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 1 BEFORE THE WASHINGTON

 2 UTILITIES AND TRANSPORTATION COMMISSION

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 4 WASHINGTON UTILITIES AND )

 TRANSPORTATION COMMISSION, )

 5 )

 Complainant, ) Docket Nos. UE-170485

 6 ) and UG-170486

 vs. ) (Consolidated)

 7 )

 AVISTA CORPORATION, d/b/a )

 8 AVISTA UTILITIES, )

 )

 9 Respondent. )

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 VOLUME V

11 EVIDENTIARY HEARING

12 PAGES 325 - 463

13 ADMINISTRATIVE LAW JUDGES

 MARGUERITE E. FRIEDLANDER and RAYNE PEARSON

14 \*\*\*\* A PORTION OF THIS TRANSCRIPT IS DESIGNATED

 CONFIDENTIAL AND SEALED UNDER SEPARATE COVER \*\*\*\*

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17 January 17, 2018

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 1 OLYMPIA, WASHINGTON; JANUARY 17, 2018

 2 9:04 A.M.

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

 4

 5 JUDGE FRIEDLANDER: Now we'll be on the

 6 record. And we have -- this hearing is back in

 7 session now. We have Mr. Christie back on the witness

 8 stand for a bit of additional evidence and possible

 9 questions.

10 Mr. Meyer.

11 MR. MEYER: Thank you.

12 REDIRECT EXAMINATION

13 BY MR. MEYER:

14 Q. Mr. Christie, you were asked by Chairman

15 Danner a series of questions about the relationship of

16 heating with electricity versus natural gas in terms

17 of price and home size. Have you had a chance to

18 gather some more information?

19 A. Good morning. Yes, I have.

20 Q. Would you share that, please?

21 A. I will. I did verify that the homes ranging

22 in size from 500 square feet to over 4,000 square feet

23 fall within the range of 1.5 to 3.2 times the cost

24 when heating with electricity instead of natural gas.

25 Q. And then would you elaborate -- I know you

0332

 1 have some specific point estimates that you could

 2 share with respect to whether it's 500 feet or 4,000.

 3 A. The 4,000-square-foot home comes to 3.18, to

 4 be precise. The 500-square-foot home comes in at

 5 2.74.

 6 CHAIRMAN DANNER: I'm sorry. We had a lot

 7 of phone bug going on while you were speaking. I was

 8 wondering if you could give me those again.

 9 THE WITNESS: Sure. The 4,000-square-foot

10 home comes in at 3.18. The 500-square-foot home comes

11 in at 2.74.

12 CHAIRMAN DANNER: Thank you.

13 MR. MEYER: Anything further.

14 JUDGE FRIEDLANDER: Very popular.

15 MR. MEYER: Yes. With that, may the

16 witness be excused?

17 JUDGE FRIEDLANDER: Are there any cross

18 questions for the additional information?

19 MR. O'CONNELL: No, your Honor. Thank

20 you.

21 JUDGE FRIEDLANDER: Okay. And no

22 additional bench questions?

23 Okay. Then I believe the witness can be

24 excused.

25 MR. MEYER: Thank you.

0333

 1 I call to the stand Mr. Thies.

 2

 3 MARK T. THIES, witness herein, having been

 4 first duly sworn on oath,

 5 was examined and testified

 6 as follows:

 7

 8 JUDGE FRIEDLANDER: Thank you. You can be

 9 seated.

10 THE WITNESS: Thank you.

11 DIRECT EXAMINATION

12 BY MR. MEYER:

13 Q. Mr. Thies, for the record, would you please

14 state your name and your employer?

15 A. Mark Thies, Avista Corp.

16 Q. And what is your position with the Company?

17 A. Senior vice president, chief financial officer

18 and treasurer.

19 Q. Thank you.

20 And have you prepared or caused to be

21 prepared pre-filed testimony and exhibits in this

22 case?

23 A. I have.

24 Q. And have those been marked for identification

25 as MTT-1T through MTT-8, as well as an additional

0334

 1 exhibit marked as MTT-13C?

 2 A. Yes.

 3 Q. Thank you.

 4 To the best of your knowledge, as your

 5 testimony has been revised through that additional

 6 exhibit, 13C, is your testimony true and correct to

 7 the best of your knowledge?

 8 A. Yes.

 9 MR. MEYER: Thank you.

10 With that, Mr. Thies is available for

11 cross.

12 JUDGE FRIEDLANDER: Thank you.

13 Ms. Cameron-Rulkowski?

14 MS. CAMERON-RULKOWSKI: Thank you,

15 your Honor.

16 CROSS-EXAMINATION

17 BY MS. CAMERON-RULKOWSKI:

18 Q. Good morning, Mr. Thies.

19 A. Good morning.

20 Q. I'm Jennifer Cameron-Rulkowski.

21 Now, you testified that Avista plans to issue

22 debt every year for the next several years, correct?

23 A. Yes.

24 Q. And this year, 2018, Avista has a significant

25 amount of debt that is maturing, right?

0335

 1 A. Yes.

 2 Q. Has Avista issued any debt yet in 2018?

 3 A. Other than possibly under our short-term

 4 credit facilities for normal operating methods, no, we

 5 have not issued any long-term debt.

 6 Q. Thank you. That's what I was interested in.

 7 Can you tell me how much debt Avista plans to

 8 issue in 2018?

 9 A. The -- in a range, we expect to issue about

10 $375 million, but that could range from 350 to 400

11 million depending on cash flows and where we get at

12 the time we issue the debt. It can move slightly.

13 Q. And has Avista executed interest rate swaps

14 for the 2018 debt that it plans to issue?

15 A. Yes.

16 Q. All right.

17 Avista has requested a rate plan that would

18 extend until the end of April 2021, correct?

19 A. Is it '20 or '21? Let's see. '19, '20, '21,

20 yes -- sorry, I'm slow in math. I shouldn't say that,

21 but -- I am the CFO, but it took me a minute there.

22 Sorry. Yes.

23 Q. Thank you.

24 And has Avista entered into interest rate

25 swaps for debt that it plans to issue during the rate

0336

 1 plan but after the 2018 rate year?

 2 A. Yes.

 3 Q. All right.

 4 And now I have a couple of questions that may

 5 elicit a confidential response.

 6 A. Okay.

 7 Q. I don't know if you know they were

 8 confidential and they are no longer, so I'm going to

 9 ask the question and you please let us know if we need

10 to clear the room.

11 MR. MEYER: So -- and that's fine, but if

12 we think we're going into even a short series of

13 confidential things, could those be batched up with

14 other confidential questions and we can return to your

15 line on that? You can give it a try and maybe we can

16 just work through it now. If not, we can batch it up.

17 MS. CAMERON-RULKOWSKI: I only have a

18 couple of questions.

19 JUDGE FRIEDLANDER: If we start to enter

20 into the confidential information, then we will just

21 take them at a later time.

22 MS. CAMERON-RULKOWSKI: Thank you,

23 your Honor.

24 BY MS. CAMERON-RULKOWSKI:

25 Q. Now, I want to go back to the 2018 debt

0337

 1 issuances. About when did Avista start entering into

 2 interest rate swaps associated with 2018 debt

 3 issuances?

 4 A. I'd have to look. Is there -- is there a

 5 reference in my testimony? I mean, I don't remember

 6 the exact times. Did I put something in my testimony

 7 that says when we did each of our hedges?

 8 Q. So a ballpark would be a helpful answer.

 9 A. So we -- our plan for the -- we've been

10 hedging interest rates since 2004, but we formalized

11 the plan in 2013. So my sense would be, if we knew we

12 had these significant -- there are two large

13 maturities, 2018 and then again in 2022 we have

14 another large maturity, large in reference to our

15 total -- in reference to our total debt.

16 So we began I believe it was 2014 beginning to

17 put some hedges in with respect to the 2018 issuance,

18 but that's subject to check. I guess if we could

19 check that. Is that fair?

20 Q. Absolutely.

21 And can you tell me approximately what

22 percentage of your forecasted principal amount for the

23 2018 debt issuance is currently represented in

24 interest rate swaps?

25 MR. MEYER: Excuse me. At this point it's

0338

 1 not so much a confidential concern as it is a

 2 relevance concern to what is at issue in this case.

 3 What is at issue in this case, through Mr. McGuire's

 4 testimony, are the 2016 swaps, not subsequent hedges

 5 that come due in '18 and later. Those are not at

 6 issue in this case.

 7 And I would sure hate to see in briefing

 8 an argument based on this information -- let me

 9 finish, please -- based on this information that

10 argues that not only should the prior swaps that are

11 being debated in this case, but anything since then be

12 disallowed. That's a different kettle of fish, so I

13 would object to further questioning on this.

14 MS. CAMERON-RULKOWSKI: That's my last

15 question, and that's not Staff's intent, that was not

16 Staff's position, and Staff is not changing its

17 position.

18 MR. MEYER: All right. Thank you.

19 JUDGE FRIEDLANDER: Thanks.

20 BY MS. CAMERON-RULKOWSKI:

21 Q. And so with that, Mr. Thies, can you -- are

22 you able to tell us approximately what percentage of

23 the amount of the forecasted 2018 debt issuances are

24 represented -- or what percentage is represented in

25 interest rate swaps currently?

0339

 1 A. Off the top of my head, no, but I could have

 2 that checked very quickly. And within, you know, the

 3 time I'm still on the stand, I'm sure somebody could

 4 check that and I could get that information. Off the

 5 top of my head, I don't know the exact amount.

 6 Q. That would be appreciated, thank you.

 7 MS. CAMERON-RULKOWSKI: And I don't have

 8 any further questions for Mr. Thies.

 9 JUDGE FRIEDLANDER: Thank you.

10 And I have Ms. Gafken.

11 MS. GAFKEN: Thanks.

12 CROSS-EXAMINATION

13 BY MS. GAFKEN:

14 Q. Good morning, Mr. Thies.

15 A. Good morning.

16 Q. Would you please turn to your rebuttal

17 testimony, which is Exhibit MM -- I'm sorry -- MTT-16,

18 and go to page 3, line 19 -- well, starting at page 3,

19 line 19.

20 A. Okay.

21 Q. I'll refer you to page 3, line 19 through

22 page 4, line 19.

23 A. Okay.

24 Q. There you state that the slowing -- that

25 slowing the rate of capital investments is not a

0340

 1 reality for Avista, correct?

 2 A. Correct. Our forecasted capital expenditures

 3 are expected to be a similar amount going forward at

 4 $405 million per year.

 5 Q. And how far out does that projection go?

 6 A. 2021.

 7 Q. And I believe Ms. Andrews yesterday testified

 8 that Avista was looking to do that for maybe the next

 9 four to five years, which is a little bit longer than

10 what's shown on the chart on page 4.

11 Do you agree with that?

12 A. Yes. I think our capital needs, as we state

13 in our -- in one of my charts that shows that we're

14 not spending all of the capital that's requested and

15 we still have some capital projects that we will need

16 to do, so I would anticipate that that would continue.

17 I don't have a specific year as to when that could

18 slow down.

19 Q. Is it fair to say that Avista believes that

20 it will need annual rate adjustments at least through

21 2021 and perhaps longer than that based on the capital

22 expenditures?

23 A. Based solely on the capital expenditures,

24 there are a number of things that go into whether we

25 need an annual rate adjustment or not: Customer

0341

 1 growth and cost information as well. But based just

 2 on that, it is growing -- expected to grow our rate

 3 base with that capital at the moment.

 4 Q. I just want to make sure that I'm clear on

 5 that point or that I understand what you're saying.

 6 Will the capital expenditures be one of the

 7 drivers for Avista's need for annual rate adjustments

 8 going forward?

 9 A. Yes, I believe it will. And when we look at

10 our capital, you know, we do as we've had in the

11 amount requested versus the amount that we, you know,

12 authorize, we're issuing less than we expect, and we

13 also -- there are a few -- a few things that I think

14 may help to that, and I don't know if I can -- if this

15 is helpful to you or not, but we have a chart that was

16 out of Scott Morris's testimony that is EXH SLM-1T.

17 MR. MEYER: Okay. Let's take a minute

18 because -- why don't you -- yeah, just show everyone

19 and they can kind of know what they're looking for.

20 BY MS. GAFKEN:

21 Q. So I think this goes beyond my questioning at

22 this point.

23 A. Well, you were asking about forward capital,

24 so I was just --

25 Q. Okay.

0342

 1 A. -- this kind of goes from the actual and then

 2 to the forecast as to what those dollars are.

 3 MR. MEYER: Direct testimony of Scott

 4 Morris, page 28, Illustration No. 11.

 5 MS. GAFKEN: Okay.

 6 MR. MEYER: And we actually have some hard

 7 copies that we can pass around the room quickly. You

 8 want them.

 9 JUDGE FRIEDLANDER: Yeah, we got them.

10 MR. MEYER: You got them. We're all good.

11 Okay. Go ahead.

12 A. Well, it just shows the level of capital. It

13 slightly decreases per customer, and my point was

14 going to be on a per customer basis. At a flat

15 capital level, on a per customer basis, that is

16 slightly going down from that -- from that chart.

17 BY MS. GAFKEN:

18 Q. Okay.

19 A. So sorry.

20 Q. Thank you.

21 Would you now please turn to your

22 cross-exhibits, and there's three of them that are

23 marked MTT-10, MTT-11 and MTT-12. Those three

24 exhibits contain Avista's response to Public Counsel's

25 data requests asking about the impact of the new

0343

 1 federal tax legislation, the Tax Cuts and Jobs Act.

 2 A. Which one? I don't recognize three of them.

 3 Q. Sure. It's MTT-10, -11 and -12.

 4 A. Okay.

 5 Q. Avista also responded to Bench Request No. 1,

 6 which also asked for information about the impact of

 7 the Tax Cut and Jobs Act, correct?

 8 A. Yes.

 9 Q. The Company proposes to provide complete

10 answers regarding the impact of the new federal tax

11 legislation by March 31st, correct?

12 A. Yes.

13 Q. Is it Avista's intent that the effect of the

14 Tax Cut and Jobs Act be incorporated in rates that

15 result from this rate case?

16 A. We would -- we would like to time that so we

17 don't confuse our customers with a rate change with

18 respect to this rate case, and then at a different

19 time another rate change due to the Tax Act. We would

20 like to time those to where we could have that at one

21 time so as to not confuse our customers with multiple

22 things at different periods. So yes, our intent would

23 be to have that at the same time on May 1st.

