
20 recognition of what occurred in Idaho, and you describe
21 that as an alternate approach to this adjustment,
22 correct?

23 A. No, actually that's not correct. I didn't --
24 we didn't project in these offsets because of what
25 happened in Idaho. In Idaho as all party settlement

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1 there's a -- as normal give and take during settlement
2 process, we agreed to some reductions for asset
3 management. We still hold that we believe that there
4 are not any specific reductions or offsets that needed
5 to be included in the case, and I think Mr. Kinney was
6 very clear in that. There's actually expected increases
7 in O&M. What we did for an alternate approach was to
8 include because of Staff's and Public Counsel's concerns
9 about offsets that if this Commission decides that
10 offsets are appropriate in order to include these
11 expenses, then I have made an attempt to include some
12 savings so that rather than -- and this particular case
13 is a perfect example of throwing the baby out with the
14 bath water. Rather than throwing out the entire
15 program, you know, if in order to get these expenses
16 improved in rates we need some sorts of offsets, I tried
17 to attempt some costs to do that.

18 Q. All right. And you're describing this as
19 your alternate approach?

20 A. Yes, I did not actually include these
21 reductions in my actual rebuttal revenue requirement.

22 Q. All right. And they're listed below in items
23 A, B, and C at the bottom of page 21, right?

24 A. That's correct.

25 Q. And if we turn to the top of page 22, you'll

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1 see that those add up to \$231,000?

2 A. Yes, that's correct.

3 Q. Those are generally O&M reductions; is that
4 right?

5 A. Yes.

6 Q. It's the case, however, isn't it, that you
7 would be treating these as reductions to rate base for
8 rate making purposes in this case, not as O&M
9 reductions; is that right?

10 A. No, no, that's not true. The asset
11 management programs that are listed here in this asset
12 management expense, these are expense -- the asset
13 management that I've included into assets is 2010 O&M
14 expenses, so there is no reduction here associated with
15 capital.

16 Q. So these are being treated as dollar for
17 dollar O&M reductions?

18 A. Yes, they are.

19 Q. And could you please turn to Table 4 on page
20 23 of your testimony.

21 A. Yes.

22 Q. And there in the middle column we see
23 reference to the heading less available offsets, and we
24 see the \$231,000 figure there also, do we not?

25 A. Yes.

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1 Q. And then right above the table you state that
2 supporting information for these alternate adjustments
3 are provided at Exhibit Number EMA-8, page 13.

4 A. Yes.

5 Q. Could you please turn to that exhibit.

6 A. Yes, I can.

7 Q. Do you have that?

8 A. I do.

9 Q. And if we look on the left-hand side in the
10 narrative text, we see references to the three areas
11 where you've offered reductions, substation,
12 distribution, and transmission, correct?

13 A. That is correct.

14 Q. And for each of these items, it states that
15 certain percentages or estimates are "built in for
16 settlement purposes", correct?

17 A. Oh, I'm sorry, that should have -- that
18 should have said for alternate purposes, not for
19 settlement purposes. Thank you for the clarification.

20 Q. When was this exhibit prepared?

21 A. We had -- I had prepared something similar to
22 this during our -- when we had some settlement meetings
23 with Public Counsel and Staff, because again for
24 purposes of settlement we had tried -- we had attempted
25 to try to -- we had attempted to address some of the

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1 concerns by Staff and Public Counsel during the
2 settlement process.

3 Q. So does this mean that Avista is now
4 negotiating with the Commission --

5 A. No.

6 Q. -- with regard to this adjustment?

7 A. No, it's just an error in the use of this,
8 obviously, the use of this exhibit. But I still stand
9 to, you know, it's an alternate approach. If the
10 Commission feels that it's appropriate to include some
11 reductions in cost savings, this we believe, you know,
12 if there are any savings, there would be no more than
13 what we have proposed in this alternate, alternate page.

14 Q. What relationship does the amount of these
15 estimated savings bear to the amounts agreed to in the
16 Idaho case?

17 A. They actually don't have any relationship to
18 the Idaho case. I didn't use that in making my
19 determination for these costs. That was an amount that
20 was brought forward by the Idaho staff came up with
21 their own percentage and calculations. I did not use
22 that in trying to come up with my own. If they're
23 comparable, it's not out of -- I don't believe that they
24 are, but if they are comparable, it's just out of -- I
25 didn't use the staff's proposal, Idaho staff's proposal.

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1 Q. Are these amounts proportionately larger or
2 smaller than the Idaho agreement; do you know?

3 A. I actually think these might be slightly
4 larger than what was agreed to in Idaho. I'm not sure.
5 They used a different -- they used a different method I
6 think of trying to get to their assumptions of what
7 those estimates might or what those benefits might be.
8 I just -- I simply looked at and worked with Mr. Pickett,
9 who is our asset management program, he's basically the
10 expert in the model, and I worked with him to -- even
11 though we didn't believe there was any, you know, as we
12 stated in our testimony to build in, we just -- this --
13 we figured we were being very conservative, err on the
14 side of overstating the benefits rather than
15 understating to help concerns of Staff and Public
16 Counsel.

17 Q. All right. So these are essentially just
18 estimates for settlement purposes; is that right?

19 A. No, not for settlement purposes. They are --

20 Q. For alternate purposes?

21 A. -- for the alternate purposes, yes.

22 Q. And there's no other analysis in the record
23 in exhibits or workpapers to support these amounts?

24 A. No, because I think our direct and our
25 rebuttal testimony stands on itself really that we don't

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1 believe there are any efficiencies that should be built
2 in or benefits that should be built in for the test
3 period for these costs. We just simply are trying to
4 rather than remove the entire, give the Commission a
5 place to land rather than removing the entire asset
6 management request. It gives them a place to take into
7 consideration maybe of both sides.

8 Q. All right.

9 Now I would like to move on to the injuries
10 and damages issue, and if you could turn back to
11 testimony, your rebuttal testimony, Exhibit EMA-4T, page
12 38, please.

13 A. 38?

14 Q. Page 38 beginning at line 15, question, and
15 in that testimony you assert that or state that Public
16 Counsel witness Mr. Larkin made an error in calculating
17 the injuries and damages reserve, correct?

18 A. Yes.

19 Q. And essentially there you're pointing out
20 that he used an incorrect trial balance and did not
21 include the contra accounts for this issue; is that
22 right, the summary?

23 A. Right, not that he used an incorrect trial
24 balance, just that in that trial balance, we had
25 provided him a trial balance for the months that he had

0553

1 asked, and he picked up one account, but directly below
2 that he missed the payment, injury and damage payment
3 account.

4 Q. All right. Can you please turn to Exhibit
5 19-X, EMA-19-X. This is Avista's response to Public
6 Counsel Data Request 480.

7 A. Yes.

8 Q. And do you have that?

9 A. Yes, I do.

10 Q. And you prepared that response, or actually
11 you're listed as the witness for that response.

12 A. Yes.

13 Q. Correct?

14 A. Yes.

15 Q. And here you were asked to provide the
16 injuries and damages reserve monthly balance for a
17 certain time period, correct?

18 A. That's correct.

19 Q. And if we turn to page 2, we see that
20 information was provided for FERC account 228-200,
21 correct?

22 A. Yes.

23 Q. And this was dated August 10th, one week
24 before the date of the Staff, Public Counsel, and
25 Intervenor testimony, correct?

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1 A. Actually I think that's 8/01, I think it
2 actually might be August 1st. I'm not completely sure,
3 but I would -- you may be correct, I'm sorry. It's our
4 fault, we have 8-0-1-0 so I'm not exactly sure if it's
5 the 1st or the 10th, but I'm not sure it matters.

6 Q. In either event, it's in advance of the --

7 A. Yes.

8 Q. -- date of the --

9 A. Yes.

10 Q. -- testimony?

11 A. Yes.

12 Q. And your name is Elizabeth Andrews, not
13 Andress, correct?

14 A. Yes. Did really well with this data request
15 I see. That's what happens after you have about 800 of
16 these come through.

17 Q. Does this response reflect the correct
18 injuries and damages reserve balance for the requested
19 time period, September 2007 through 2008?

20 A. No. We realized when we received the E-mail,
21 which I know you have coming up here, that we -- first
22 we realized that we had missed a month, and then in
23 reviewing this realized that we had misunderstood the
24 question and answered it as a change in the monthly
25 accrual balance rather than the -- rather than the

0555

1 actual net reserve.

2 Q. All right, so let's turn to EMA-20-X, which
3 you just referred to.

4 A. Right.

5 Q. And this is the E-mail where we -- E-mail
6 exchange where we identified a problem with the
7 response, correct?

8 A. Yes, the request here identified that we had
9 provided -- we had missed a month. It was actually in
10 review of after this had been sent we realized, we
11 actually did realize that we had provided the
12 information incorrectly and then provided a supplemental
13 response later correcting that, but obviously it was
14 after Mr. Larkin's testimony.

15 Q. Correct.

16 A. Yes.

17 Q. So if we go to Exhibit EMA-21-X, this is --
18 I'm sorry, I'll let you turn to that.

19 A. Yes, I am there I think.

20 Q. This is now the revision to PC 480 that was
21 promised in the E-mail, and if we compare the two
22 responses, this is provided on August 20th after,
23 because you indicate Public Counsel testimony was filed,
24 Mr. Larkin's testimony was filed, correct?

25 A. That is correct.

0556

1 Q. And this response looks different than PC
2 480, doesn't it? This now includes, if we turn to page
3 2 of the exhibit, this now includes the contra accounts
4 and the additional information that we've been
5 discussing, right?

6 A. That's correct, however -- that is correct,
7 however, what Mr. Larkin says that he used in his
8 testimony is that he used the Company's trial balance,
9 so he did actually have that information available to
10 him through the data request that he used, which was
11 provided on May 26, 2009. And he used the trial balance
12 which lists out on a monthly basis the one account that
13 he used, which was the accumulated provision for injury
14 and damages, and directly below that account that he
15 used in order to determine his balance is the contra
16 account, which is stated -- which is labeled payment
17 refund injury and damages. So he did have the material
18 in order to correct this, and I, you know, it is, you
19 know, we did correct it. But you're right, as far as
20 correcting this adjustment, the injuries and damages we
21 had, it was after the fact.

22 Q. All right.

23 A. But he did have the trial balance to actually
24 create it himself.

25 JUDGE TOREM: Counsel, it appears to me that

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1 the issue is now the correct numbers have been supplied,
2 and I imagine that they will be corrected in any briefs
3 that come in at the end. Whatever positions you're
4 finally going to take and the Company's finally going to
5 take on this adjustment will come in in the briefs based
6 on accurate numbers.

7 MR. FFITCH: Yes, Your Honor, and in fact if
8 I could just sort of wrap that point up with the
9 witness.

10 BY MR. FFITCH:

11 Q. If we look at your testimony, and you may
12 have to point me to it, I believe it's on page 39,
13 Ms. Andrews, you actually make that calculation, do you
14 not, while not conceding the --

15 A. Yes, I do.

16 Q. -- adjustment, beginning at line 11 you
17 calculate what the correct adjustment would be if the
18 Commission accepted Public Counsel's position?

19 A. Yes.

20 MR. FFITCH: Thank you.

21 MR. MEYER: May I inquire, Your Honor, Public
22 Counsel submitted a response to Bench Request Number 2,
23 and in that it provided a revised revenue requirement.
24 Can we get some clarification as to whether or not that
25 revised revenue requirement acknowledges essentially the

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1 correction that we've just been talking about or not?

2 MR. FFITCH: Your Honor, I can make inquiry
3 and determine whether or not it is included, and I will
4 report that to the Bench.

5 JUDGE TOREM: Thank you.

6 MR. MEYER: Because that will have a bearing
7 on cross that I may or may not have this afternoon,
8 thank you.

9 MR. FFITCH: May I just have a moment, Your
10 Honor.

11 Your Honor, those are all the questions that
12 I have for Ms. Andrews. We have some additional
13 questions on another issue, and those will be asked by
14 Ms. Shifley of Public Counsel.

15

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

17 BY MS. SHIFLEY:

18 Q. Good morning, Ms. Andrews.

19 A. Good morning.

20 Q. In your rebuttal testimony you address board
21 of director fees and meeting expenses; is that correct?

22 A. Yes, I do.

23 Q. Okay. I'm just going to ask you a couple
24 questions about those two items.

25 A. Okay.

0559

1 Q. If you could refer to Exhibit EMA-11-X,
2 Avista's Corporate Governance Guide.

3 A. Yes.

4 Q. And this is Avista's most recent Corporate
5 Governance Guide, correct?

6 A. I believe so.

7 Q. And on page 2 under the heading compensation
8 of directors, does the guide state that directors
9 compensation is set by the board itself?

10 A. Yes, that is true. They do hire an outside
11 firm to help them analyze that data, but that is true.

12 Q. So the directors though ultimately decide how
13 much they're going to be paid?

14 A. Yes, it's brought in front of them, but as I
15 said, they do -- well, I'll leave it at that, I already
16 provided that response.

17 Q. And then turning to Exhibit EMA-10-X, Avista
18 response to a data request.

19 A. Yes.

20 Q. So this data request asked Avista to identify
21 the amount of directors fees included in the test year
22 for Washington as well as some previous years; is that
23 correct?

24 A. Yes.

25 Q. And the chart provided and the response shows

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1 how much has been included in the current test year,
2 correct?

3 A. Yes.

4 Q. And those are \$544,000 for electric and
5 \$150,000 for gas?

6 A. Yes, that's correct.

7 Q. And the chart shows that the director
8 compensation has increased in the last five years; is
9 that correct?

10 A. Well, it's not necessarily increased just
11 because of incentive or, excuse me, director fee
12 increases. Some of this variability occurs because of
13 changes in directors and timing of directors.

14 Q. But it looks like just roughly from looking
15 at it in 2004 to the current period it's increased by
16 over 50% would you say?

17 A. Well, what I'm saying is I can't answer
18 whether it was an increase in fees or just a change in
19 the directors themselves, maybe a timing of one coming
20 in, one coming out. There could be a different number
21 of directors in each year. So I wouldn't characterize
22 it as like a 50% increase in like fees specific maybe to
23 individual directors, but I'm not sure the --

24 JUDGE TOREM: Ms. Andrews --

25 A. So I guess based on the numbers, yes, I mean

0561

1 there's an increase.

2 Q. Would you now please turn to page 32 of your
3 rebuttal testimony, Exhibit EMA-4T.

4 A. I'm sorry, would you repeat that.

5 Q. Page 32.

6 A. I'm there.

7 Q. Have you got it?

8 A. Uh-huh.

9 Q. And on line 22 and 23 you state that Avista's
10 directors provide overall guidance of the utility to the
11 benefit of customers, correct?

12 A. That's true.

13 Q. And you don't mention anywhere in your
14 testimony any service or obligation that the directors
15 may have either to the interests of shareholders or
16 themselves?

17 A. No, I do not.

18 Q. And could you just, you know, if it's
19 necessary to refer back to EMA-11-X, please do so, but
20 who nominates the board of directors?

21 A. The shareholders.

22 Q. It's my understanding that it's actually the
23 current board members that nominate, and then but the
24 shareholders then elect the directors; is that correct?

25 A. Yes, it's actually I think there can be a

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1 process for nomination, but then yes, they are -- they
2 go through a process of specific requirements in order
3 to be nominated, and then they are elected by
4 shareholders.

5 Q. And customers or rate payers don't have any
6 vote for the board of directors; is that correct?

7 A. That is correct, unless they happen to be a
8 shareholder.

9 Q. Okay. And just turning back to EMA-11-X
10 again, the Corporate Governance Guide, turning to the
11 compensation of directors paragraph on the second page,
12 it's about two thirds of the way down.

13 A. Yes.

14 Q. States that directors receive a part of their
15 compensation in stock; is that correct?

16 A. Yes.

17 Q. And in that guide, would you please read the
18 guide's explanation for this payment structure beginning
19 at, the board, which I believe is the third sentence.

20 A. (Reading.)

21 The board believes that it is important
22 to align the interests of the board with
23 the company shareholders, and
24 accordingly apportioned directors
25 compensation will be provided and held

0563

1 in company stock.

2 Q. Okay. And now could you please turn to
3 Exhibit EMA-13-X, and this is Avista's most recent proxy
4 statement.

5 A. Yes, that's correct.

6 Q. And turning to page 39.

7 A. I assume you mean 39 at the top or 39 at the
8 bottom?

9 Q. 39 at the bottom as it was numbered
10 originally.

11 A. Yes, I'm there.

12 Q. In the fourth paragraph down this states that
13 directors are required to make a minimum investment in
14 Avista Corporation; is that correct?

15 A. That's correct.

16 Q. What is the amount of the investment?

17 A. \$200,000 or 9,500 shares.

18 Q. Was that amount recently increased?

19 A. I believe it was. I believe -- I believe it
20 shows in the 2008 proxy that that was -- that that was
21 increased.

22 Q. Okay.

23 A. I believe that to be true.

24 Q. And you just referred to the 2008 proxy which
25 is EMA-14-X?

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1 A. Yes.

2 Q. And this shows that increase that you just
3 mentioned on page 38?

4 A. Yes, at the bottom, yes.

5 Q. Does it show that this ownership requirement
6 went from 5,000 shares in early 2007 to 9,500 currently?

7 A. Yes, that's what it shows.

8 Q. And in the 2009 proxy statement at page 39
9 where we just were, the proxy statement gives an
10 explanation for why the amount was increased beginning
11 at the second to last paragraph?

12 A. Yes.

13 Q. Beginning with the ownership expectation,
14 would you just read that for me?

15 A. (Reading.)

16 The ownership expectation illustrates
17 the board's philosophy of the importance
18 of stock ownership for directors in
19 order to further strengthen the
20 commonalty of interest between the board
21 and shareholders. The governance
22 committee conducts annual review to
23 confirm that director holdings meet the
24 ownership expectations. All directors
25 are currently in compliance based on the

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1 years of service completed on the board.

2 Q. Thank you. And is it correct to say that the
3 directors receive the quarterly dividends like any other
4 shareholder?

5 A. I would hope so.

6 Q. And that the directors are responsible for
7 approving the amount of dividend payouts?

8 A. Yes, I think it is at the suggestion of
9 company management.

10 Q. In your testimony you mentioned that the
11 benefit or you mentioned that directors provide a
12 benefit to customers, but you don't mention any specific
13 non-utility director functions or activities?

14 A. No, I do not.

15 Q. And but the board of directors or the
16 directors serve on the board of Avista Corporation, not
17 the Avista utility specifically?

18 A. Well, Avista Corporation is Avista Utilities,
19 it's not a subsidiary of.

20 Q. But does Avista Corporation have non-utility
21 affiliates and subsidiaries?

22 A. Yes, through Avista Capital we do have
23 additional subsidiaries that roll up to the corporation.

24 Q. So do the directors provide guidance not just
25 to the utility but also to affiliates and subsidiaries?

0566

1 A. Yes, they do.

2 Q. And turning now to the 2009 proxy statement
3 which we're already at, but please go back to page 6.
4 Are you there?

5 A. Yes, I am.

6 Q. In the second to last paragraph, does it
7 state that members are or that the board of directors is
8 encouraged to attend all shareholder meetings and that
9 they have in fact done that?

10 A. Yes.

11 Q. And at the bottom of the first paragraph on
12 the next page it states that the chairman of the board
13 presides at shareholder meetings; is that correct?

14 A. Yes.

15 Q. And the following paragraph, last sentence,
16 states that the lead director is available for
17 communications in consultation with major shareholders?

18 A. I can't find that, but yes, I do believe that
19 to be true.

20 Q. And then I don't know if you need to refer to
21 pages 43 through 50 of the proxy statement, but you
22 could just generally answer for us that the board is
23 responsible for considering shareholder proposals; is
24 that correct?

25 A. That is correct.

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1 MS. SHIFLEY: Your Honor, I'm now going to
2 ask a couple of questions that refer to a confidential
3 exhibit, but I believe that we've spoken with opposing
4 counsel and worked out a way where we can ask some
5 questions about that exhibit without closing the hearing
6 room.

7 MR. MEYER: That's fine, we've talked about
8 it.

9 JUDGE TOREM: All right, well, let's proceed
10 as agreed, and we won't have to close the hearing room.

11 MS. SHIFLEY: All right.

12 BY MS. SHIFLEY:

13 Q. Turning now to EMA-16-XC, these are minutes
14 from a recent meeting of the board of directors; is that
15 correct?

16 A. That's correct.

17 Q. And these minutes show some items that the
18 board took up during the meeting; is that correct?

19 A. That's correct.

20 Q. And just turning to page 2, it shows that
21 there was a directors scholarship update.

22 A. Yes.

23 Q. Is that correct?

24 A. Yes.

25 Q. And on page 3 it shows that the board

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1 considered a dividend declaration?

2 A. That's correct.

3 Q. And on page 4 shows that they received a
4 portfolio strategies presentation?

5 A. Yes.

6 Q. And turning to the last page, it shows that
7 they also received a subsidiary update?

8 A. Correct.

9 JUDGE TOREM: Ms. Shifley, let me clarify
10 that these are the pages you're referring to at the
11 bottom?

12 MS. SHIFLEY: Yes, it's how the exhibit was
13 originally numbered and not the exhibit numbers on the
14 top.

15 BY MS. SHIFLEY:

16 Q. So would it be accurate to say that this
17 reflects that directors perform some duties and address
18 some issues that are related to their own interests as
19 well as those of the shareholders and non-utility
20 subsidiaries and affiliates?

21 A. Yes, that would be true. And although the
22 Company believes that these costs should be recovered in
23 full, we are not opposed, as I explained in my
24 testimony, of a 90/10 sharing perhaps for these types of
25 expenses. And this would be no different than what we

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1 do for our senior officers, we do allocate a 90/10
2 sharing for our senior officers between utility and
3 non-utility, and I would not expect that our directors
4 would spend any more time on subsidiary operations than
5 our own senior officers would, and I don't believe the
6 allocation for senior officers between utility and
7 non-utility has been questioned in this case by any
8 party.

9 Q. I now want to ask you a couple of questions
10 related to the board of directors meetings cost.

11 A. Okay.

12 Q. Avista's included 100% of Washington
13 allocable costs in this case; is that correct?

14 A. That's correct.

15 Q. Would you please turn to page 32 of your
16 rebuttal testimony, Exhibit EMA-4T.

17 A. I'm sorry, would you repeat the page.

18 Q. 32.

19 A. I think I'm there, yes, I'm there.

20 Q. And you state here that the meeting costs are
21 a necessary expense of doing business that ultimately in
22 your -- the provision of safe, reliable, and efficient
23 service to Avista's customers?

24 A. Yes, thank you.

25 Q. Would you please refer to Exhibit 17,

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1 EMA-17-X.

2 A. Yes, I'm there.

3 Q. This is a response to a Staff data request?

4 A. Yes.

5 Q. And it asks that you provide all costs
6 included in the test year related to board meetings?

7 A. Yes.

8 Q. And the specific costs are itemized in
9 Attachment A of the response; is that correct?

10 A. Yes, they are.

11 Q. Okay. Would you please turn to the first
12 page of Attachment A.

13 A. Yes, I'm there.

14 Q. And here it lists under the first item in
15 this account shows that \$12,138 were included for meals
16 at the Hyatt Regency in Washington D.C. during the 2007
17 meeting?

18 A. That's what it says. I'm not sure totally
19 the components of that. I think if I remember, I
20 actually think this is one that we actually reviewed,
21 and this one might be where there were some portions of
22 not only just meals, but there might have been some
23 additional expenses associated with the actual meeting
24 itself and equipment and that sort of thing, but I'm not
25 sure without having the invoice in front of me, but I

0571

1 would agree that's what it says.

2 Q. But there is another item for the Hyatt
3 Regency that is \$19,000 also?

4 A. Yes, that's what it says.

5 Q. And then there's also a catered lunch if you
6 go down a few items, it states catering by Avalon for a
7 board of directors lunch at \$2,466.

8 A. Mm-hm.

9 Q. Is that correct?

10 A. Yes.

11 Q. And this also shows just going two items down
12 that \$398 has been included for tickets for the
13 directors to the D.C. International Spy Museum?

14 A. That's correct.

15 Q. And at the bottom of the first page, it shows
16 that in 2008 Avista charged two amounts for a deposit to
17 a dinner at the Arborcrest Wine Cellars for a total
18 deposit of it looks like \$3,000, if we see these two
19 deposits it looks like a total of \$2,500; is that
20 correct?

21 A. That's correct. You know, often some of
22 these types of meetings are not just -- we're not
23 talking about just the 10 directors, so it may include
24 officers and other employees of the Company. I don't
25 know that without -- I mean I don't know how many

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1 numbers there we're talking about. I know in particular
2 one of the board meetings there was at least 40 people
3 attending some of these meetings, so it's difficult to
4 know exactly the components. You have mentioned a few
5 items like the Spy Museum for example, you know, I did
6 go through this and analyze this, and, you know, of --
7 there are in total here \$96,000 worth of costs, and I
8 did go through there, and there's at least -- there are
9 \$5,000 that I should have recorded to non-utility that I
10 did miss and even in my rebuttal case. However, for
11 Washington's share of those costs that's \$2,400 electric
12 and \$600 gas that I would agree should be charged to
13 non-utility. As I also stated in my rebuttal testimony
14 that the Company would -- is not opposed to a 90/10
15 sharing of these costs and would -- by doing that would
16 eliminate these types of costs in the future.

17 Q. But just going back to my last question, it
18 does look like \$2,500 was included for a deposit on a
19 dinner at the Arborcrest Wine Cellars?

