Docket Nos. UE-240006 and UG-240007 (Consolidated) - Vol. III

WUTC v. Avista Corporation d/b/a Avista Utilities

September 30, 2024

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BEFORE THE WASHINGTON

UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,	
Complainant,	DOCKETS UE-240006, UG-240007 (Consolidated)
vs.	
AVISTA CORPORATION, d/b/a AVISTA UTILITIES,	PAGES 34 - 371
Respondent.	

EVIDENTIARY HEARING - VOL. III

September 30, 2024

BEFORE ADMINISTRATIVE LAW JUDGES

JAMES E. BROWN II & CONNOR THOMPSON

Washington Utilities and Transportation Commission

621 Woodland Square Loop SE

Lacey, Washington 98503

REPORTED BY: Stephanie C. Rhinehart, RPR,
WA CCR 22013531, OR CSR 22-0014

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BAE-8	S&P Global Rating, "A Storm Is Brewing: Extreme Weather Events Pressure North American Utilities' Credit Quality", Nov. 2023 (16 pages)	75
BAE-9	Office of the Insurance Commissioner Washington State, "Liability Insurance Markets Conditions for Washington State Electric Utility Companies", January 1, 2023 (69 pages)	75
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DCP-16	Risk Premium Analysis (4 pages)	75
DCP-17	Avista Response to UTC Staff Data Request No. 11 (3 pages)	75
DCP-18	Avista Response to UTC Staff Data Request No. 19 (3 pages)	75

EXHIBITS (cont.)

Number	Description	ADM
JDW-1CTr	Confidential revised Testimony of John D. Wilson (45 pages)	75
JDW-2	CV John Wilson (14 pages)	75
JDW-3C	Avista's Response to Public Counsel Data Request No. 268, Confidential Attachment A (1 page)	75
JDW-4	Avista's Response to Staff Data Request No. 192 (7 pages)	75
JDW-5	Avista's Response to Staff Data Request No. 120 (2 pages)	75
JDW-6	Avista's Response to Staff Data Request No. 213 (2 pages)	75
JDW-7	Avista's Response to Staff Data Request No. 32 (4 pages)	75
JDW-8	Avista's Response to Staff Data Request No. 119 (2 pages)	75
JDW-9C	Avista's Response to Staff Data Request No. 118, Confidential Attachment A (1 page)	75
JDW-10	Avista's Response to Staff Data Request No. 208 (Supplemental) and Attachments (53 pages)	75
JDW-11	Avista's Response to Staff Data Request No. 171 (Supplemental) (3 pages)	75
JDW-12	Testimony of Ramon J. Mitchell, Exh. RJM-3CT, Docket UE-230172 (Oct. 2023) (27 pages)	75
JDW-13	Avista's Response to Staff Data Request No. 222 (3 pages)	75
JDW-14	Avista's Response to Staff Data Request No. 172 (2 pages)	75

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EXHIBITS (cont.)

Number	Description	ADM
JDW-15	Avista's Response to Staff Data Request No. 183 (Supplemental) (2 pages)	75
JDW-16	Avista's Response to Staff Data Request No. 175(C) (Second Supplemental) (2 pages)	75
JDW-17	Avista's Response to Staff Data Request No. 184 (Supplemental) (2 pages)	75
JDW-18	Avista's Response to Staff Data Request No. 219 (2 pages)	75
JDW-19	Avista's Response to AWEC Data Request No. 53, Attachment B (1 page)	75
JDW-20C	Avista's Response to Staff Data Request No. 176(C) (Supplemental) and Attachment A (1 page)	75
JDW-21	Avista's Response to Staff Data Request No. 186 (2 pages)	75
JDW-22C	Avista's Response to Staff Data Request No. 189 (2 pages)	75
JDW-23	Avista Witness Kalich's "Rattlesnake Flat" workpaper (1 page)	75
JDW-24TCr	Revised Cross-Answering Testimony of John Wilson (28 pages)	75
JDW-25	Avista's Response to Staff DR No. 227 Supplemental 2 (6 pages)	75
JDW-26	Avista's Response to Staff DR No. 227 Supplemental Attach. A - 2024 WEIM Calcs (2 pages)	75
JDW-27	ICE Futures Daily Market Report for Washington Carbon Allowance Vintage 2025 Futures (2 pages)	75

EXHIBITS (cont.)