24 Q. Would the change involving the impacts to the

25 Tax Act be done in this docket or a separate docket?

0344

 1 A. I believe it would be a separate docket. I'm

 2 not exactly sure procedurally how that works because

 3 of tax reform. I mean, this happened 30 years ago the

 4 last time with the Tax Act of '86, so I'm not exactly

 5 sure how the Commission wants to -- I would expect it

 6 would be a separate tariff, and whether that's part of

 7 a separate docket or not, I'm not sure.

 8 Q. While Avista states that it cannot currently

 9 present its analysis in full, are you able to confirm

10 whether the anticipated impact will be an overall

11 decrease in Avista's expenses and ultimately a

12 decrease to the needed revenue requirement?

13 A. So a little bit on -- the Tax Act is very

14 complex, and there are a lot of components to the Tax

15 Act. So a number of things on a basis -- we believe

16 that, yes, to customers, that will result in an

17 overall decrease, on -- you know, at current levels.

18 And then going forward, though, that could change as

19 it changes the amounts of deferred taxes and how that

20 impacts rate base.

21 So we're trying to come up collectively with

22 the impact to the revenue requirement, and then also

23 impacts to deferred taxes based on the -- the

24 different components of that Tax Act. It's a very

25 complex act. We have significant amounts of

0345

 1 plant-deferred taxes. We also have non-plant-deferred

 2 taxes, and then the overall rate -- probably the

 3 largest benefit is the overall rate decrease from

 4 35 percent to 21 percent.

 5 Q. When Avista provides the additional

 6 information by March 31st, do you anticipate that to

 7 include the broad range of impacts, or just the

 8 immediate impact from the reduction of the tax rate

 9 from -- is it 36 to 21 or --

10 A. 35 to 21.

11 Q. 35 to 21.

12 A. We would expect to have the broad range

13 covered. Now, one caveat to that that we don't

14 control is the IRS has not even issued regulations yet

15 on how to handle all of these things, so we would

16 expect that we can -- we can go as far as we can with

17 what we know, but if IRS regulations are not out,

18 those will be estimates at that time that could be

19 trued up with subsequent IRS regulations.

20 Q. I had a series of questions next to try to

21 get at the range of the impact. And I know Avista's

22 position is that the analysis hasn't been completed,

23 but I'm wondering if you can give estimates, so that's

24 the intent of the next several questions.

25 How much can Avista expect in terms of just

0346

 1 the basic tax impact burden? Do you have an idea of

 2 the range of that piece?

 3 A. I'll try to answer that. I don't know that

 4 I'm going to get it exactly right.

 5 So if we look at just the revenue requirement,

 6 that will have lower taxes on revenues, but then also

 7 the expenses -- expected expenses as we look at --

 8 let's say the year 2018, for example, and we reran

 9 that, just for the current -- the effects of current

10 income tax, not deferred taxes, set that aside for a

11 moment, just the effects of current income taxes, the

12 range that customers could expect to see is at this

13 point 20 to $30 million.

14 Q. Okay.

15 A. We -- and then secondarily, if I'm trying to

16 answer comprehensibly for you, we have significant

17 deferred taxes that --

18 Q. That was my next question --

19 A. Okay.

20 Q. -- but go ahead.

21 A. We'll turn -- you know, that -- we believe,

22 historically, the Commission has said that will turn

23 into a regulatory asset or a liability, not a deferred

24 tax any longer because it's not owed -- I mean, we're

25 not going to get the recovery from the IRS. But that

0347

 1 has been paid for by the customer since we are in

 2 deferred tax liability position, net. There may be

 3 some small amounts of deferred taxes, so I will speak

 4 to -- that are assets, but I'm gonna speak to just

 5 generally, it's a deferred tax -- net deferred tax

 6 liability.

 7 So that would benefit customers because it was

 8 deferred at 35 percent and would be, you know, repaid,

 9 since it's a liability, at 21 percent. And then how

10 that goes through -- and I don't understand every --

11 how that all gets grossed up into how we have for

12 revenue requirement purposes, but it's -- it's over

13 $300 million that would -- that would result in -- as

14 an estimate, that would result in, you know, deferred

15 tax liabilities --

16 Q. Um-hmm.

17 A. -- becoming regulatory liabilities. And how

18 that turns around for -- it's different between plant

19 assets related to plant, and non-plant.

20 The plant asset is prescribed by the IRS

21 through the adjusted -- or average rate adjustment

22 mechanism, and that is a prescribed -- our current

23 expectation there is approximately 36 years. We still

24 have to look at all aspects of that. That's our

25 current estimate of how that would be returned.

0348

 1 And then on the non-plant asset side, we're

 2 still looking at that as to how that would be returned

 3 to customers, those benefits, and we would anticipate

 4 having that in our March 31st filing.

 5 Q. Okay.

 6 My next question is a catch-all question.

 7 Are there other impacts that Avista is anticipating

 8 based on the new federal legislation, and, if so, what

 9 are they and could you provide a range for --

10 A. That would -- the answer to that question,

11 that would be part of the confidential --

12 Q. Okay.

13 A. -- section, because it is non-public at this

14 point so --

15 Q. We can defer that.

16 A. Okay.

17 Q. I just have a couple more questions,

18 switching gears to a different topic.

19 Avista earned its authorized return on equity

20 or above for the years 2013, '14, '15 and '16; is that

21 correct?

22 A. I believe so, yes. If not, it was really

23 close.

24 Q. And my question was, either meeting the

25 return on equity or perhaps a little above?

0349

 1 MR. MEYER: So for which services,

 2 electric and/or gas? Which ones?

 3 MS. GAFKEN: Well, I believe the total

 4 company, and then also electric on most of those

 5 years, and the witness can clarify, I think, if he

 6 feels the need to.

 7 MR. MEYER: Just so he knows whether he's

 8 answering on an actual or a normalized or electric or

 9 gas.

10 A. Okay. Again, in my testimony, I know there's

11 a chart that I could go to, but I don't recall what it

12 is, that shows what our actual returns were.

13 BY MS. GAFKEN:

14 Q. Okay.

15 But the time frame sounds right to you?

16 A. The time frame sounds reasonable.

17 Q. Okay. I can leave it there.

18 MS. GAFKEN: Thank you.

19 JUDGE FRIEDLANDER: Thank you.

20 MS. GAFKEN: Thank you.

21 JUDGE FRIEDLANDER: Mr. Oshie?

22 MR. OSHIE: Thank you, your Honor.

23 CROSS-EXAMINATION

24 BY MR. OSHIE:

25 Q. Good morning, Mr. Thies.

0350

 1 A. Good morning.

 2 Q. Can you confirm that the Company will be

 3 filing a depreciation study in 2018 here at the

 4 Washington Utilities and Transportation Commission?

 5 A. Yes.

 6 Q. Does the Company agree with Staff that the

 7 Commission should not change Avista's rates to reflect

 8 the changes expected from the depreciation study?

 9 A. No. I believe we should reflect the changes

10 from the depreciation study.

11 Q. And would that happen -- do you believe that

12 the Company would seek to change rates during the term

13 of their rate plan to incorporate the results of the

14 depreciation study?

15 MR. MEYER: Well, I believe these

16 questions really should be taken up -- and we're happy

17 to recall Ms. Andrews, but she does speak more to the

18 depreciation study, the respective study, when it's

19 filed and how it will be treated, whether there will

20 be deferrals or adjustments.

21 MR. OSHIE: Well, your Honor, and I can

22 certainly accept that, but Mr. Thies is the CFO of the

23 company, and I would expect that Ms. Andrews reports

24 directly to him, and he would at least have an idea as

25 to whether the Company would be seeking rate relief

0351

 1 for the depreciation study during the years that are

 2 in plan. But I'm happy to bounce that down to

 3 Ms. Andrews, and I'm sure she can answer the question,

 4 but I'm surprised by the deferral down to her.

 5 MR. MEYER: Well, Mr. Thies can respond.

 6 I just want to make clear who our primary witness on

 7 that is. But go ahead if you like.

 8 A. Ms. Andrews doesn't report to me, even

 9 directly or indirectly.

10 BY MR. OSHIE:

11 Q. Strike that, then.

12 A. The rates department does not go that way,

13 but, you know, from -- you know, I will take

14 Mr. Meyer's recommendation. Ms. Andrews is very close

15 to this issue, but on a general basis, as I look at

16 it, as I said, as the CFO, to the extent that we have

17 depreciation expense that is related to utility

18 assets, that, you know, should be part of our rates

19 for our utility customers.

20 MR. OSHIE: Thank you. That may be good

21 enough, your Honor. I have no other questions. Thank

22 you.

23 JUDGE FRIEDLANDER: Okay. Thank you.

24 Are there any non-confidential questions?

25 Okay.

0352

 1 EXAMINATION

 2 BY COMMISSIONER BALASBAS:

 3 Q. Good morning, Mr. Thies.

 4 A. Good morning.

 5 Q. So I will ask the question that Ms. Andrews

 6 deferred to you from yesterday, and that is --

 7 A. Can I defer?

 8 Q. -- and that is the question related to the

 9 Company's capital spending plan.

10 So my question is, is will the Company

11 continue to spend its currently forecasted level for

12 capital projects regardless of what the Commission

13 approves for -- that would go to rates?

14 A. So with the capital, we have built this

15 capital on projects that we believe there is a need

16 and an immediacy to those projects, and that's how we

17 put our forecast together.

18 We do not forecast all of the projects as we

19 show in our testimony, so with that capital, though,

20 we would -- we believe we would need to spend it. If

21 we determined that we did not spend that, it would

22 increase risk.

23 So what we look at is both kind of a risk and

24 a safety perspective to how we're coming up with our

25 capital plan. What do we need to spend to have the

0353

 1 safety and reliability of our system as well as other

 2 capital projects for safety of our employees and our

 3 communities, and that's how we derive the need for our

 4 capital.

 5 Should we get less approved by the Commission,

 6 then we would be in the position that we would have to

 7 look at capital projects that we believe are needed

 8 for the safety and reliability of the system and/or

 9 safety and reliability of other parties to that, our

10 employees or communities, and have to -- have to make

11 the determination of should we spend that capital

12 anyway and not have a return on it.

13 And from a -- from a business perspective, we

14 would look at that and say, no, we should spend the

15 capital up to the amounts that the Commission has

16 approved to have the opportunity to receive our

17 allowed return, you know, have that opportunity for

18 the shareholder, but we know we have these capital

19 projects.

20 So that would be a tough determination.

21 Again, I'm not trying to not answer that. I think we

22 would have to look at individual projects and say,

23 okay, we're not getting full recovery. Is this a

24 project that we could defer, and not what is the risk

25 to that.

0354

 1 Q. So would it be safe to assume, then, that if

 2 the Commission were to approve less than what the

 3 Company is requesting, which your case supports this

 4 level of capital spending, is it safe to assume, then,

 5 that the Company, as it does with its current capital

 6 project plan, reprioritize those projects and then

 7 determine whether some of those projects should move

 8 forward regardless of whether there's a return on it?

 9 A. We would have to look at those projects and

10 reprioritize not just the return on those projects,

11 but also the risk of not doing those projects. What

12 is the risk associated with that? If we didn't do

13 those projects, could that be -- is it -- you know,

14 the right way to run the business still to make sure

15 that we have a safe and reliable system.

16 COMMISSIONER BALASBAS: Thank you.

17 EXAMINATION

18 BY COMMISSIONER RENDAHL:

19 Q. Good morning, Mr. Thies.

20 A. Good morning, Commissioner.

21 Q. So I have a couple of questions related to

22 the bench request.

23 The first --

24 A. For taxes or --

25 Q. Related to the tax --

0355

 1 A. Okay. Thank you.

 2 Q. -- the Tax Act.

 3 So the first is, will the Company be

 4 discussing any potential or preliminary tax rate

 5 effects as a part of its February earnings call?

 6 A. Yes, we will -- we will have to describe in

 7 our February earnings call the impacts to -- again, on

 8 the confidential side -- 2017 earnings, and then going

 9 forward what the expected impacts to the Company's

10 books are and earnings are with respect to the Tax

11 Act. We would -- we would expect to discuss that in

12 that call.

13 Q. All right.

14 So my question to you, then, is, if that is

15 the case, why can't the Company include information

16 for purposes of this rate case earlier than the

17 March 30th deadline that is discussed in the bench

18 request?

19 A. The -- the impacts -- the complexity is more

20 around the turnaround of the deferred taxes and the

21 deferred tax liabilities that don't really impact

22 earnings, per se. They really impact the deferred

23 taxes or the regulatory liability, and that's where

24 the complexity of the timing of that is, that we want

25 to make sure we get back to the Commission with a full

0356

 1 report on that. And that has more complexity than

 2 what the impact is to the earnings on what, going

 3 forward, is the non-utility aspects of our business.

 4 We're 99 percent regulated as a company, so

 5 most of our impacts for taxes are with respect to the

 6 utility business and the customer impacts. That's the

 7 more complex part than just looking at the income

 8 statement going forward and what expenses we have, and

 9 having less of a deduction for those expenses.

10 Q. Okay.

11 Well, I'm sure you've been watching what the

12 news -- at least the utility sector news, various

13 commissions that have ordered their regulated

14 industries to report the tax effect, and, in fact,

15 some commissions are requiring this at an earlier

16 stage.

17 So my question to you, you have in your

18 footnote on page 2 of your bench request response that

19 you can't release any -- publicly any partial

20 information without triggering filings.

21 How can other companies be providing this

22 information to their utility commissions and

23 reflecting this in rates if you can't?

24 Why -- what's the difference here? I'm a

25 little bit confused.

0357

 1 A. So -- and I don't know what other companies

 2 are -- how they're doing it. Some other companies

 3 have already issued a case, and if the Commission --

 4 we could issue an AK that would say, this is the

 5 financial impact to the company that's triggered

 6 early. And I don't believe that it's necessarily

 7 significant enough to this case, but if the Commission

 8 desired that, we would issue an AK and we would make

 9 that information public.

10 The complexity that we're not, and other

11 companies are not, is really the timing around the

12 turnaround of the deferred taxes on a plant basis and

13 a non-plant basis.

14 The other impacts, you know, we can run

15 through our revenue models, Ms. Andrews can run

16 through that model and have -- again, we have that 20

17 to 30 million. We can come up with estimates for the

18 Commission piecemeal. Our preference was to try to

19 have a comprehensive answer to that.