20 A. Yes, they often hold their meetings in other
21 places, and I know typically they get fairly good deals
22 for the locations when they do them in advance.

23 Q. And just turning to page 2 of Attachment A,
24 first item shows that \$1,986 was included for a dinner
25 at the Davenport Hotel?

0573

1 A. Yes.

2 Q. And then it also looks like a few items down
3 under miscellaneous that gifts for the directors were
4 included from Adventures in Advertising?

5 A. Yes, these are the types of dollars I
6 included in the \$5,000 that I just stated I should have
7 removed, Washington's share of that being \$2,400
8 electric, \$600 gas.

9 Q. That's about \$1,000 for gifts to the
10 directors?

11 A. That was included in that, yes.

12 Q. And then again we see another charge for
13 reserving the Arborcrest Wine Cellar for a venue for a
14 board dinner?

15 A. Yes. Again, as I mentioned, when they hold
16 these meetings, they have to hold them somewhere on
17 another facility, so typically they have them off site.
18 This isn't one location.

19 Q. I'm just going to walk through a couple more
20 of these costs.

21 A. All right.

22 Q. It shows that there was \$8,750 put on the
23 corporate credit card for Valentine's Day candy for the
24 board?

25 A. Yes.

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1 Q. And a \$75 gift, crystal gift, for a retiring
2 director?

3 A. Yes.

4 Q. And at the bottom of page 2, it shows that
5 \$1,000 was included for a special performance by the
6 Lake City Playhouse?

7 A. Yes.

8 Q. And on the last page it shows that there were
9 two deposits made for a cruise on Lake Coeur D'Alene?

10 A. Yes, that's true. Again, there was a meeting
11 held, and that's where it was located.

12 Q. Okay, so it was located on a cruise boat?

13 A. Well, Coeur D'Alene does have a small cruise
14 boat. I know that in particular had like -- I think had
15 about 40 people there.

16 Q. So there were two installments of \$800 for
17 the cruise boat?

18 A. I believe that to be correct.

19 Q. And Avista did say in its response, turning
20 to page 1 of the actual response, not the attachment any
21 more, that it did remove one cost; is that correct?

22 A. The \$1,900, is that what you're referring to?
23 I'm not sure what you're --

24 Q. Yes.

25 A. Actually that's what I'm clarifying. Several

0575

1 of the items you mentioned, the \$1,900 for first class
2 air fare were dollars that is a part of that \$5,000 that
3 I mentioned that I did not actually remove from my
4 rebuttal adjustments.

5 Q. So --

6 A. Made for this.

7 Q. When you did remove an item though, it was
8 just 19, it was \$1,900?

9 A. In that data request, what we said is that
10 going forward we have already worked with the parties
11 that do the accounting to make sure that any future
12 first class air fare is charged to non-utility.

13 Q. Okay.

14 A. So that was just saying that in the future we
15 would do that, and we were recognizing that \$1,900 in
16 the test period was -- it was an estimate on our part
17 after the fact on how much that would be.

18 MS. SHIFLEY: That's all I have, thank you
19 very much, Ms. Andrews.

20 JUDGE TOREM: Mr. Ffitch, does that conclude
21 Public Counsel's questions?

22 MR. FFITCH: Yes, it does.

23 JUDGE TOREM: All right, it's now about 12
24 minutes until noon, Commissioners, let's take up our
25 inquiries and depending on how much we have we may go

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1 back to redirect before lunch.

2 (Discussion on the Bench.)

3 JUDGE TOREM: Or maybe we'll take lunch now
4 and come back with our questions, we'll see.

5 CHAIRMAN GOLTZ: We're thinking maybe we can
6 take a break and come back right at 1:00, will that
7 work?

8 JUDGE TOREM: That will work for everybody if
9 we say it will work for everybody, won't it. All right,
10 so we'll take a lunch recess now, we'll come back at
11 1:00, we'll have Ms. Andrews ready for cross-examination
12 by the Commissioners, and then we'll have the redirect,
13 see you at 1:00.

14 (Luncheon recess taken at 11:50 a.m.)

15

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

17 (1:00 p.m.)

18 JUDGE TOREM: All right, good afternoon, it's
19 now a little after 1:00, we're ready to go back on the
20 record. One housekeeping item, David Johnson of the
21 Northwest Energy Coalition let me know as we were going
22 to the lunch break he's had an opportunity to speak to
23 his client, and Steve Johnson, the issue we brought up,
24 your client apparently has no objection?

25 MR. JOHNSON: That's correct, Your Honor, and

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1 no relation either.

2 JUDGE TOREM: We talked about the no relation
3 factor yesterday, so Mr. Steve Johnson, you're still
4 employed.

5 MR. FFITCH: Your Honor, may I just be heard
6 also. I would just like the record to reflect that
7 Stephanie Johnson who is currently employed by Public
8 Counsel is not related to Mr. Steve Johnson or to
9 Mr. David Johnson.

10 JUDGE TOREM: She proudly announced that
11 previously, it's now a matter of record.

12 MR. FFITCH: Nor to the Mr. Johnson who's the
13 witness for the Company.

14 JUDGE TOREM: All right, let's see if we can
15 get five next case.

16 All right, we're now ready for the
17 Commissioners to begin their cross-examination, so,
18 Ms. Andrews, as we discussed, I hope you had a good
19 lunch, keep it in.

20 Commissioners, Commissioner Oshie, we'll let
21 you have the first shot at this witness after lunch.

22 COMMISSIONER OSHIE: Thank you, Your Honor.

23

24

25

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

2 BY COMMISSIONER OSHIE:

3 Q. Ms. Andrews, I hope you had a good lunch.

4 A. It might have been better.

5 Q. I suppose it could have been better, that's
6 right, under different circumstances it probably would
7 have been much better.

8 I want to just focus on maybe one area, maybe
9 two, we'll just see how it goes, but you made some
10 statements in your cross-examination by I think at this
11 time it was by Mr. Trautman, and you were talking about
12 the D&O coverage for the senior officers and management
13 of the corporation, and maybe you can clarify at least
14 what -- how do you define a senior officer, and who are
15 they at least in general terms, who are you describing
16 when you use the term senior officer?

17 A. Actually our senior officers are actually
18 listed as Senior VP I think is in most of their titles.
19 So who I'm referring to for the most part is obviously
20 our CO, Mr. Scott Morris, or CFO, at this time
21 Mr. Thies, our Senior VP Marian Durkin, which escapes me
22 her exact title but she's our attorney, corporate
23 attorney for the Company.

24 MR. MEYER: Don't forget Dennis.

25 A. And Dennis Vermillion of course, our utility

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1 President.

2 Q. And the Company's recommendation is a 90/10
3 split of the costs of providing the directors coverage,
4 the D&O coverage; is that right?

5 A. That's correct.

6 Q. And as I understood it, it's really based
7 upon the Company is acknowledging that at least some of
8 the duties of any of the senior officers may not have
9 much to do with the utility; is that my understanding,
10 or did I not really get that right?

11 A. You mean maybe less to do with non-utility?

12 Q. Yes, I think that's what I meant.

13 A. Okay, yes.

14 Q. I meant that the 10% that's not in rates --

15 A. Yes.

16 Q. -- doesn't have anything to do with the
17 utility, at least in the -- at least that's the way the
18 Company is trying to make a cut at it?

19 A. Right.

20 Q. Okay.

21 A. Right.

22 Q. As far as, you know, the D&O coverage, isn't
23 -- I mean that's -- I'm going to -- that's just
24 basically insurance coverage, is it not?

25 A. Yes, it is.

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1 Q. And the cost of insurance is usually
2 commensurate with what factor?

3 A. I'm not sure what you mean.

4 Q. Well, I mean what does risk have to play in
5 determining the cost of insurance? Does it have any
6 role in your -- first of all, let me ask one question
7 before we go there. Did you negotiate the agreement on
8 the D&O insurance contract?

9 A. I did not, but obviously our risk manager,
10 Rich Stevens, has to play a part in that.

11 Q. And are you aware of the negotiations that
12 took place when that coverage was purchased by the
13 Company?

14 A. No, I am not.

15 Q. Okay. Do you see risk as playing any factor
16 at all in determining how much the cost of that
17 insurance should be?

18 A. I would assume that there would be some risk
19 obviously, that an insurance company would look at the
20 individual company that is asking for this coverage or
21 working with that insurance company, I would assume that
22 some risk would play into that.

23 Q. All right. And is there -- can you -- are
24 you familiar with the subsidiaries of Avista Utilities?

25 A. Yes, I am.

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1 Q. Are you familiar with the subsidiaries of
2 Avista Capital?

3 A. Yes, I am.

4 Q. Are all the subsidiaries of Avista Utilities,
5 are they all but Avista Capital -- excuse me, how to put
6 this. Is Avista Capital the subsidiary that holds the
7 remaining subsidiaries of Avista Utilities?

8 A. Yes, it is, other than like the accounts
9 receivable, some of those are just like a financing
10 tool, but yes.

11 Q. And can you describe the major subsidiaries
12 under Avista Capital and what they do?

13 A. One of the major, well, really the one
14 remaining that seems to have much activity any more is
15 Advantage IQ, and I can't really speak too much for
16 Advantage IQ's operations, but they -- it's my
17 understanding that they -- for the most part they help
18 other utilities or other businesses. For example, they
19 help monitor their bills and help them find areas where
20 they can be more efficient in cost savings and things
21 like that.

22 Q. Do they do actual billing functions for
23 whatever company that they're employed by?

24 A. Yes, they do.

25 Q. And collection functions?

0582

1 A. Yes.

2 Q. And so if there's a mistake made there, then
3 the Company may or may not be subject to liability?

4 A. Yeah, I would expect not, and I wouldn't
5 expect that the D&O insurance coverage would be really
6 subjected too much because of our activities with
7 Advantage IQ.

8 Q. Okay. What other companies under Avista
9 Capital other than IQ?

10 A. There are several other subsidiaries, and I
11 do have a listing of them if you want me to go there. I
12 think actually --

13 Q. Well, I don't think we need to have a list.

14 A. Okay.

15 Q. If you could describe the major.

16 A. You know, Advantage IQ is really the one
17 major that's left. Avista Energy was there in the past,
18 and obviously they've been sold. And because of that,
19 our D&O insurance coverage has actually declined since
20 in past years where Avista Energy was there. The other
21 ones mainly have ceased activities or have no employees
22 and are passive income. There's Relyon, but there's --
23 we only have like 6 1/2% ownership in that, a little bit
24 more, you know, under 7% I should say. So really
25 Advantage IQ is the remaining subsidiary that has much.

0583

1 Q. And the reason perhaps that the D&O coverage
2 for Avista Utilities declined after the sale of Avista
3 Energy was the reduction in risk that Avista Energy
4 posed to the Company?

5 A. Absolutely.

6 Q. Okay. So risk is a factor?

7 A. Yes.

8 Q. And it would seem that one of the -- as that
9 being, as risk is a factor, it would seem like some, you
10 know, it would support either the Company's case and I
11 suppose more so the Company's because Company bears the
12 burden of demonstrating the reasonableness of cost to
13 show that the risk that's covered by the D&O insurance
14 is reasonably split between the entities which are
15 covered. In other words, it was Avista Energy at one
16 time, cost declined when that company -- when that
17 subsidiary was sold, you have Avista IQ, you have a few
18 others, and you have Avista Corporation. There may be
19 some testimony in the record that -- where the Company
20 has brought forth that kind of support for its D&O
21 insurance, I don't recall that there's any. It seems to
22 me that we have a, I don't know if you would agree with
23 me or not, but somewhat of I will just term it as a
24 swearing contest between you apparently and others that
25 -- over the amount of D&O insurance that should be

0584

1 included in rates?

2 A. That's correct.

3 Q. All right.

4 A. And one thing I should clarify is that we
5 actually do -- we've incorporated 97 1/2% of the D&O
6 insurance coverage, the other 2 1/2 or the other 1 1/2,
7 I don't know, whatever that is, is for subsidiary
8 activities or non-utility, so there's a portion right
9 now that we have allocated to non-utility subsidiaries.

10 Q. I would like to move on to the salaries of
11 your senior officers and probably focusing more on your
12 CEO and Chairman, Mr. Morris. But as I understood the
13 testimony is that the salaries and benefits of the
14 senior officers are also split 90/10 between the utility
15 rate payers and the shareholders; is that correct?

16 A. That's not completely correct.

17 Q. Okay.

18 A. For some of them they are just like you said,
19 most of the ones I listed, the senior officers are like,
20 you know, the CEO and the CFO for example. Others such
21 as Mr. Norwood for example I think we might have a 99%
22 utility, 1% -- so it does vary depending on the
23 responsibilities of the officers themselves.

24 Q. All right, and that would make sense since
25 Mr. Norwood is frequently before us and his job really

0585

1 is about the utility. And is your job 99% as well on
2 the shareholder side, or I mean excuse me, on the rate
3 payer side?

4 A. Actually no, I charge my time at 100%,
5 because other than these kind of types of activities, I
6 really don't talk about shareholders or have any --

7 Q. Only when forced to.

8 A. And I don't go to those board meetings, so I
9 can't attest to that.

10 Q. Okay, only when forced to under oath?

11 A. Right.

12 Q. The CEO salary and Mr. Morris's salary is
13 split 90/10?

14 A. It is, his specific salary, yes.

15 Q. Okay. And just reading the press and of
16 course hearing at the public hearings, and his salary is
17 approximately, his compensation package is \$2.2 Million?

18 A. Yes, that's correct.

19 Q. Okay. Is the -- if I recall, and I'm sure
20 that you remember a former CEO, Gary Ely, and if that's
21 not -- if I'm not mistaken, he retired at the end of
22 2007?

23 A. Yes, he did, December 2007, and Scott Morris
24 became CEO January 2008.

25 Q. And it seems if I recall as well that when

0586

1 his final salary package was announced that it created
2 quite a stir in the press in Spokane?

3 A. Yes.

4 Q. And do you recall his total compensation
5 package that was being trumpeted in the press, so to
6 speak?

7 A. I don't specifically Gary Ely's, I do Scott's
8 obviously over the last year or two, and, you know, I do
9 want to clarify when we say 90/10, that 90/10 is just
10 associated with his wages. Obviously the \$2.2 Million
11 for example that's been in the paper for Scott Morris
12 has included wages, short-term incentives, long-term
13 incentives, I mean it's basically what is shown in the
14 proxy and how we have to report compensation for SEC
15 requirements. The amount that's actually included for
16 example in the Washington case, electric and gas, is
17 less than \$500,000 of that \$2.2 Million.

18 Q. And what would be the total in Washington,
19 Idaho, Oregon, not that -- it's not particularly
20 relevant, but just the \$500,000, just the split?

21 A. For Washington and Idaho for salaries and
22 incentives you're talking less than \$800,000 in total
23 for Washington, Idaho, and Oregon electric and gas,
24 that's total.

25 Q. It seemed to me that when the information

0587

1 about Mr. Ely's compensation package was being
2 highlighted in the news that I remember a delegation
3 from Avista Utilities coming over, and they may not have
4 been for that reason but that was part of the
5 conversation, and it seemed to me that there was a --
6 that we were assured that there was a very small
7 percentage of Mr. Ely's salary that was actually
8 allocated to rate payers in the state of Washington, and
9 that was of his total 3.3, I believe the total package
10 was about \$3.3 Million. I don't recall the exact
11 number. Do you recall in his final year what his amount
12 of salary that was allocated to rate payers?

13 A. I think his salary, obviously the 3.3 that
14 you're mentioning also includes incentives, and the
15 majority of incentives that are paid to the CEO's go to
16 shareholders, I believe his salary was around \$700,000.
17 I know it's higher than what Mr. Morris's actual salary,
18 not the incentives, but salary is today, I want to say
19 it was somewhere between \$700,000 and \$800,000. And
20 what would have been included in rates would have been
21 Washington's share of less of that I believe because of
22 the timing, the timing of what rates were in effect
23 during those years. Because I know in this particular
24 case obviously some of his salary is included in our
25 test period, but we removed those dollars.

0588

1 Q. It seems to me that -- and it wasn't -- I
2 certainly don't have a clear memory of it, but you
3 testified that his salary was higher, but you don't know
4 exactly the number that was reflected in rates?

5 A. I actually could find it. I think I have
6 probably -- I might have the information actually in my
7 adjustments.

8 Q. Well, that would be fine, you don't have
9 to --

10 A. Okay.

11 Q. -- do that now.

12 A. Okay.

13 Q. Perhaps the Bench could make a note of that
14 and we could get that information.

15 A. Absolutely.

16 Q. It seemed to me, and I don't know why, but it
17 seemed like the number was much smaller than \$500,000
18 that was at least being reflected in the conversations
19 that we had over the amount of responsibility that the
20 rate payers would bear of the total compensation
21 package.

22 A. Well, even at \$800,000, the \$500,000 or
23 whatever number that you might have heard obviously
24 would have been Washington's share of that, so I think
25 Mr. Morris's salary is at according to this \$626,000,

0589

1 so, you know, Washington's share of that right now is
2 like \$368,000, so it's -- and my guess during the
3 conversations that you had with the 3.3, my guess would
4 be they were talking obviously also salary and
5 incentives, but we can verify the exact amount and the
6 amount that's included in rates.

7 Q. That sounds about right.

8 A. Okay.

9 Q. And so my final question then along this line
10 is whether or not the split, the 90/10 split at least
11 for salary is different for Mr. Ely than it is for
12 Mr. Morris?

13 A. I don't believe it is, and in fact it might
14 be, I'm trying to think, I think it was -- I think it
15 was -- I think it was 90/10 for Mr. Ely as well. I was
16 thinking we had an increase in percentage, but now I
17 don't think that's true, I think it was 90/10 at that
18 time.

19 COMMISSIONER OSHIE: I don't believe I have
20 any other questions. At least maybe I will think of a
21 couple more as we move along, but I am satisfied with
22 where it stands right now, thank you.

23 THE WITNESS: Thank you.

24 JUDGE TOREM: Commissioner Jones.

25 COMMISSIONER JONES: Thank you, Judge.

1 EXAMINATION

2 BY COMMISSIONER JONES:

3 Q. Ms. Andrews, would you turn to page 6 of your
4 rebuttal testimony.

5 A. Yes, I'm there.

6 Q. At the bottom of there I think on lines 16
7 through 20 you refer to at least in the direct case, and
8 this may have changed during some tweaking you've done
9 since then, but you described the way in which you pro
10 formed this covers non-executive and executive labor
11 into rates; is that correct?

12 A. That's correct.

13 Q. Now let's look at page 4 there where you say
14 pro formed in the salary increases expected for March 1,
15 2010, of 3.8% for administrative, union, and executive
16 employees; is that still a correct statement?

17 A. No, actually I thought what it -- it
18 continues here to say that for 2010 we have lowered our
19 estimate from 3.8% for administrative, union, and
20 executives, we've actually reduced that. For
21 non-officers and officers we have reduced it to the
22 2.8%.

23 Q. Okay.

24 A. And for union we've reduced it from the 3.8%
25 to another number.

0591

1 MR. MEYER: Careful.

2 A. Another number, lower, for confidential
3 purposes.

4 Q. We won't go to the specific number, but you
5 have there is a number, the 3.8% number, for executive
6 and admin and another number for union?

7 A. Yes, and I have reflected that reduction in
8 my rebuttal case.

9 Q. In those lines of your testimony, however,
10 you describe the salary increases for this March 1,
11 2010, date as expected?

12 A. Yes.

13 Q. So do you still stand by that statement, it's
14 expected?

15 A. Yes, based on the survey information that we
16 -- and I don't know if you want to look at that now, but
17 I have the tables that -- we continued, like I said, to
18 monitor those on an annual basis, and the 2.8, what
19 we're seeing from the survey results from those peer
20 companies that we compete with, not only for hiring but
21 also retaining existing employees, we compete with these
22 other companies in the industry and across the nation,
23 and they're showing the range being from we expect
24 between 2.8% and 3.2%.

25 Q. Has Avista's board approved these salary

0592

1 increases?

2 A. No, they will not be reviewing these I think
3 until I think it's November.

4 Q. November of 2009?

5 A. 9 yes.

6 Q. So these have not been reviewed by the board.
7 Has the Company made any representation to
8 its employees that it has agreed to make these salary
9 increases?

10 A. No, other than I have requested what
11 information has been included in the forecast, and I
12 think the forecast reflects at least a 2.8% increase and
13 the expected union increase.

14 Q. And, Ms. Andrews, when you talk about the
15 2.8% increase, I think in discussion with one of the
16 cross-examiners this morning you referred to a
17 conference board survey, was that pretty much the source
18 of that data on the 2.8%?

19 A. Yes, that is.

20 Q. Okay.

21 A. That is typically what we use on an annual
22 basis to determine our salary increases.

23 Q. Other than the union collective bargaining
24 agreement, is Avista obligated under any contractual
25 basis to pay these wage increases in 2010?

0593

1 A. No, we're not.

2 Q. Okay, can we turn to the proxy statement
3 again. I think it's Exhibit --

4 A. 13-X.

5 Q. -- 13-X, I think you have this memorized,
6 don't you. Okay, and this is going to be a line of
7 questioning following up on Commissioner Oshie's line of
8 questioning just to clarify the record on the executive
9 compensation tables. And please refer to page 24.

10 A. Thank you, at the bottom of the page?

11 Q. Pardon?

12 A. The bottom of the page 24 or 24 at the top?

13 Q. Oh, excuse me, yeah, page 24 at the bottom.

14 A. Okay, thank you.

15 Q. So in response to Commissioner Oshie, I think
16 you clarified things a bit, but I think it's still a
17 little bit muddled, and I will try to at least get my
18 understanding here of what the 90% and the 10% apply to.
19 Let's start with Mr. Morris, the Chairman of the Board
20 and CEO, but we may need further clarification in
21 writing through a Bench request, but let's see how far
22 we get here.

23 A. Okay.

24 Q. Mr. Morris according to this table in 2006 if
25 you included all compensation has a total of \$1,115,000,

0594

1 correct?

2 A. Um --

3 Q. And I think this is pursuant to SEC
4 classification guidelines, correct?

5 A. Right, I think what you mean is the \$2.2
6 Million?

7 Q. No, no, no, I'm going back to 2006.

8 A. Oh, I'm sorry, oh, okay, now I see, sorry.

9 Q. Do you see where I am?

10 A. Yes, I do, sorry, yes.

11 Q. And that's broken into base salary, and the
12 base salary you said was most relevant to what is put
13 into rates at \$352,000 roughly?

14 A. Yes.

15 Q. And then we get up to 2008, that's the top
16 line, and his total compensation is \$2.221 Million,
17 correct?

18 A. Yes, it is.

19 Q. Is that an increase of 99% roughly, about
20 doubling?

21 A. I guess it does appear that way.

22 Q. Okay. And the base salary, so could you just
23 clarify two questions on this. So what does the 90%
24 apply to, because there are one, two, three, four, five,
25 six columns here that make up total compensation, so

0595

1 what does the 90% apply to?

2 A. The 90% applies to the salary column itself.
3 The other areas like the non-equity extended plan,
4 that's related to incentives, and the only portion of
5 that \$404,000 for example that was included would have
6 been those -- only those incentive portions that were
7 related to O&M type savings. Anything that was related
8 to earnings per share or other type of financial
9 measures are excluded for rates, so in that particular
10 example Washington's share of that \$404,000 is \$68,000
11 for electric and gas.

12 Q. Okay.

13 A. Long-term incentive column, the --

14 Q. Ms. Andrews.

15 A. I'm sorry?

16 Q. I'm sorry, could you stop there just for a
17 minute.

18 A. Okay.

19 Q. I think this will help all of us. Go back to
20 page 15, lower of the page in the proxy statement. Tell
21 me when you're there.

22 A. I'm there.

23 Q. And under the header executive compensation
24 components there are four bullets listed.

25 A. Yes.

0596

1 Q. Base salary, short-term performance base,
2 cash incentive compensation, which I think is column 3,
3 long-term equity incentive compensation, and then
4 retirement and other benefits?

5 A. Correct.

6 Q. So does the incentive plan compensation that
7 you just referred to, is that basically included under
8 the second bullet, short-term, excuse me?

9 A. Yes, it is.

10 Q. Okay.

11 A. And it is not at a 90/10 sharing.

12 Q. Is not?

13 A. It is not.

14 Q. 100% of this is allocated to shareholders?

15 A. No, it depends on how much of the incentive
16 payment that is made was related to O&M cost savings.
17 If there are O&M cost savings -- so for example I think
18 in this particular case it was very small, because most
19 of the -- I think whatever the O&M targets were were not
20 met in their entirety, so more was paid out associated
21 with earnings per share.

22 Q. I see.

23 A. So those are excluded from the case.

24 Q. Okay, let's go back to page 24 then, back on
25 page 24 at the bottom.

0597

1 A. Okay.

2 Q. And let's go to the next column. For 2008
3 Mr. Morris received \$559,753; what is that?

4 A. That is associated with the change in their
5 pension amounts for a difference between -- the change
6 in their pension between December 2007 and December
7 2008, and it's very difficult to know exactly how much
8 of that is included, because it is a change in the
9 pension. But my understanding the majority of that is
10 associated with the Company's supplemental executive
11 retirement plan, which is all below the line. So it's
12 my assumption is it's a very small amount of that --

13 Q. Okay.

14 A. -- that column is included.

15 Q. And then there's a small amount over here,
16 \$10,350 under the catchall category called all others,
17 so we don't need to spend time on that.

18 A. Okay.

19 Q. So all of the executive officers, these are
20 your six key executive officers or senior officers for
21 the corporation, correct?

