

Docket Nos. UE-170485 & UG-170486
(Consolidated) - Vol. V

Washington Utilities and Transportation
Commission v. Avista Corporation

January 17, 2018



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1 BEFORE THE WASHINGTON
2 UTILITIES AND TRANSPORTATION COMMISSION

3 _____
4 WASHINGTON UTILITIES AND)
5 TRANSPORTATION COMMISSION,)
6)
7 Complainant,) Docket Nos. UE-170485
8) and UG-170486
9 vs.) (Consolidated)
10)
11 AVISTA CORPORATION, d/b/a)
12 AVISTA UTILITIES,)
13)
14 Respondent.)

10 _____
11 VOLUME V
12 EVIDENTIARY HEARING

13 PAGES 325 - 463

14 ADMINISTRATIVE LAW JUDGES
15 MARGUERITE E. FRIEDLANDER and RAYNE PEARSON
16 **** A PORTION OF THIS TRANSCRIPT IS DESIGNATED
17 CONFIDENTIAL AND SEALED UNDER SEPARATE COVER ****

18 _____
19 9:04 A.M.

20 January 17, 2018

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ADMITTED

MMT-13C

370

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REDIRECT EXAMINATION BY MR. MEYER / CHRISTIE331

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

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

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.

DIRECT EXAMINATION BY MR. MEYER / THIES 333

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

CROSS-EXAMINATION BY MS. CAMERON-RULKOWSKI / T334S

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?

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

CROSS-EXAMINATION BY MS. CAMERON-RULKOWSKI / T336S

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

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

CROSS-EXAMINATION BY MS. CAMERON-RULKOWSKI / T338S

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?

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

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**

CROSS-EXAMINATION BY MS. GAFKEN / THIES 341

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.

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

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?

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**

CROSS-EXAMINATION BY MS. GAFKEN / THIES 345

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

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**

CROSS-EXAMINATION BY MS. GAFKEN / THIES 347

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.**

CROSS-EXAMINATION BY MS. GAFKEN / THIES 348

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?

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.

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

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.

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**

EXAMINATION BY COMMISSIONER BALASBAS / THIES353

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.

EXAMINATION BY COMMISSIONER RENDAHL / THIES354

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 --

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**

EXAMINATION BY COMMISSIONER RENDAHL / THIES356

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.

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**

EXAMINATION BY COMMISSIONER RENDAHL / THIES358

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 --

EXAMINATION BY COMMISSIONER RENDAHL / THIES359

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

EXAMINATION BY COMMISSIONER RENDAHL / THIES360

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.

REDIRECT EXAMINATION BY MR. MEYER / THIES 361

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.**

REDIRECT EXAMINATION BY MR. MEYER / THIES 362

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**

REDIRECT EXAMINATION BY MR. MEYER / THIES 363

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

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.**

REDIRECT EXAMINATION BY MR. MEYER / THIES 365

1 Q. So to the best of your knowledge, has any
2 party to this case challenged the prudence 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,**

REDIRECT EXAMINATION BY MR. MEYER / THIES 366

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**

REDIRECT EXAMINATION BY MR. MEYER / THIES 367

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

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.

REDIRECT EXAMINATION BY MR. MEYER / THIES 369

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 ///

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***

19
20 (The following proceedings were
21 held in a confidential session.)

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CONFIDENTIAL CROSS-EXAM BY MS. GAFKEN / THIE372

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CONFIDENTIAL CROSS-EXAM BY MR. OSHIE / THIES376

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CONFIDENTIAL CROSS-EXAM BY MR. STOKES / THIE379

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CONFIDENTIAL REDIRECT EXAM BY MR. MEYER / THI383

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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

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:

DIRECT EXAMINATION BY MR. STOKES / FINKLEA 396

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.**

DIRECT EXAMINATION BY MR. STOKES / FINKLEA 397

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.