20 The impacts are -- it's a different impact

21 than what hits our -- our earnings for the Company

22 versus the turnaround on the deferred taxes for the

23 customer.

24 What we have told our shareholders in our

25 public disclosure, most of the benefits from tax

0358

 1 reform will go back to customers. How that will go

 2 back will be -- you know, there's a lot of different

 3 moving parts to that, but all those benefits go back

 4 to customers.

 5 So if this Commission wants us to issue an AK

 6 for those impacts and get that information earlier, it

 7 would still be estimates, because we have to work

 8 through every component of our deferred taxes to make

 9 sure we get the turnaround right for the regulatory

10 liability under the average rate adjustment mechanism.

11 Q. Okay.

12 Well, this might be a question for counsel to

13 discuss at the end of the hearing, but I think we need

14 to discuss the timing and the process, which I think

15 Ms. Gafken raised the question about, whether these

16 issues will be addressed in this hearing, I mean in

17 this rate case, and whether we will have time to

18 address these issues in the rate case before the end

19 of the suspension period, or whether this is done in a

20 separate docket and concluded around the same time.

21 And so I'm just -- obviously I'm sure it's on

22 everybody's mind, but that's a key question. So I

23 guess it's not really a question for you.

24 A. Okay.

25 Q. It's just teeing this up for discussion --

0359

 1 JUDGE FRIEDLANDER: And I -- thank you,

 2 Commissioner Rendahl.

 3 And I think I would add that we expected

 4 in responses to the bench requests, since Avista

 5 detailed its proposal for how to handle these -- the

 6 implications from the TCJA, we expect the parties, if

 7 they're going to respond, to include their proposals

 8 for how we should best handle this, given what

 9 Mr. Thies and Avista have said are some difficulties.

10 CHAIRMAN DANNER: So right now the date

11 for those responses is January 26th?

12 JUDGE FRIEDLANDER: Yes, it is.

13 MR. MEYER: And thank you, your Honor, for

14 clarifying that, because we did our level best in that

15 response to the bench request to lay out with as much

16 precision as we could a path, a pathway to get to this

17 issue, and with the objective of syncing it up with

18 the May 1st-ish effective date of the new general

19 rates, so you don't --

20 MS. CAMERON-RULKOWSKI: Excuse me. It

21 looks like Mr. Meyer is testifying yet again. And so

22 I would ask, are we really having a procedural

23 discussion at this point? Or is he actually

24 testifying about the content -- the substantive

25 content of the bench request? And I just want to be

0360

 1 clear what's going on right now.

 2 COMMISSIONER RENDAHL: I'm sorry. I've

 3 mixed up procedure with the witness's testimony, so I

 4 consider this to be somewhat procedural, and maybe we

 5 can defer this discussion until later.

 6 CHAIRMAN DANNER: All right. Yeah. I

 7 assumed this was a procedural tangent and then we

 8 would return --

 9 JUDGE FRIEDLANDER: Yeah, yeah.

10 MS. CAMERON-RULKOWSKI: Thank you.

11 MR. MEYER: I'll go at it later. Thanks.

12 COMMISSIONER RENDAHL: That's all.

13 JUDGE FRIEDLANDER: All right.

14 Then if there's nothing else, I think

15 we'll take a brief recess while we go into

16 confidential session. And I would just --

17 COMMISSIONER RENDAHL: Do we need to do

18 any -- I don't know if you have --

19 JUDGE FRIEDLANDER: Redirect?

20 COMMISSIONER RENDAHL: Redirect on these

21 non-confidential --

22 MR. MEYER: Yes, yes, we do.

23 JUDGE FRIEDLANDER: So you don't -- okay.

24 That's fine. Either way. We can save all of the

25 redirect for once or we can just do it now.

0361

 1 CHAIRMAN DANNER: I prefer we do it now,

 2 that we keep what can be open open.

 3 JUDGE FRIEDLANDER: Sure. Sure, sure.

 4 MR. MEYER: That makes sense. Absolutely.

 5 REDIRECT EXAMINATION

 6 BY MR. MEYER:

 7 Q. Okay.

 8 Again, in sort of reverse order of how these

 9 things were addressed earlier in questioning, several

10 questions posed not only by Public Counsel on capital

11 expenditures going forward, but also by Commissioner

12 Balasbas. And so just a series on that to begin with?

13 You referred in your exchange with Public

14 Counsel to an exhibit -- or excuse me -- an

15 Illustration No. 11 appearing in the direct testimony

16 of Mr. Morris at page 28; is that correct?

17 A. Yes.

18 Q. And that consists, does it not, of a cost --

19 annual capital spent per customer for a series of

20 years, 1950 through 2021; is that correct?

21 A. Yes.

22 Q. And so it has both actual and forecasted

23 information in it? I'll just let everybody catch up

24 with us.

25 A. Yes.

0362

 1 Q. So how would you characterize, Mr. Thies, on

 2 a cost-per-customer basis, the level of spending now

 3 and as projected as compared with prior years?

 4 A. As the chart shows, the last several years,

 5 the capital -- the capital expenses have increased

 6 significantly from -- and I -- just to give you

 7 context, I started at Avista in 2008, and our capital

 8 budget was around $200 million a year. So now it's

 9 $405 million a year.

10 But as we look at the overall expectations of

11 that cost per customer, it is still a reasonable level

12 of -- we believe it is a reasonable level of capital

13 to be spending on a per customer basis to maintain the

14 safety and reliability of our system. While the

15 absolute number seems -- is a significant increase, on

16 an overall basis, we believe it's a reasonable number.

17 Q. So -- now, that's just unique to Avista's

18 experience, correct? We're not talking about the

19 industry at large?

20 A. Our -- our -- our capital spending is similar

21 to the industry, what other -- other utilities are

22 spending for capital.

23 Q. And can you point to any evidence that

24 supports that?

25 A. There is an exhibit in Ms. Rosentrater's

0363

 1 testimony, EXH HLR-1T, that --

 2 Q. Page 8?

 3 A. Page 8 -- compares --

 4 Q. Let's let everybody get there.

 5 CHAIRMAN DANNER: I'm sorry. Can you give

 6 me that page number again, or the exhibit number

 7 again?

 8 THE WITNESS: HLR -- it's

 9 Ms. Rosentrater's --

10 CHAIRMAN DANNER: Yeah.

11 THE WITNESS: HLR-1T.

12 JUDGE FRIEDLANDER: What page?

13 MR. MEYER: Page 8.

14 THE WITNESS: Page 8. I'm sorry.

15 JUDGE FRIEDLANDER: Thank you.

16 BY MR. MEYER:

17 Q. All right. Proceed.

18 A. And what that shows is that Avista's is --

19 Avista's capital expenditures compared to industry --

20 capital expenditures or transfers to plant for

21 transmission and distribution assets, our spending for

22 those assets is reasonable and somewhat less than the

23 overall industry, so it is not -- we're not

24 overspending a significantly more amount.

25 Q. And is the trending of that spending over

0364

 1 time largely consistent with the industry at large?

 2 A. Yes. As the exhibit shows, our trending and

 3 our capital spending is consistent with the industry.

 4 Q. Next question.

 5 Is Avista management, is its charge to assess

 6 the risk of proceeding or not proceeding with capital

 7 investments?

 8 A. Yes. As we determine the amount of capital

 9 spending necessary for our system, we have to look at

10 the system needs for a safe and reliable system, and

11 we -- all of our different departments, we have a

12 capital planning group that goes through all the

13 different requests to maintain our system and look at

14 those projects. And then when we look at projects

15 prioritizing them, we have to assess the risk of not

16 doing those projects.

17 So we don't spend all of the capital -- as we

18 show in one of the other exhibits that I have, we

19 don't spend all of the capital requests, and that

20 prioritization does include an assessment of the risk

21 of the projects not being performed in that particular

22 year.

23 Q. Would you agree that that is an important

24 part of what management does?

25 A. Yes, I would.

0365

 1 Q. So to the best of your knowledge, has any

 2 party to this case challenged the prudency of any item

 3 of capital investment that the Company proposes to

 4 include in rates, to the best of your knowledge?

 5 MR. CASEY: Objection, your Honor. I

 6 think we're starting to get beyond redirect again.

 7 JUDGE FRIEDLANDER: I would agree with

 8 that. So the objection is sustained.

 9 MR. MEYER: All right. Let's move on.

10 BY MR. MEYER:

11 Q. Just briefly on the tax -- the tax proposal.

12 And I understand we're going to talk process later on,

13 but just to fill in a few spaces, blanks here.

14 Of course, the Company operates in Idaho as

15 well, doesn't it?

16 A. Yes.

17 Q. And so the Company has the same challenges

18 with respect to returning to ratepayers tax benefits

19 in Idaho as it does in Washington, correct?

20 A. Yes, as well as in Oregon and all of our

21 regulated jurisdictions.

22 Q. And if you know, what are the Company's plans

23 as directed by the Idaho Commission to make the filing

24 and return those benefits?

25 A. I don't know specifically the timing of that,

0366

 1 but we do expect to make a filing to return the

 2 benefits in all of our regulatory jurisdictions to the

 3 customers for the tax impacts that relate to the

 4 customers.

 5 Q. Okay.

 6 And is it, to the best of your knowledge, at

 7 about the same time as what we're doing in Washington?

 8 A. Yes. It's a compre- -- we don't, from a

 9 jurisdictional perspective, we have to look at all of

10 those impacts as well, so we're doing that all at the

11 same time for our tax analysis.

12 Q. Is it your belief that changes in the tax law

13 that have been discussed with you should somehow

14 affect whether or not this Commission approves a

15 three-year rate plan?

16 A. No. I believe that the Commission can

17 evaluate the three-year rate plan as we have proposed

18 it and Staff has supported it. In that, separate from

19 the tax and in a separate tariff -- now, I don't

20 understand the procedures that you were just talking

21 about or the procedural side of this -- could handle

22 the impacts of the tax reform, the tax change in a

23 separate tariff.

24 But procedurally, I don't -- I'll leave that

25 to the Commission and the attorneys as they've talked

0367

 1 about the procedures. I won't comment on that.

 2 Q. Okay.

 3 And then just -- the last in this series of

 4 redirect. Let's turn to the question of hedges. I

 5 think that's my mic acting up again.

 6 All right. So you've read the testimony, of

 7 course, in that respect of Mr. McGuire on behalf of

 8 Staff?

 9 A. Yes.

10 Q. Okay.

11 MS. CAMERON-RULKOWSKI: I need to lodge an

12 objection right now. Mr. Meyer is asking his witness

13 on redirect leading questions, which are more like

14 cross questions. And so I would ask the bench to

15 please direct Mr. Meyer to ask redirect questions of

16 his witness.

17 MR. MEYER: Yeah, your Honor. The subject

18 of interest rate hedging has come up both with respect

19 to past and even future. Okay? So I think this

20 Commission would be well informed if it understood

21 what the impact of Staff's proposal is, and that is my

22 simple question of this witness.

23 MS. CAMERON-RULKOWSKI: My objection is to

24 the form of the question.

25 JUDGE FRIEDLANDER: I think it's not

0368

 1 substance that Ms. Cameron-Rulkowski is objecting to.

 2 I think it's the form of the question.

 3 MR. MEYER: Sure. Easily changed.

 4 JUDGE FRIEDLANDER: Okay. Thank you.

 5 BY MR. MEYER:

 6 Q. So do you have any comment with respect to

 7 the impact of what Staff is proposing?

 8 A. The impact of not including the hedged loss

 9 related to the 2017 issuance of debt, which was

10 approximately $54 million -- subject to check, I don't

11 remember the exact number, pretty close to that --

12 would be that we would have to --

13 MS. CAMERON-RULKOWSKI: I'm going to --

14 I'm going to object. This question is eliciting a

15 response that goes well beyond what my

16 cross-examination was of Mr. Thies. I asked Mr. Thies

17 solely about debt issuances in 2018 and beyond, not

18 about -- not about prior debt issuances.

19 MR. MEYER: Staff counsel is doing her

20 level best, of course, to keep out of the discussion

21 at this point useful information about what the impact

22 is, which I think the Commission needs to understand.

23 JUDGE FRIEDLANDER: Well, I think to keep

24 it related to what was asked on cross, we have to

25 narrow the scope of this to the 2018 year.

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 1 MR. MEYER: Well, the -- the impact in

 2 2018 is a number, and I think the Commission should

 3 know what that number is.

 4 MS. CAMERON-RULKOWSKI: Well, I guess I

 5 would have another objection, which it seems that

 6 Mr. Thies -- that the question is calling for evidence

 7 that's cumulative and repetitive, and Mr. Thies has

 8 already testified about this in his -- in his

 9 testimony.

10 JUDGE FRIEDLANDER: And I'm going to agree

11 with that. I'm going to agree and sustain the

12 objection. So if we can move on.

13 MR. MEYER: Very well. We'll move on, and

14 on brief, of course, we'll make sure we bring that to

15 your attention. All right?

16 That's all I have at this point.

17 JUDGE FRIEDLANDER: Okay. Thank you.

18 And if there's nothing further, I think

19 it's now appropriate to go into the confidential

20 session.

21 MR. MEYER: Sure. Would you like to take

22 a short recess.

23 JUDGE FRIEDLANDER: Yeah. Let's do that.

24 Let's take a short recess, ten minutes.

25 / / /

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 1 (A break was taken from

 2 9:52 a.m. to 10:07 a.m.)

 3 JUDGE FRIEDLANDER: All right. We'll be

 4 back on the record. We're going to go in just a

 5 minute into a confidential hearing session and -- for

 6 Mr. Thies, questioning of Mr. Thies.

 7 And I'd like to remind everyone that I'm

 8 going to try to shut off the conference bridge.

 9 Actually, now that I look at it, I'm not sure where

10 the -- all right. That turns all the mics off so

11 nobody can hear me now. Okay. We're going to have

12 to --

13 CHAIRMAN DANNER: We need IT.

14 JUDGE FRIEDLANDER: Anybody feel confident

15 enough to go -- let's go back off the record.

16 (Brief discussion off the record.)

17

18 \*\*\*CONFIDENTIAL PORTION\*\*\*

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20 (The following proceedings were

21 held in a confidential session.)

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17 \*\*\*END OF CONFIDENTIAL SESSION\*\*\*

18

19 (Following the confidential

20 hearing, the proceedings continued

21 as follows:)

22

23 JUDGE FRIEDLANDER: Jim, you can go ahead

24 and fire up the conference bridge line. And so I

25 believe the next witness we have is the panel, the

0395

 1 settlement panel.