22 A. Yes.

23 Can I clarify one thing?

24 Q. Sure.

25 A. I think the one column that was missed was

0598

1 the performance shares, and that is 100% to
2 shareholders.

3 Q. Okay.

4 So if I go down this and look at Mr. Morris,
5 Mr. Thies, Mr. Malquist, Ms. Durkin, Ms. Feltz,
6 Mr. Meyer, they are considered to be your senior
7 officers, correct?

8 A. No, these are just the top five at this
9 particular point in time.

10 Q. Okay.

11 A. This is the top five, so for -- I think for
12 the most part most of them are except for Mr. Meyer, and
13 so he is not listed as 90/10 because the majority of his
14 work, I think he might be 99% or something utility,
15 because most of his work is utility related.

16 Q. Okay. And if you go back and look for each
17 of these officers, the change from 2006 to 2008, of
18 course Mr. Thies is different because Mr. Malquist
19 retired and now Mr. Thies is your CFO, but there's quite
20 a difference in terms of how the total compensation
21 fluctuates from 2006 to 2008.

22 A. Yes.

23 Q. And I'm not going to pick on any particular
24 individual in this room, but some go down, some go up,
25 but what stands out to me is a 100% increase or 99%

0599

1 increase for Mr. Morris.

2 A. That is because prior to January 2008 he was
3 -- played a different role. He was the utility
4 President rather than the CEO of the Company as he is
5 today, so his salary did make a substantial increase in
6 2008 because of his change of duties.

7 Q. So it is the Company's view that all of that
8 increase, not all of it, but a certain percentage of
9 that increase should be allocated to rates because we
10 are pro forming as I understand it the 2008 salary and
11 total compensation, correct?

12 A. Yes, we are.

13 Q. Okay. So what is the -- as I understand it
14 then, what you're basically saying is you have pro
15 formed into rates in 2008 for Mr. Morris roughly 90% of
16 that salary column, the 626, maybe with a little
17 something in column 3 for O&M savings and maybe
18 something somewhere else, roughly that?

19 A. Yes, that's true.

20 Q. So the number has basically gone up from the
21 \$300,000 level to the \$500,000 level?

22 A. Right.

23 Q. To be put in rates?

24 A. Yes, but keep in mind that Mr. Ely's salary
25 had been in there previously, so we've removed his

0600

1 salary and replaced it with Mr. Morris's salary. So the
2 net increase that we're asking for today is not that
3 significantly different than what's currently in rates
4 today. The level of total compensation is not
5 significantly different between all the officers.

6 Q. So that was in response to Commissioner
7 Oshie's question where he was talking about Mr. Ely's
8 salary?

9 A. Yes.

10 Q. Which is in rates currently?

11 A. Right.

12 Q. For 2008?

13 A. Yeah, because obviously when he was -- when
14 we were in here a year ago, our test period was 2006,
15 and we were pro forming up 2008, and at that time we had
16 Mr. Ely as the CEO, and it was his salary that had been
17 pro formed into the rates we have today.

18 Q. Well, maybe this could be a Bench request
19 then, I think it would be appropriate, just to account
20 for that difference between Mr. Ely and Mr. Morris and
21 what is currently in rates and then what is proposed to
22 be in rates pro formed in this rate case as presented
23 here. Could the Company provide that?

24 A. Absolutely.

25 COMMISSIONER JONES: That's all I have,

0601

1 Judge.

2 THE WITNESS: Thank you.

3 JUDGE TOREM: Am I understanding correctly
4 then Avista is going to provide more information on both
5 Mr. Ely and Mr. Morris's salaries on the 90/10 split and
6 highlight that last question from Commissioner Jones,
7 the actual difference between what's in rates from the
8 present rates to what's being proposed in this case, and
9 that will be Bench Request 5, and it won't be put in
10 writing, it will just be taken in understanding from
11 today.

12 THE WITNESS: That's fine.

13 JUDGE TOREM: Are you the one that's going to
14 be providing the information, Ms. Andrews?

15 THE WITNESS: Yes, probably.

16 JUDGE TOREM: Timeline as to when we can
17 expect it?

18 THE WITNESS: I'm not sure if I have all the
19 information with me to do that. I think I might. But
20 if -- I don't know if next week is appropriate or
21 possible or not or if you want it sooner than that.

22 JUDGE TOREM: Commissioners, did you want it
23 before testimony ends this week?

24 COMMISSIONER JONES: Commissioner Oshie was
25 involved in this as well, but not from me, no.

0602

1 JUDGE TOREM: All right.

2 THE WITNESS: If we could say by Friday of
3 next week, that would be wonderful.

4 JUDGE TOREM: All right, so that's October
5 the 16th Bench Request 5 will be due.

6 Mr. Meyer, you got that too?

7 MR. MEYER: Yes.

8 JUDGE TOREM: All right, thank you.

9 All right, Chairman Goltz, your questions.

10

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

12 BY CHAIRMAN GOLTZ:

13 Q. Good afternoon.

14 A. Good afternoon.

15 Q. One question about the asset management
16 program that you discussed on page 19 of your rebuttal
17 testimony. So are there specific contractual
18 obligations in place to do the work that you have
19 planned for 2010?

20 A. You know, with some of this we don't
21 necessarily have specific contractual obligations, but
22 these costs are, you know, we've based our expenses for
23 the asset management program on, you know -- sorry, let
24 me back up.

25 The asset management program is a

0603

1 continuation of O&M cost that we're -- much of which
2 we're already current today. So we have history
3 associated with these projects. So even though we may
4 not have specific contracts in place, for example one of
5 the programs in here is vegetation management, we do
6 contract out a lot of that work with Asplundh, so we
7 have a contract in place, but we don't have a specific
8 amount that we say has to be done. It's really based on
9 the Company's expectation of what we think is
10 appropriate and needs to be done during that time frame
11 to meet the requirements the Company needs to do.

12 Q. So going forward into 2010 you still have
13 discretion to expand or contract the various projects
14 that you've described?

15 A. Well, we do, but these -- these are planned
16 expenditures that we feel -- and Mr. Kinney I hope will
17 have the opportunity to cover this more, this is really
18 -- he's really the expert here.

19 Q. That's fine.

20 A. But what the Company with our asset
21 management programs is, we have put in the least cost --
22 the level of expenditures are there that we have asked
23 for in the 2010 case is cost at the least cost that we
24 expect or the least cost for -- the least planned cost
25 for these types of programs. Yes, it's an increase of

0604

1 cost in 2010, but for vegetation management for example
2 the least cost plan is to do a five year plan or a five
3 year vegetation management plan for our system. If we
4 extend across the five years, then it increases, it will
5 just increase those costs over time. So it's really the
6 least plan -- least cost option, sorry, I'm not getting
7 that out very well. What we have included are least
8 cost options for these types of programs.

9 Q. Let me just ask one question then following
10 up on what Commissioner Jones asked about the salary
11 adjustments described on page 6 and subsequently to
12 that, and you gave various percentages. Are those --
13 and I see sort of salary increases that employees
14 generally get in kind of two categories. I don't know
15 if this applies to Avista or not. One is sort of the
16 general cost of living increase that's basically across
17 the board. Frequently you see this percentage increase
18 associated with that. And others are pursuant to their
19 contract of employment there's a sort of step increase
20 system as a person goes through his or her career for a
21 number of years, they get some automatic adjustments.
22 Do you have that similar dichotomy in Avista?

23 A. Yes, we do, and what we typically do when
24 we're talking about like the 2.8% increase, that's the
25 average increase that is -- that basically the Company

0605

1 has said the O&M increase or the labor increase will be
2 2.8%, and it's up to the management to determine how to
3 allocate that 2.8%. It may be one individual gets more
4 than that, but that usually means there's employees that
5 get less than that.

6 Q. So I guess my question is when you use the
7 term 2.8%, would that then encompass both what I would
8 call cost of living adjustments and sort of merit or
9 promotional increases?

10 A. Yes, it does. On average it does, yes.

11 Q. Okay. And I would like to turn to the
12 incentive program. Could you describe in more detail
13 for me how one gets an incentive, do you call it bonuses
14 or what do you call it?

15 A. Right, incentive plan, yes.

16 Q. So can you just describe -- and first of all,
17 is this applicable to all Avista officers and employees?

18 A. Yes, the officers actually have a similar
19 short-term incentive plan that's similar to ours, but it
20 is -- theirs is somewhat different because there is a
21 30% I think of their incentive plan is associated with
22 O&M, cost per customer savings, and reliability and
23 customer service measures. The other 70% is focused on
24 financial measures, and those are excluded from our
25 cases, anything associated with financial management are

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1 excluded.

2 Q. So let me ask this then on the Exhibit 13-X
3 on page 24, and I'll be consistent with everyone else,
4 24 at the bottom of the page, the non-equity incentive
5 plan compensation, that is not part of this case?

6 A. That is the short-term plan, and so a portion
7 -- I think I've determined that maybe \$68,000 of that
8 \$404,000 for the short-term plan has been included in
9 Washington's case, so a very small amount of that. It's
10 the stock awards, performance shares, that's the piece
11 that we're saying is not, because that is the long-term
12 incentive plan that is different than the short-term
13 that I'm about to describe to you.

14 Q. So the O&M incentive expense issue that you
15 discuss starting on page 12 of your testimony includes
16 what is in column 3 of Exhibit 13-X, page 24?

17 A. I'm sorry, 13-X?

18 Q. The non-equity incentive plan compensation.

19 A. The \$404,000, is that correct?

20 Q. It should be --

21 A. Column 3, \$404,000, yes, there are \$68,000 of
22 that included in our case. The rest is charged to
23 shareholders.

24 Q. Okay. And that's about 1/6 approximately?

25 A. Yeah.

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1 Q. If you were to go down the list for 2008,
2 again on page 24 of 13-X, wouldn't there be a similar
3 allocation for the other officers mentioned there?

4 A. Yes, whatever payout they received that was
5 not O&M was excluded, and I think it is very similar by
6 each officer, the payout.

7 Q. Okay. So can you give me an example, maybe
8 two examples, one for a sort of a line employee and one
9 for an officer as to what sort of O&M benefit has to be
10 demonstrated before that person, officer or employee, is
11 entitled to an incentive payment?

12 A. Okay. I'm going to go to our actual
13 Company's non-executive incentive plan that basically
14 the rest of -- the majority of the rest of the company
15 is a part of that plan. And the first target that's
16 associated with that plan is their -- is what we call
17 our O&M cost per customer. We set a target during the
18 year of what we expect our O&M cost per customer to be,
19 and in order to have an incentive payout, the first
20 thing we have to do is we have to beat that expected
21 cost. So there's a target or a threshold that we have
22 to get below in order for any payout to occur. So
23 therefore there is that -- what has happened then is we
24 obviously have reduced our O&M costs in order to meet
25 that or beat that expected cost per customer that we had

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1 assumed was going to occur during the year. So we have
2 to meet that target. If we do, then there is basically
3 there is savings that have occurred that they then can
4 use as part of the payout.

5 Q. Okay.

6 A. That's step 1, that's only step 1 of the
7 plan.

8 Q. Okay, so let me ask you this then. I gather
9 from that that an individual doesn't show an O&M savings
10 attributable to that individual, it's sort of an all for
11 one, one for all, sort of Three Musketeers attitude for
12 this?

13 A. Right, but it's set up this way so that all
14 employees focus on how can we save costs during the
15 year. And, you know, everybody's work is different, so
16 it's very difficult to know how you can, you know, how
17 you may personally be a part of that, but the goal is to
18 get employees thinking about how can I reduce costs to
19 this company to impact that total cost per customer
20 line. And then there are other pieces of the plan,
21 which I haven't mentioned, which is around service,
22 customer service targets and reliability targets. We
23 also have to meet those in order to have certain payouts
24 as well. But the starting point obviously is O&M costs
25 per customer, because without meeting those targets so

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1 that there is actually savings that have incurred,
2 there's no money in the plan to actually fund anything
3 out regardless if we made customer service or
4 reliability targets.

5 Q. Okay. So is it too simple to say that the
6 O&M cost per customer is your O&M cost divided by the
7 number of customers?

8 A. For the most part I think that's true.

9 Q. And so for 2010 you would first determine the
10 O&M cost per customer, O&M costs, and then divide by the
11 number of customers?

12 A. That's right. We actually have a 2009 -- we
13 have a 2009 plan obviously that we're accruing for today
14 that we will not know until the end of the year whether
15 or not we have met those incentive targets, and then
16 those payouts would actually occur in 2010. In 2010,
17 they will look at the plan again on what the expected
18 costs are. So yes, that's true, they look at the what
19 they expect the costs to be for the year.

20 Q. So is the idea then that, let's go back to
21 2008.

22 A. Okay.

23 Q. Which is roughly the test year, the idea
24 being that if you hadn't had this incentive program in
25 place, your O&M costs would be higher?

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1 A. Well, I think that, you know, we're obviously
2 always looking for efficiencies and savings that the
3 Company can do, but it is just a way to incent employees
4 to look for ways and be, you know, extra cautious and
5 careful or, you know, I mean I think most of us we try
6 to do that anyway, but it's -- it just gives -- it's
7 just a way of -- I lost my train of thought, I'm sorry,
8 can you repeat your question?

9 Q. I don't know.

10 A. Sorry.

11 JUDGE TOREM: The Chairman was asking if the
12 existence of the program is implying that there wouldn't
13 have been as good cost savings without it, something
14 along those lines.

15 Q. Yeah.

16 A. Well, it's -- I hate to characterize it that
17 way because we, you know, it just tries to incentivize
18 the employees. And then another thing to keep in mind
19 is that this is a part of the Company's total
20 compensation package, so when we look at our total
21 compensation package for all employees and we compare
22 ourselves to other utilities, this is a part of that
23 package. Whether the incentives are paid out or not,
24 the opportunity for that incentive is there.

25 Q. So I gather that the difference between you

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1 and, between the Company's position on this issue and
2 that of Public Counsel and Commission Staff is the
3 difference between the 2008, the test year amount which
4 is \$2.8 Million, and the six year average which is
5 slightly over \$4 Million. So if we were to adopt the
6 Company's position and there would be placed into rates
7 \$4.068 Million, and the actual results, the actual
8 payouts at the end of I guess it would be 2010 or
9 whenever you pay them out --

10 A. Right.

11 Q. -- were instead this \$2 Million, that \$2
12 Million would go to the benefit of the shareholders,
13 correct? That savings would go to the benefit of the
14 shareholders?

15 A. It would. It obviously would go against
16 covering any expenses that the company has, yeah.

17 Q. One big pot?

18 A. Yeah.

19 Q. So tell me if the flip side happens, what
20 happens, who benefits if you get -- if you pay out
21 \$4.068 Million?

22 A. If we -- I hope that that's the case, because
23 that means that obviously we've had a large -- we would
24 have really been able to reduce our costs as we planned.
25 We hope to meet those thresholds and those targets, but,

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1 you know, we have built in -- what we've asked for is
2 the average because this next year we could meet maybe
3 100% of our target and then obviously the payout that
4 could have occurred, we would have had to reduce O&M
5 cost that incurred would be -- will be higher than the
6 average that we built into this case.

7 Q. But if your savings, if you do -- if that
8 does work --

9 A. Right.

10 Q. -- your savings would be realized in 2010?

11 A. The savings will be realized in 2009, and so
12 therefore in our next case for example, if we actually
13 are able to make the -- let's say we make 100% of our
14 target and I'm just going to say it's \$6 Million, but
15 the average we built into this case is \$4 Million, then
16 customers actually receive the full -- the additional \$2
17 Million benefit because we have an average built in
18 rather than the high and the low, so it goes both ways.

19 Q. Maybe I'm not either making myself clear or
20 understanding it or both, but we're setting rates that
21 would take effect roughly the start of 2010.

22 A. That's correct.

23 Q. And you want to place in rates the six year
24 average for 2010 slightly over \$4 Million?

25 A. Yes.

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1 Q. As I understand the program, they get awarded
2 -- oh, but what you're saying is that they will be
3 awarded in 2010 for cost savings incurred in 2009?

4 A. Yes. And so but again in 2010 you're placing
5 in because that is what is the expense level that we
6 will be -- you know, what is the -- what is the expense
7 level in 2010 that we are -- that we expect to incur
8 during that time period. In 2010 we'll have additional
9 savings that occur in 2010 that will be paid out in 2011
10 for that incentive plan.

11 Q. But in any event, the savings in operating
12 expenses then gives -- frees up more money for the
13 Company for other purposes?

14 A. That's correct.

15 Q. Okay. And is the -- could one -- well, tell
16 me if is there some attempt to match the -- it's a verb,
17 I've got to be careful, it's a term of art -- but to
18 match the amount of incentive payments with the amount
19 of operational savings?

20 A. Yes, or in some cases the amount of payments
21 may be lower than the actual savings that are occurred,
22 yes.

23 Q. And do you have a -- you mentioned a plan
24 that you have for this, is that in the record, do we
25 know that?

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1 A. Yes, it is. It actually was provided in, I'm
2 trying to think, it was provided in Staff Data Request
3 7C confidential, we do have this all employee incentive
4 plan for 2008, and there's also the officers executive
5 plan associated with that as well.

6 Q. I don't know if that's in the record.

7 A. Oh, I'm sorry, it's a data response, yeah,
8 it's not actually in the record.

9 CHAIRMAN GOLTZ: So maybe we could have that
10 placed into the record.

11 JUDGE TOREM: Which was the data request
12 number?

13 THE WITNESS: Staff DR 7C.

14 JUDGE TOREM: C is because of the
15 confidential information?

16 THE WITNESS: Yeah, we do mark those
17 confidential even though there isn't anything I've said
18 today that needs to be a concern.

19 BY CHAIRMAN GOLTZ:

20 Q. And every employee has one?

21 A. Right.

22 JUDGE TOREM: So let me ask then, we'll note
23 that as Bench Request 6 to bring the DR the data request
24 and the response, the DR 7C from Staff and Avista's
25 response, and we'll just -- it sounds like that material

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1 is readily available, so the sooner that can come in,
2 the better. I'm seeing nods.

3 MR. MEYER: Yes.

4 JUDGE TOREM: By the end of the week.

5 BY CHAIRMAN GOLTZ:

6 Q. So just a couple more questions, do I recall
7 you saying, this is the downside of having a break for
8 lunch, memories fade, but do I recall you saying that in
9 past rate cases you used the six year average?

10 A. Well, what happened in the 2007 case was
11 Staff actually proposed a form of an average because the
12 amount of the average was lower than the -- using an
13 average was actually lower than what our actual
14 incentive payouts were during that test year, and so
15 they had actually proposed a form of an average in order
16 to, you know, normalize those costs because it appeared
17 to be high in that year.

18 Q. Do you think that there's anything, and if
19 you need to defer this to another witness that's fine,
20 but do you think that there's something unique about
21 these economic times that reduces the justification for
22 rate payers bearing the cost of an employee incentive
23 program? And let me just comment briefly. It seems to
24 me that in general reading the Wall Street Journal and
25 others that this sort of program is being cut back in

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1 enterprises that are in competitive marketplaces because
2 of the economic situations. And if that's true,
3 wouldn't that also -- shouldn't that also apply to
4 Avista?

5 A. Well, I think, you know, I can't speak to
6 what those other plans are that the other performances
7 were being paid to, but I think the important thing here
8 is the way our plan is -- the way our plan is set up,
9 there is no payment paid out unless there is savings
10 associated or savings to the Company. So we -- there is
11 -- if we meet the targets and there is O&M savings,
12 customers do benefit from that. Because going forward
13 instead of our O&M costs otherwise are lower than they
14 would have otherwise been if we hadn't somehow been able
15 to meet -- to meet these -- to meet these cost savings.
16 And because we focus on -- we focus on savings, as I
17 mentioned customer service and reliability, they're all
18 targets that we're trying to -- that we're trying very
19 heavily to meet and we think are important because
20 customers benefit from all three of those targets.

21 Q. Do you know off hand, it's hard to say, but
22 in last year or the test year 2008 where slightly over
23 \$2.8 Million was paid out, do you know off hand what the
24 average payout incentive payment would be to an
25 employee?

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1 A. I actually don't, and what I -- and also what
2 I can't remember is if -- in some of these cases we may
3 have met the O&M savings, so there was maybe a \$6
4 Million O&M savings, yet the other targets that also
5 have to be met like customer service and reliability, I
6 think in one case we didn't make the reliability target,
7 so 25%, you know, or 50% was, you know, was not allowed,
8 but yet we met the O&M savings, and those savings were
9 passed on to customers. So customers benefited from
10 those savings at shareholders cost, or I'm sorry,
11 customers benefited from that savings even though there
12 was no payout to customers, to employees, that's what I
13 meant to say.

14 Q. It was all rate payer costs?

15 A. Right. But what I'm saying, we may have made
16 \$2 Million of incentive payments because we only made
17 half of the targets, but there may have been a \$4
18 Million savings in O&M, so customers benefited the net.

19 Q. Maybe this will be clear in reading the
20 documents, but would the -- is the program fine tuned
21 such that if one particular work unit, I will speak the
22 mail room, comes up with an efficiency for the mail
23 room, they benefit, or does it all just go into one big
24 pot of O&M savings that's shared alike by everybody?

25 A. I think due to the size of the company, it's

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1 kind of -- it's very difficult to do that, and so what
2 you're -- what we're talking about is a total company
3 electric and gas systemwide O&M cost per customer, so
4 it's very difficult to say that one particular area
5 maybe lowered their costs, but we want this to be a
6 company plan so that the whole company focuses on it.

7 Q. So there is not part of the plan that you see
8 in some systems where there's an individual, in effect
9 performance plan for each employee, and if they meet
10 certain targets for that employee, they get the bonus?

11 A. No, there's not. It's just the incentive is
12 paid out as based on the employee's salary level and
13 their level within the company, but that's the only
14 individual portion of it.

15 CHAIRMAN GOLTZ: Okay, I have no further
16 questions, thank you.

17 JUDGE TOREM: Other Commissioner follow-up?

18 All right, Mr. Meyer, I think we have time
19 for the brief redirect you described earlier.

20 MR. MEYER: It's going to be a little longer
21 than 3 to 4 minutes, but I'll try and keep it to --
22 because the Commissioners have opened up some
23 interesting lines of inquiry, and I just wanted to
24 follow up on a few of them if I might.

25

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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. So let's, because the Chairman did talk about
4 a very real concern in the economy, not only in the
5 Spokane area but statewide and of course it's I'm sure
6 nationwide, there are concerns everywhere. With that as
7 context, when the Company decides on the design of its
8 incentive plan and anticipated payouts, does it do that
9 in isolation, or does it rely on the work of an
10 independent consultant such as Towers Perin?

11 A. I believe that they do have a portion that
12 they review in our plan to make sure that it is
13 following within our, you know, maybe a total
14 compensation package, but also what is the, you know,
15 what those plan components are.

16 Q. So when Towers Perin looks at total
17 compensation including incentives, do they examine what
18 the competitive compensation scales including not only
19 base pay but incentive pay are regionally as well as
20 nationally?

21 A. Yes, they do.

22 MR. FFITCH: Your Honor, this is a late
23 objection, but I'm beginning to feel that counsel is
24 leading the witness, so I will interpose the objection
25 again if it continues.

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1 JUDGE TOREM: All right, acknowledged.

2 BY MR. MEYER:

3 Q. Is it -- do you have any comments then with
4 respect to how competitive the total compensation
5 packages as designed are with respect to let's call it
6 competing opportunities for employment elsewhere?

7 A. Yes, they do -- they do this determination on
8 an annual basis, and our compensation is in line with
9 the average of other peer companies in the industry and
10 national.

11 Q. Still with respect to incentive payments, I
12 think you made the point earlier that payments aren't
13 made until savings are first realized in O&M for the
14 benefit of customers. Was that your testimony?

15 A. Yes, I did state that.

16 Q. And then would you comment on the whether to
17 the extent O&M savings are realized how, if at all, will
18 they be reflected in the next rate case?

19 A. That would mean for example the savings that
20 occur during 2009 which we may make incentive payments
21 out, our O&M expense will be lower than otherwise it
22 might have been in the test period in our next case if
23 we use 2009 as the test period.

24 Q. So to that extent, would the customers
25 benefit?

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1 A. Absolutely.

2 Q. Chairman Goltz also asked some questions on
3 the asset management program. Do you have any views as
4 to why any planned expenditures with respect to the
5 asset management program are reasonable for purposes of
6 arriving at a pro forma adjustment?

7 A. Yes. As I've mentioned, these programs are
8 -- our asset management is a continuation of O&M costs
9 that we have been -- plans that we've had in place for a
10 period of time. We're just kind of repackaged them in a
11 way so that we can monitor those assets better. So we
12 have history that says what those costs are, we have
13 expertise of which Mr. Kinney can attest to, we have
14 expertise in our company that says what they know --
15 what our planned expenditures are during 2010.

16 Q. In other contexts, does this Commission use
17 reasonable estimates of planned expenditures in order to
18 arrive at pro forma adjustments?

19 A. Absolutely. This isn't anything new. We
20 have -- we have examples in the past where we have used
21 estimates to include -- to determine what the costs are
22 going to be for the test period, and we have in fact
23 costs that have already been accepted by the parties of
24 estimated or planned expenditures. A perfect example is
25 the power supply cost that we've already -- the parties

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1 have agreed to such as, you know, the fuel and the cost
2 for the fuel or the volume of power supply -- of power
3 supply. Those are -- those are estimates that are
4 already included in the test period. That's -- those
5 are example of power supply, for example, we -- that's
6 nothing new. Another example is for --

7 MR. FFITCH: Your Honor, I'm going to object
8 at this point, perhaps I should have done so earlier,
9 but I don't believe that the witness -- I don't recall
10 this witness testifying about other examples of
11 estimates that were used, and I think this question is
12 beyond the scope of earlier examination.