CROSS-EXAMINATION BY MR. OSHIE / O'CONNELL 398

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 --**

CROSS-EXAMINATION BY MR. OSHIE / O'CONNELL 399

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**

CROSS-EXAMINATION BY MR. OSHIE / O'CONNELL 400

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**

CROSS-EXAMINATION BY MR. OSHIE / O'CONNELL 401

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"?**

CROSS-EXAMINATION BY MR. OSHIE / O'CONNELL 402

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 --**

CROSS-EXAMINATION BY MR. OSHIE / O'CONNELL 403

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

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**

CROSS-EXAMINATION BY MR. OSHIE / O'CONNELL 405

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**

CROSS-EXAMINATION BY MR. OSHIE / O'CONNELL 406

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**

CROSS-EXAMINATION BY MR. OSHIE / O'CONNELL 407

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

CROSS-EXAMINATION BY MR. OSHIE / O'CONNELL 408

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**

CROSS-EXAMINATION BY MR. OSHIE / O'CONNELL 409

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**

REDIRECT EXAMINATION BY MR. ROBERSON / O'CONN410

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,**

EXAMINATION BY COMMISSIONER BALASBAS / O'CONN411

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**

EXAMINATION BY CHAIRMAN DANNER / O'CONNELL 412

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.**

EXAMINATION

17 **BY CHAIRMAN DANNER:**

18 Q. So along those lines, when you testified that
19 not doing a cost-of-service study -- your words --
20 were to avoid creating an additional precedent that
21 could interfere with the generic proceeding, maybe you
22 could tell me what some of those precedents might be
23 that would interfere.
24

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

EXAMINATION BY CHAIRMAN DANNER / O'CONNELL 413

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

RECROSS-EXAMINATION BY MR. OSHIE / O'CONNELL414

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.**

RECROSS-EXAMINATION BY MR. OSHIE / O'CONNELL415

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

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.

CROSS-EXAMINATION BY MR. OSHIE / EHRBAR 417

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.**

CROSS-EXAMINATION BY MR. OSHIE / EHRBAR 418

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.**

CROSS-EXAMINATION BY MR. OSHIE / EHRBAR 419

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

DIRECT EXAMINATION BY MR. OSHIE / STEPHENS 420

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**

CROSS-EXAMINATION BY MR. ROBERSON / STEPHENS421

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.

CROSS-EXAMINATION BY MR. ROBERSON / STEPHENS422

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**

CROSS-EXAMINATION BY MR. ROBERSON / STEPHENS423

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**

CROSS-EXAMINATION BY MR. ROBERSON / STEPHENS424

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?

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**

CROSS-EXAMINATION BY MR. ROBERSON / STEPHENS426

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.**

CROSS-EXAMINATION BY MR. ROBERSON / STEPHENS427

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.**

CROSS-EXAMINATION BY MR. ROBERSON / STEPHENS428

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**

CROSS-EXAMINATION BY MR. ROBERSON / STEPHENS429

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

CROSS-EXAMINATION BY MR. ROBERSON / STEPHENS430

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

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**

CROSS-EXAMINATION BY MR. ROBERSON / STEPHENS432

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.**

CROSS-EXAMINATION BY MR. ROBERSON / STEPHENS433

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?

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**

CROSS-EXAMINATION BY MR. ROBERSON / STEPHENS435

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

CROSS-EXAMINATION BY MS. GAFKEN / STEPHENS 436

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.**

CROSS-EXAMINATION BY MS. GAFKEN / STEPHENS 437

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**

CROSS-EXAMINATION BY MS. GAFKEN / STEPHENS 438

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?

REDIRECT EXAMINATION BY MR. OSHIE / STEPHENS439

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.**

REDIRECT EXAMINATION BY MR. OSHIE / STEPHENS440

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

DIRECT EXAMINATION BY MS. GAFKEN / COLAMONIC441

1 witness, Ms. Colamonic.

2 MS. GAFKEN: Yes. So Public Counsel calls
3 Ms. Colamonic 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 Colamonic. 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

CROSS-EXAMINATION BY MR. O'CONNELL / COLAMONI442

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.**

CROSS-EXAMINATION BY MR. O'CONNELL / COLAMONI443

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:

CROSS-EXAMINATION BY MR. O'CONNELL / COLAMONI444

1 Q. I'm not referring to -3X or -4X, I apologize,
2 Ms. Colamonic. 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

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?

CROSS-EXAMINATION BY MR. FFITCH / COLAMONICI446

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

CROSS-EXAMINATION BY MR. FFITCH / COLAMONICI447

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.

EXAMINATION BY CHAIRMAN DANNER / COLAMONICI448

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.

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.**

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

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

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

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

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

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.

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.

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

RECROSS-EXAM BY MS. CAMERON-RULKOWSKI / THIE458

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

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

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

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

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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STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

I, ANITA W. SELF, a Certified Shorthand
Reporter in and for the State of Washington, do
hereby certify that the foregoing transcript is true
and accurate to the best of my knowledge, skill and
ability.

IN WITNESS WHEREOF, I have hereunto set my hand
and seal this 31st day of January, 2018.

ANITA W. SELF, RPR, CCR #3032