 2 MR. MEYER: Yep.

 3 JUDGE FRIEDLANDER: So we've got, in

 4 particular, Mr. Ehrbar and Ms. O'Connell, and I don't

 5 believe there was any cross for Mr. Finklea or

 6 Mr. Collins, but certainly you can sit up there.

 7 (Brief discussion off the record.)

 8 JUDGE FRIEDLANDER: This is Judge

 9 Friedlander. Mr. Finklea, are you there?

10 MR. FINKLEA (via bridge line): Yes,

11 ma'am, I am.

12 JUDGE FRIEDLANDER: Okay. And you can

13 hear us okay?

14 MR. FINKLEA: Very well, yes.

15 JUDGE FRIEDLANDER: Good. Good. Okay.

16 Then I'm going to swear you in, because you're the

17 only witness so far that is going to be testifying in

18 the panel that has not been previously sworn in.

19 So you can either stand or remain seated

20 and raise your right hand.

21

22 EDWARD A. FINKLEA, witness herein, having been

23 first duly sworn on oath,

24 was examined and testified

25 as follows:

0396

 1 JUDGE FRIEDLANDER: Because he hasn't

 2 testified before, do you want to give some

 3 introduction or a foundation?

 4 MR. STOKES: Yes. Yes, your Honor.

 5 JUDGE FRIEDLANDER: Thank you.

 6 DIRECT EXAMINATION

 7 BY MR. STOKES:

 8 Q. Good morning, Mr. Finklea --

 9 A. Good morning.

10 Q. -- please state your name and your position.

11 A. My name is Edward Finklea, F, as in Frank --

12 Q. Mr. Finklea, can you speak up or turn the

13 volume up on your phone?

14 A. Well, I can speak right into it. I'm not on

15 speaker. Is this better?

16 Q. Yes, it is, but if you can speak more slow,

17 we're having a hard time hearing you.

18 So please state your name and your position.

19 A. I took it off speaker, so this should be

20 better.

21 Q. Okay.

22 Please state your name and your position.

23 A. My name, again, is Edward Finklea, F, as in

24 Frank, I-N-K-L-E-A, and I serve as the executive

25 director of the Northwest Industrial Gas Users.

0397

 1 Q. Okay.

 2 Did you prepare testimony in this case?

 3 A. Yes, I did.

 4 Q. And has that testimony been marked as EAF-1T

 5 and EAF-2?

 6 A. Yes.

 7 Q. To the best of your knowledge, is your

 8 testimony true and correct?

 9 A. Yes.

10 Q. Do you have any changes to your testimony?

11 A. I have none.

12 MR. STOKES: Thank you.

13 Mr. Finklea's open for cross-examination.

14 JUDGE FRIEDLANDER: Thank you. I believe

15 we have cross by Mr. Oshie.

16 MR. OSHIE: Thank you, your Honor. Let me

17 see if I can keep this from reverberating.

18 So I would propose -- your Honor, I'd like

19 to -- I have questions for Ms. O'Connell and I also

20 have questions for Mr. Ehrbar, and I would -- it's --

21 where I begin is not important, but perhaps I could

22 start with Ms. O'Connell. There are a few more

23 questions there, and depending on the answers, we may

24 end up not having certain questions for Mr. Ehrbar.

25 JUDGE FRIEDLANDER: That's perfectly fine.

0398

 1 We have them as a panel, so you can ask as needed.

 2 MR. OSHIE: Okay. And I will not have

 3 questions for Mr. Finklea or Mr. Collins, but --

 4 JUDGE FRIEDLANDER: Thank you.

 5 MR. OSHIE: Okay.

 6 CROSS-EXAMINATION

 7 BY MR. OSHIE:

 8 Q. So Ms. O'Connell --

 9 MR. FINKLEA: Should I go back on mute?

10 JUDGE FRIEDLANDER: That would probably be

11 appropriate for now.

12 MR. FINKLEA: Thank you.

13 BY MR. OSHIE:

14 Q. Ms. O'Connell, do you agree with Mr. Stephens

15 that cost-of-service studies indicate how a Company's

16 costs are caused by its different customer classes?

17 A. I do agree that it's helpful to -- that

18 regulatory bodies use commonly to assign costs, but

19 it's not the only guideline that we use to assign

20 costs.

21 Q. Would it be fair to say that a

22 cost-of-service study would inform the Commission on

23 how those costs are being caused by the different

24 customer classes?

25 A. Absolutely it informs, but not dictates how --

0399

 1 Q. And you would also agree that rate spread

 2 allocates the Company's revenue requirement among the

 3 various customer classes?

 4 A. Yes.

 5 Q. And you agree that the cost-of-service study

 6 is intended to show how each customer class

 7 contributes to the total system cost?

 8 A. Yes.

 9 Q. And would you agree that the cost-of-service

10 study is intended to inform the Commission as to the

11 allocation of revenue to each class?

12 A. Yes, it's one of the tools that we use, yes.

13 Q. So what factors would a cost-of-service study

14 take into consideration in order to effectively and

15 fairly spread costs among the customer classes?

16 A. Can you repeat the question?

17 Q. What factors would the cost-of-service study

18 take into consideration in order to effectively and to

19 fairly spread those costs among the customer classes?

20 A. That's a very comprehensive question, but I'm

21 going to try to make it as simple as I can. The

22 cost-of-service tries to capture the revenues,

23 expenses and the rate base that the Company has to

24 account for in order to serve their customers. And

25 there is a multiple -- there is a variety of factors

0400

 1 that are taken into account depending on the

 2 methodology that is used to distribute those costs and

 3 those expenses and assign those revenues between the

 4 customer classes.

 5 Q. Would you agree that a cost-of-service study

 6 is essential to setting the appropriate level of rates

 7 for each class?

 8 A. I would -- I would say that it's a helpful

 9 tool and, yes, it's a good indicator of what each

10 customer class is shouldering.

11 Q. Would you agree that each customer class

12 should, to the extent practicable, produce revenues

13 equal to the cost of serving that particular class?

14 A. In theory, yes, that's the -- the goal, the

15 final goal of ratemaking theory; however, there are

16 other factors that are taken into account when

17 assigning revenue requirements to the different

18 customer classes such as perception of earnings.

19 Q. Would you also agree that rates reflecting

20 the actual cost to serve a customer class send

21 efficient price signals to customers within that

22 class?

23 A. The pricing, those are not only captured in

24 the cost-of-service, they are also captured in the

25 rate design portion. So you would expect that

0401

 1 that's -- in an ideal scenario, that's what would

 2 happen.

 3 Q. You also agree that fair, just and reasonable

 4 rates should be based upon the Company's costs to

 5 serve each customer class?

 6 A. Yes, it should be based not only on that, but

 7 also on other ratemaking tools that take into account

 8 other variables that are important to account for when

 9 assigning certain portions of the revenue requirement

10 to each customer class.

11 Q. Do you agree that misallocation of costs

12 between customer classes could result in unfair or

13 unjust rates?

14 A. Um, I think there is a balance that should be

15 evaluated every time we're assigning certain classes

16 certain portions of the revenue requirement, and we

17 have to evaluate thoroughly what -- what are going to

18 be the consequences, and especially when we have

19 disbalances [sic] in the -- in how much of the costs

20 the certain classes are assuming.

21 Q. Did you -- did Staff file or perform a

22 cost-of-service study in preparation for its -- I

23 believe it's October 27th -- actually, November 1st

24 filing?

25 A. What do you mean by "perform"?

0402

 1 Q. Well, you would agree that Staff did not file

 2 a cost-of-service study in this case, correct?

 3 A. We reviewed Staff's -- Avista's

 4 cost-of-service, and we used that as a reference for

 5 our proposal in the settlement agreement.

 6 Q. And so it would be true that Staff did not

 7 perform a cost-of-service study to inform it as to its

 8 opinion on how rates should be spread in this case?

 9 A. Well, the opinion was formed on our position

10 on maintaining the status quo for the cost-of-service

11 matters. We support the Commission's initiative for

12 the cost-of-service generic proceeding, and so as a

13 result of the settlement, we decided to adopt Avista's

14 cost-of-service model.

15 Q. And other than the testimony regarding the

16 settlement that you filed, does Staff provide any

17 cost-of-service evidence regarding rate spread among

18 the classes?

19 A. Well, my initial testimony was filed and I

20 also filed a cross-answering testimony that was --

21 part of it -- it had some discussion about rate spread

22 also.

23 Q. And that's the extent of Staff's testimony

24 with regard to rate spread?

25 A. Correct --

0403

 1 Q. Okay.

 2 A. -- including this.

 3 Q. And you would agree that Avista and ICNU each

 4 filed a cost-of-service study in this case?

 5 A. That is correct.

 6 Q. In reviewing Avista's cost-of-service study

 7 in preparation for Staff's testimony, did you come to

 8 the conclusion -- Staff come to the conclusion that

 9 under Avista's cost-of-service study, Schedules 1 and

10 2 are not covering their costs to serve them?

11 A. After reviewing Avista's proposal, we

12 certainly noticed that the results stemming from that

13 model showed that there is some under-recovery shown

14 in the results of Avista's model from Schedules 1 and

15 2 in the electric side, yes.

16 Q. Would Staff consider the under-recovery to be

17 significant under Avista's cost-of-service study?

18 A. Well, we -- I testified -- I specifically used

19 the word "significant." The magnitude of that

20 significancy is -- it's unknown for us at this point,

21 mainly because we have doubts on the accuracy. We

22 believe that the model is directionally accurate and

23 it's sufficient to use to set rates in the current

24 general rate case.

25 Q. And ICNU's cost-of-service study with regard

0404

 1 to Schedules 1 and 2 would also be directionally

 2 accurate?

 3 A. I believe that the cost-of-service model

 4 presented by ICNU in Mr. Stephens's testimony was a

 5 representation that is essentially a departure of

 6 current Commission policy in terms of cost-of-service.

 7 And that's -- that's the extent of my opinion on

 8 Mr. Stephens's model.

 9 Q. Mr. Stephens's model was -- found that

10 Schedules 1 and 2 were a bit farther away from parity

11 than Avista's model; is that correct?

12 A. Correct. That's -- that was the effect of his

13 model.

14 Q. So does Staff have an opinion as to how far

15 Schedules 1 and 2 are from parity?

16 A. Like I said earlier, we know that there is

17 some under-recovery, but we don't know the magnitude

18 of that under-recovery mainly because we see the need

19 of having a thorough review of the cost-of-service

20 model, and we believe that the generic proceeding is

21 the best place to do that thorough review.

22 Q. So it would be fair to say that Staff doesn't

23 have a plan, then, to bring Schedules 1 and 2 to

24 parity?

25 A. Um, it is always our goal to provide the best

0405

 1 pathway to bring all customer classes close to parity,

 2 and I think Staff showed that, and in the -- and the

 3 joint settlement showed that desire by proposing a

 4 slightly bigger increase to those particular customer

 5 classes.

 6 Q. And you agree with Mr. Stephens that the pace

 7 Staff moves Schedules 1 and 2 to parity under, it

 8 would take 115 similar rate changes to bring Schedules

 9 1 and 2 to parity?

10 A. I don't -- that characterization has so many

11 assumptions that I don't -- I don't even -- I mean,

12 that's a characterization that -- I don't think that's

13 a fair characterization of what could happen in the

14 future.

15 The effect of the settlement agreement is only

16 for the rate plan, if approved, for the Company. And

17 what would happen in the subsequent 115 cases is not

18 part of our proposal.

19 Q. Do you agree with Mr. Stephens's testimony

20 that the settlement in dollar amounts, the revenue

21 generated by the settlement could result in increasing

22 the revenues needed by Schedules 1 and 2 to reach

23 parity?

24 A. The settlement doesn't contemplate any revenue

25 requirement attached to it. The settlement only is

0406

 1 pertaining to rate spread and a percentage on the rate

 2 spread. So each party has a different proposal on

 3 what is the amount of revenue requirement.

 4 Q. Well, the revenue requirement for the class.

 5 A. Okay.

 6 Q. That's my -- that's the point of the

 7 question.

 8 A. Okay.

 9 Q. So do you agree with Mr. Stephens -- and I'll

10 restate it, then --

11 A. Um-hmm.

12 Q. -- that the settlement can result in

13 increasing the revenues needed by Schedule 1 and 2 to

14 reach parity?

15 A. The settlement provides for an incremental

16 movement of residential customers or Schedules 1 and 2

17 [sic].

18 Q. So Staff has an opinion, then, as to how many

19 years it would take to bring Schedules 1 and 2 to

20 parity under terms similar to the settlement?

21 A. I wouldn't speculate on how many rate cases or

22 how much of the -- the magnitude of the revenue

23 requirement that the Company will request in the

24 future, or what the -- or what the Commission is going

25 to even authorize in the future or even in this

0407

 1 current case. So I wouldn't speculate on that.

 2 Q. You testified earlier that Staff did not file

 3 a cost-of-service study in this case, correct?

 4 A. I said that we used Avista's cost-of-service.

 5 Q. But Staff did not file a cost-of-service

 6 study.

 7 A. Yeah, we didn't file a specific

 8 cost-of-service.

 9 Q. Does staff believe that, in Avista's last

10 general rate case, the Commission ordered it to stop

11 filing cost-of-service studies until the

12 cost-of-service collaborative concluded?

13 A. Can you repeat that question --

14 Q. Certainly.

15 A. -- or can you rephrase that question?

16 Q. Does Staff believe that, in Avista's last

17 general rate case, the Commission ordered it --

18 ordered Staff to stop filing cost-of-service studies

19 until the cost-of-service collaborative in the final

20 order in the last rate case concluded?

21 MR. CASEY: Objection. I believe the

22 order speaks for itself, and Staff doesn't need to

23 testify about what the order said or did not say.

24 MR. OSHIE: Well, your Honor, the -- and

25 my response is that that is the justification for

0408

 1 the -- for Staff filing the settlement and for the

 2 terms of the settlement.

 3 And the question is, does Staff believe

 4 that the Commission ordered it not to file a

 5 cost-of-service study until the collaborative had

 6 concluded. It's a fairly straightforward question.

 7 MR. CASEY: I would say that

 8 mischaracterizes the settlement and Ms. O'Connell's

 9 testimony supporting the settlement.