13 MR. MEYER: Your Honor, the line of questions
14 were prompted by Chairman Goltz's inquiry into asset
15 management and were -- I think they began with a
16 reference to are there specific contract terms or are
17 you dealing with estimates. At least that was my
18 recollection of the context of the question. And so my
19 follow-on question to this witness was, well, are there
20 other examples where this Commission has used reasonable
21 estimates of planned expenditures, and she should be
22 entitled to answer that question.

23 CHAIRMAN GOLTZ: I think Mr. Norwood also
24 testified to that in his testimony, so if it's not
25 duplicative of that.

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1 JUDGE TOREM: Absolutely correct, Chairman
2 Goltz, and so I'm going to sustain the objection. Keep
3 the answer as it's already been given, but let's cut it
4 off there, that's a sufficient example, and it already
5 echoes what Mr. Norwood said earlier this morning. I
6 don't know that we need to go any further into it, the
7 Commission's aware of the argued analogy.

8 MR. MEYER: Very well.

9 BY MR. MEYER:

10 Q. Let's turn now to just a couple of other, not
11 smaller items but unrelated items. There was reference
12 to the use or the allocation of compensation by the
13 senior executive team at Avista on a 90/10 basis between
14 the utility and the non-utility subs; do you recall
15 that?

16 A. Yes.

17 Q. And was it your testimony that no party at
18 least in this proceeding has registered an objection as
19 to that particular allocation?

20 A. No, they have not.

21 Q. And in your estimation, would it make sense
22 then -- strike that.

23 Would you agree that the senior executive
24 team interacts more than any other group within the
25 Company with the board of directors?

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1 A. I'm sorry?

2 MR. FFITCH: Objection, that's leading, Your
3 Honor.

4 JUDGE TOREM: Sustained.

5 Go ahead and restate the question.

6 MR. MEYER: Surely.

7 BY MR. MEYER:

8 Q. How would you characterize the level of
9 interaction between the senior executive team and the
10 board of directors?

11 A. I would expect that the senior board of
12 directors or the senior management, you know, would not
13 be any more -- would not -- would -- sorry. I would
14 expect the senior -- the senior officers to not have any
15 more opportunity or have any more time with shareholders
16 or that sort of thing than the 90/10 that we've
17 incorporated in the case, and I wouldn't expect the
18 directors to have any more opportunity than that, than
19 what the senior officers have had.

20 Q. All right, let's move on.

21 Just lastly then on the level of D&O
22 insurance, I think through Commissioner Oshie's
23 questions is it your understanding that no party has
24 challenged the level or the terms of coverage for D&O?

25 A. That's correct.

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1 Q. Has any party to your recollection challenged
2 the need for D&O coverage?

3 A. No.

4 Q. So is it just a question of who pays?

5 A. Yes.

6 Q. Did I understand you earlier to testify that
7 given the sale of Avista Energy that in fact there is
8 less risk associated with the enterprise overall now
9 than before in terms of the kind of things D&O coverage
10 covers?

11 A. Yes, yes, that's true.

12 MR. MEYER: All right, I believe that's all I
13 have, thank you.

14 JUDGE TOREM: Chairman Goltz.

15 CHAIRMAN GOLTZ: Yeah, I just had one
16 follow-up question and maybe two.

17

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

19 BY CHAIRMAN GOLTZ:

20 Q. On page 14 of your testimony on the operation
21 and maintenance incentive expense, that little table at
22 the top.

23 A. Yes.

24 Q. Can I deduce from that, pardon me, those
25 payments reflect O&M savings from the previous year?

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1 A. Yes.

2 Q. So can I deduce from this that in each year
3 from 2002 through 2007 there was a reduction in the per
4 customer O&M cost?

5 A. Yes.

6 Q. Could you provide -- do you have an, and if
7 you do, can you provide the year by year to this most
8 current year the per customer O&M cost?

9 A. We can. We may have answered that in data
10 requests, I can't remember. We'll look for that. If we
11 have, then we'll provide it. If not, we can certainly
12 provide it at a later time.

13 JUDGE TOREM: All right, so we'll label as
14 Bench Request 7 the per customer O&M costs. And
15 Chairman Goltz, how far back?

16 CHAIRMAN GOLTZ: Oh, I think just back to
17 2002 to the most current date.

18 JUDGE TOREM: Okay, so 2002 to 2008.

19 THE WITNESS: Absolutely, thank you.

20 JUDGE TOREM: How long would you need for
21 that, Ms. Andrews?

22 THE WITNESS: I don't think that would take
23 very long. That's not something I will prepare. But if
24 either we have it we can provide it today or tomorrow,
25 and if not, we can certainly get that to you I would say

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1 tomorrow or the next day.

2 JUDGE TOREM: We'll make it due Friday the
3 9th.

4 Mr. Trautman and Mr. ffitch, I hope if
5 there's any need for recross it will be brief, we do
6 have an ambitious schedule the rest of the afternoon.

7 MR. TRAUTMAN: No, Your Honor.

8 JUDGE TOREM: It falls to you, Mr. ffitch.

9 MR. FFITCH: As I think about it, Your Honor,
10 we have no further questions.

11 JUDGE TOREM: All right.

12 Ms. Andrews, thank you.

13 THE WITNESS: Thank you.

14 JUDGE TOREM: I hope your lunch feels better
15 now.

16 CHAIRMAN GOLTZ: Thank you.

17 JUDGE TOREM: What I would like to do is take
18 a brief 5 minute break, have counsel put their heads
19 together on the order of the witnesses coming up, and
20 ensure that Staff witness Ann LaRue is put on no later
21 than 4:00 so we can ensure -- this is the only date that
22 she's available. It's now about 7 minutes after,
23 hopefully by about 12 minutes after we'll be back in
24 here and be ready to go on the record. Okay, we're at
25 recess for 5 minutes.

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1 (Recess taken.)

2 JUDGE TOREM: All right, counsel, it's now
3 2:17, we'll go back on the record. My understanding is
4 that Mr. David B. Defelice is on the witness stand and
5 ready to accept the oath of witness, that we are going
6 to get to definitely depending on what the Commissioners
7 needs are Ms. LaRue because the Company it turns out
8 does not have any intention to cross-examine the 15
9 minutes they had projected, so at the next break or
10 thereafter we'll see what the Commissioners might or
11 might not have for Staff witness Ann LaRue.

12 Also brought to my attention, Commissioners,
13 is that Hugh Larkin, who is Public Counsel's witness on
14 these issues for revenue requirements, we knew that he
15 had to leave tomorrow morning sometime, so if we don't
16 get to him today, he may be the very first witness we
17 take up tomorrow even if that means taking him out of
18 order. So those are our housekeeping items.

19 All right, Mr. Defelice, if you will stand
20 and raise your right hand.

21 (Witness DAVE B. DEFELICE was sworn.)

22 JUDGE TOREM: Mr. Meyer, any need to inquire
23 as to corrections or amendments to testimony?

24 MR. MEYER: None, thank you, Your Honor.

25 JUDGE TOREM: All right, then we'll go

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1 directly to Staff and Public Counsel have estimated 15
2 minutes for Staff and 30 minutes for Public Counsel on
3 this witness. Who's going to begin?

4 Mr. Trautman.

5

6 Whereupon,

7 DAVE B. DEFELICE,

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

10

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

12 BY MR. TRAUTMAN:

13 Q. Good afternoon, Mr. Defelice.

14 A. Good afternoon.

15 Q. I would like to start by turning your
16 attention to the cross-exhibit that's been marked as
17 DBD-11-X.

18 A. Yes.

19 Q. And do you recognize these pages as being
20 excerpts from the Company's results of operations?

21 A. Yes, I do.

22 Q. That they have submitted to the Commission?

23 A. Yes.

24 Q. And would you refer to the first page of the
25 exhibit, and this is -- this page as reflected on the

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1 top is for the 12 months ended September 30th, 2008,
2 correct?

3 A. Correct.

4 Q. And September 30th, 2008, is the end of the
5 test year in this case; is that correct?

6 A. That's correct.

7 Q. Do you --

8 COMMISSIONER OSHIE: Excuse me, counsel.

9 Mr. Defelice, is your microphone on, or maybe
10 you could pull it closer to you. The red light should
11 be on.

12 THE WITNESS: Thank you.

13 BY MR. TRAUTMAN:

14 Q. And on the line that says electric net rate
15 base, do you see the Washington rate base figure of \$934
16 Million approximately for Washington and the rate of
17 return figure of 7.308%?

18 A. Yes.

19 Q. Could you now turn to page 10 of this
20 exhibit, which is the last page, and this page is for
21 the 12 months ended June 30th, 2009; is that correct?

22 A. That is correct.

23 Q. And there do you see the Washington rate base
24 figure of \$981,512,456 and a rate of return figure of
25 7.397%?

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1 A. Yes, I do.

2 Q. So would you accept subject to check
3 comparing the two pages that the increase in the
4 Washington rate base from September 30th, 2008, to June
5 30th, 2009, is \$47,164,013?

6 A. Yes.

7 Q. Now I would like to refer to your testimony,
8 your rebuttal testimony on page 17, and near the top of
9 the page there's a bold faced heading that says capital
10 project descriptions; are you on that page?

11 A. I'm on that page, yes.

12 Q. Roman numeral VI, capital project
13 descriptions, on page 17.

14 JUDGE TOREM: For the record this is DBD-4?

15 MR. TRAUTMAN: DBD-4T.

16 BY MR. TRAUTMAN:

17 Q. And I'm looking now at line 23, which is in
18 the middle of a large indented paragraph referring to a
19 particular project, and on line 23 you state:

20 Completion of this project will provide
21 a slight reduction to O&M costs in the
22 near term.

23 Do you see that?

24 A. Yes.

25 Q. And then on line 25 you state that you

0632

1 factored in a 10% efficiency factor; is that correct?

2 A. That's correct.

3 Q. Now is it correct that the efficiency factor
4 is reflected as a rate base reduction rather than an O&M
5 expense reduction?

6 A. Yes, for the purposes of the mechanics, we
7 reduced rate base for the pro forma period.

8 Q. And is it correct generally that the other
9 Company witnesses have proposed similar rate based
10 reductions to reflect the proposed offsets?

11 A. Yes, for the first year of those assets'
12 inception into service, that's correct.

13 Q. Were you in the room earlier when Mr. Norwood
14 was testifying this morning?

15 A. Yes, I was.

16 Q. And you may recall there was a question asked
17 of whether the production factor was applied to
18 distribution in general plant; do you recall that?

19 A. Yes.

20 Q. And in his response he stated that the
21 Company is not proposing a distribution pro forma rate
22 base adjustment; do you recall that?

23 A. Generally, yes.

24 Q. If you would now turn to your rebuttal on
25 DBD-4T, page 15, and there is a large chart toward the

0633

1 bottom of the page in a box, and there in that chart
2 near the bottom there you show an increase in revenue
3 requirement related to distribution and general plant of
4 about \$2.264 Million, and that's reflected in Footnote 2
5 in the small print at the bottom of the box; do you see
6 that?

7 A. Yes, I do.

8 Q. And so you agree that you're showing an
9 increase in revenue requirement related to distribution
10 and general plant of that amount, correct?

11 A. Yes, that's correct.

12 MR. TRAUTMAN: All right, thank you, that's
13 all I have.

14 JUDGE TOREM: Mr. ffitch.

15 MR. FFITCH: Thank you, Your Honor.

16

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

18 BY MR. FFITCH:

19 Q. Good afternoon, Mr. Defelice.

20 A. Good afternoon.

21 Q. Avista's long-term growth projections are
22 that the Company would on average experience
23 approximately 2% increase in growth each year; is that
24 correct?

25 A. That sounds familiar, yes.

0634

1 Q. Okay. And the Company's planning and
2 budgeting process is designed to meet the Company's
3 long-term growth prospects, isn't it?

4 A. Yes.

5 Q. During the test year ended September 2008,
6 the Company's system that consists of its generation,
7 transmission, and distribution system was sufficient to
8 meet the demands for capacity and energy of its
9 customers, was it not?

10 A. Yes, it was.

11 Q. And the Company did not experience any
12 catastrophic failures of its transmission or
13 distribution system, did it?

14 A. Not to my knowledge, but Mr. Kinney might be
15 better to address that specifically.

16 Q. To your knowledge, were there any significant
17 brownouts or blackouts in the Avista system?

18 A. Not to my knowledge, no.

19 Q. And I'm asking particularly about the period
20 ending September 30th, 2008?

21 A. No, I'm not aware of any.

22 Q. And similarly with respect to the purchased
23 power and internally owned generation, were those two
24 items adequate to meet the energy demands of the
25 customers on the system for that 12 month period ending

0635

1 September 30th, 2008?

2 A. I will have to defer that question to witness
3 Storro, who's in charge of the generation operation.

4 Q. All right.

5 When the Company bills or purchases
6 additional generation capacity, the cost of that
7 purchase or construction costs the Company several times
8 more than the embedded cost of plant, does it not?

9 A. Yes.

10 Q. The same is true for transmission capacity
11 and for additional distribution capacity?

12 A. It can, yes.

13 MR. FFITCH: May I have a moment, Your Honor,
14 Staff may have covered part of this area.

15 BY MR. FFITCH:

16 Q. Can I ask you to turn to page 17 of your
17 testimony, DBD-4T, please.

18 A. Okay.

19 Q. And starting at line 15 if you have that, you
20 discuss the replacement of batteries older than ten
21 years, correct?

22 A. Correct.

23 Q. In the year ended September 30th, 2008, did
24 Avista replace any batteries that might be ten years or
25 older?

0636

1 A. I would have to check the detail to make
2 sure.

3 Q. We can move on to another topic if you're
4 having trouble finding that.

5 A. Yeah, okay.

6 Q. Is it correct that Avista did replace other
7 components which had reached the end of their service
8 life, and that's reflected in the cost of the Company's
9 rate base?

10 A. Yes.

11 Q. And those will result in reductions in the
12 O&M expense as a result of this project; is that right?

13 A. It will result in reducing the upward
14 pressure on O&M costs going forward.

15 Q. And just to confirm I think a question that
16 you got from Staff, on the rest of the projects listed
17 on page 18 in the bold headings, well, just the next two
18 but not the building, those reductions are also being
19 treated as reductions to rate base?

20 A. Reductions to, yes, to the pro forma rate
21 base, yes.

22 Q. All right.

23 And then if we look at the last item, the
24 Spokane Valley facility purchase.

25 A. Mm-hm.

0637

1 Q. This is where you state that the Company is
2 purchasing additional office space, correct?

3 A. Correct.

4 Q. And you state there that the additional
5 office space at line 26 will provide no cost savings to
6 the Company, correct?

7 A. That's correct.

8 Q. Were you in the hearing room yesterday when
9 Mr. Norwood was testifying on the panel?

10 A. I wasn't here yesterday, no.

11 Q. Were you aware that in response to Chairman
12 Goltz's question yesterday, Mr. Norwood listed as one of
13 Avista's cost cutting measures the purchase of this
14 particular office building?

15 A. I wasn't aware of that, no.

16 MR. FFITCH: Those are all the questions that
17 I have, Your Honor. Let me just check with my
18 consultant one moment, please.

19 JUDGE TOREM: Okay.

20 MR. FFITCH: I don't have any further
21 questions, Your Honor.

22 JUDGE TOREM: All right, Commissioners,
23 Commissioner Oshie.

24 COMMISSIONER OSHIE: No questions.

25 JUDGE TOREM: Commissioner Jones.

0638

1 COMMISSIONER JONES: No questions.

2 JUDGE TOREM: And Chairman Goltz.

3 CHAIRMAN GOLTZ: No questions.

4 JUDGE TOREM: Any need for redirect?

5 MR. MEYER: Just a quick couple.

6

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

8 BY MR. MEYER:

9 Q. Do you recall the line of questions related
10 to the distribution plant that was pro formed in this
11 case?

12 A. Yes.

13 Q. Is it true that the Company has excluded new
14 revenue producing distribution plant investment?

15 A. That is correct.

16 Q. Is there some new distribution investment
17 included in the case but for which there are no
18 offsetting revenues or expenses?

19 A. Yes, there is, both in the direct case and
20 the rebuttal.

21 MR. MEYER: Okay, that's all, thanks.

22 JUDGE TOREM: I take it that doesn't arise
23 the need for recross?

24 MR. FFITCH: (Shaking head.)

25 JUDGE TOREM: All right, thank you,

0639

1 Mr. Defelice.

2 THE WITNESS: Thank you.

3 JUDGE TOREM: Next in the order of witnesses
4 was Mr. Storro, there was no planned cross-exam, but
5 there was an option held open earlier on. Mr. Ffitch, I
6 think you had told me by E-mail that you had no
7 questions for Mr. Storro, but there was just one that
8 was deferred. He is here and available, I did make him
9 catch that 3:00 flight yesterday. Did you want to pose
10 a question now that he's here? I know the Commissioners
11 as of yesterday afternoon weren't sure they would have
12 questions, so this is one you need not be bashful, he's
13 hear, he's available.

14 MR. FFITCH: Well, Your Honor, when I heard
15 that deferral, I thought I could just ask that when we
16 get to Lancaster.

17 JUDGE TOREM: All right, so we can hold that
18 for tomorrow.

19 MR. FFITCH: (Nodding head.)

20 JUDGE TOREM: Commissioners, is there any
21 need to call Mr. Storro to the stand today for any of
22 the pro forma items, or are main lines of inquiry
23 regarding the Lancaster agreements?

24 So, Mr. Storro, thank you for being available
25 today, we'll get you on the stand for sure tomorrow,

0640

1 don't you worry.

2 All right, then I think Mr. Kinney is next on
3 the list, so if you will stay standing, don't get
4 comfortable yet, raise your right hand.

5 (Witness SCOTT J. KINNEY was sworn.)

6 JUDGE TOREM: All right, Mr. Meyer, any need
7 for clarification of any of Mr. Kinney's prefiled
8 testimony or exhibits?

9 MR. MEYER: No, Your Honor.

10 JUDGE TOREM: All right, then, Mr. Trautman,
11 you had estimated 10 minutes or so, and, Mr. ffitch,
12 another 15, we'll begin with Mr. Trautman.

13 MR. TRAUTMAN: Thank you.

14

15 Whereupon,

16 SCOTT J. KINNEY,
17 having been first duly sworn, was called as a witness
18 herein and was examined and testified as follows:

19

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

21 BY MR. TRAUTMAN:

22 Q. Good afternoon, Mr. Kinney.

23 A. Good afternoon.

24 Q. I would just like you to refer to SJK-4T,
25 which is your rebuttal testimony, and on page 10 near

0641

1 the bottom of the page.

2 A. Okay.

3 Q. And I'm referring to the T&D line relocation
4 paragraph that carries over to page 11, and at that
5 point you state that the Company is required to relocate
6 certain transmission and distribution lines as required
7 by state, county, or city for new road construction or
8 expansion.

9 A. That's correct.

10 Q. Now is moving a distribution line from one
11 location to another a capital expenditure, that is not,
12 is it?

13 A. Yes, it is.

14 Q. It is?

15 A. I believe it is, yes.

16 Q. If you capitalize -- when the Company
17 capitalizes costs for relocating lines, isn't it correct
18 that they are capitalizing new lines?

19 A. Yes, but when we relocate, we also are
20 adding, I mean it's a new facility we've added, it's new
21 poles. We don't replace what we've moved.

22 Q. Would it be correct that the new lines would
23 require less maintenance than the old lines, brand new
24 lines?

25 A. Yes, in the near term.

0642

1 Q. And would it be correct that the new lines
2 could be used to serve future customers?

3 A. Well, typically we don't increase capacity
4 when we move a line, so.

5 Q. But would you be saying they could never be
6 used to serve future customers?

7 A. No, they're available. Any of our lines are
8 available to serve load.

9 MR. TRAUTMAN: That's all I have, thank you.

10 JUDGE TOREM: Mr. ffitch.

11 MR. FFITCH: Thank you, Your Honor.

12

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

14 BY MR. FFITCH:

15 Q. Good afternoon, Mr. Kinney.

16 A. Good afternoon.

17 Q. I'm also going to be talking about SJK-4T and
18 asking you to start at page 2 of your testimony. At
19 line 8 of page 2 you state you're a member of the
20 capital budgeting committee and are actively involved in
21 the prioritization and approval of all transmission and
22 distribution capital projects; is that correct?

23 A. That's correct.

24 Q. Then you state that the Company prioritizes
25 or by using the term prioritization you certainly imply

0643

1 that the Company prioritizes different capital projects;
2 is that a correct assumption?

3 A. Yes.

4 Q. Doesn't the Company prioritize those projects
5 based on the benefit to the Company?

6 A. That's one of the factors.

7 Q. All right. Does the Company do cost benefit
8 analyses when approving major projects for the
9 transmission and distribution system?

10 A. We do a thorough planning process. Most of
11 our larger projects are a result of compliance needs
12 that are now mandatory under the NERC reliability
13 compliance program. So what we do is a system analysis
14 and based on an analysis in order to stay within
15 compliance a lot of our projects now are directly a
16 result of that.

17 Q. So you don't do a cost benefit analysis if
18 you're doing a NERC project?

19 A. Well, it's a factor we consider, but we are
20 required to meet the standards. So when we do an
21 analysis, we look at different options.

22 Q. And when you're doing a project that's not
23 required by the NERC requirements, do you do a cost
24 benefit analysis to my understanding?

25 A. We try to, yes.

0644

1 Q. And doesn't the cost benefit analysis
2 indicate that the benefit to the Company is at least
3 equal to the cost before a project is approved?

4 A. Can you just -- can you restate that.

5 Q. Does not the cost benefit analysis indicate
6 that the benefit to the Company is at least equal to the
7 cost before a project is approved?

8 A. Yes.

9 Q. And just returning to some of your comments
10 about NERC projects, is it your testimony that NERC
11 actually directs or can direct Avista to build specific
12 projects?

13 A. They can't actually direct, however, we have
14 -- we are obligated to perform analysis and if through
15 our analysis we show that we don't meet the criteria,
16 then we're obligated to put a project in place to come
17 under compliance.

18 Q. Mr. Kinney, have you or any other witness in
19 this case provided cost benefit analyses for any of the
20 projects which you claim meet the statutory requirements
21 in this case for pro forma adjustments?

22 A. Several of the projects are related to --
23 they're enhancements to projects that we've completed
24 previously in our large 230kb upgrade that was finished
25 in 2007, and with that analysis there was substantial

0645

1 cost benefit, and I believe some of that documentation
2 has been submitted in the prior rate case.

3 Q. In the prior rate case?

4 A. Yes.

5 Q. Do you know if there's any of the analyses
6 available in the record of this case?

7 A. That I do not know.

8 Q. Please turn to page 3 of your testimony, and
9 there I'll ask you to look at the sentence that starts
10 on line 6, and there you state that the project costs
11 have been updated with actual or known charges, and
12 you're referring -- what are you referring to there when
13 you say the project costs, your overall transmission and
14 distribution projects for Avista?

15 A. Yes.

16 Q. It's not just a single project?

17 A. No, it's all of them.

18 Q. All right. And you're stating here that the
19 costs as originally filed in this case had gone up
20 approximately 32%?

21 A. That is correct.

22 Q. Mr. Kinney, how is it that a cost that you
23 filed in this case and stated at the outset of the case
24 was a known and measurable cost is now being stated to
25 be 32% inaccurate?

0646

1 A. Well, the original were budgeted estimates
2 that we take at our best estimate to try to put a
3 project cost in place. And then when we get into a
4 project, either we run into a situation where we didn't
5 anticipate or that we run into construction delays,
6 things like that, there's a lot of different things that
7 can impact the actual project cost.

8 Q. All right.

9 Please turn to page 5 of your testimony, and
10 if you look at line 10, beginning at line 10 you discuss
11 the Lolo substation, and there you state that the Lolo
12 substation resulted in increased capacity at line 11,
13 correct?

14 A. Yes.

15 Q. The rebuild, to phrase it more properly, the
16 rebuild of the existing Lolo substation resulted in
17 increased capacity?

18 A. Yeah, capacity there is referenced as
19 equipment capacity, the rating of the equipment.

20 Q. Okay. That capacity was not available in the
21 test year ended September 30th, 2008; is that correct?

22 A. That's correct.

23 Q. And any revenues that would have been
24 generated by the increased capacity are not reflected in
25 the test period ending September 30th, 2008, are they?

0647

1 A. We don't anticipate any revenues from this
2 specific project. This is one of these projects that is
3 associated with compliance.

4 Q. Please turn to page 6, the next page, where
5 you discuss the Benewah Shawnee 2,000kb line at line 12.

6 A. Yes.

7 Q. And that project was necessary you state in
8 order to increase the reliability of the system,
9 correct?

10 A. That's correct.

11 Q. And the increased reliability of the system
12 did not occur in the test year ended September 30th,
13 2008, did it?

14 A. Yes, this is one of the projects that was
15 part of the large 230kb system upgrade, and this was an
16 enhancement to that project, because we did experience
17 some slapping of conductors based on wind speed, so what
18 this project did was went back in and tightened up the
19 conductor to eliminate some of the outages we had
20 experienced.

21 Q. Is it your testimony that that work actually
22 increased reliability during the period of the test year
23 leading up to September 30th, 2008?