10 JUDGE FRIEDLANDER: Yeah, I would say that

11 the question could be rephrased as to what

12 specifically Ms. O'Connell knows about the order and

13 the requirements that are in it.

14 BY MR. OSHIE:

15 Q. Ms. O'Connell, do you have -- you're aware of

16 the Commission's statement with regard to a

17 cost-of-service collaborative in the last Avista final

18 order, correct?

19 A. Correct.

20 Q. And you testified that Staff intends to

21 conduct the collaboratives and that was one of the

22 justifications for this settlement; is that correct?

23 A. No. Specifically Staff's intention with the

24 settlement was to provide -- to avoid to give signals

25 to stakeholders that participate in the generic

0409

 1 proceeding that they could get changes, one-up

 2 changes, through litigation, and that could

 3 potentially jeopardize the participation of those

 4 stakeholders in the generic proceeding.

 5 Our goal is to support the commissioners'

 6 initiative to have this broader conversation, and in a

 7 hopefully more -- or we'll say less adversarial

 8 context to get to meaningful results in the discussion

 9 of the cost-of-service theory.

10 Q. Does the cost-of-service collaborative

11 include utilities other than Avista?

12 A. It does.

13 Q. Staff filed a cost-of-service study in the

14 recent Puget Sound Energy rate case, did it not?

15 A. I was not the witness for that particular

16 case, but I -- I do know that we did file a

17 cost-of-service in that.

18 Q. It was filed by Mr. Ball, correct?

19 A. I believe so, yeah.

20 Q. Um-hmm.

21 And this was after the order in the last

22 Avista rate case regarding the Commission's interest

23 in supporting the collaborative; is that correct?

24 A. That is correct, but I would not speculate on

25 why Mr. Ball decided to file a particular

0410

 1 cost-of-service.

 2 MR. OSHIE: I have no further questions.

 3 JUDGE FRIEDLANDER: Thank you.

 4 Does Staff have any redirect?

 5 REDIRECT EXAMINATION

 6 BY MR. ROBERSON:

 7 Q. So Ms. O'Connell, Staff didn't file a

 8 cost-of-service study because it assumed that Avista's

 9 cost-of-service study was consistent with past

10 Commission practice, correct?

11 A. That is correct.

12 Q. And was ICNU's cost-of-service study

13 consistent with that past Commission practice?

14 A. No, it's not.

15 Q. And did Staff review that Avista performed

16 the cost-of-service study correct with -- correctly in

17 terms of the Commission's directives on this issue?

18 A. Yes, that is consistent with previous models

19 presented to this Commission.

20 Q. In terms of the settlement, what does

21 settlement -- what does the settlement do in terms of

22 Schedules 1 and 2 and parity?

23 A. It provides for a modest increase, slightly

24 bigger to other customer classes in order to move

25 those -- those particular customers closer to parity,

0411

 1 or to the results of parity that we obtained in the

 2 Avista model.

 3 Q. Mr. Oshie asked you about the class revenue

 4 assignments for Schedules 1 and 2. Leaving aside the

 5 absolute dollar amounts, after settlement, those

 6 classes do make progress towards unity in terms of

 7 their relative rate of return index, correct?

 8 A. They do.

 9 MR. ROBERSON: That's all I have.

10 JUDGE FRIEDLANDER: Thank you.

11 And are there any Commissioner questions?

12 EXAMINATION

13 BY COMMISSIONER BALASBAS:

14 Q. Ms. O'Connell, so had Avista filed a

15 cost-of-service study not consistent with past

16 Commission practice, would Staff have filed their own

17 cost-of-service study?

18 A. Well, ICNU's proposal was a departure from

19 peak credit, which is the methodology that the

20 Commission has approved and been using for this

21 particular company consistently.

22 So Staff's position is that we want to support

23 the Commission's initiative to have a bigger and more

24 collective discussion on the ratemaking theory,

25 specifically pertaining to cost-of-service in a -- in

0412

 1 a different context. And that's -- that's the intent

 2 of Staff's position right now.

 3 And we are focusing our efforts into make this

 4 generic proceeding to advance more significantly in

 5 the current year.

 6 Q. I understand that, but my question was, had

 7 Avista filed a cost-of-service study that did not, for

 8 example, follow the peak credit methodology, would

 9 Staff have filed their own cost-of-service study in

10 this proceeding?

11 A. Yes, I think I -- I didn't hear you correctly.

12 I thought it was ICNU. Yes, I think we would have

13 maintained our position on -- that we have to be

14 consistent, we have to maintain the status quo, and to

15 have the bigger conversation in a different venue.

16 COMMISSIONER BALASBAS: Thank you.

17 EXAMINATION

18 BY CHAIRMAN DANNER:

19 Q. So along those lines, when you testified that

20 not doing a cost-of-service study -- your words --

21 were to avoid creating an additional precedent that

22 could interfere with the generic proceeding, maybe you

23 could tell me what some of those precedents might be

24 that would interfere.

25 A. The precedent was exactly what I was trying to

0413

 1 refer to. It was, we don't want to signal that there

 2 could be significant changes coming from any

 3 litigation preceding the generic proceeding.

 4 We understand that stakeholders and all the

 5 participants can make changes through a general rate

 6 case like this one, but we want to fully support the

 7 initiative of having fruitful conversation, and that's

 8 the kind of precedent that we wanted to avoid.

 9 Q. And do you think that accepting Avista's

10 cost-of-service study for purposes of this case only

11 creates any kind of precedent along those lines?

12 A. In the sense that we are maintaining and we're

13 trying to support maintaining the policy in the

14 current -- in the current case, or current Commission

15 policy, that's -- I guess that's the precedent that we

16 want to set, that we want to set.

17 We want to maintain the conversation about

18 anything pertaining to cost-of-service, and I don't

19 want to speculate the process or even the outcome of

20 the generic proceeding in this -- in this case, but we

21 wanted to maintain that conversation in that venue,

22 and that's the intent of this -- of our proposal.

23 JUDGE FRIEDLANDER: Okay. Thank you.

24 MR. OSHIE: Your Honor, may I have a

25 follow-up question to -- it's -- it deals with her

0414

 1 answer -- Ms. O'Connell's answer to Chairman Danner.

 2 MR. CASEY: I would object as I did

 3 yesterday with Mr. Meyer. ICNU has already had its

 4 opportunity to ask the panel questions.

 5 JUDGE FRIEDLANDER: Well, I think if

 6 there's a -- I'm getting a sense this may be different

 7 in that this is going to clarify -- if you're asking

 8 for clarification of something that -- of a potential

 9 inconsistency, then I'm going to allow it.

10 MR. OSHIE: It is a clarification question

11 because of the -- how she responded to what Staff

12 believes to be the -- their reasoning as to rely on

13 the collaborative. And so that's -- that's the

14 purpose of -- that's -- if it's -- I can hold that if

15 it pleases the bench, but that's my purpose.

16 JUDGE FRIEDLANDER: I'd like to hear the

17 question and the response.

18 RECROSS-EXAMINATION

19 BY MR. OSHIE:

20 Q. Ms. O'Connell, would you agree that

21 precedent, as you called it, is set by the Commission,

22 is it not?

23 A. I'm unsure on answering your question.

24 Q. Well, let me put it a different way.

25 A. Okay.

0415

 1 Q. If the Commission approved in a contested

 2 case that cost-of-service methodology, and it

 3 contained certain elements that Staff didn't agree

 4 with but the Commission agreed, does that set

 5 precedent?

 6 A. I think Staff would have to follow the

 7 commissioners' directive on that, so, yes, it's

 8 setting precedent.

 9 Q. Do you expect the Commission, by way of the

10 collaborative, to direct Staff or direct the Company

11 on how to perform cost-of-service methodologies?

12 MR. CASEY: Objection, relevance. I don't

13 think Ms. O'Connell needs to testify about her

14 expectations about what the commissioners will do in a

15 separate proceeding.

16 JUDGE FRIEDLANDER: I thought the question

17 related to the collaborative.

18 MR. CASEY: Yeah. I guess I don't see how

19 Ms. O'Connell's testimony about what she thinks the

20 commissioners will decide in the generic cost

21 proceeding makes any facts in this case more or less

22 relevant.

23 MR. OSHIE: Your Honor, if I can respond

24 just briefly. The settlement does speak in no

25 uncertain terms that the Staff is relying on the

0416

 1 collaborative to give some direction, and they

 2 don't -- and she's said on the stand, Ms. O'Connell,

 3 that the Staff did not want to, by way of a

 4 cost-of-service decision in this case, set some kind

 5 of precedent.

 6 Now, what I'm asking, and you heard the

 7 question, which is, frankly, does Staff expect the

 8 Commission to give it direction on how to perform

 9 cost-of-service methodologies.

10 JUDGE FRIEDLANDER: Does Staff have a

11 response?

12 MR. CASEY: I mean, I would just reiterate

13 my objection. And I would also say this is kind of

14 asked and answered. So I don't see the point of this

15 additional line of cross.

16 JUDGE FRIEDLANDER: I'm going to allow it,

17 but I think we're drawing to a close on this topic.

18 A. I would not want to speculate on the results

19 of the cost-of-service generic proceeding.

20 MR. OSHIE: Thank you.

21 JUDGE FRIEDLANDER: All right. Thank you.

22 And did Staff want to pursue any redirect

23 or are we okay?

24 MR. CASEY: No, thank you.

25 JUDGE FRIEDLANDER: All right. Thank you.

0417

 1 So if there are no cross questions for any

 2 of the remaining panel members, I think we are --

 3 MR. OSHIE: Mr. Ehrbar, I have a few

 4 questions of Mr. Ehrbar.

 5 JUDGE FRIEDLANDER: Oh, I thought -- I

 6 thought that you had mentioned before that

 7 Ms. O'Connell's testimony might be --

 8 MR. OSHIE: Well, it has cut it down

 9 significantly.

10 JUDGE FRIEDLANDER: All right. That's

11 fine.

12 Then I'll remind Mr. Ehrbar, you are still

13 under oath.

14 CROSS-EXAMINATION

15 BY MR. OSHIE:

16 Q. Mr. Ehrbar --

17 A. Yes, sir.

18 Q. -- good morning.

19 A. Good morning.

20 Q. Sorry for the buzz on the system here. I'll

21 try my best to control my end of it.

22 Do you agree that, under Avista's

23 cost-of-service study, Schedules 1 and 2 are not

24 covering the cost to serve those classes?

25 A. I would agree.

0418

 1 Q. Does Avista believe that the allocation of

 2 the costs to the other classes reflected in the

 3 settlement accurately reflects the Company's cost to

 4 serve those classes?

 5 A. No. The agreed-upon rate spread in the

 6 settlement stipulation helps to move those

 7 schedules -- those rate schedules towards

 8 cost-of-service, but they do not reflect parity.

 9 Q. Does the Company have an opinion as to how

10 many years it will take to bring the Schedules 1 and 2

11 to parity?

12 A. We have not conducted such an analysis.

13 Q. Does Avista expect that, as a result of the

14 collaborative, the Commission will direct the Company

15 to change its production cost allocation methodology?

16 A. Good question. I don't know. That's one of

17 the reasons why we filed the way we filed. We did the

18 cost-of-service study, we didn't strictly abide by it

19 in our proposed rate spread, which was then adopted in

20 the settlement stipulation.

21 I don't know if there will be prescriptions

22 that comes out -- that come out of the collaborative,

23 partial prescriptions, partial leave it up to the

24 Company on certain allocation factors. We just aren't

25 sure.

0419

 1 Q. I would take it from that answer that the

 2 Company does not expect the Commission to direct all

 3 UTC-regulated electric utilities or dual fuel

 4 utilities to use the same cost methodologies?

 5 A. I would not expect that.

 6 Q. And getting to the question of the filing of

 7 cost-of-service studies during the course of the

 8 collaborative, if Avista were to file a rate case in

 9 2018, do you think the Company would include as part

10 of its filing a cost-of-service study?

11 A. Yes, we would, and I believe it's required.

12 MR. OSHIE: All right. Thank you. No

13 further questions.

14 JUDGE FRIEDLANDER: Thank you.

15 And is there any redirect from Mr. Meyer?

16 MR. MEYER: No.

17 JUDGE FRIEDLANDER: All right.

18 Any Commissioner questions? Okay.

19 And with that, I believe we can excuse the

20 panel. Thank you all for your testimony.

21 And we'll have Mr. Stephens called to the

22 stand, please.

23 MR. OSHIE: Thank you, your Honor. ICNU

24 calls Mr. Robert Stephens.

25 ROBERT R. STEPHENS, witness herein, having been

0420

 1 first duly sworn on oath,

 2 was examined and testified

 3 as follows:

 4

 5 JUDGE FRIEDLANDER: Thank you. You can be

 6 seated.

 7 DIRECT EXAMINATION

 8 BY MR. OSHIE:

 9 Q. Mr. Stephens, are you the same Robert

10 Stephens that filed testimony in this docket, namely,

11 exhibits numbered RRS-1CT through Exhibits RRS-13?

12 A. Yes.

13 Q. Do you have any changes to your as-filed

14 testimony?

15 A. I have one very minor change that I discovered

16 this morning. I'm not sure of the proper procedure

17 for this. Should I just tell you verbally?

18 Q. I think if it's -- as we've -- if it's a

19 couple of numbers, I think we can do it while you're

20 on the stand. If it's more than that, then I would

21 recommend we file an errata so --

22 JUDGE FRIEDLANDER: I would agree with

23 that.

24 A. I apologize. It's just changing one word to

25 make it plural. It's in my cross-answering testimony

0421

 1 at page 12, line 8, where I referred to "ICNU study,"

 2 that should be "studies" because we actually provided

 3 more than one study in the response testimony.

 4 BY MR. OSHIE:

 5 Q. Okay.

 6 A. So the word "study" should become "studies"

 7 and that's my only correction.

 8 Q. Okay. Thank you, Mr. Stephens.

 9 MR. OSHIE: The witness is tendered for

10 cross-examination.

11 JUDGE FRIEDLANDER: Thank you.

12 Mr. Meyer?

13 MR. MEYER: No cross. Thank you.

14 JUDGE FRIEDLANDER: Okay.

15 Staff?

16 CROSS-EXAMINATION

17 BY MR. ROBERSON:

18 Q. Good morning, Mr. Stephens.

19 A. Good morning.

20 Q. Could you please turn to Exhibit RRS-1CT,

21 page 36, lines 4 through 7?