24 A. Oh, during the test year?

25 Q. Yes.

0648

1 A. No.

2 Q. Right.

3 Then if you turn to page 7, on page 7 you
4 discuss the Grangeville 115kb capacitor bank starting at
5 line 7, correct?

6 A. Correct.

7 Q. And again that was you're stating necessary
8 to ensure reliability?

9 A. That is correct.

10 Q. And the same question with respect to that,
11 Mr. Kinney, that reliability increase did not actually
12 take place during the test year, did it?

13 A. Not during the test year, but it will be
14 available during the rate period.

15 Q. Just one other area, Mr. Kinney, you were
16 also brought into this case on rebuttal as a witness on
17 asset management, the asset management plan or program;
18 is that correct?

19 A. That's correct.

20 Q. And if you turn to page 14 of your Exhibit
21 SJK-4T, you discuss offsetting factors for the asset
22 management plan beginning at that point, do you not?

23 A. Which line, or were you just talking about
24 general?

25 Q. Just generally starting at line 8 you discuss

0649

1 and on the next couple pages, this is where you start to
2 discuss the offsetting factors for the asset management
3 plan?

4 A. Yes.

5 Q. And my question is you essentially conclude
6 that there are no offsetting factors, correct?

7 A. Not during the rate period.

8 Q. All right.

9 A. As a net, there's no net I mean.

10 Q. No net offsetting factors?

11 A. Correct.

12 Q. I believe you use that term on page 15, line
13 11, no net offset, correct?

14 A. That's correct.

15 Q. And your testimony does not address or
16 calculate any of the offset amounts for asset management
17 referred to in Ms. Andrews' testimony, does it?

18 A. No.

19 Q. And you did not file any supporting exhibits
20 or workpapers with your rebuttal that address the
21 offsets discussed in Ms. Andrews' testimony, correct?

22 A. No, I did not.

23 MR. FFITCH: Those are all my questions,
24 thank you, Mr. Kinney.

25 THE WITNESS: Thank you.

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1 JUDGE TOREM: Commissioners, Commissioner
2 Oshie, Commissioner Jones.

3 COMMISSIONER OSHIE: No questions.

4 COMMISSIONER JONES: I have a few questions,
5 Mr. Kinney.

6

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

8 BY COMMISSIONER JONES:

9 Q. Good afternoon, I'm going to focus on the
10 asset management program and specifically the vegetation
11 management, so could you turn to page 24 of your direct
12 testimony, which is SJK-1T.

13 A. Okay.

14 Q. Are you there?

15 A. Yes, I am.

16 Q. So I just want to go through this so I
17 understand the reasons why you're pro forming or you
18 post pro form some of this vegetation management plan
19 into rates, 2010 specifically.

20 A. Okay.

21 Q. First of all, is this an existing program? I
22 think you cite that the underground cable replacement
23 and wood pole management are existing programs that are
24 being implemented.

25 A. That's correct.

0651

1 Q. Isn't this also an existing program that is
2 being implemented?

3 A. Yes, it is.

4 Q. Okay. Now could you talk a little bit about
5 there's some reference made to the NERC reliability
6 standard, but on page 24 you refer to FERC reliability
7 standard FA, what is it, FAC 003-1, so can you tell us,
8 can you tell me what that is and why this is increasing
9 your expenses and your activity in the vegetation
10 management program?

11 A. That should have actually stated NERC, that
12 needs to be a correction there.

13 Q. All right.

14 A. Based on the large blackout in 2003, NERC has
15 definitely increased the requirements around vegetation
16 management with regards to your transmission system.
17 And because of that, there are now mandatory standards
18 in place that have increased the requirements with
19 regard to our transmission vegetation management plan
20 that now we are obligated to follow, and those increased
21 requirements have added to our costs, and our cost
22 increases are associated with line patrols as well as
23 actually clearing the vegetation.

24 Q. Now on some of this work, is this all done
25 internally, or as I think Ms. Andrews stated that you

0652

1 contract out some of the tree cutting and the vegetation
2 management to Asplundh?

3 A. Yes, the actual cutting is contracted out.
4 The line patrols, those types of things, are actually
5 done in house.

6 Q. So there is a record of either a contractor
7 or paid invoices in previous years of at least with that
8 contract?

9 A. Yes.

10 Q. What you're doing here?

11 A. Yes.

12 Q. Now could you give an example where you say
13 -- you talk about clearcutting through timber through
14 draws and trees that have been left to grow for the past
15 20 or 30 years, could you give me an example of that?

16 A. Yeah.

17 Q. In Washington, excuse me, in Washington
18 state, not Idaho.

19 A. Well, I believe this is in Washington as well
20 as Idaho, but basically it's in our mountainous areas
21 where we have the lines coming down off a mountain, and
22 so those areas are very difficult to clear, so what
23 we've done now because of the requirements is we've gone
24 in and done a better job of analyzing those hard to get
25 to areas and decided that we need to get in there and

0653

1 clear them, so that's what we've done.

2 Q. And you say the work is very costly. On what
3 basis do you estimate the cost for this work compared to
4 previous work in vegetation management?

5 A. Just with our contract with Asplundh.

6 Q. With Asplundh?

7 A. Yeah.

8 Q. The second factor you cite on page 25 is
9 special use permits with the Forest Service. Is this
10 something new that you haven't incurred in the past, or
11 is this just an increased expense over previous work?

12 A. It's a little bit of both. The requirements
13 have changed with regards to access roads, so with those
14 changes we have incurred additional costs.

15 Q. And then the third factor you cite is an
16 inflation factor of 6%. Other inflation factors that
17 the Chairman and we all have referred to from the Bench
18 today for labor and different things is 2.8% or 2%. 6%
19 seems a bit high, but what is this based on?

20 A. It's based on our contract with Asplundh.
21 I'm not involved in those contract discussions.

22 Q. So are those three factors the primary
23 factors why you are asserting that the -- the primary
24 reason that the Commission should pro form these
25 expenses into 2010 rates?

0654

1 A. On the transmission, yes.

2 Q. Okay.

3 And in response to Public Counsel's question,
4 you basically said there are no offsetting factors here?

5 A. Not in the near term.

6 Q. So in your alternative proposal which you
7 have proposed if the Commission were to do something on
8 here, the only line item that you propose an adjustment
9 on as I recall is substations?

10 A. That's Ms. Andrews' testimony.

11 Q. Yeah, that's Ms. Andrews' testimony, in
12 Ms. Andrews' testimony which you I assume have reviewed?

13 A. Yes.

14 Q. And consulted with her prior to. But there's
15 no offset for vegetation management?

16 A. Not in the rate period.

17 COMMISSIONER JONES: Okay, I think that those
18 are all the questions, Judge, I have.

19

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

21 BY JUDGE TOREM:

22 Q. Before I turn it over to Chairman Goltz,
23 Mr. Kinney, you acknowledge that where it says FERC on
24 page 24 of your prefiled direct, SJK-1T, that's line 33,
25 should be corrected to NERC?

0655

1 A. That's correct.

2 Q. On the following page on line 13 and line 16,
3 is that also the case?

4 A. Yes, it is.

5 JUDGE TOREM: So we'll make those corrections
6 to the record as well.

7 Chairman Goltz.

8 CHAIRMAN GOLTZ: Thank you.

9

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

11 BY CHAIRMAN GOLTZ:

12 Q. Just following up briefly on what
13 Mr. Trautman raised on page 10 of your rebuttal
14 testimony on the T&D line relocation, I gather this is
15 relocating a number of transmission and distribution
16 lines?

17 A. That's correct.

18 Q. And it refers to relocations requested by
19 state, county, and city, so is this really just a whole
20 bunch of little projects?

21 A. Yes, it is.

22 Q. Okay. So I believe it sounded like
23 Mr. Trautman was surprised that this was a capital
24 expense as opposed to an operating expense, maybe he
25 wasn't, but I would have perhaps guessed it was an

0656

1 operating expense as well. So when one relocates a
2 line, does one -- I assume these are both above ground
3 and below ground?

4 A. I believe all these are associated with above
5 ground.

6 Q. Okay. So for an above ground project, do
7 they physically I mean just take down the poles, take
8 down the lines, and move them to another place and put
9 up the same poles and the same lines?

10 A. They do move them, but typically depending on
11 the age of the equipment, we will replace. In fact, I
12 think we almost always replace because a lot of the
13 poles we're replacing are wood structures and we're
14 going to a steel structure.

15 Q. And you might replace the lines as well?

16 A. Yes.

17 Q. So assume it's a line that has a -- that is
18 totally replaced, so moving isn't quite an accurate
19 verb, it's really replace, you're moving the location,
20 you're changing the location and putting in a new
21 facility?

22 A. Correct.

23 Q. So then if this goes into rate base, \$1.98
24 Million, is there also some facility that's going out of
25 rate base, the original cost of the lines that they're

0657

1 replacing?

2 A. I would assume so. I'm not an expert when it
3 comes to the capitalization of our projects.

4 Q. Okay, so maybe we can make that a request to
5 how the rate base treatment is of the lines that these
6 are replacing.

7 A. Okay.

8 Q. And then if they are in fact not replaced, I
9 mean if the lines being replaced are not going out of
10 rate base, how the depreciation expense and depreciation
11 lives are handled.

12 A. Okay.

13 CHAIRMAN GOLTZ: Thank you.

14 JUDGE TOREM: So we'll mark that as Bench
15 Request 8. Mr. Kinney, you and what other witnesses
16 might be making a response?

17 THE WITNESS: It will probably be my
18 responsibility, I will have to discuss it with others.

19 JUDGE TOREM: Okay. How soon do you estimate
20 you can get that information on the trade outs of these
21 I guess it's replaced and relocated lines?

22 THE WITNESS: I would say probably by the end
23 of the week.

24 JUDGE TOREM: All right, so we'll make Bench
25 Request 8 also due on Friday, October 9th, and we'll

0658

1 address Chairman Goltz's question about the impact on
2 the removal of one line from rate base and the
3 replacement with an upgraded new line and new poles,
4 that will be due Friday the 9th.

5 THE WITNESS: Okay.

6 CHAIRMAN GOLTZ: Nothing more.

7 JUDGE TOREM: Commissioners, any other
8 follow-up?

9 Any additional cross?

10 MR. TRAUTMAN: No, Your Honor.

11 MR. FFITCH: No.

12 JUDGE TOREM: All right, seeing none, any
13 redirect?

14 MR. MEYER: I do, Your Honor, yes.

15

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

17 BY MR. MEYER:

18 Q. Mr. Kinney, Mr. Trautman asked you about any
19 change in O&M related to road moves; do you recall that?

20 A. Yes, I do.

21 Q. Can you describe the nature, if any, of any
22 O&M savings related to moving those facilities as well
23 as the order of magnitude of such O&M savings? Are
24 there any is the question?

25 A. Yeah, it's hard to say. I would say there's

0659

1 not a lot, because a lot of these road moves are just
2 moving a structure or two, it's not a substantial
3 project. And then from there it just depends on the age
4 of the existing equipment.

5 Q. So as a general proposition, what is your
6 testimony in that regard, are there material O&M savings
7 resulting from those investments?

8 A. I would say no.

9 Q. Okay. Now you also recall, do you not, the
10 line of questions relating to cost benefit analysis
11 around the various projects that you've described?

12 A. Yes.

13 Q. And Mr. ffitch I believe made reference to
14 projects and perhaps at least inferring in his line of
15 questioning the need to have benefits greater than costs
16 in order to undertake such projects; do you recall that?

17 A. I do.

18 Q. For those projects covered by your testimony,
19 would you comment on whether there are specific revenue
20 increases or expense reductions in 2010 that would serve
21 to offset the capital costs?

22 A. I would say in the rate period 2010 there are
23 none. Most or in fact all the projects I believe in my
24 -- I shouldn't say all, most of the projects are a
25 result of compliance requirements, so we're required to

0660

1 do them to meet the standards.

2 Q. So is it your testimony that there are
3 instances where capital projects are done even though
4 there's no immediate increase in revenues or reduction
5 in expenses?

6 A. Yes, and I would say a good example is the
7 Lolo substation.

8 MR. MEYER: Thank you.

9 Now one other housekeeping matter I believe
10 that Mr. ffitch had asked about whether there were any
11 cost benefit analyses in the record relating to the
12 projects that were described, and while there is not a
13 series of such studies yet in the record, there was a
14 very lengthy response to a data request from the WUTC
15 Staff, Staff 046. I will just read the request so you
16 get a sense for where I'm going with this. The request
17 was, and it's related to Mr. Kinney's testimony:

18 For each of the transmission and
19 distribution capital projects described
20 beginning at page 12 of your testimony,
21 please provide all cost benefit analyses
22 prepared by the Company or its agents.
23 Please specifically identify any
24 increases in revenues or decreases in
25 costs as a result of each project

0661

1 described in the testimony and included
2 in pro forma period costs.

3 And we responded with a substantial response,
4 many pages. I think in light of the question it would
5 benefit the record if we could have this particular
6 response marked as an exhibit and introduced, and that
7 would be our response to Staff Request 46.

8 MR. FFITCH: Your Honor, I would like a
9 chance to review the response before we state whether or
10 not we have an objection. We may not, but we would need
11 to take a look at that.

12 JUDGE TOREM: All right, Mr. Meyer, how would
13 you propose this, is this going to be sponsored by a
14 particular witness, who?

15 MR. MEYER: Mr. Kinney can sponsor it. He's
16 identified as the witness on this response which neither
17 Staff nor Public Counsel elected to introduce as a
18 cross-examination exhibit.

19 JUDGE TOREM: All right, so we have a
20 proposed new exhibit that's not yet admitted, we'll mark
21 it as SJK-6. If you will ensure that at an appropriate
22 time today or tomorrow morning you bring that to Public
23 Counsel.

24 MR. TRAUTMAN: And Staff.

25 JUDGE TOREM: And Mr. Trautman both have an

0662

1 opportunity to review that document or at least see what
2 the response was with their client, then we'll rule on
3 that either later today or tomorrow.

4 MR. MEYER: We will be happy to recall
5 Mr. Kinney to the stand to respond to any questions.

6 JUDGE TOREM: And for Mr. Kinney, does he
7 have travel plans today or tomorrow that we need to
8 accommodate in that request if possible?

9 MR. MEYER: Well, it seems to me you do, but
10 we'll work around those maybe off the record for just a
11 minute.

12 JUDGE TOREM: What I would suggest is just
13 that we will work on that today if possible, counsel.
14 If we can't accommodate that and it has to come in
15 tomorrow, fine, but let's take that courtesy for
16 Mr. Kinney. If he has to stand by on a later flight, so
17 be it, but if we cross over to tomorrow, Chairman Goltz
18 and I are aware there are further expenses involved.

19 CHAIRMAN GOLTZ: It will show up in the 2009
20 test period.

21 We're still off the record, right?

22 JUDGE TOREM: All right, so we'll take a look
23 at that proposed exhibit at the next opportunity. And,
24 counsel, don't rush it, but if we can start that review
25 sooner rather than later, I think you have the response

0663

1 to hand out between witnesses.

2 MR. MEYER: Sure.

3 So the witness would be available if we
4 needed to recall him first thing tomorrow.

5 JUDGE TOREM: Let me ask counsel if it makes
6 a difference to have Mr. Kinney here in person, or as
7 the Chairman points out, if he's on the bridge line
8 tomorrow for this limited item, does that prejudice
9 anybody?

10 MR. TRAUTMAN: That's fine.

11 JUDGE TOREM: My Meyer, I'll leave it up to
12 you and your client to decide whether it's more
13 effective for this issue if needed to have Mr. Kinney in
14 person or by phone.

15 MR. MEYER: Very well, thanks for your
16 flexibility.

17 CHAIRMAN GOLTZ: Can I ask just one more
18 question.

19

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

21 BY CHAIRMAN GOLTZ:

22 Q. Again regarding the line relocation that are
23 -- you stated in your testimony that they were requested
24 by the county, city, state, does that mean that they
25 were not required by, you said they were requested?

0664

1 A. Well, it's a request and a requirement from
2 our view.

3 Q. And second, there's no governmental
4 willingness to share the cost with you in this?

5 A. These costs reflect anything that we bear as
6 a company. There may be, I think in some of in the past
7 we may have had a cost sharing depending on what the
8 project is, but this would be our costs. And I would
9 have to go back and look to see if -- how many we do
10 have a sharing with.

11 CHAIRMAN GOLTZ: Okay.

12 JUDGE TOREM: Anything further for this
13 witness?

14 All right, seeing none, thank you,
15 Mr. Kinney.

16 Next is David Howell.

17 If you would just stay standing, Mr. Howell.

18 (Witness DAVID R. HOWELL was sworn.)

19 JUDGE TOREM: Mr. Meyer, any clarifications
20 that you're aware of?

21 MR. MEYER: No, Your Honor.

22 JUDGE TOREM: All right, Mr. Trautman.

23

24

25

0665

1 Whereupon,

2 DAVID R. HOWELL,

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. TRAUTMAN:

8 Q. Good afternoon, Mr. Howell.

9 A. Good afternoon.

10 Q. I would like you to refer to, let's see,
11 DRH-1T, which is your rebuttal testimony, and turn to
12 page 4.

13 A. Okay.

14 Q. And I'm looking now at Table 1 in the center
15 of the page. It has project descriptions and then
16 original cost, and there's a column then that says
17 offset percentage; do you see that?

18 A. I do.

19 Q. So for example on the first project, gas
20 distribution, minor blanket, here you're proposing to
21 reduce the capital investment by 10%; is that correct?

22 A. Yes.

23 Q. Looking at these projects, is it correct that
24 these projects will either produce a reduction in
25 operating expense or an increase in revenue?

0666

1 A. There will not be an increase in revenues.
2 Regarding O&M, we gain an efficiency, but there's not a
3 direct reduction in the O&M, so we can do additional O&M
4 with the same resources.

5 Q. So did you say then there's not a reduction
6 in O&M?

7 A. It's an efficiency gain in our O&M.

8 Q. All right. And so the supposed offset that
9 you show of 10%, this is simply an estimate by taking
10 10% of the value of the projects; is that right?

11 A. That is correct.

12 Q. Have you provided any other workpapers that
13 would show how this estimate was calculated beyond what
14 you've just told me?

15 A. I have not. I could provide an example if
16 that helps.

17 Q. All right, but it's simply 10% of the cost?

18 A. Yes. It's my estimation that that exceeds
19 any benefit that we're going to see though.

20 Q. Turning to page 5 and looking at lines 9
21 through 11, you say:

22 The projects include some incremental
23 system efficiencies by the reduction in
24 future operation and maintenance costs.
25 However, the Company does not believe

0667

1 the savings will be material in the rate
2 year.

3 A. Correct.

4 Q. Is that correct?

5 A. Yes.

6 Q. So does that mean that any future savings
7 might occur in years subsequent to the rate year?

8 A. Again we have increased operating
9 efficiencies when we complete these projects, so we
10 should see those efficiencies as we move forward, but
11 there's no direct reduction in our O&M expense because
12 we've completed any of these projects.

13 Q. So are you -- is that a yes or a no?

14 A. Restate the question and I'll -- I want to
15 make sure I understand your question.

16 Q. All right. The statement that you have in
17 the paragraph, does this statement mean that any future
18 savings related to the projects would not occur in the
19 rate year but might occur in years subsequent to the
20 rate year?

21 A. That is true.

22 Q. The benefits of the projects that were
23 completed in the test year would also have effects in
24 the years 2009 and 2010; isn't that correct?

25 A. Yes.

0668

1 Q. Now I just want to turn to page 7 and your
2 last paragraph, I just want to be sure I'm correct here
3 that you stated now that your method now is that the
4 Company has analyzed each capital project listed above,
5 and as you say you've employed your best judgment to
6 identify any possible increase in revenues and/or
7 reduction in expenses; is that correct?

8 A. Yes.

9 Q. And that you say you were liberal in your
10 estimates of the benefits.

11 A. Correct.

12 Q. Is that correct?

13 A. Yes.

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

15 JUDGE TOREM: Mr. ffitch.

16 MR. FFITCH: Thank you, Your Honor.

17 Good afternoon, Mr. Howell.

18 Staff covered some of the areas, Your Honor,
19 that we were interested in, and I will just edit on the
20 fly here.

21

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

23 BY MR. FFITCH:

24 Q. Let's go back to page 4 of your rebuttal
25 testimony, Mr. Howell, to Table 1.

0669

1 A. Okay.

2 Q. In there you are talking about the types of
3 projects to be completed under the Company's gas
4 distribution minor blanket projects, correct?

5 A. Yes.

6 Q. And isn't it correct that the Company budgets
7 each year a specific amount to minor blanket projects?

8 A. Yes, we do.

9 Q. And is it correct that the test year ended
10 September 30, 2008, had a number of the same types of
11 projects completed and capitalized?

12 A. It would have had similar projects.

13 Q. Let's turn to pages 5 and 6. Starting on
14 page 5 at line 15, you're discussing the Kettle Falls
15 relocation project, correct?

16 A. Okay.

17 Q. And you state, last, the relocated
18 facilities, and this is on page 6, I apologize, at line
19 17:

20 Last, the relocated facilities have been
21 designed to accommodate receipt of
22 increased gas volumes to serve future
23 reinforcements of Kettle Falls HP main.
24 Correct?

25 A. That's correct.

0670

1 Q. Won't increased gas volumes allow the Company
2 to serve additional customers?

3 A. In the future it will. There's not an
4 immediate requirement to serve additional load on the
5 Kettle Falls line.

6 Q. Company has done projects like the 9 Mile
7 Gate Station on prior occasions, has it not?

8 A. Not for the same reason that we did this
9 project. We rebuild gate stations or add additional
10 gate stations, but this one was done out of a safety
11 concern because of the location of our existing gate
12 station.

13 Q. Okay. And you indicate that a new gate
14 station and pipe will produce a number of customer
15 benefits, but the Company will not realize any
16 additional revenue or reduction of costs. However, on
17 page 6 you also state that the new gate station will
18 eliminate potential expenditures related to mitigation
19 of high consequence areas. Isn't this a reduction,
20 isn't this reduction of costs a benefit to consumers?

21 A. It would be a benefit in the future. A high
22 consequence area is a requirement of the transmission
23 integrity management program, which is a DOT regulation,
24 and we are anticipating to have a high consequence area
25 on that line in the near future. And so when that

0671

1 happens, we have up to 10 years to respond to that, so
2 the benefit will be out in the distant future when that
3 high consequence area is identified.

4 Q. All right.

5 Please turn to page 7, from there you discuss
6 the Qualchan reinforcement project, and I'm guessing at
7 the pronunciation; is that correct?

8 A. Yes, Qualchan, that's correct.

9 Q. And there you state, I'll look for a line
10 reference for you, growth in the Southeast Spokane area
11 has been significant. I apologize, here it is, I
12 believe it starts on line 7.

13 A. Line 7.

14 Q. Growth in the Southeast Spokane area had been
15 significant and had reduced Avista's ability to reliably
16 serve gas to its existing customers, correct?

17 A. Correct.

18 Q. Isn't it correct that the improved system
19 delivery pressure and capacity will require less
20 maintenance?

21 A. No, I don't agree with that. We're going to
22 install additional facilities which will require us to
23 do increased leak inspections. We'll also have an
24 increased number of locates along that line. So in
25 reality it's going to increase our O&M costs.

0672

1 Q. You also state then an additional benefit was
2 the potential for additional customers within the
3 boundary of the reinforcement, however the Company does
4 not believe the additional revenues will be material,
5 correct?

6 A. That's correct.

7 Q. Did the Company conduct any analysis or
8 quantification of the potential increased revenues?

9 A. I was part of the process of planning the
10 installation of that line, and the reason that I'll
11 state that there's not additional revenues associated
12 with the main extension or the reinforcement that we did
13 is that any revenues that we receive will be associated
14 with the cost of service to actually run the gas to the
15 homes that are along the route. The challenge with the
16 route is that it's adjacent to a highway where there's
17 not the potential to hook up customers. And in the
18 areas where there is a potential to have customers,
19 there are large acre parcels, the customers are a great
20 distance from the main, so their allowances in most
21 cases don't cover the cost of installing the pipe. So
22 I'll just restate that the revenues would be tied up in
23 the cost of service when we install that plant.

24 Q. All right. So I guess what I'm still asking
25 is whether there was an actual cost benefit analysis

0673

1 performed for the project?

2 A. The cost benefit analysis was on to find the
3 least cost alternative to complete the reinforcement.
4 The reinforcement was required to be done to serve
5 existing load, so our criteria here is it fails the gas
6 planning model on a design day, and it also failed on
7 pressure charts. So we'll put pressure charts in the
8 area, and it registered low pressures. So that's what
9 required us to do the project to serve existing load.
10 And then once we determined that we have to do the
11 project, the cost benefit analysis is let's find the
12 least cost alternative to resolve the problem, and that
13 benefit analysis was done.

14 MR. FFITCH: Thank you, Mr. Howell, no
15 further questions.

16 Thank you, Your Honor.

17 JUDGE TOREM: Commissioner Oshie.

18 COMMISSIONER OSHIE: No questions.

19 COMMISSIONER JONES: No questions.

20 JUDGE TOREM: Chairman Goltz.

21 CHAIRMAN GOLTZ: No questions.

22 THE WITNESS: Thank you.

23 JUDGE TOREM: Any redirect?

24 MR. MEYER: No redirect.

25 JUDGE TOREM: Thank you.

0674

1 All right, I think we'll press on for at
2 least one more witness and then see how we're doing for
3 comfort breaks. Heather Cummins is next on the list.

4 MR. TRAUTMAN: Your Honor, just for your
5 scheduling, we will have no questions for either
6 Ms. Cummins or Mr. Kensock.

7 JUDGE TOREM: Mr. ffitch.

8 MR. FFITCH: Your Honor, I'm just reviewing
9 whether I have questions for Ms. Cummins at this point,
10 I had already trimmed them back.

11 JUDGE TOREM: All right, Ms. Cummins, why
12 don't you have a seat, and we'll see whether we need to
13 swear you in or not.

14 THE WITNESS: A seat?

15 JUDGE TOREM: Right here.

16 MR. MEYER: Nice try.

17 JUDGE TOREM: You've come all this way.

18 MR. FFITCH: May I just have one quick
19 moment, Your Honor, I might have one question.

20 Your Honor, I am going to have just one or
21 two questions.

22 JUDGE TOREM: Ms. Cummins, if I can swear you
23 in.

24 (Witness HEATHER L. CUMMINS was sworn.)

25 JUDGE TOREM: All right, thank you.

0675

1 Let me be sure, Mr. Meyer, were there any
2 clarifications to her testimony?

3 MR. MEYER: No, Your Honor.

4 JUDGE TOREM: All right then, Mr. ffitch,
5 your question.

6

7 Whereupon,

8 HEATHER L. CUMMINS,
9 having been first duly sworn, was called as a witness
10 herein and was examined and testified as follows:

11

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

13 BY MR. FFITCH:

14 Q. Good afternoon, Ms. Cummins.

15 A. Good afternoon.

16 Q. Thank you for making the trip even if it's
17 just for one or two questions.

18 Please turn to your testimony, which is
19 marked HLC-1T, and do you have that with you?

20 A. I do.

21 Q. All right. And you were just brought in on
22 rebuttal in this case, correct, you did not file
23 testimony earlier?

24 A. Correct.

25 Q. Could you please turn to page 3 to Table 1.

0676

1 A. Yes, I'm there.

2 Q. All right. And if you could look at the
3 table, you see a column headed offset amount, and the
4 amount shown at the bottom, the total amount, is \$1.3
5 Million, correct?

6 A. Correct.

7 Q. And would you agree that the -- excuse me,
8 one more setup question here.

9 The original cost column to the left shows
10 the original cost of \$12.5 Million, correct?

11 A. Correct.

12 Q. Would you agree that through this offset
13 process that's proposed here that the Company actually
14 earns a return on these expenditures?

15 A. Earns a return on the 11.2 I think?

16 Q. (Nodding head.)

17 A. Yes, that's my understanding.

18 MR. FFITCH: All right. Those are all the
19 questions, Your Honor.

20 JUDGE TOREM: Commissioners, does that raise
21 any questions?

22 COMMISSIONER OSHIE: No questions.

23 COMMISSIONER JONES: No questions.

24 CHAIRMAN GOLTZ: No questions.

25 JUDGE TOREM: Mr. Trautman, anything to come

0677

1 back to you?

2 MR. TRAUTMAN: No.

3 JUDGE TOREM: Mr. Meyer.

4 MR. MEYER: No.

5 Oh, just a second, I may have something.

6 I do have a follow-on redirect.

7

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

9 BY MR. MEYER:

10 Q. The same table at page 3.

11 A. Mm-hm.

12 Q. You show the offset amount column, and at the
13 bottom you show \$1.338 Million.

14 A. Yes.

15 Q. Is that in your estimation a one year savings
16 level, or is that every year?

17 MR. FFITCH: I'm going to object as a leading
18 question, Your Honor.

19 MR. MEYER: Your Honor, this is a simple
20 clarification of a question on what it means to have a
21 return on investment, and it's pretty straightforward.
22 She can answer it either is a one year savings estimate
23 or not.

24 JUDGE TOREM: All right, I'm going to
25 overrule the objection just so we can get to the answer.

0678

1 I appreciate the objection, but I'm going to overrule it
2 so we can get there.

3 MR. FFITCH: Thank you, Your Honor.

4 A. When we looked at the offsets, we looked at
5 them just for the one year, so that was our
6 understanding is that it was -- and that it was a very
7 conservative amount for I was just looking for the next
8 year, so that's --

9 BY MR. MEYER:

10 Q. Is that a reduction in expense?

11 A. Reduction in expense?

12 JUDGE TOREM: Do you understand the question
13 that he's asking?

14 THE WITNESS: I think so.

15 A. That's how the offset was calculated to my
16 understanding was -- or that -- not that it was a
17 reduction in expense, that they just offset the capital
18 expenditure by the offset percentage.

19 MR. MEYER: Okay, that's fine, thank you.

20 JUDGE TOREM: Mr. ffitch, does that require
21 any follow-up?

22

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

24 BY MR. FFITCH:

25 Q. These will recur, the numbers shown in offset

0679

1 amount column will recur each year and every year, will
2 they not?

3 A. No, that's not how this was calculated. This
4 was just for -- the way that -- I guess I'll have to
5 refer to possibly --

6 MR. MEYER: I think Ms. Andrews --

7 A. -- yeah, Liz.

8 MR. MEYER: -- would be the witness who would
9 take the handoff at this point on that type of question.

10 MR. FFITCH: All right, thank you, Your
11 Honor, no further questions.

12 Thank you, Ms. Cummins.

13 JUDGE TOREM: Thank you, Ms. Cummins, you can
14 step down.

15 And let me inject here and see, we're coming
16 up on 3:30, Mr. Trautman, I understand you have a
17 witness, Ann LaRue, who has to testify today if at all,
18 and earlier we confirmed that, Mr. Meyer, you were not
19 going to have any cross-exam; is that correct?

20 MR. MEYER: Correct.

21 JUDGE TOREM: Let me inquire now if the
22 Commissioners know they have questions for Ms. LaRue or
23 not, and that way as we get close to the end of the day
24 if she needs to depart she can do that at her leisure.

25 COMMISSIONER OSHIE: I do have a question or

0680

1 two for Ms. LaRue.

2 JUDGE TOREM: All right, so does anyone have
3 a concern if we take Ms. LaRue out of order now and then
4 perhaps take our break so we can look at that SJK-6
5 proposed exhibit and get on with that? Mr. Trautman,
6 any problem with that?

7 MR. TRAUTMAN: No, Your Honor.

8 JUDGE TOREM: Ms. LaRue, if you will come up
9 and take the stand.

10 (Witness ANN M.C. LARUE was sworn.)

11 JUDGE TOREM: Mr. Trautman, are you aware if
12 this witness has any clarifications or corrections to
13 her testimony?

14 MR. TRAUTMAN: I was going to ask.

15

16 Whereupon,

17 ANN M.C. LARUE,
18 having been first duly sworn, was called as a witness
19 herein and was examined and testified as follows:

20

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

22 BY MR. TRAUTMAN:

23 Q. Do you have any such corrections?

24 A. Not that I know of.

25 MR. TRAUTMAN: Ms. LaRue is available for

0681

1 questioning.

2 JUDGE TOREM: All right, the Company has
3 already waived its cross, so let me go directly to
4 Commissioner Oshie.

5 COMMISSIONER OSHIE: Thank you, Judge.

6

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

8 BY COMMISSIONER OSHIE:

9 Q. Ms. LaRue, welcome to the witness stand.

10 A. Thank you.

11 Q. Is this your first time testifying in a rate
12 case?

13 A. Second time, but the first time I've had to
14 say anything.

15 Q. I don't know if I have a comeback for that
16 one.

17 JUDGE TOREM: We don't have an incentive
18 program for verbal testimony.

19 Q. Although some witnesses I wish that had been
20 closer to their answer, not necessarily in this case.

21 Well, again welcome, and my questions will be
22 fairly straightforward, and I'm certainly not going to
23 play any game of got you up here.

24 Would you please turn to page 16 in your
25 testimony, because really what I would like to talk to

0682

1 you about is directors and officers insurance.

2 A. Okay, I'm there.

3 Q. All right, thank you. You were in the
4 hearing room when we were discussing the same issue with
5 Ms. Andrews; is that correct?

6 A. Yes.

7 Q. And I believe Ms. Andrews testified that
8 Staff has taken or I mean that the Company has taken its
9 cut at what the split should be, and I note that Staff
10 has taken its cut, if you will, at what the split should
11 be as far as the split of the cost, excuse me. And
12 Staff cites a number of cases, and you cite a number of
13 cases in your testimony, and Staff comes down, you
14 representing Staff, at a 50/50 split. Can you perhaps
15 go into a bit more detail as to how Staff reached that
16 number of 50% of the costs of directors and officers
17 insurance?

18 A. Yes, sir. I believe that the director and
19 officer insurance protects the directors, just like I
20 said in my testimony, but unlike other insurance, I
21 think the directors have an obligation to the
22 shareholders as well as the rate payers, and I think
23 that the insurance equally protects both rate payers and
24 shareholders, not just rate payers alone.

25 Q. Did Staff have an opinion as to what types of

0683

1 lawsuits are more frequently filed against directors and
2 officers and whether those lawsuits originate from
3 sources other than shareholders?

4 A. My research suggested that a majority of
5 lawsuits come from the shareholders.

6 Q. And in your research is that perhaps why
7 certain other commissions have found that even more of
8 the cost of D&O insurance should be allocated to
9 shareholders?

10 A. Yes, sir.

11 Q. All right. And so Staff believed that it's
12 equitable here then for a 50/50 split?

13 A. Absolutely.

14 COMMISSIONER OSHIE: All right, I don't have
15 any other further questions, thank you.

16 JUDGE TOREM: Commissioner Jones.

17

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

19 BY COMMISSIONER JONES:

20 Q. Ms. LaRue, welcome, I'm extending
21 Commissioner Oshie's welcome as well.

22 A. Thank you.

23 Q. Could you turn to page 7 of your testimony
24 and where we're dealing with non-executive wage wages.
25 Were you here this morning when Ms. Andrews was

0684

1 answering some questions from the Bench as well as from
2 others, and did you hear her responses on the pro
3 forming and the percentages used and the reference
4 materials that she cited?

5 A. Yes, sir.

6 Q. Did you review all of those materials as well
7 with the Company and with Ms. Andrews during your review
8 of this case?

9 A. Yes, sir.

10 Q. So you cite there on lines 6 and 7 that you
11 say:

12 This pro forma non-executive adjustment
13 is based solely on management's
14 judgment. It is not known and
15 measurable, and it should be rejected by
16 the Commission.

17 So could you just briefly summarize that
18 point again for me, is it because that it's not
19 historical data, it's not invoiced already, just go
20 through that one more time for me, please, so I
21 understand better?

22 A. There are no contracts in place to
23 substantiate any increases. There's -- it is completely
24 up to the Company whether or not there will be increases
25 next year in March. March is normally when the

0685

1 increases are incurred. And therefore if the Company
2 decides for whatever reason not to give increases, then
3 it's completely up to them to do that whether or not
4 they get an increase at this time for them.

5 Q. So the only non-executive wage expense that
6 you've recognized as being an obligation, if you will,
7 of the Company is the union, the increases approved in
8 the union collective bargaining agreement which has been
9 approved by the board as well?

10 A. Correct, and the non-union increases that
11 were approved by the board.

12 COMMISSIONER JONES: Okay, that's all I have,
13 Your Honor, thank you.

14 JUDGE TOREM: Chairman Goltz, anything?

15 CHAIRMAN GOLTZ: I have no questions, thank
16 you.

17 JUDGE TOREM: Mr. Meyer.

18 MR. MEYER: No questions, thank you.

19 JUDGE TOREM: All right, any other questions
20 for this witness?

21 MR. TRAUTMAN: No, Your Honor, no redirect.

22 JUDGE TOREM: Thank you, Ms. LaRue.

23 It's now 3:35, why don't we take, counsel,
24 unless you think this will throw us off, a 10 minute
25 break, we'll come back at 3:45. It looks like

0686

1 planningwise we have Mr. Kensock and Ms. Knox, and we
2 can probably then get to additional Staff witnesses or
3 start on Mr. Larkin if that's the case depending on how
4 much time we have. Right now it looks like Commission
5 Staff, you've waived the 10 minutes you've projected, we
6 would be down to 45 minutes that we would need depending
7 on Mr. Meyer's estimate for Mr. Larkin. So, counsel,
8 take the 10 minute break and decide if we can get
9 Mr. Larkin on and off today or start with him tomorrow.
10 We will be back at 3:45.

11 (Recess taken.)

12 JUDGE TOREM: Okay, it's now 3:50, I'm going
13 to swear in Mr. Kensock, go through his testimony, and,
14 counsel, do you know who is going to be next, are we
15 going to put on Ms. Knox next or try to put Mr. Larkin
16 on?

17 MR. TRAUTMAN: I spoke to Mr. Meyer, I think
18 we have very few questions for Ms. Knox, so at least
19 from our perspective we could do that quickly.

20 MR. FFITCH: I think we can continue in
21 order, Your Honor. And then if we get to Mr. Larkin at
22 the end of the day, that's fine, or first thing tomorrow
23 is fine.

24 JUDGE TOREM: Okay.

25 Mr. Kensock, raise your right hand.

0687

1 (Witness JAMES M. KENSOCK was sworn.)

2 JUDGE TOREM: Thank you.

3 Mr. Meyer, are you aware of with this witness
4 any corrections or clarifications?

5 MR. MEYER: There are none.

6 JUDGE TOREM: All right then, Mr. ffitch.

7 MR. FFITCH: Oh, I'm sorry, Your Honor, I was
8 expecting Mr. Trautman, but Staff has no questions?

9 MR. TRAUTMAN: No.

10 MR. FFITCH: We will proceed.

11

12 Whereupon,

13 JAMES M. KENSOCK,
14 having been first duly sworn, was called as a witness
15 herein and was examined and testified as follows:

16

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

18 BY MR. FFITCH:

19 Q. Good morning. I'm going to change my notes
20 because they say good morning.

21 JUDGE TOREM: You're still not testifying,
22 so.

23 A. Good afternoon.

24 Q. Good afternoon.

25 You're the Vice President and Chief

0688

1 Information Officer for Avista?

2 A. Yes.

3 Q. And the rebuttal testimony you filed is
4 JMK-1T is your first testimony in the case; is that
5 correct?

6 A. Correct.

7 Q. And there are no exhibits or workpapers that
8 you filed with your testimony JMK-1T, that's the
9 entirety of your testimony in the case?

10 A. Correct.

11 Q. And could I ask you, please, to turn to Table
12 1 on page 4 of JMK-1T.

13 A. Okay, I'm there.

14 Q. And this summarizes the costs of the
15 information services system Avista is asking to recover
16 in this rate case, correct?

17 A. Yes.

18 Q. On a system basis?

19 A. Yes.

20 Q. Correct?

21 A. Correct.

22 Q. And this includes a column headed offset
23 amount; am I right?

24 A. That's correct.

25 Q. And there are two 20% offsets shown in the

0689

1 column, correct?

2 A. Yes.

3 Q. And these are new items, they were not shown
4 in the original filing?

5 A. That's correct.

6 Q. You state in your testimony that these were
7 difficult to quantify; am I correct?

8 A. Yes.

9 Q. Did you personally decide on these percentage
10 amounts?

11 A. Yes.

12 Q. And these are estimates, correct?

13 A. That's correct.

14 Q. And these were developed after Staff and
15 Public Counsel testimony was filed in August?

16 A. That's correct.

17 Q. Other than your testimony, are there any
18 other -- is there any other support in the record for
19 these offsets?

20 A. There's data requests that came in, I'm not
21 sure how they get into here, but from Public Counsel,
22 but not in my testimony, no.

23 Q. Okay. And there's also two offsets that are
24 listed as 100% offsets, correct?

25 A. That's correct.

0690

1 Q. And the first of those is labeled as 2009
2 efficiency reduction in technology, correct?

3 A. That's correct.

4 Q. And that, as you testify on page 8 of your
5 testimony, is a cost for vendors that are no longer --
6 that's no longer being incurred, correct?

7 A. That's correct.

8 Q. And the other 100% item is actually delayed
9 implementation of the work force management system,
10 right?

11 A. That's correct, yes.

12 Q. Now with respect to these two items, the
13 Company represented in its original case that these two
14 projects were known and measurable, did it not?

15 A. That's correct.

16 MR. FFITCH: No further questions, Your
17 Honor.

18 Thank you, Mr. Kensock.

19 JUDGE TOREM: Mr. Trautman, do you want to
20 take any chances on this one?

21 MR. TRAUTMAN: No, Your Honor.

22 JUDGE TOREM: All right, Commissioners.

23 Commissioner Jones?

24 COMMISSIONER JONES: No questions.

25 COMMISSIONER OSHIE: No questions.

0691

1 CHAIRMAN GOLTZ: No questions.

2 JUDGE TOREM: Any follow-up redirect?

3 MR. MEYER: No, thank you.

4 JUDGE TOREM: All right, thank you,

5 Mr. Kensock.

6 If we can get Ms. Knox to come forward. On
7 this one I understand, Mr. Trautman, you do have an
8 estimate of 20 minutes?

9 MR. TRAUTMAN: No. Well, no, it's been pared
10 down considerably.

11 JUDGE TOREM: All right, but you will have
12 some questions for Ms. Knox?

13 MR. TRAUTMAN: Just a few.

14 JUDGE TOREM: And Mr. ffitch then will have
15 some as well.

16 (Witness TARA L. KNOX was sworn.)

17 JUDGE TOREM: All right, the witness has been
18 sworn, so, Mr. Meyer, any corrections to the exhibits?

19 MR. MEYER: No, Your Honor.

20 JUDGE TOREM: Mr. Trautman.

21 MR. TRAUTMAN: Thank you.

22

23

24

25 Whereupon,

0692

1

TARA L. KNOX,

2

having been first duly sworn, was called as a witness

3

herein and was examined and testified as follows:

4

5

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

6

BY MR. TRAUTMAN:

7

Q. Good afternoon.

8

A. Hi.

9

Q. Ms. Knox, would you agree that in addition to this case, Avista has filed a production property adjustment in its prior two general rate cases?

10

11

12

A. That is true.

13

14

Q. And in those two prior filings, did the Company use the methodology it's currently proposing in this case?

15

16

17

18

19

A. It's essentially the same methodology. We've kind of modified the calculation to accommodate a weakness that we identified in the way we had presented it in the past.

20

Q. So it's somewhat different?

21

22

A. Right, it's a slight modification to how it's presented.

23

24

25

Q. Would it be correct to say that in the two prior cases that the Company used the methodology that's currently proposed by Staff?

0693

1 A. Yes.

2 MR. TRAUTMAN: That's all I have, thank you.

3 JUDGE TOREM: Mr. ffitch.

4 MR. FFITCH: No questions, Your Honor.

5 JUDGE TOREM: Commissioners.

6 COMMISSIONER OSHIE: No questions.

7 COMMISSIONER JONES: No questions.

8 CHAIRMAN GOLTZ: No questions.

9 JUDGE TOREM: All right, that was very quick,
10 Ms. Knox, unless there's any redirect on that.

11 MR. MEYER: No redirect.

12 JUDGE TOREM: All right, thank you very much.

13 Counsel, then that brings us to the three
14 remaining Staff witnesses, some of whom are in the room,
15 and Mr. Larkin, it appears that it might be best to
16 ensure that we get to Mr. Larkin's testimony when we
17 have at least an hour left today. Mr. ffitch,
18 Mr. Trautman, is that okay to do that?

19 MR. TRAUTMAN: Yes, Your Honor.

20 JUDGE TOREM: And let me check, Mr. Meyer,
21 are you prepared to enter into that cross-exam today?

22 MR. MEYER: Yes.

23 JUDGE TOREM: Okay, so then Mr. Larkin, if
24 you will come up.

25 MR. FFITCH: If we can just have a moment,

0694

1 Your Honor, for Mr. Larkin to get situated.

2 JUDGE TOREM: No problem.

3 MR. MEYER: And while he is situating
4 himself, it would be helpful, Mr. ffitch if he had
5 Exhibit B-5 in front of him.

6 MR. FFITCH: B-5, will you enlighten me a bit
7 further?

8 MR. MEYER: Yes, that's your exhibit, it's
9 your response to Bench Request Number 2 I believe.

10 JUDGE TOREM: All right, are we ready to go
11 forward?

12 MR. FFITCH: Yes, Your Honor.

13 (Witness HUGH LARKIN was sworn.)

14 JUDGE TOREM: Thank you.

15 MR. FFITCH: Your Honor, before we proceed
16 with the examination, I just wanted to make a statement
17 for the record. Earlier today there was an inquiry
18 regarding our position with regard to injuries and
19 damages as reflected in our Bench Request Number 2
20 response, and at this time I will state for the record
21 that the statement of our injuries and damages
22 adjustment in the response to Bench Request Number 2
23 does not currently include any correction or
24 modification based upon Ms. Andrews' testimony.
25 However, Public Counsel does not dispute the correction

0695

1 that Ms. Andrews testified to with regard to the
2 so-called contra account, and Ms. Andrews has in her
3 testimony as we discussed prepared a corrected number
4 that would reflect that change, and we don't dispute
5 that corrected number, and we are prepared at the
6 Bench's request to submit a revised response to Bench
7 Request Number 2 that would incorporate the change to
8 the injuries and damages adjustment.

9 JUDGE TOREM: All right, we'll accept, my
10 policy advisor staff is nodding in the correct way to
11 say please submit that, and that is still what's labeled
12 as Bench Request 5, is that correct, Exhibit B-5?

13 MR. FFITCH: That is Exhibit B-5, and, yes,
14 the current answer is labeled as Exhibit B-5, and the
15 specific schedules within the response to Bench Request
16 Number 2 are HL-5 and HL-6, those are the two schedules
17 for gas and electric that were submitted in response to
18 Bench Request Number 2, so we would be revising HL-5 I
19 believe is the electric schedule.

20 JUDGE TOREM: So let me ask that, unless you
21 see a reason why not --

22 MR. FFITCH: To track both of them, I'm
23 sorry, Your Honor, but we will revise the exhibits.

24 JUDGE TOREM: So we're not going to
25 substitute a new exhibit, we'll just replace what's now

0696

1 in the record with a revised updated number, so we won't
2 assign a new exhibit number, I just want to be clear
3 about that, it will still be B-5, but it will be updated
4 as you file it now.

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

7 JUDGE TOREM: Do you see a point to keep the
8 old outdated number in the record or as an exhibit?

9 MR. FFITCH: No, Your Honor, I'm just trying
10 to think about the least confusing way to do it, but I
11 think we would refer to it as Revised B-5 if that's your
12 preference.

13 JUDGE TOREM: That is, and that's what we've
14 established in the exhibit list going forward is just to
15 substitute the date of the exhibit as it was submitted
16 and then indicate revised.

17 All right, Mr. Larkin has been sworn in,
18 thank you for bringing that to our attention. We still
19 have outstanding the matter about SJK-6, was there any
20 resolution on that during the break?

21 MR. TRAUTMAN: Staff has no objection.

22 MR. FFITCH: No objection, Your Honor.

23 JUDGE TOREM: Okay, so SJK-6, Mr. Meyer, will
24 be provided and admitted to the record.

25 MR. MEYER: Very well, and no need to recall

0697

1 Mr. Kinney, correct?

2 JUDGE TOREM: Counsel are nodding accordingly
3 and Commissioners are as well, so Mr. Kinney is free to
4 travel and not be available by phone tomorrow.

5 MR. MEYER: He's just fine with that.

6 JUDGE TOREM: All right, Mr. Larkin has been
7 sworn in, and I don't know, Mr. Ffitch, if there's any
8 clarifications beyond what we've already gone over.

9 MR. FFITCH: No, Your Honor.

10

11 Whereupon,

12

HUGH LARKIN,

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

15

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

17 BY MR. FFITCH:

18 Q. Good afternoon, Mr. Larkin.

19 A. Good afternoon.

20 Q. And could you state your name and spell your
21 last name for the record, please.

22 A. My name is Hugh Larkin, Junior, my last name
23 is spelled L-A-R-K-I-N.

24 Q. And you were retained by Public Counsel to
25 address revenue requirement issues in this case; is that

0698

1 correct?

2 A. That's correct.

3 Q. And your prefiled testimony and exhibits have
4 already been stipulated into the record in this case,
5 correct?

6 A. Well, I assume so.

7 Q. And do you have any corrections or changes to
8 your prefiled testimony or exhibits other than the one
9 we just discussed for injuries and damages?

10 A. Not at this time.

11 MR. FFITCH: Thank you.

12 Your Honor, Mr. Larkin is available for
13 cross-examination.

14 JUDGE TOREM: Mr. Meyer.

15 MR. MEYER: Thank you.

16

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

18 BY MR. MEYER:

19 Q. Good afternoon.

20 A. Good afternoon.

21 Q. Just one question, a follow-up on what Public
22 Counsel has agreed to do by way of the change, and I
23 know these numbers do appear in Ms. Andrews' testimony,
24 but would you agree that your adjustment to correct for
25 the contra account issue on injuries and damages, if

0699

1 that's corrected that would have reduced your electric
2 adjustment by \$7.4 Million to no more than \$165,000?

3 A. I haven't checked the numbers, but that
4 sounds about right.

5 Q. All right. And likewise would have reduced
6 your natural gas adjustment by \$1.1 Million to no more
7 than \$87,000?

8 A. That sounds correct.

9 Q. Okay, thank you.

10 Let's turn now to the production property
11 adjustment, and for purposes of this line of
12 cross-examination, I would like you to have in front of
13 you Exhibit B-5, which was a Public Counsel response to
14 Bench Request Number 2; do you have that before you?