22 COMMISSIONER RENDAHL: Can you repeat the

23 reference, please?

24 MR. ROBERSON: Indeed I can. Page 36,

25 lines 4 through 7.

0422

 1 COMMISSIONER RENDAHL: Of?

 2 MR. ROBERSON: RRS-1CT.

 3 A. Yes, I'm there.

 4 BY MR. ROBERSON:

 5 Q. Here you recommend making Avista's

 6 residential schedule solely responsible for any

 7 increase in revenue requirement up to approximately

 8 $28 million, correct?

 9 A. Yes, that's right.

10 Q. And flipping back a few pages, could you turn

11 to RRS-1CT, page 33, Table 4?

12 A. Yes.

13 Q. And this table compiles various

14 cost-of-service results, correct?

15 A. Yes.

16 Q. And on that table, the residential schedules

17 have relative rates of return indexes that run between

18 0.44 and 0.56, correct?

19 A. Yes.

20 Q. So is it fair to say that your proposed rate

21 spread is predicated on a belief that those schedules

22 contribute to those other costs of service?

23 A. Yes. All indications from all of the studies

24 I've reviewed, including my own, indicate that they

25 need a much larger increase than what I'm

0423

 1 recommending.

 2 JUDGE FRIEDLANDER: And Mr. Roberson, if

 3 you can slow it down a bit. Thank you.

 4 MR. ROBERSON: Apologies, your Honor.

 5 BY MR. ROBERSON:

 6 Q. Staying on Table 4, if you look at the

 7 relative rate of return index values for the General

 8 Service Schedules 11 and 12, they are significantly

 9 higher than one, correct?

10 A. Yes.

11 Q. In fact, under every study in the record,

12 they're above two, correct?

13 A. Yes.

14 Q. And in fact, your proposed cost-of-service

15 methodology produces the highest relative rate of the

16 return index for that class, correct?

17 A. Yes.

18 Q. Turning back to your rate spread proposal,

19 you don't propose spreading rates to do anything to

20 eliminate that large subsidy that that class is

21 paying, correct?

22 A. My rate spread proposal is essentially to

23 adopt Avista's at the full revenue requirement

24 request, and my present recollection is that Avista's

25 rate spread proposal reduced -- would reduce the

0424

 1 returns for that class somewhat. So if my

 2 recollection is correct, then my answer to your

 3 question is no.

 4 Q. Okay.

 5 Well, you proposed deviating from Avista's

 6 and the settlement's rate spread -- I apologize, I'm

 7 trying to enunciate better -- for one class, correct,

 8 for the residential Schedules 1 and 2?

 9 A. You've kind of asked two separate questions,

10 because Avista's rate spread proposal and the

11 settlement's aren't exactly the same. And my proposal

12 is that Avista's increase -- excuse me -- Avista's

13 rate spread be adopted if Avista receives its full

14 increase.

15 But if it doesn't, then the reduction to the

16 increase request should be spread among the classes

17 other than Schedules 1 and 2 in accordance or

18 proportionally with Avista's rate spread proposal.

19 Q. And I guess my question goes to what

20 ratemaking principle supports deviating from Avista's

21 rate spread for Schedules 1 and 2 if they are

22 contributing half of their cost-of-service costs of

23 service when you don't propose deviating from the rate

24 spread for Schedules 11 and 12, which are also off by

25 a factor of two?

0425

 1 A. Again, I don't think, based on my present

 2 recollection, that they're getting a larger than

 3 system average increase or even a system average

 4 increase under Avista's proposal. So by them getting

 5 a smaller than system average increase, and even more

 6 so under my proposal, they would be moving closer to

 7 cost-of-service.

 8 Q. But Avista's general -- sorry -- their

 9 residential schedules also get -- they get a larger

10 than average system increase under Avista's rate

11 spread, correct?

12 A. Yes.

13 Q. But you propose deviating from that?

14 A. No, I propose maintaining it, enhancing that.

15 Q. I apologize.

16 If there's a less than -- if the Company gets

17 less than its full revenue requirement, you would

18 deviate from Avista's rate spread, correct?

19 A. If we're talking about the settlement, then

20 I'm deviating from Avista's proposal. If you're

21 talking about non-settlement what Avista would have

22 supported under its direct testimony approach, I don't

23 know what they would have done.

24 But I -- to be clear, my proposal would make

25 greater progress toward cost-of-service for Schedules

0426

 1 1 and 2 than either of Avista's proposal under a less

 2 than full rate increase request or the settlement.

 3 Q. I'm being very imprecise and I apologize, so

 4 let me ask this in a different way.

 5 You would allocate -- you would deviate from

 6 the settlement by allocating a much larger amount of

 7 any increase in revenue requirement to Schedules 1 and

 8 2, correct, if the Company gets less than its full

 9 increase in revenue requirement?

10 A. Your -- your description of whether it's large

11 or significant would depend on how much they get. If

12 they got their exact revenue requirement that they

13 requested, that would be the same as Avista's original

14 proposal. If it drops slightly, then there would be a

15 slight deviation from Avista's proposal. And if it

16 drops greatly, there would be a large deviation.

17 Q. Let's turn back to RRS-1CT at page 36,

18 because you set this all out in a table, Table 5.

19 So if the Company gets half of its proposed

20 revenue requirement increase, Schedules 1 and 2 get

21 allocated basically $28 million of that, correct?

22 A. Yes.

23 Q. And then you allocate the rest of the classes

24 based on the settlement's rate spread, correct?

25 A. No.

0427

 1 Q. Avista's rate spread?

 2 A. Avista's initially proposed rate spread.

 3 Q. Okay.

 4 And you don't propose deviating from that

 5 with Schedules 11 and 12, correct?

 6 MR. OSHIE: Objection, your Honor. I

 7 think we've been around this block at least once as to

 8 the intention and the testimony that was offered and

 9 admitted from Mr. Stephens.

10 MR. ROBERSON: I'll withdraw the question.

11 That's fair.

12 JUDGE FRIEDLANDER: Okay. Thank you.

13 BY MR. ROBERSON:

14 Q. Let's switch up and talk about

15 cost-of-service.

16 Do you believe that the Commission could

17 approve rates in this proceeding without adopting any

18 of your proposed changes?

19 A. My proposed changes to Avista's proposed

20 cost-of-service study?

21 Q. Yeah.

22 A. Yes, of course they could.

23 Q. And that's because the Commission has already

24 approved rates based on this methodology, correct?

25 A. No.

0428

 1 Q. It hasn't?

 2 A. No, it's not because of that. My non-legal

 3 opinion is the Commission can set rates as it deems

 4 appropriate.

 5 Q. Okay.

 6 Could you turn to Exhibit RRS-1CT at page 16?

 7 A. Would you repeat the page number, please?

 8 Q. Indeed I can. Page 16, lines 13 and 14.

 9 A. Yes, I'm there.

10 Q. In there, you cite and discuss the

11 Commission's order in Pacific Power's 2014 general

12 rate case, correct?

13 A. Yes, I introduce it at those lines.

14 Q. Okay.

15 And could you then turn to page 23 of that

16 same exhibit, lines 6 through 7.

17 A. Yes.

18 Q. In there, you state that the Commission has

19 long rejected the notion that there's any standard

20 cost-of-service methodology, correct?

21 A. Yes.

22 Q. Has the Commission ever expressed a

23 preference for any particular cost-of-service

24 methodology?

25 A. It probably has expressed a preference every

0429

 1 time it enters an order.

 2 Q. Do you remember in the Pacific Power order

 3 that we just discussed where they actually said that

 4 they'd long preferred a particular method?

 5 A. I don't remember that specifically, but it

 6 wouldn't surprise me.

 7 Q. So you wouldn't know what that method is,

 8 then? You don't remember?

 9 A. The Pacific Power?

10 Q. What method they said that they long

11 preferred in the Pacific Power order.

12 A. I don't know if they said they long preferred

13 anything. But in the Pacific Power case, it appears

14 they adopted a 200 CP method.

15 Q. Is it possible that they said that they had

16 long preferred the peak credit methodology?

17 A. It's possible.

18 Q. Okay.

19 Has the Commission been wrong -- if it had

20 said that, would it have been wrong to have long

21 preferred the peak credit methodology?

22 MR. OSHIE: Objection. That's speculation

23 from the witness, and it's -- as to his opinion of

24 what's wrong or right. I mean, it's --

25 JUDGE FRIEDLANDER: I do like the

0430

 1 phraseology of that, asking if the Commission were

 2 wrong. Really?

 3 CHAIRMAN DANNER: It's possible.

 4 JUDGE FRIEDLANDER: It's true. It's true.

 5 Okay.

 6 So Mr. Roberson --

 7 MR. ROBERSON: I will withdraw the

 8 question.

 9 JUDGE FRIEDLANDER: Okay. Thank you.

10 BY MR. ROBERSON:

11 Q. Could you please turn to Exhibit RRS-1CT at

12 page 21 and --

13 A. Okay. I'm there.

14 Q. Beginning on line 11 there and continuing

15 onto the next page, you said that the peak credit

16 methodology is given little, if any, discussion in the

17 Naruc Manual, N-A-R-U-C.

18 A. Yes.

19 Q. I guess, could you specify, does it receive

20 little or no discussion?

21 A. It doesn't receive discussion known as the

22 peak credit method. There's a similar method called

23 the equivalent peaker method, which receives little

24 discussion.

25 Q. So the method is discussed, though, in the

0431

 1 manual?

 2 A. Not the peak credit method, but a similar

 3 method is discussed briefly.

 4 Q. How similar are the methods?

 5 A. You know, I would have to review the Naruc

 6 Manual to give you a very good answer on that.

 7 Q. Okay. That's fair.

 8 I guess let's turn to that same exhibit, page

 9 24, lines 16 through 18. In there you basically opine

10 that costs should be assigned to classes based on

11 their contribution to the coincident peak demand; is

12 that correct?

13 A. Yes. If you equate class's contribution to

14 utility system peaks as their coincident peak demands,

15 then I am absolutely in agreement.

16 Q. Is that a fair characterization of your

17 testimony?

18 A. I think it is.

19 Q. Okay.

20 Do utilities supply power at times other than

21 peak demand?

22 A. Yes.

23 Q. Does the peak demand tell a utility what kind

24 of plant to invest in?

25 A. It's one of the factors that tells the utility

0432

 1 that.

 2 Q. What are some of the other factors?

 3 A. The economics of various generation

 4 technologies, the spikiness of the utility's load, the

 5 input fuel costs. A number of factors will determine

 6 what kind of plant should be built, and it's the peak

 7 demand that tells you that it needs to be built.

 8 Q. And this is why a utility doesn't have solely

 9 peaking plants, correct?

10 A. That's very much a simplification, but, yes,

11 that would not be the most cost-efficient way of

12 meeting the utility's demands.

13 Q. So when a utility develops its resource

14 stack, it's considering things other than peak demand

15 when it's making investment decisions, correct?

16 A. Again, I'm going to distinguish between the

17 need to add a new generating unit versus what kind of

18 generating unit, and, yes, the utility takes into

19 account a number of factors in determining what kind

20 and when to add.

21 Q. Okay.

22 But when a utility needs to add a new

23 resource, the various types of plants have different

24 costs, correct?

25 A. Yes.

0433

 1 Q. So it's not just peak demand that's going to

 2 influence the amount of investment the utility makes,

 3 correct?

 4 A. Well, it certainly -- it certainly determines

 5 to a large degree when investment will be made.

 6 Whether or not one generation source or type is chosen

 7 over another take into account a lot of factors.

 8 Q. Okay.

 9 Let's talk about transmission. This is your

10 testimony -- same testimony at page 28, lines 11

11 through 13.

12 A. I'm there.

13 Q. And here you say that you are unaware of any

14 case outside Washington where a utility has classified

15 or allocated traditional transmission costs on the

16 basis of energy to any degree, correct?

17 A. Yes.

18 Q. And for the record, you emphasize the word

19 "any" before degree, correct?

20 A. Yes.

21 Q. And a little farther down, at lines 17

22 through 20, you say that there's not even an arguable

23 tradeoff between fixed and variable costs that would

24 justify an energy component to transmission

25 facilities, correct?

0434

 1 A. Yes.

 2 Q. Hypothetically, if I run a utility in Eastern

 3 Washington and I could build a plant outside my city

 4 or at the mouth of a mine in Spokane, doesn't the

 5 transmission line that I would build out -- sorry --

 6 to Montana, mouth of a mine in Montana -- doesn't the

 7 transmission line that I build out to Montana save me

 8 the cost of trucking energy to Spokane or some spot in

 9 Eastern Washington?

10 A. Would you mind repeating the question?

11 Q. I could build two plants, one somewhere in

12 Eastern Washington, one is at the mouth of a coal mine

13 in Montana. If I choose to build the mine -- or the

14 plant by the mine in Montana, the transmission line

15 that I build out to that plant saves me the cost of

16 trucking coal to Eastern Washington, correct?

17 MR. OSHIE: Excuse me, your Honor. I'm

18 going to object because of the phrasing in the

19 question. I've never -- well, I guess perhaps you

20 restated it in a way that makes some sense, trucking

21 coal. I thought it was trucking energy in the first

22 question, so I -- I'll withdraw my objection.

23 JUDGE FRIEDLANDER: Thank you.

24 A. Let me answer it this way. Transmission lines

25 are built to relieve congestion on the transmission

0435

 1 system generally, and they're also used to

 2 interconnect generating resources to load centers and

 3 sometimes to interconnect between utilities. So a lot

 4 of factors can go into where and when to build a

 5 transmission line.

 6 Does that help you?

 7 BY MR. ROBERSON:

 8 Q. Not so much, but I think I can follow up.

 9 So maybe it's just simpler just to

10 straight-up ask the question. Does building the

11 transmission line reduce my energy costs if I run that

12 utility? Don't I save on the transportation costs for

13 moving the energy or the coal?

14 A. I suppose you're saying that if there was a

15 lower energy cost plant elsewhere and you could build

16 a transmission line to get that energy to you, taking

17 into account the capital costs of the transmission

18 line, the energy losses, everything, in that

19 hypothetical scenario, I suppose the utility's total

20 costs could be reduced. It seems like a pretty

21 farfetched hypothetical to me, however.

22 Q. Okay.

23 What if I'm building the transmission line

24 out to a dam where energy is free? I mean, wouldn't I

25 save on energy costs if I was accessing free energy

0436

 1 because of the transmission line?