15 A. Yes.

16 Q. Okay, and in due course I will refer to that.

17 A. Okay.

18 Q. But to begin with, turning to page 10 of your
19 testimony, which is HL-1T, this is as relates to the
20 production property adjustment, there you discuss the
21 relationship of expected future loads to test year loads
22 that essentially creates a production factor; is that
23 correct?

24 A. That's correct.

25 Q. And at lines -- are you there yet?

0700

1 A. Yes.

2 Q. Okay. And at lines 17 through 20 you state
3 that it:

4 Was calculated by dividing the test year
5 normalized load by the projected load
6 for the years ended December 31, 2009,
7 and 2010, and the results were then
8 subtracted from 100%.

9 Is that correct?

10 A. That's correct.

11 Q. Would you agree that the Company's original
12 filing in this case included an increase in retail load
13 of approximately 5% from the test year to the rate year?

14 A. You mean adding the 2009 and 2010?

15 Q. Yes.

16 A. Yes.

17 Q. All right. And would you agree that the
18 partial settlement stipulation agreed to by all parties
19 including Public Counsel includes an increase in retail
20 load of approximately 2% from the test year out to the
21 rate year; is that correct?

22 A. I didn't check it, but I will accept that as
23 correct.

24 Q. Instead of the 5% that we previously referred
25 to, correct?

0701

1 A. I will accept that as correct, I didn't check
2 it.

3 Q. All right. Now since the partial settlement
4 agreement reduced 2010 loads by 3%, which is the
5 difference between 5 and 2, wouldn't you agree that in
6 order to have a proper matching with the settlement
7 agreement, the production factor must be recalculated
8 with the lower 2010 load assumptions?

9 A. Yes.

10 Q. All right. So in your schedule C-1.1 of your
11 Exhibit HL-5, okay, and that's where we go to your
12 Exhibit B-5, okay?

13 A. Okay.

14 Q. Are you there?

15 A. I'm here.

16 Q. All right. There's a column D, is there not,
17 and is that entitled production factor?

18 A. Yes.

19 Q. And does that column reflect in your exhibit
20 a retail load growth calculation of approximately 5%?

21 A. It reflects the calculations that were used
22 by the Company originally.

23 Q. Originally but before the settlement?

24 A. Yes.

25 Q. Okay. And so it does not reflect the 2% that

0702

1 was included in the partial settlement?

2 A. That's correct, if that was in the partial
3 settlement.

4 Q. I see. Would you accept subject to check
5 that if you had used the 2% load growth in this Exhibit
6 B-5 for the production property adjustment instead of
7 the 5% that it would increase Public Counsel's revenue
8 requirement by approximately \$6.4 Million?

9 A. I would think that that's probably close. I
10 don't know if it's correct exactly.

11 Q. All right, thank you.

12 A. Without calculating it.

13 JUDGE TOREM: Mr. Meyer.

14 MR. MEYER: Yes.

15 JUDGE TOREM: I just want to make one
16 clarification for the record. Within Exhibit B-5 there
17 are two updated exhibits with Mr. Larkin's initials,
18 HL-5 and HL-6, so you are referring to those submissions
19 from Public Counsel; is that correct?

20 MR. MEYER: Correct.

21 JUDGE TOREM: We also have, just to make it
22 difficult, the cross-exam exhibits which were marked for
23 him which have the similar numbers HL-5-X. So when you
24 refer to your cross-exam exhibits, please make sure to
25 identify them as the cross-exam exhibits, not the

0703

1 submissions by Mr. Larkin that are contained within the
2 Bench exhibit.

3 MR. MEYER: That's right, and so far I
4 haven't referred to any cross-examination exhibits.

5 JUDGE TOREM: All right.

6 MR. MEYER: But I will do so if I go there.

7 JUDGE TOREM: All right.

8 BY MR. MEYER:

9 Q. Let's turn to yet another feature of your
10 production property adjustment. First I would like you
11 to turn now to your Exhibit HL-3, Schedule C-1.2.

12 MR. FFITCH: Your Honor, can I inquire
13 whether counsel is referring to revised --

14 A. Are you talking about the original or --

15 MR. FFITCH: -- revised HL-3?

16 Q. To your original, attached to your testimony.

17 A. Okay.

18 JUDGE TOREM: So this would be the one
19 submitted August 17th.

20 MR. MEYER: Correct.

21 JUDGE TOREM: And there was a revision
22 submitted not only to the testimony but also to the
23 supporting HL-3 on September 3rd.

24 MR. MEYER: In fact we can use either one, we
25 can use the revised September 3rd, '09. Let's go with

0704

1 that just so we're --

2 JUDGE TOREM: I think that's the one that's
3 available on the Bench today.

4 MR. MEYER: Let's do that, that will work
5 just fine.

6 JUDGE TOREM: Thank you, Mr. ffitch for the
7 clarification.

8 BY MR. MEYER:

9 Q. Do you have that, I will wait until you have
10 that in front of you.

11 A. What's the number now you want?

12 Q. It's HL-3 Schedule C-1.2.

13 A. That's the original?

14 Q. As revised.

15 A. Okay, HL-3.

16 Q. Schedule C-1.2.

17 MR. FFITCH: Your Honor, I can assist the
18 witness if necessary.

19 A. I'm there.

20 Q. And let's go to page 11 of 31.

21 A. Well, I think the revised that I have doesn't
22 have --

23 JUDGE TOREM: Mr. ffitch, if you have that
24 and you could walk that over to the witness, that would
25 speed things along.

0705

1 MR. FFITCH: I do, Your Honor, thank you.

2 A. Oh, I've got that, okay, yes.

3 BY MR. MEYER:

4 Q. Okay, thank you.

5 Now as we look at this particular page, isn't
6 it true that the upper portion of this page reflects a
7 number of FERC accounts related to power supply?

8 A. Yes.

9 Q. Everything from other expenses to thermal
10 fuel and water for power, they're all as described,
11 correct?

12 A. Right.

13 Q. Now the upper heading of this page indicates
14 that these are the Company amounts that are reflected
15 for each of those FERC accounts, correct?

16 A. Right.

17 Q. Now was this particular exhibit prepared
18 prior to the partial settlement being filed?

19 A. Yes.

20 Q. And as such, it reflects the Company's
21 original numbers with respect to those power supply
22 adjustments, correct?

23 A. Yes.

24 Q. Now if you'll turn to Exhibit B-5, let's go
25 back to B-5, which is again your response to Bench

0706

1 Request Number 2, and let's go now -- and then I want
2 you to keep both of these pages in front of you, the one
3 that we've just referred to --

4 A. Okay.

5 Q. -- and the one I'm referring to now, and put
6 them side by side. So go to Exhibit B-5.

7 A. B-5?

8 Q. Yes. And in that there is an Exhibit Number
9 HL-5, Schedule C-1.2.

10 A. Are you talking about the originals or the
11 revised?

12 Q. I'm talking about the revised, well, it
13 reflects 9/30/09 and then a reference to the partial
14 settlement position.

15 MR. FITCH: Your Honor, I think there may be
16 some confusion with reference to B-5 here, which is just
17 an exhibit number in this case. Mr. Larkin has
18 schedules that I think are original exhibit numbers.

19 MR. MEYER: I want to make sure we have the
20 same pages, may I --

21 JUDGE TOREM: You can approach the witness.

22 MR. MEYER: -- approach the witness just to
23 make sure that we're side by side on this.

24 So for the record, what we're referring to
25 now is page 10 of his Schedule C-1.2 of his Exhibit

0707

1 HL-5.

2 JUDGE TOREM: Okay, I think we're all with
3 you now.

4 MR. MEYER: All right. Sorry for this, but
5 it's important that we put these two documents side by
6 side.

7 BY MR. MEYER:

8 Q. Now the second document that we've just
9 referred to on the upper right-hand corner reflects the
10 notation partial settlement position; is that correct?

11 A. Yes.

12 Q. All right. Now the settlement itself did
13 make several adjustments to various elements of power
14 supply, didn't it?

15 A. Settlement settled the power supply issue.

16 Q. Including several components that went into
17 that power supply adjustment, correct?

18 A. Yes, I assume so.

19 Q. And yet the inputs for power supply that you
20 show in the upper portion of both of these pages remain
21 the same; am I correct?

22 In other words, other expenses column, \$27
23 Million, thermal fuel?

24 A. Yes, they remain the same because we factored
25 in the total settlement into the total number, not into

0708

1 individual columns.

2 Q. So for purposes of -- strike that.

3 Would you accept subject to check that if you
4 in fact had incorporated the power supply numbers that
5 were agreed to in the settlement stipulation for
6 purposes of arriving at a production property adjustment
7 that the adjustment to net expense would have been
8 smaller by \$506,000 resulting in a \$529,000 additional
9 revenue requirement?

10 A. I don't know, I would have to check it. But
11 it seems to me that we spent time on the phone with
12 Ms. Andrews and trying to understand what accounts these
13 factored into, so if there's a mistake, it's a mistake
14 that we got from you from our understanding of where
15 they should go.

16 Q. But regardless of how a mistake might have
17 occurred, would you agree that for purposes of the power
18 or the production adjustment, production property
19 adjustment, that you had utilized the same power supply
20 inputs both before and after the settlement, correct?

21 A. Oh, are you saying that we didn't carry this
22 forward to --

23 Q. You didn't carry the revised power supply
24 numbers --

25 A. Yes.

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1 Q. -- forward to the production property
2 adjustment.

3 A. Yes.

4 Q. Would you agree with that?

5 A. I don't know, I didn't check it.

6 Q. Would you accept that subject to check?

7 A. I'll accept it subject to check.

8 MR. MEYER: Thank you, that's all I have
9 then.

10 JUDGE TOREM: That's all for this witness?

11 MR. MEYER: Yes.

12 JUDGE TOREM: Mr. ffitch, do you want a
13 moment, or do you want to go right into any redirect?

14 MR. FFITCH: I don't think I need a moment,
15 Your Honor. I guess I just wanted to -- I just have I
16 think one question on redirect.

17 JUDGE TOREM: All right, I'm taking you
18 purposely out of order before I turn it over to the
19 Commissioners so I can make sure any of these numbers
20 can be clarified then see what Bench questions come from
21 there, so go ahead, please.

22

23

24

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

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1 BY MR. FFITCH:

2 Q. Mr. Larkin, you mentioned that your office
3 contacted Avista in the preparation of the response to
4 Bench Request Number 2.

5 A. Yes.

6 Q. Is that correct? And the purpose of that
7 call was to endeavor to make sure that the effects of
8 the partial settlement stipulation were properly
9 reflected in Bench Request Number 2 as Public Counsel's
10 litigation position, correct?

11 A. At least the fuel component.

12 Q. Right. And is it your recollection, who do
13 you recall was involved in the conversation between your
14 office and Avista?

15 A. Christine Miller, Stephanie Johnson, and
16 Ms. Andrews.

17 Q. And you've been asked to accept a number of
18 calculations and representations subject to check, do
19 you need some additional time to review those answers
20 and confirm your subject to check answers?

21 A. Yes.

22 MR. FFITCH: Those are all the questions I
23 have at this time, Your Honor.

24 JUDGE TOREM: Mr. ffitch, I take it that
25 Mr. Larkin's travel plans are for tomorrow one way or

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1 the other?

2 MR. FFITCH: (Nodding head.)

3 JUDGE TOREM: So remind me tomorrow morning
4 when we start to see if Mr. Larkin wants to take the
5 stand again and confirm his subject to check and/or make
6 any revisions at that time.

7 MR. FFITCH: Thank you, Your Honor, we'll do
8 that.

9 JUDGE TOREM: Commissioners, any questions
10 for Mr. Larkin, Commissioner Oshie?

11 COMMISSIONER OSHIE: No questions, Your
12 Honor.

13 JUDGE TOREM: Commissioner Jones?

14 COMMISSIONER JONES: No questions.

15 JUDGE TOREM: And the Chairman?

16 CHAIRMAN GOLTZ: No Questions.

17 JUDGE TOREM: Mr. Meyer, was there any other
18 follow-up?

19 MR. MEYER: No, thank you.

20 JUDGE TOREM: So I think then it's now 4:25,
21 Mr. Larkin, we'll have you step down for the afternoon
22 to get the new calculations --

23 THE WITNESS: Well, I mean I have to go home
24 for those calculations. I mean they're computer models
25 that we ran this through.

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1 JUDGE TOREM: All right, do you think you'll
2 have those --

3 THE WITNESS: I can't do that overnight.

4 JUDGE TOREM: You can't do them overnight?

5 THE WITNESS: No.

6 JUDGE TOREM: All right, so we'll find out
7 when those checks will be done, and Mr. ffitch can let
8 us know in the morning how long that might take.

9 My understanding also is that, Mr. ffitch,
10 the revised submission of B-5 and its contained exhibits
11 of HL-5 and 6 may yet reflect confirmation of the
12 numbers that were inquired of today; is that correct?

13 I know there was a purpose for submitting the
14 revision, but I can't recall right now if it encompassed
15 everything that was discussed on cross-exam.

16 MR. FFITCH: No, it did not, Your Honor.

17 CHAIRMAN GOLTZ: It was just the damages.

18 MR. MEYER: That's right.

19 MR. FFITCH: Just injuries and damages.

20 MR. MEYER: And so my request would be if
21 it's going to be revised, it should not only correct for
22 injuries and damages, but the two adjustments we just
23 referenced with regard to the production property
24 adjustment.

25 JUDGE TOREM: That would seem to make the

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1 most sense to me, and for once my policy advisor is
2 nodding as it's that, so let's have that revised B-5,
3 Mr. ffitch, essentially be the confirmation of the
4 subject to check and be, well, Mr. Larkin, that will be
5 your final answer subject to briefs.

6 MR. FFITCH: Your Honor, I know a number of
7 the Bench requests have been made due on Friday next
8 week, perhaps we can ask for the same deadline for our
9 revised response to Bench Request Number 2.

10 THE WITNESS: A week from this Friday?

11 MR. FFITCH: (Nodding head.)

12 THE WITNESS: That's fine.

13 JUDGE TOREM: Mr. Meyer, will that be
14 sufficient time that it won't inhibit preparation of
15 briefs when we close the record otherwise?

16 MR. MEYER: That will be just fine.

17 And again, if you would like to contact any
18 of our people as you work through the subject to check
19 questions, please do so. Thank you.

20 JUDGE TOREM: All right, thank you,
21 Mr. Larkin.

22 Mr. ffitch, that was your one witness in this
23 area, I'm going to turn back to Mr. Trautman. We have
24 three additional witnesses on the revenue requirements,
25 Mr. Buckley, Mr. Kermodé, and Mr. Parvinen, how would

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1 you like to proceed?

2 MR. TRAUTMAN: Well, Mr. Buckley would be
3 more appropriate for tomorrow when Lancaster is going
4 forward.

5 JUDGE TOREM: Understood.

6 MR. TRAUTMAN: I guess we would prefer to
7 have Mr. Kermode.

8 JUDGE TOREM: All right, Mr. Kermode, if you
9 will come forward.

10 MR. FFITCH: Your Honor, while Mr. Kermode is
11 coming forward, since the issue of Lancaster has come
12 up, I would like an opportunity to consider our position
13 with regard to live direct testimony by Mr. Buckley with
14 regard to Lancaster when there's been no previous
15 involvement by Mr. Buckley on this issue, and I would
16 like to consider whether or not we have an objection to
17 that or some kind of procedural alternative suggestion.

18 JUDGE TOREM: My suggestion is that if the
19 Bench calls Mr. Buckley for cross-exam, you weigh
20 heavily your thoughts about any cross-examination
21 objection.

22 MR. FFITCH: Well, Your Honor, our concern
23 would be our ability to respond and react to a witness
24 who's not previously taken a position or filed testimony
25 in this case, and we would like an opportunity to try to

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1 address our procedural options.

2 JUDGE TOREM: You can weigh whatever
3 procedural options you like. The Bench is going to
4 cross-examine whatever witnesses on whatever topics they
5 would like. So if you need additional time or you want
6 to move for additional examination later, let me know,
7 but I accommodate you second after the gentlemen to my
8 right.

9 MR. FFITCH: I understand, Your Honor.

10 JUDGE TOREM: All right, just so we're clear,
11 if the Bench wants to cross-examine, it will occur.

12 All right, Mr. Kermode, if I can swear you
13 in.

14 (Witness DANNY P. KERMODE was sworn.)

15 JUDGE TOREM: All right, Mr. Kermode, you've
16 been sworn in, Mr. Meyer, you had estimated about 45
17 minutes, is that still a good estimate?

18 MR. MEYER: In fact, I think a half an hour.
19 May I just say a couple of words to help in scheduling
20 here? I think we'll have no questions of Mr. Parvinen,
21 and I know I had a substantial time estimate there, for
22 the reason that I think the theoretical discussion, the
23 debate, if you will, engaged in in the prefiled
24 testimony between Mr. Norwood and Mr. Parvinen is
25 straightforward enough, it's set forth, and we're not

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1 going to belabor that point. All right, so at this
2 point I have nothing for Mr. Parvinen, but I thought it
3 might be helpful to spend perhaps half an hour with
4 Mr. Kermode on the capital additions issue to just
5 provide some clarification around the differences in the
6 Staff position and the Company position. And what I
7 don't want to do is certainly try your patience or waste
8 valuable time, but I think it's something I can probably
9 do in 20 or 25 minutes, and knowing that I have nothing
10 for Parvinen, I think that should at least tell you that
11 we're moving through this process quickly.

12 JUDGE TOREM: All right, and still I don't
13 think you need to worry about trying patience, I commend
14 all the attorneys for their attention to asking relevant
15 concise questions today and moving the topics along.

16 While on the topic of Mr. Parvinen,
17 Mr. Ffitch, you had 10 minutes allotted to that witness
18 for cross-exam, did you want to take that up tomorrow
19 morning then, or if you know you don't have questions we
20 can dispense with that witness now.

21 MR. FFITCH: Your Honor, in the event we will
22 not have any questions for Mr. Parvinen.

23 JUDGE TOREM: No questions, so, Mr. Trautman,
24 we will not be calling Mr. Parvinen today or tomorrow it
25 appears.

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1 Okay, let's move on, Mr. Kermode has been
2 sworn, Mr. Trautman, are you aware of any --

3 MR. TRAUTMAN: Well, let me just ask would
4 the Commissioners have any questions for Mr. Parvinen?

5 JUDGE TOREM: None that I was made aware of,
6 thank you for --

7 CHAIRMAN GOLTZ: If we change our mind, we
8 know where to find him.

9 JUDGE TOREM: That's true, he's easily
10 subject to recall, but thank you for checking on that.

11 MR. TRAUTMAN: Before we start, Your Honor,
12 and I spoke with Mr. Meyer about this briefly, if you
13 recall we filed a revised, in response to Bench Request
14 2, we filed updated exhibits for Mr. Kermode, DPK-2
15 through 6, that had revenue requirement numbers, and so
16 accordingly we've had to refile the testimony, the only
17 changes being to match the numbers to the numbers that
18 are now in DPK-2, and I discussed it with Mr. Meyer, and
19 he had no objection, so I was going to distribute that.

20 CHAIRMAN GOLTZ: I think we have revised --

21 MR. TRAUTMAN: Just revised, no, of his
22 testimony 1T revised today because we just submitted the
23 Bench Request 2 response about two or three days ago.

24 JUDGE TOREM: All right, so instead of the
25 current DPK-1T, which was revised as of 2 September,

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1 we're now going to have a substitute, and I will mark
2 that that new date will be 7 October.

3 MR. TRAUTMAN: This is dated October 5th on
4 it.

5 JUDGE TOREM: All right, well, 5 October,
6 that's fine, so there's the revised to mirror what's now
7 in Exhibit B-4 --

8 MR. TRAUTMAN: Correct.

9 JUDGE TOREM: Which was your response to
10 Bench Request 2.

11 MR. TRAUTMAN: That's correct, our response
12 to Bench Request 2.

13 JUDGE TOREM: Okay.

14 MR. TRAUTMAN: And among other things, it
15 would include the settlement updated revenue
16 requirement.

17 JUDGE TOREM: All right, thank you. And
18 again, this is a bit cumbersome to discuss, but I think
19 the intention is well received by the Bench and all the
20 other parties to continue to get the best numbers
21 possible in front of us given some of the moving parts
22 with the settlement and the rebuttal position.

23 So, Mr. Meyer, you've seen a copy of what's
24 coming across?

25 MR. MEYER: Yes, I have.

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1 JUDGE TOREM: And, Mr. Kermode, I take it
2 you've seen have a copy of that and have it in front of
3 you?

4 THE WITNESS: Yes, Your Honor.

5 JUDGE TOREM: All right, Mr. Meyer, let's
6 move on to the capital additions.

7 MR. MEYER: Very well. I would like to
8 distribute for the record three sheets, and these simply
9 are blown up illustrations that already appear in the
10 testimony, the rebuttal testimony of Company witness
11 Defelice, and they're noted in the lower right-hand
12 corner the source document, there's nothing new, they're
13 already in the record.

14 JUDGE TOREM: Mr. Meyer, you're going to
15 distribute those excerpts from Mr. Defelice's
16 testimony --

17 MR. MEYER: Yes.

18 JUDGE TOREM: -- to all concerned so we don't
19 have to --

20 MR. MEYER: Yes, I am. There should be four
21 of each of the three items. There are extras here for
22 those in attendance who would like to see those.

23 JUDGE TOREM: All right, so I have
24 distributed these illustrations and table from the
25 Defelice rebuttal testimony, that's DBD-4T, pages 14,

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1 15, and 16, Commissioners have all three of those, and
2 they also have the updated DPK-1T.

3 All right, I think we've got all the
4 paperwork in line.

5 MR. MEYER: Thank you.

6

7 Whereupon,

8 DANNY P. KERMODE,
9 having been first duly sworn, was called as a witness
10 herein and was examined and testified as follows:

11

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

13 BY MR. MEYER:

14 Q. Mr. Kermode, the purpose of this line of
15 questioning is not so much to argue the point but to
16 understand the differences. And I would like to begin
17 first with illustration number 1, and you have of course
18 the source reference there from Mr. Defelice's
19 testimony. Do you understand that the Company's
20 proposal in this case, and it still remains their
21 recommended approach, is to include by way of pro forma
22 capital additions generation and transmission of
23 distribution through the end of 2009?

24 A. Yes.

25 Q. All right. Now turning to illustration 1,

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1 this purports to reflect the Staff's capital investment
2 proposal, correct?

3 A. That's correct.

4 Q. Let's take it a segment at a time. You begin
5 with the test period rate base AMA or average of monthly
6 averages, correct?

7 A. That's correct.

8 Q. And what did the Company use by way of its
9 test period rate base, was it end of period or average
10 of monthly averages?

11 A. After I believe it was pro forma adjustment
12 6, it was actually end of period December 2009 I believe
13 was what you ended up with after all your pro forma
14 adjustments.

15 Q. All right. Now the second step in this
16 illustration of the Staff's own proposal is to reflect a
17 level of generation and transmission assets as well as
18 two distribution assets through June 30th of 2009; is
19 that correct?

20 A. Correct.

21 Q. And we translated that into a revenue
22 requirement of \$3.2 Million roughly, correct?

23 A. That's correct, yes.

24 Q. You also did something else though, to be
25 fair about it, you did include some Noxon in 2010,

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1 correct?

2 A. Or the Noxon 3, yes.

3 Q. Yes. And that's referenced at least in the
4 footnote there.

5 A. Okay.

6 Q. Now your pro forming of generation and
7 transmission out through June 30th of 2009 did not take
8 it to the end of 2009 as compared to what the Company
9 proposed, correct?

10 A. That's correct.

11 Q. All right. So now let's turn to illustration
12 number 2. Now this is entitled Avista's alternate
13 capital investment proposal; do you see that?

14 A. Yes, I do.

15 Q. Now you understand this is not the Company's
16 original proposal which would have pro formed everything
17 to the end of 2009, correct?

18 A. That's correct.

19 Q. So what the Company did through this
20 illustration is to begin by accepting your average of
21 monthly average rate base for the test period, correct?

22 A. Yes.

23 Q. And then it accepted, and again it's useful
24 to have both of these illustrations side by side, your
25 generation transmission adjustment through 6/30 or June

0723

1 30th of 2009 that we've already talked about, correct?

2 A. That's what the schedule is showing, yes.

3 Q. Yes. Now there are only -- there are two
4 changes that go to the heart of what distinguishes our
5 alternative proposal from your proposal. Is one of them
6 the fact that we have taken your generation and
7 transmission and moved that from June 30 to the end of
8 2009, is that reflected by the \$3.38 Million revenue
9 requirement figure shown under the dashed line in
10 illustration 2?

11 A. I see that.

12 Q. Okay. Now do you understand that with
13 reference to generation and transmission that as you've
14 read the testimony of Mr. Storro and Mr. Kinney that
15 given construction cycles, the bulk of the transmission
16 or our generation investment occurs in the second half
17 of the year?

18 A. Yes.

19 Q. In the normal course?

20 A. Yes, I read that.

21 Q. And do you have any reason to dispute that?

22 A. No, I don't.

23 Q. And do you understand why that may be the
24 case?

25 A. Building seasons, yes.

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1 Q. So as a matter of course year after year,
2 would you expect to see the bulk of the investment and
3 the completion of the work in the second half of any
4 given year?

5 A. Yes.

6 Q. But by cutting it off at 6/30 of '09 or June
7 30th of '09, have you captured the bulk of the work in
8 the generation and transmission areas?

9 A. Within the constraints of a regulatory audit,
10 I believe I've captured what I can capture.

11 Q. Now you've had the chance though to examine
12 through the Company's original filing all of its
13 generation and transmission for the entire year, and
14 that was the Company's original proposal, correct?