 2 A. My answer would be the same --

 3 Q. Okay.

 4 A. -- as my last one.

 5 MR. ROBERSON: Okay. I think that's all I

 6 have, actually.

 7 JUDGE FRIEDLANDER: Okay. Thank you.

 8 Ms. Gafken?

 9 CROSS-EXAMINATION

10 BY MS. GAFKEN:

11 Q. Good morning, Mr. Stephens.

12 A. Good morning.

13 Q. Does ICNU intend to participate in the

14 Commission's generic cost-of-service proceeding?

15 A. I would refer to Mr. Oshie on that question.

16 Q. Well, you are the witness for ICNU, so to the

17 best of your knowledge, do you know whether ICNU will

18 participate in this proceeding? And I'll leave it

19 there.

20 A. To my knowledge, ICNU participated in the one

21 meeting that's been held so far. I have no idea what

22 ICNU may do in the future.

23 Q. Did you participate in that one meeting that

24 was held --

25 A. No.

0437

 1 Q. -- in the generic proceeding?

 2 A. No.

 3 Q. Okay.

 4 Switching gears, during your career, have you

 5 participated in settlement on behalf of a client?

 6 A. I believe so. I can't think of any at the

 7 moment, but I've had a long career.

 8 Q. But generally speaking, is it fair to say

 9 that you have participated in settlement before?

10 A. I think so, but, again, I can't think of any

11 right now. I don't have a problem with settlement.

12 Q. Isn't it true that parties with different

13 interests may agree to an outcome or result but may

14 not be able to agree on the methodology or the

15 particular path to that result?

16 A. Yes.

17 Q. And the Commission enters into its record the

18 testimony and exhibits filed by the parties even when

19 there is a settlement, and the testimony and exhibits

20 may contain positions no longer advocated by the

21 parties, correct?

22 A. Are you speaking generally commissions, or

23 this commission?

24 Q. This commission.

25 A. I don't know the rules about how they handle

0438

 1 settlement particularly and the testimony.

 2 Q. Are you aware that Avista's testimony and

 3 exhibits on cost-of-service and rate spread and rate

 4 design issues have been entered into the record in

 5 this case?

 6 A. Actually, no, I'm not aware. And I presume

 7 that would have happened at the time of

 8 cross-examination or at some other point, but I wasn't

 9 here yesterday, so I don't know if they've been or

10 not.

11 Q. Okay.

12 Assuming that they have been, and I'll

13 represent to you that they have -- all of the exhibits

14 have been and testimony have been entered into the

15 record in this case, so with that assumption, the

16 Commission may consider the full record related to

17 cost-of-service rate spread and rate design in

18 evaluating whether it should accept, modify or reject

19 the proposed settlement on rate spread and rate design

20 issues, correct?

21 A. I assume so.

22 Q. Which means the Commission can consider the

23 cost-of-service study filed by Avista with its initial

24 filing regardless of the parties' explicit or implicit

25 position on cost-of-service, correct?

0439

 1 A. I assume so.

 2 MS. GAFKEN: Those are all of my

 3 questions. Thank you.

 4 JUDGE FRIEDLANDER: Okay. Thank you.

 5 And is there any redirect?

 6 MR. OSHIE: I just have -- I have a couple

 7 questions, your Honor.

 8 JUDGE FRIEDLANDER: Okay.

 9 REDIRECT EXAMINATION

10 BY MR. OSHIE:

11 Q. Mr. Stephens, does -- do you have an opinion

12 as to whether Avista is a dual-peaking or dual-season

13 peaking utility?

14 A. Yes.

15 Q. And what is that opinion?

16 A. My opinion, based on my review of their loads

17 over the last several years, is that they are a

18 dual-peaking utility, and that's demonstrated in my

19 Exhibit 3, I believe, if you'll bear with me for just

20 a second. Yes, Exhibit RRS-3 shows a graph that

21 clearly shows the dual-peaking nature of Avista's

22 system.

23 Q. And this was an area in which your

24 cost-of-service study differed from that of Avista's?

25 A. Yes.

0440

 1 Q. And --

 2 MR. CASEY: Objection. I believe this is

 3 beyond the scope of the cross that was conducted.

 4 MR. OSHIE: Well, your Honor, the cross

 5 was far-reaching in some respects, and this was one of

 6 them. Because he was asked about, you know, his

 7 opinion on Avista's cost-of-service study, and whether

 8 or not it was -- and whether he had an opinion about

 9 how costs should be spread to Schedules 1 and 2 and 11

10 and 12 and others. So I think it's within the

11 boundaries of redirect.

12 JUDGE FRIEDLANDER: I was just going to

13 say, I believe that the cost-of-service study was

14 addressed, but I'm not sure the double-peaking nature

15 of the status of utility was brought up. So maybe we

16 can avoid the topics that weren't brought up on cross.

17 MR. OSHIE: That would be my only question

18 so --

19 JUDGE FRIEDLANDER: Okay. Thank you.

20 And do we have any Commissioner questions?

21 Okay. All right.

22 Then with that, I believe you're excused.

23 Thank you for your testimony.

24 THE WITNESS: Thank you.

25 JUDGE FRIEDLANDER: We have one more

0441

 1 witness, Ms. Colamonici.

 2 MS. GAFKEN: Yes. So Public Counsel calls

 3 Ms. Colamonici to the stand.

 4

 5 CARLA A. COLAMONICI, witness herein, having been

 6 first duly sworn on oath,

 7 was examined and testified

 8 as follows:

 9

10 JUDGE FRIEDLANDER: Thank you. You can be

11 seated.

12 DIRECT EXAMINATION

13 BY MS. GAFKEN:

14 Q. Good morning.

15 Would you please state your name and spell

16 your last name for the record?

17 A. My name is Carla Colamonici. My last name is

18 C-O-L-A-M-O-N-I-C-I.

19 Q. And did you file testimony on behalf of

20 Public Counsel?

21 A. Yes, I did.

22 Q. That testimony has been entered into the

23 record, but confirm the exhibits and testimony, CAC-1T

24 with Exhibits CAC-2 through CAC-10.

25 Do you have any corrections to your testimony

0442

 1 or exhibits?

 2 A. No, I do not.

 3 Q. Okay.

 4 MS. GAFKEN: Ms. Colamonici is ready for

 5 cross.

 6 JUDGE FRIEDLANDER: Okay. Thank you.

 7 And I believe Staff has reserved some

 8 time.

 9 MR. O'CONNELL: Yes, your Honor. Thank

10 you. Andrew J. O'Connell, Assistant Attorney General,

11 on behalf of Commission staff. Thank you.

12 CROSS-EXAMINATION

13 BY MR. O'CONNELL:

14 Q. Good morning, Ms. Colamonici.

15 A. Good morning.

16 Q. Yesterday I asked Avista's witness,

17 Mr. Christie, about the savings an average residential

18 customer would receive by heating their home with

19 natural gas instead of electricity.

20 Do you have a copy of Cross-Exhibit KJC-7X

21 available?

22 A. Yes, I do.

23 Q. Okay.

24 Are you familiar at all with this document?

25 A. I am.

0443

 1 Q. So you're aware that it shows an average

 2 residential customer with a 2,000-square-foot home

 3 would see an annual savings of greater than $1,000 if

 4 they were heating their home with natural gas instead

 5 of electricity?

 6 A. Yes.

 7 Q. And today, did you hear Mr. Christie's

 8 testimony regarding his -- his look at a

 9 500-square-foot home and a 4,000-square-foot home and

10 the savings that an average residential customer might

11 see from heating their home with natural gas instead

12 of electricity based upon those dimensions?

13 A. Yes.

14 Q. And looking at that Cross-Exhibit -7X and the

15 testimony that Mr. Christie gave today, none of that

16 mentioned the fuel conversion program, correct?

17 COMMISSIONER RENDAHL: Mr. O'Connell, if

18 we could go farther, I don't see this -- I don't

19 believe -7X is what we were discussing yesterday. I

20 see it as -3X. Is that possible?

21 MR. O'CONNELL: Commissioner, you're

22 correct, I made a mistake.

23 COMMISSIONER RENDAHL: Okay. Just wanted

24 to make sure for --

25 BY MR. O'CONNELL:

0444

 1 Q. I'm not referring to -3X or -4X, I apologize,

 2 Ms. Colamonici. I was referring to KJC-6X, so I

 3 believe you were looking at the correct document.

 4 Were you looking at -6X?

 5 A. Yes, I was.

 6 Q. Okay.

 7 MR. O'CONNELL: Thank you. And I

 8 apologize, Commissioner. Thank you for catching my

 9 fault.

10 BY MR. O'CONNELL:

11 Q. Now, that document and Mr. Christie's

12 testimony didn't refer at all to the fuel conversion

13 program, correct?

14 A. I believe that is correct.

15 Q. Now, Public Counsel is an advocate for

16 residential electric and natural gas ratepayers, yes?

17 A. Yes.

18 Q. Do you think that referring to the greater

19 than $1,000 savings indicated in Cross-Exhibit -6X, do

20 you think that $1,000 is significant for ratepayers?

21 A. Can you repeat the question?

22 Q. Sure.

23 In Mr. Christie -- or sorry -- the

24 Cross-Exhibit -6X, the greater than $1,000 savings

25 that an average residential customer would see from

0445

 1 heating their home with natural gas as opposed to

 2 electricity, do you think that $1,000 is significant

 3 for ratepayers?

 4 A. Yes, I do.

 5 Q. And do you understand Staff's recommendation

 6 on the fuel conversion program, excluding low income,

 7 is to cease funding for fuel conversions being paid

 8 for by electric ratepayers?

 9 A. Yes.

10 Q. Does Public Counsel still advocate on behalf

11 of the residential customers who would chose to

12 continue heating their homes with electricity?

13 A. Can you repeat the question?

14 Q. Sure.

15 Would you still continue to advocate on

16 behalf of electric ratepayers, residential electric

17 ratepayers who would chose not to heat their home with

18 natural gas but would heat their home with

19 electricity?

20 A. Yes, I do. There's benefits for the electric

21 customers as well as the natural gas customers.

22 Q. Okay.

23 Do you continue to think that electric

24 ratepayers should pay for other ratepayers to save

25 $1,000 on their heating bill annually?

0446

 1 A. These electric customers are still benefitting

 2 from the system indirectly and directly.

 3 MR. O'CONNELL: Thank you, Ms. Colamonici.

 4 I have no more questions.

 5 JUDGE FRIEDLANDER: Thank you.

 6 And I believe the next up is Mr. ffitch.

 7 MR. FFITCH: Thank you, your Honor.

 8 CROSS-EXAMINATION

 9 BY MR. FFITCH:

10 Q. Good morning, Ms. Colamonici.

11 A. Good morning.

12 Q. I just want to clarify one aspect of your

13 cross-answering testimony. You have a copy of it

14 there?

15 A. Yes, I do.

16 Q. And could you please turn to page 12 and line

17 5? Do you have that?

18 A. Yes, I'm there.

19 Q. And your testimony in that section has just

20 summarized the Staff recommendation to discontinue the

21 fuel conversion program generally and their

22 recommendation for an exemption for a low-income fuel

23 conversion, correct?

24 A. Yes.

25 Q. And then you state at line 12, we do not

0447

 1 agree with Staff's recommendation.

 2 Is that a correct statement?

 3 A. Yes.

 4 Q. In other words here, Public Counsel is

 5 saying, protect the entire program, including the

 6 low-income portion of it, because it benefits moderate

 7 income and low-income customers. Don't just do a

 8 carve-out for low income.

 9 Is that a fair summary of your testimony?

10 A. Yes, that's correct.

11 Q. I know this is not your first -- the first

12 choice or Public Counsel's recommendation, but if, in

13 this case, ultimately the Commission decides to go

14 along with Staff's recommendation to discontinue the

15 general program, Public Counsel would not oppose a

16 carve-out or an exemption for the low-income portion

17 of the program, would it?

18 A. No, that's correct.

19 MR. FFITCH: All right. Thank you. That

20 clarifies the testimony. I have no further questions.

21 Thank you, your Honor.

22 JUDGE FRIEDLANDER: Thank you.

23 Is there any redirect, Ms. Gafken?

24 MS. GAFKEN: No, I have no redirect.

25 JUDGE FRIEDLANDER: Okay.

0448

 1 And are there any Commissioner questions?

 2 EXAMINATION

 3 BY COMMISSIONER BALASBAS:

 4 Q. Good morning, Ms. Colamonici.

 5 A. Good morning.

 6 Q. If the Commission agrees with Public

 7 Counsel's recommendation to continue the fuel

 8 conversion program but send it back to the

 9 Conservation Advisory Committee, what position would

10 Public Counsel take in the discussions in the advisory

11 committee about the fate of the fuel conversion

12 program?

13 A. We believe that it should continue because it

14 does offer benefits to both electric and natural gas

15 customers. However, we do not agree on the amount of

16 fuel conversion budgets allocated in the BCP.

17 Q. So you would continue to support the fuel

18 conversion program as a program, but not necessarily

19 its size?

20 A. Correct.

21 COMMISSIONER BALASBAS: Thank you.

22 JUDGE FRIEDLANDER: Thank you.

23 EXAMINATION

24 BY CHAIRMAN DANNER:

25 Q. Good morning. Thank you for your testimony.

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 1 I have a question about the benefits to

 2 electric customers that come from the fuel conversion.

 3 In your testimony, you basically say electric

 4 customers benefit from the program through its

 5 acquisition of a cost-effective resource and the

 6 deferral of infrastructure costs such as generation,

 7 transmission and distribution costs.

 8 Have you actually done any attempt to pencil

 9 out what those deferrals would be, how much -- how

10 much infrastructure wouldn't have to be built, how

11 much transmission wouldn't have to be built, how much

12 distribution wouldn't have to be built as a result of

13 having those customers funding the gas program?

14 A. No, I have not, but that is something that, if

15 this does go back to the advisory group, we would like

16 to analyze and look at the effects.

17 Q. Okay.

18 So in a fuel switching program, do you know

19 how much the upfront costs are to the Company when

20 they actually have to put in a gas furnace or gas

21 infrastructure to a house as opposed to whatever the

22 savings would be on the infrastructure side, on the

23 electric side?

24 A. No, I do not.

25 CHAIRMAN DANNER: Okay. Thank you.

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 1 JUDGE FRIEDLANDER: Thank you.