15 A. For 2009.

16 Q. Yes.

17 A. Yes.

18 Q. So what we are doing in the second half of
19 2009 by way of generation and transmission in order to
20 essentially layer that on your proposal really takes us
21 to the same place that we were with respect to our
22 original proposal that was filed some seven or eight
23 months ago, correct?

24 A. I hesitate to say yes. I think that's a
25 broad generality. There's a lot of subtleties there,

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1 so.

2 Q. But the point being, Mr. Kermode, that you
3 had a chance when you looked at the Company's original
4 filing to examine generation and transmission asset
5 information --

6 A. The different projects and --

7 Q. Yes.

8 A. Yes.

9 Q. Through the end of '09?

10 A. What I examined obviously initially after the
11 filing was budgeted information, and as the case
12 progressed, I saw data provided by Mr. Defelice on
13 completed projects, so I was able to follow that
14 through. And that's why the 6/30, basically I used
15 6/30/09 as a cutoff period because there's a certain
16 point where as an auditor I guess you could use the
17 analogy I have to quit cutting bait and I have to fish.
18 At that point I was able to determine no new measurable
19 additions to generation transmission. I was able to
20 look at the records that supported that, and although
21 there was budgeted information once again going forward,
22 I'm constrained by the known and measurable standard.

23 Q. Could you have when you received the rebuttal
24 testimony containing this alternative proposal made
25 further inquiries for updates around generation and

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1 transmission for the balance of this year to essentially
2 update your understanding?

3 A. Once again, I think there's a certain period
4 of time or a certain point in time where the audit
5 process has to stop and the rate making process has to
6 begin. I believe that at any time during the process,
7 not just when the rebuttal was received, but at any time
8 I guess Staff could initiate a rereview and rereview the
9 different data. But I think just as a practical point
10 of view, like I said, there has to be a cutoff. We have
11 a test year that ends 9/30/08 when I have basically a
12 cutoff for the generation distribution non-revenue
13 producing expense reduction type at 6/30, like I said,
14 as an auditor I have to start coming -- setting rates
15 and supporting that.

16 Q. All right. Now you understand that neither
17 in the Company's original proposal nor in the Company's
18 alternative proposal, with the exception of Noxon, does
19 the Company seek to recover any 2010 capital additions.

20 A. Yes.

21 Q. Correct?

22 A. That's correct.

23 Q. So to the extent that there is no recovery of
24 2010 capital additions, have we appropriately matched
25 revenues, expenses, and capital additions for the 2010

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1 rate year?

2 A. We've appropriately matched expenses and
3 revenues for the test year. I think that's what we're
4 focused on. That's what I'm focused on is I want to
5 make sure that when I build a test year that I do not
6 insert data information that actually mismatches the
7 test year. The assumption is the test year will be used
8 for the rate year.

9 Q. So your reference is to matching for the test
10 year, not the rate year, correct?

11 A. I'm saying my focus is to -- when I consider
12 adjustments, I must be assured that that adjustment does
13 not cause a mismatch within the test year, because the
14 test year is the very vehicle that we're using to set
15 rates.

16 Q. Let's turn now to the last element in this
17 alternative proposal that distinguishes it from yours,
18 and that has to do with the bottom portion here,
19 miscellaneous distribution and general plant. And there
20 is a reference there to an additional revenue
21 requirement of roughly \$2.2 Million associated with
22 items that are footnoted in Footnote 2 carried through
23 to 7/31 or July 31 of '09, correct?

24 A. That's correct.

25 Q. And those are identified as the six electric

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1 distribution projects, the four natural gas projects,
2 and three general plant projects?

3 A. Correct.

4 Q. And are those the projects that we've already
5 heard testimony about from various Avista witnesses this
6 afternoon?

7 A. Yes.

8 Q. And those because they reflect investment
9 only through 7/31/2009, those are completed, invoiced,
10 billed, paid for, correct?

11 A. In that they're completed and based on my
12 prior review of the records, I believe that would be a
13 correct statement.

14 Q. Thank you.

15 Now lastly let's turn to Table 1, which is
16 the third document, and again that's out of
17 Mr. Defelice's testimony, and this closes the loop, and
18 this should just take a few minutes. This tries to
19 bring it all together by way of comparing our original
20 request and our alternative approach. I'm not going to
21 take you through each of these numbers, but if you'll
22 focus on the revenue requirement for electric under
23 Avista's original request, which again carried it out,
24 capital out through the end of '09, that it had about an
25 \$11.3 Million revenue requirement impact, correct?

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1 A. That's correct.

2 Q. And if we use the so-called alternative
3 approach, which as we've discussed simply builds on what
4 you've done in the two areas that we've just talked
5 about, we get to essentially the same point, correct,
6 \$11.4 Million with the revenue requirement?

7 A. Yes, slightly higher, but yes.

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

9 Thank you, Mr. Kermode.

10 THE WITNESS: You're welcome.

11 JUDGE TOREM: Commissioners?

12 Mr. Ffitch, you didn't have anything on this,
13 did you?

14 MR. FFITCH: No, Your Honor.

15

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

17 BY COMMISSIONER OSHIE:

18 Q. Mr. Kermode, this is for any of those folks
19 listening on the bridge line, this is Commissioner
20 Oshie, in your testimony you make reference to, and on
21 page 29, you don't have to go there because I think
22 you'll know what I'm talking about, you use the term
23 attrition, and that is although perhaps not in rebuttal
24 but it certainly explains Staff's view of how there's an
25 alternative way for the Company to demonstrate that

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1 there's an erosion of earnings or rather than just
2 trying to what I assume would be to include capital
3 costs occurring outside of rate year, or for the test
4 year even, the rate year in rates. So I would like a
5 little more of an explanation of maybe we can just start
6 with your short definition of attrition, and we'll go
7 from there.

8 A. Attrition is the tendency of the earnings of
9 a utility to erode over time between rate cases, and
10 it's normally attributable to either the aggressive
11 infrastructure program or to inflationary factors.
12 That's the short definition.

13 Q. And is -- have you -- and there is I
14 understand, and although I don't believe that we've had
15 any filed at the Commission since my time, attrition
16 studies that are performed which will analyze the
17 factors that are or the inputs that go into an attrition
18 study and come out with a number which reflects this
19 erosion of earnings over a given period. And so perhaps
20 you can explain a bit how an attrition study is, not
21 necessarily how it's performed, but you can explain a
22 bit about what the inputs that are used in the analysis.

23 A. First of all, I've never done one, I've heard
24 of them basically. An attrition study would basically
25 look at obviously the return of the Company as a time

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1 series. It would be looking at as input normal
2 inflation trying to see what the actual erosion of the
3 real return loss is of the Company. Also I would put in
4 a time series of plant increase or rate base increase
5 relative to the overall return. All those items you
6 would be able to see the degree that attrition was
7 actually affecting a company and also of course the
8 impact of intervening rate cases.

9 Q. All right. And do you think it would be --
10 does an attrition study have a real value if there are
11 rate cases filed on an annual basis by a company?

12 A. You know, I remember the attrition studies
13 were I would say about the 1980, in that era, inflation
14 rates were literally 12%, 13%, and I remember they were
15 pretty common. But the question was the time series. I
16 believe when any utility files annually, obviously
17 attrition is not going to have the effect as it would on
18 a company that files once every three or four years.

19 Q. And my next question, and I guess it should
20 be, you said you've never performed an attrition study,
21 have you had an opportunity to review an attrition
22 study, either as work for a commission or your other
23 employment?

24 A. In Arizona I had an opportunity, and that's
25 why, to tell you the truth, that's why I thought about

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1 the '80's, that's when I actually saw it, so.

2 Q. I'm familiar with that period as well, I wish
3 it weren't quite as long ago for me, but. And so
4 there's been no attrition study filed here in this case?

5 A. That's correct.

6 Q. And that would have been an option that the
7 Company could have exercised if it believed that its
8 earnings were eroding in an unusual or an unreasonable
9 manner between rate cases?

10 A. I believe that's true, yes.

11 Q. All right.

12 I've got a couple questions that have to do
13 with Staff's employment of its principles for allowing
14 certain capital projects that fall either in the rate
15 year or outside the rate year into rates in this case.
16 And how does Staff distinguish between, first of all,
17 how does it define a project that's necessary to meet a
18 legal requirement?

19 A. Very good question, I had the very same
20 thought when I started. NERC has a series of rules, and
21 they have regulatory authority. They can actually
22 penalize the Company for not maintaining certain levels
23 of reliability. I looked at that and considered that.
24 For pipeline, obviously pipeline safety doesn't
25 necessarily -- isn't necessarily done for marketing

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1 purposes, it's done for safety purposes. Normally it's
2 just the regulatory oversight from FERC, NERC,
3 ourselves, the State.

4 Q. We hear as Commissioners, we hear that I
5 would say almost 100% of the time from company
6 representatives, whether they be from Avista or any
7 other company that we regulate, that their system is
8 safe and that it's operating in a manner that it's
9 supposed to, and so how would we really try -- how do we
10 ascertain, we can rely of course on Staff's judgment and
11 do in many, many occasions and as well as the judgment
12 of the company, but how do we ascertain whether or not
13 something is absolutely needed unless there is some
14 finding from a regulatory body that this has to be done
15 because it is -- because there is -- they believe it is
16 a correction that must be made?

17 A. You know, I had thought through that, and I
18 believe in truth one of the ways that the Commission
19 could be assured that at least with a reasonable
20 assurance that things are being done truly to comply
21 with something and truly needed is to take samples. You
22 can tell as an auditor I'm talking, but I would take
23 samples, and from those samples I would have experts,
24 either pipeline safety experts, NERC experts, look at
25 it, evaluate it, and be able to give an opinion as to if

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1 that truly is needed. I know NERC also produces, I
2 don't know the term, but warnings I guess. They give
3 utilities notice that there's certain things that
4 they're not too happy about and give them time to
5 correct it. Obviously we could look at it that way and
6 have assurance that something is going on. But I think
7 from auditing's point of view, maybe just a random
8 selection of some of the projects that are being held
9 out as being required, and I think it would have two
10 effects. One is that obviously we would be doing the
11 actual testing, and we would be gaining a conclusion,
12 but it would also put all companies on notice that we
13 would be taking little samples. And it wouldn't have to
14 be I assume not too large of a sample, just to make them
15 know that we're there.

16 Q. Well, are there any -- are any of the
17 projects that are being recommended for approval or
18 adoption I guess in rates by Staff, were they preceded
19 by a warning from any of the regulatory agencies that
20 that particular project required upgrading or
21 replacement?

22 A. I have a data request with some
23 communications between the Company and NERC. I don't
24 know if I want to classify them as warnings, but there's
25 obvious communications going on.

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1 Q. And you wouldn't classify them as a call for
2 a corrective action? There's a difference in my mind
3 between a warning and a call for a corrective action.

4 A. I think probably Mr. Kinney to tell you the
5 truth would probably give you a better feel of the
6 degree of what weight those letters or the
7 communications carry.

8 Q. Well, they could, but I'm really trying to
9 get at why Staff reached its conclusions, Mr. Kermodé.
10 In other words, you felt -- you didn't really feel that
11 that was necessary for you at least and Staff to
12 recommend that the projects be included in rates?

13 A. Well, I believe that I've included the
14 projects that are related to transmission that are
15 required, that the Company has communicated to me are
16 required. I believe I have included those up to the
17 point that they were known and measurable as of 6/30.
18 The danger to me as an auditor is going beyond that 6/30
19 at that time and saying, okay, what else do you think
20 that you're going to do that you believe is also
21 required. The hard rock evidence to me is they put the
22 money in the ground to tighten the sway of lines. That
23 was money put in the ground. So I believe I did provide
24 it to them, and I have no reason to believe that the
25 Company would mislead me when I explicitly asked them

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1 only the projects that are required, that you are
2 required to do that do not have a revenue increasing or
3 a expense decreasing attribute.

4 Q. And thank you, Mr. Kermode, appreciate that,
5 your insight on that point. It does help explain I
6 believe Staff's position.

7 If there were a notice of a corrective action
8 that required corrective action or a warning as to
9 safety reliability of any component of the system, would
10 that substitute in Staff's mind for some kind of
11 testimony required on whether or not the project is used
12 and useful?

13 A. A project that is complete and with that type
14 of documentation, yes.

15 Q. I'm a little confused and perhaps I should
16 have asked Mr. Kinney, but I believe there was some
17 testimony about this, and perhaps I let that slip by in
18 a way that I shouldn't have. I'm trying to get my arms
19 around how the Company is accounting for projects for
20 example of road widening when a county or city
21 government requires them to move a line, because there
22 it seems that although there's a new pole in place, I
23 believe there is a Bench request about, you know, how to
24 account for if the pole is changed how it's -- so is
25 that -- and I understand that and I'm -- I don't know if

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1 all of our companies treat those projects the same way,
2 whether they're expensed or whether -- in any given
3 period or whether they're capitalized. Because I
4 believe that there are, you know we have companies that
5 we regulate I believe that expense those costs, and so
6 perhaps you can enlighten us a bit.

7 A. The understanding I have is that if it was
8 merely -- my understanding of the FERC chart of accounts
9 in accounting is if they have wooden poles, they go in
10 there and they move those wooden poles 25 feet, that's
11 an expense. My understanding is they are not replacing
12 the wooden pole, instead they're putting up metal poles.
13 I think that's the subtlety. I think that they are
14 retiring the major unit basically, and so that major
15 unit is then capitalized. And the accounting I believe,
16 FERC accounting, is that the retirement is the -- you
17 retire against accumulated depreciation the full
18 original cost of that plant, and so the net change to
19 rate base is zero. But what it does is it extends the
20 recovery period effectively because you have mass asset
21 accounts. So you have usually a vintage mass asset
22 account, so the total recovery has basically been
23 deferred. Let's say, to clarify, let's say a pole is
24 50% depreciated, so you have \$500, \$1,000 left to
25 recover. That \$1,000 effectively reduces accumulated

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1 depreciation by \$1,000. So the Company now has an
2 opportunity to recover that unrecovered amount over the
3 life of the remaining plant is the dynamics involved.

4 Q. Okay.

5 Do you know if Avista has a tariff in place
6 wherein there's a sharing requirement between the
7 jurisdiction and the Company for the kind of project
8 where it's the city or the county requires them to do
9 it?

10 A. My experience with relocations, and I've
11 never seen it otherwise, the Company might have bumped
12 into some, is as part of the right of way there's a
13 provision that says you get the right of way, but if we
14 want you to move, you pay it. So I have not seen any
15 provision of a city or county where they share the
16 price. The only ones I've seen is a requirement that
17 the company bear the full cost of relocation.

18 Q. I wonder if maybe I'm confusing one issue
19 with another, but I thought that Puget Sound Energy had
20 a sharing tariff in place?

21 A. I'm not aware of that.

22 Q. Okay. And my recall was that we heard a case
23 in which we had to interpret that tariff to determine
24 the sharing between the city and the county, I believe
25 Auburn and Kent and Puget Sound Energy and the

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1 relocation of facilities for the purpose of -- for that
2 particular purpose.

3 COMMISSIONER OSHIE: All right, I have no
4 further questions, thank you, Mr. Kermode.

5 JUDGE TOREM: Thank you, Commissioner Oshie.
6 Commissioner Jones.

7 COMMISSIONER JONES: I think this will be
8 brief and it is late in the day.

9

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

11 BY COMMISSIONER JONES:

12 Q. Mr. Kermode, are you familiar with
13 Mr. Defelice's rebuttal testimony?

14 A. Yes.

15 Q. He contends that Staff's proposed adjustment
16 for the 2010 Noxon upgrade, that's Noxon 3 upgrade.

17 A. That's correct.

18 Q. Contains an error by Staff, so do you agree
19 or disagree with Mr. Defelice?

20 A. Thank you for asking. No, I do not agree.
21 The Aurora model that the Company uses, it's my
22 understanding, I'm not an expert with Aurora, but it's
23 my understanding that (a) they could have modeled in the
24 three quarter year. And even given that maybe the
25 attributes of the model does not allow them to put in

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1 the full or in three quarter period, my focus is on cost
2 recovery and what should the rate payer pay. The plant
3 is going to be on line for nine months. The rate payer
4 should only pay for nine months worth of that plant.
5 For me to put in a full year's worth of depreciation and
6 return to me is a bit like the tail wagging the dog.
7 Because the model itself has it in for a year and that
8 gives me the support to include it in the test year, it
9 doesn't require me to make the rate payer pay more than
10 they should.

11 Q. Mr. Kermode, I went back and looked at his
12 testimony, and it says something to the effect that
13 Staff incorrectly transferred data into the model for
14 revenue requirements.

15 A. And in my revised Bench Request 2 I've
16 corrected that.

17 Q. Yeah, just came to us, I apologize, we have a
18 lot of -- excuse me.

19 A. A lot of paper.

20 Q. Yeah, a lot of paper flowing around.

21 Second question, this relates to Mr. Norwood
22 and his rebuttal testimony, he contends that the
23 application of the production property adjustment to pro
24 forma adjustments made for future periods, not meaning
25 the rate year, serves to satisfy "the matching

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1 principle". Do you agree with him on this point,
2 because he says something to the effect that Staff and
3 other parties have "apparently overlooked" that the
4 production property adjustment is used to match?

5 A. I would say consistent with a response I gave
6 earlier, we are matching the test year, we are not
7 matching the rate year. The test year, the dynamic of
8 the production adjustment is to match test year costs
9 with rate period loads, that the matching takes place at
10 the test year level.

11 Q. Okay, we're getting through these.

12 Next question, back to Defelice and his
13 rebuttal, he describes how the Company included
14 accumulated depreciation and deferred federal income
15 taxes, FIT, in its proposed pro forma rate base
16 adjustments. Can you help me understand how accumulated
17 depreciation and deferred FIT are treated in the
18 Staff's, in your proposed pro forma rate base
19 adjustment?

20 A. For the transmission generation adjustments,
21 consistent with prior Commission treatment I took the
22 pro forma amounts up to the rate year, average monthly
23 average rate year, then the production adjustment is
24 what takes it and matches it back to the test year. The
25 other items, obviously the -- I believe I took the

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1 distribution also to the rate year, because that's when
2 it would be in service.

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

5 JUDGE TOREM: Chairman Goltz.

6 CHAIRMAN GOLTZ: Yes, brief.

7

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

9 BY CHAIRMAN GOLTZ:

10 Q. In looking at your testimony, I believe it's
11 the same page and line in various versions, on page 38,
12 line 12, it says:

13 Staff selected transmission projects
14 that were either required by rule or
15 regulatory requirements or transmission
16 projects that were completed for system
17 reliability for inclusion in rate base.

18 Let me preface this by saying that I'm
19 finding these issues very difficult to get my head
20 around, and I think that looking for the principle that
21 we would apply in this case and presumably subsequent
22 cases as to when you would determine which non-test year
23 capital additions to include, you know, in a pro forma
24 adjustment, I'm trying to find a principle to do that.
25 So looking at those two criteria, one is that it's

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1 required, and one is for system reliability, I've got a
2 couple questions.

3 On system reliability, how did you determine
4 or -- I mean it seems to me that some projects add a
5 little bit to reliability, some projects add a lot to
6 reliability, how do you know which ones to include? Is
7 it a little deminimus amount of reliability or if it's
8 total? I mean how do you make that -- what principle do
9 we look to to make that judgment call?

10 A. On transmission projects I request -- trying
11 to be consistent with prior Commission orders or
12 positions, I frankly relied on the Company engineers,
13 and I tried to be explicit as to this is purely for
14 reliability, and that was my test.

15 Q. On the other set of criteria or criterion for
16 selecting transmission projects, that are required by
17 rule or regulatory requirements, and maybe if I went
18 back and kind of focused on all the individual projects
19 this would be clear, but I'm hypothesizing two
20 scenarios, one scenario in which the Company gets ahead
21 of the game and says, I'm going to install this project
22 because it's the right thing to do and I'm not going to
23 be required to do it, and the second scenario is the
24 same project but they hold back and wait until they're
25 told to do it.

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1 A. Mm-hm.

2 Q. Now if we allow inclusion in the test year
3 pro forma adjustment for the latter, for the required,
4 but not for the former where they may be farsighted, is
5 that the right kind of -- is that the right policy? And
6 maybe none of those --

7 A. In that you I don't want to say punish the
8 person as being proactive, but no, I understand your
9 point, yes.

10 Q. All right. And maybe none of the projects
11 here, you know, would be --

12 A. Fall within.

13 Q. -- impacted by that, but I'm worried about
14 the principle that just says if it's required, you're
15 in, if it's not required, you're out, and there's got to
16 be some tweaking of that it seems to me. At least
17 that's what I'm thinking at 5:15 today.

18 CHAIRMAN GOLTZ: Okay, I have no further
19 questions.

20 JUDGE TOREM: Thank you.

21 Commissioners, did that raise anything else?

22 Mr. Trautman, any redirect?

23 MR. TRAUTMAN: I have one or two quick
24 questions.

25 JUDGE TOREM: Press on.

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

3 BY MR. TRAUTMAN:

4 Q. Mr. Meyer characterized Staff's proposal in
5 allowing certain 2009 capital additions and contrasted
6 it with the Company's proposal as simply a build on to
7 what it has proposed. Now you've indicated that you put
8 significant importance to the June 30th date.

9 A. That's correct.

10 Q. And the Company is proposing to include
11 projects that would extend all the way out to the end of
12 2009; is that correct?

13 A. To the end of this year, yes.

14 Q. At the end of this year. And as we sit now
15 it's October 7th, and when the rebuttal testimony was
16 filed it was September 11th, correct?

17 A. Correct.

18 Q. Do you see a significant difference between
19 June 30th and December 31st, and if so, what is it?

20 A. Again I think by going now to the end of the
21 year -- or to June 31st?

22 Q. Out to December 31st, yeah.

23 A. Yeah, to December 31st, once again we're
24 looking at budgeted expected expenses, and historical
25 test year regulation provides certain constraints in my

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1 opinion that simulate basically a company in a
2 competitive environment. Once you start adding budgeted
3 amounts, projected amounts, basically diluting that
4 historical test year, I believe the constraints that a
5 utilities management normally has because the rates are
6 set to a historical test year start to dissolve. And
7 instead of focusing on the costs or the revenues are
8 embedded in rates, they start focusing on I want to say
9 maybe a wish list or a budget, and that's the danger as
10 far as going out to the end of the year before we even
11 know truly what has happened.

12 Q. And you also mentioned in your testimony the
13 need to have known and measurable items and also the
14 offsetting benefit, no offsetting benefits. In the case
15 of projects in December 31st, would the offsetting
16 benefit factor be satisfied in your view?

17 A. No.

18 Q. And why not?

19 A. They would never really have the chance to --
20 it's a little more involved -- when you put an asset
21 into the ground and it starts working, I call it a
22 maturing of that expense. It takes a while for that
23 capital project to basically work through that business
24 system. And that's again one of those great things
25 about the test year, we have things in place, it's a

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1 year things are working, the change is already in place.
2 By going forward like that, we're merely taking one
3 item, the capital items, and we're, I don't want to say
4 blinding ourself, we're not recognizing those other
5 offset factors.

6 MR. TRAUTMAN: Thank you, that's all I have.

7 JUDGE TOREM: Mr. Meyer, was there any
8 recross?

9 MR. MEYER: No, thank you.

10 JUDGE TOREM: All right, mercifully no, so I
11 don't think there's anything else for Mr. Kermode.

12 All right, seeing none, thank you.

13 THE WITNESS: Thank you.

14 JUDGE TOREM: All right, it is now almost
15 5:20. Let me again commend counsel on the way they
16 conducted the revenue requirements case. By estimates
17 it should have taken ten hours of cross, and it may feel
18 like it took ten hours, but it didn't. Nevertheless, I
19 have consulted with the Chairman, I just need a nod from
20 the court reporter whether a 9:00 a.m. start tomorrow
21 will work. All right, if it works for her, it will work
22 for the rest of you, so we will start tomorrow with the
23 power supply cost issues at Lancaster at 9:00.

24 Are there any housekeeping issues other than
25 I'm going to review for the record the Bench requests

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1 that were made today and are outstanding?

2 Okay, the Commissioners need not stay for
3 that, but for the parties keeping score at home, the new
4 Bench requests that were verbally made today are Bench
5 Request 5, which is due a week from Friday, October the
6 16th. This regarded the CEO compensation for Ely and
7 Morris to look at their salaries and to see what
8 fraction of that is in Washington rates. Of course
9 there's more detail earlier in the record, but that's
10 Bench Request 5.

11 Bench Request 6, due this Friday, October
12 9th, is Avista's response, which is confidential, to
13 Staff Data Request 7.

14 Bench Request 7, also due this Friday, is the
15 per customer O&M costs that I believe Chairman Goltz
16 asked about.

17 And Bench Request 8, also due this Friday,
18 were the items on removing and replacing those
19 transmission lines dating from 2002 to 2008.

20 Those are the Bench requests for today.

21 Also we're noting that the updated revised
22 Exhibit B-5 that Public Counsel is going to submit which
23 will contain Mr. Larkin's updates all the way through
24 the settlement I believe, HL-5 and HL-6, that will be
25 due a week from Friday, October the 16th.

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1 Those are the outstanding items that were
2 presented verbally today. Were there any that I missed?

3 Were there any other housekeeping items we
4 needed to address today before we close the record?

5 Seeing none, then we're adjourned at 5:22,
6 we'll be back at 9:00 tomorrow morning, thank you.

7 (Hearing adjourned at 5:22 p.m.)

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