 2 And with nothing further, I believe the

 3 witness is excused. Thank you for your testimony.

 4 And that comes to the conclusion of the

 5 witnesses and offering them up for cross-examination.

 6 I think at this point, unless there are

 7 preliminary matters not related to the date held for

 8 this continuing hearing, I think we should deal with

 9 that as well as the bench request responses from the

10 parties.

11 So yes, Mr. Meyer.

12 MR. MEYER: And I'll have just one other

13 matter for your consideration. We would like to

14 increase the briefing limit from 60 to 80 pages given

15 the number of issues in this case.

16 JUDGE FRIEDLANDER: So I do want to hear

17 from the other parties before I ask some questions.

18 How do the parties feel about that? Do

19 you feel pressed for space to address all of these

20 issues in 60 pages?

21 MR. OSHIE: No.

22 MR. STOKES: No.

23 MS. GAFKEN: I don't feel pressed with 60.

24 JUDGE FRIEDLANDER: Staff?

25 MR. CASEY: We don't feel pressed, but

0451

 1 we'll do whatever the Commission believes will be

 2 helpful.

 3 JUDGE FRIEDLANDER: Okay. Thank you.

 4 And Mr. Meyer, did you have any specifics

 5 that you're referring to, or is this a general

 6 request?

 7 MR. MEYER: It is a general request. I

 8 sure appreciate that you don't want to be burdened

 9 with extra reading, extra arguments, et cetera.

10 It's just that the Company is in a

11 position, perhaps unlike some other parties, where

12 we've got to talk about everything. I mean, we're not

13 just here on half a dozen issues or 80 percent of the

14 issues.

15 So in a normal course of briefing, we have

16 to make some judgment calls, and that's fair, we can't

17 talk about everything, but we try and cover as much of

18 the groundwork as we can. So it's just a little hard

19 to fit it all in 60 pages. That's my point.

20 JUDGE FRIEDLANDER: Thank you, and I

21 appreciate that perspective. I'm going to have to

22 deny the request. I think that, given the amount of

23 pre-filed testimony that has already taken place, the

24 exhibits, the hearing, as well as any additional

25 process we're going to have relating to the Bench

0452

 1 Request No. 1 and the Exhibit MTT-13C, I think Avista

 2 will have had ample opportunity with 60 pages in their

 3 brief.

 4 MR. MEYER: Fair enough.

 5 CHAIRMAN DANNER: So may I propose -- this

 6 is your call, Judge -- would you propose a compromise

 7 of perhaps allowing all the briefers 65 pages?

 8 JUDGE FRIEDLANDER: I don't think five

 9 additional pages is going to be too onerous,

10 especially if the other parties are -- seem to be able

11 to keep it well in hand at 60. So five additional

12 pages total will not be too onerous.

13 CHAIRMAN DANNER: I'm not seeing any

14 objections.

15 MR. CASEY: Staff has no objection.

16 JUDGE FRIEDLANDER: Okay. Then we'll go

17 ahead with 65.

18 And so I think at this point it would be

19 appropriate to talk about the --

20 MS. GAFKEN: Your Honor, before you move

21 on to another topic --

22 JUDGE FRIEDLANDER: Yes.

23 MS. GAFKEN: -- I did have a question

24 about the brief, or maybe a suggestion based on what

25 we heard today about the confidential nature of I

0453

 1 believe it was MTT-13C --

 2 JUDGE FRIEDLANDER: Yes.

 3 MS. GAFKEN: -- the new Mr. Thies exhibit.

 4 And my understanding is that that

 5 information is confidential for a limited time

 6 period --

 7 JUDGE FRIEDLANDER: Yes.

 8 MS. GAFKEN: -- and our brief is due right

 9 around February 22nd, and what I heard, and correct me

10 if I'm wrong, Mr. Meyers [sic], but after about that

11 time period, things are not confidential, and so I'm

12 thinking if parties want to refer to that material in

13 their brief, we could avoid having confidential

14 briefs. Either the Company could agree that when we

15 file it that we don't need to file it under a

16 confidential cover, or we could move -- I'm not sure

17 what day of the week the 22nd is, but we could move it

18 to the next day.

19 JUDGE FRIEDLANDER: I believe it's a

20 Thursday.

21 MS. GAFKEN: So perhaps we could move it

22 to Friday to completely unfold the problem.

23 MR. MEYER: That's a fair request. And I

24 think, when we get a little closer to that, we can

25 confirm that it will -- the cloak of confidentiality

0454

 1 will lift, but we'll confirm that, and I think there's

 2 an expectation that it will by then. But we will

 3 confirm that so you're not put to the trouble. Okay.

 4 JUDGE FRIEDLANDER: Yeah. And I do

 5 believe I heard from Mr. Thies that there would be a

 6 filing of the K-1 prior to the call, the earnings

 7 call, so it may actually be before the 21st or 22nd by

 8 a day or so.

 9 But if we could know that -- when do you

10 think you would have that -- can you get that

11 information to us later today, Mr. Meyer?

12 MR. MEYER: Well, I can. Maybe now.

13 JUDGE FRIEDLANDER: Oh, perfect. Thank

14 you.

15 MR. MEYER: Just a minute. Mark, when

16 would you expect --

17 MR. THIES: I expect that we'll have our

18 earnings call on the 21st, so we would file on the

19 20th.

20 MR. MEYER: Okay. The 20th is the filing

21 date.

22 JUDGE FRIEDLANDER: Okay. And if the

23 briefs are due on the 22nd, we should still be -- we

24 should be okay with having the parties reference that

25 material and the exhibit without it needing to be

0455

 1 under confidential seal.

 2 Perhaps just to be sure that the call and

 3 the filing have taken place, Mr. Meyer can file a

 4 letter with the Commission letting us know, because I

 5 don't -- I certainly don't want to invite the parties

 6 to disclose confidential information if there has been

 7 a change of plans or an extension or who knows what.

 8 MR. MEYER: One way or the other, we'll

 9 provide that letter. Thank you. Good suggestion.

10 JUDGE FRIEDLANDER: Yes. Thank you.

11 So I have requested from the parties that

12 they reserve February 1st for a potential hearing

13 should the Commission need additional information or

14 have clarification questions regarding the recently

15 delivered Exhibit MTT-13C and any responses that -- or

16 I should say replies to Avista's response to the bench

17 request that we may receive January 26th.

18 And I assume that that date is still okay

19 with the parties.

20 MS. GAFKEN: We'll comply with that date,

21 yes.

22 JUDGE FRIEDLANDER: Thank you. And it

23 would be in the afternoon, 1:30 to 5.

24 MR. OSHIE: That date will work for ICNU.

25 JUDGE FRIEDLANDER: Thank you.

0456

 1 MR. STOKES: As well as Gas Users.

 2 JUDGE FRIEDLANDER: Okay. Thank you.

 3 MR. MEYER: As well as the Company. So

 4 happy to be there, happy to offer any further

 5 thoughts, but I think the way you couched that,

 6 your Honor, was if there are concerns raised by other

 7 parties. So how will we know that and when will we

 8 know that.

 9 JUDGE FRIEDLANDER: I don't mean to say if

10 there are concerns raised by other parties. I mean to

11 say if the Commission has additional questions

12 relating to the replies we receive from other parties.

13 MR. MEYER: Okay. I understand.

14 JUDGE FRIEDLANDER: So we may be asking

15 information from Avista regarding this exhibit because

16 we've only had it for a couple days. But we may also

17 be asking for further clarification from the parties

18 depending on what we get, which we don't know yet, on

19 January 26th.

20 CHAIRMAN DANNER: So Judge, I would also

21 want to make sure that all the parties have sufficient

22 notice in advance of that --

23 JUDGE FRIEDLANDER: Yes.

24 CHAIRMAN DANNER: -- whether it's a no-go

25 or a go.

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 1 JUDGE FRIEDLANDER: And I will give them

 2 notice either in a formalized notice saying that this

 3 is where -- the time and date that it will take place,

 4 or I will contact the parties via email directly and

 5 let them know.

 6 CHAIRMAN DANNER: So how much notice do

 7 you intend to give them?

 8 JUDGE FRIEDLANDER: Well, if we -- that is

 9 a good question. And the notice would indicate who we

10 intend to ask the parties to have available for the

11 questioning. Since we're getting replies on the

12 26th --

13 COMMISSIONER RENDAHL: Friday, the 26th is

14 when the replies come in.

15 JUDGE FRIEDLANDER: When is Monday?

16 Monday would be the --

17 COMMISSIONER RENDAHL: Monday's the 29th,

18 so there's -- this is a Thursday.

19 JUDGE FRIEDLANDER: Let's go ahead and go

20 off the record. I apologize.

21 (Brief discussion off the record.)

22 JUDGE FRIEDLANDER: All right. So we will

23 be back on the record and we'll call Mr. Thies back to

24 the stand to provide additional information that was

25 asked of him during the nonconfidential session by

0458

 1 Staff.

 2 So you're still under oath. You're fine.

 3 You can go ahead and sit down.

 4 And Mr. Thies, if you want to just

 5 verbally give us the information that you said you

 6 were going to double-check for Staff's benefit.

 7 MR. THIES: Yes. The question, I believe,

 8 that I didn't have the number to was the amount of

 9 hedges, the no-show amount of hedges related to the

10 2018 debt that we were anticipating to issue in 2018;

11 is that correct?

12 RECROSS-EXAMINATION

13 BY MS. CAMERON-RULKOWSKI:

14 Q. Very close. It was actually the percentage.

15 A. Okay. So we did check the percentage for the

16 amount, again, as we estimate today is 73 percent.

17 Q. Thank you.

18 And that's 73 percent of the approximate --

19 approximate 375 million that the company is expected

20 to issue in debt in 2018?

21 A. That is correct.

22 Q. Thank you.

23 And then there was one other question as

24 well, if you had a chance to check it. And that was

25 the start date of the 2018 swaps, the start date of

0459

 1 the swaps associated with the debt that will issue in

 2 2018.

 3 A. And I apologize, but I did not check that, so

 4 I do not have that. I still have to check that.

 5 MS. CAMERON-RULKOWSKI: Fair enough.

 6 Thank you.

 7 JUDGE FRIEDLANDER: All right. Thank you.

 8 And the witness is excused. Thank you.

 9 THE WITNESS: Thank you.

10 JUDGE FRIEDLANDER: Thank you for your

11 testimony.

12 So just to clarify for the record, off

13 record we, the Commission and the parties, discussed

14 the process that will be undertaken to address Exhibit

15 MTT-13C and the Bench Request No. 1 response from

16 Avista and any replies we receive from the parties.

17 The first date that I have is

18 January 26th, which will be the replies from the

19 parties to the Commission and replying to Avista's

20 response. And in that reply, we would like to remind

21 the parties that we are looking for -- obviously

22 they're free to file what they choose, but we're

23 looking for some process. If they have any

24 disagreements with the proposed process that Avista

25 has listed, has mentioned, then this would be the time

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 1 to discuss it.

 2 And should the Commission have any

 3 questions on the replies that we receive on the 26th

 4 or the exhibit when it is reviewed, Exhibit MTT-13C,

 5 we will by notice let the parties know that we're

 6 going to hold an additional hearing process on

 7 February 1st in the afternoon from 1:30 to 5, or as

 8 long as it's necessary. It may not go until 5. And

 9 in the notice, we will list as well any of the

10 witnesses we expect to be available by telephone for

11 questioning.

12 Should that become unnecessary, should

13 this process become unnecessary, we will let the

14 parties know by email.

15 Is there anything else information-wise

16 that the parties are needing?

17 MR. CASEY: I just wanted to make one note

18 on this topic. And thank you very much for the

19 direction of what the Commission expects in our

20 response on January 26th.

21 I did just want to note that the Company

22 is intending to provide actual numbers with respect to

23 the tax benefit on March 30th to be incorporated

24 ideally by the -- with the rate decision in this case.

25 I just want to lay out that it's Staff's

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 1 expectation that that should be a fairly easy thing to

 2 do, and it should be a number that is explained and

 3 easy to audit. You know, there's only a few weeks

 4 between when they would provide that information and

 5 when the suspension date is for this case.

 6 So if Staff is -- you know, sees anything

 7 at issue with that on March 30th, or if it is unable

 8 to follow the Company's logic, it will make that issue

 9 known after -- in response to the March 30th filing.

10 JUDGE FRIEDLANDER: And that's something

11 that I think should also be addressed in the reply

12 from Staff, if that's Staff's position. As I said

13 before, Avista has laid out a process. If Staff

14 disagrees with the proposed process or has issues,

15 that is something that Staff is going to need to

16 address in its reply, as well as any of the other

17 parties. That's what the Commission wants to know.

18 MR. CASEY: Okay. All right. Thank you.

19 JUDGE FRIEDLANDER: The other thing that I

20 wanted to mention is that, as Mr. Meyer indicated

21 off -- I think this was off the record, it's hard to

22 tell at this point -- that the phone call -- the

23 earnings call that will take place -- that Avista will

24 conduct is going to take place on February 21st. And

25 so by February 20th, Avista will be able to let the

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 1 Commission know in a very brief letter whether or not

 2 Exhibit MTT-13C is still confidential, whether or not

 3 that call is going to take place the following day,

 4 whether or not the earnings report has been filed and

 5 all of that. We just want to make sure that we're not

 6 encouraging the parties to divulge confidential

 7 information.

 8 Is there anything else that we need to

 9 address before we adjourn?

10 MR. MEYER: Just -- I wanted to thank you

11 and the commissioners for being as sensitive as you

12 were to handling the confidential -- late-breaking

13 confidential information, and that allowed us to work

14 through this. So thank you.

15 JUDGE FRIEDLANDER: Thank you for bringing

16 it to our attention.

17 All right. If there's nothing further,

18 then we are adjourned. Thank you.

19 MR. CASEY: Thank you.

20 (Hearing adjourned at 12:10 p.m.)

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 1 C E R T I F I C A T E

 2

 3 STATE OF WASHINGTON )

 ) ss.

 4 COUNTY OF KING )

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 6

 7 I, ANITA W. SELF, a Certified Shorthand

 8 Reporter in and for the State of Washington, do

 9 hereby certify that the foregoing transcript is true

10 and accurate to the best of my knowledge, skill and

11 ability.

12 IN WITNESS WHEREOF, I have hereunto set my hand

13 and seal this 31st day of January, 2018.

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18 ANITA W. SELF, RPR, CCR #3032

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