Number	Description	ADM
JDW-28C	NPE Calculations (2 pages)	75
JDW-29	Ecology Auction, December 2023 (5 pages)	75
JDW-30	Ecology Auction, March 2024 (5 pages)	75
JDW-31	Ecology Auction, June 2024 (2 pages)	75
JDW-32C	Staff DR No. 227 Confidential Attachment A, Exh. CGK 2-6 DR 227 (2 pages)	75
JDW-33	Attachment A Comparison to File (3 pages)	75
JDW-34	Attachment A Comparison to File (2 pages)	75
JDW-35C	Confidential Attachment A CGK 2-6 (2 pages)	75
JDW-36X	UE-240004, UG-240005 (consolidated) Response Testimony of John D. Wilson (59 pages)	75
JDW-37X	U-230161 - CCA Policy Statement (12 pages)	75
JDW-38X	U-230161 - Notice Rescinding Policy Statement (1 page)	75
KMH-1T	Direct Testimony of Kristin Hillstead (31 pages)	75
KMH-2	Staff's Proposed Revenue Requirement Increase (Electric) (2 pages)	75
KMH-3	Staff's Revenue Requirement Calculation (Electric) (2 pages)	75
KMH-4	Staff's Conversion Factor Calculation (Electric) (2 pages)	75
KMH-5	List of Uncontested Adjustments (Electric) (2 pages)	75

EXHIBITS (cont.)

Number	Description	ADM
KMH-6C	Avista's Response to UTC Staff Data Request No. 46C (2 pages)	75
KMH-7	Avista's Response to Public Counsel Data Request No. 297 with Attachment B (Electric)	75
KMH-8	Staff's Proposed Revenue Requirement Increase (Natural Gas) (2 pages)	75
KMH-9	Staff's Revenue Requirement Calculation (Natural Gas) (2 pages)	75
KMH-10	Staff's Conversion Factor Calculation (natural Gas) (2 pages)	75
KMH-11	List of Uncontested Adjustments (Natural Gas) (2 pages)	75
KMH-12	Avista's Response to UTC Staff Data Request No. 211 (2 pages)	75
KMH-13	Avista's Response to UTC Staff Data Request No. 212 (2 pages)	75
KMH-14T	Cross-Answering Testimony of Kristen Hillstead (5 pages)	75
KMH-15C	Staff's Updated Confidential Electric Revenue Requirement Model (2 pages)	75
KMH-16C	Staff's Natural Gas Revenue Requirement Model	75
SSAG-1T	Direct Testimony of Sofya Shafran Atitsogbe Golo (34 pages)	75
SSAG-2	Avista's Response to UTC Staff Data Request No. 86 (103 pages)	75
SSAG-3	Avista's Response to UTC Staff Data Request No. 98 (2 pages)	75
SSAG-4	Avista's Response to UTC Staff Data Request No. 193 (43 pages)	75

EXHIBITS (cont.)

PUBLIC COUNSEL:

Number	Description	ADM
DED-1T	Direct Testimony of David Dismukes (22 pages)	75
DED-2	Curriculum Vitae of David E. Dismukes (81 pages)	75
DED-3	Analysis of Electric Customer Charges to Customer-Related Costs (2 pages)	75
DED-4	Analysis of Natural Gas Customer Charges to Customer-Related Costs (2 pages)	75
DED-5	Survey of Regional Electric Customer Charges (2 pages)	75
DED-6	Survey of Regional Natural Gas Customer Charges (2 pages)	75
DED-7	Analysis of Energy Usage and Household Income (3 pages)	75
DED-8	Residential Electic Bill Comparison at Different Usage Levels (2 pages)	75
DED-9	Residential Natural Gas Bill Comparison at Different Usage Levels (2 pages)	75
DED-10T	Cross-Answering Testimony of David Dismukes (12 pages)	75
DED-11X	PC Response to AWEC DRs 1 (1 page)	75
DED-12X	PC Response to AWEC DRs 2 (1 page)	75
DED-13X	PC Response to AWEC DRs 3 (1 page)	75
DED-14X	PC Response to AWEC DRs 4 (1 page)	75
DED-15X	PC Response to AWEC-DR-125 (1 page)	75
DED-16X	PC Response to AWEC DR-126 (1 page)	75

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EXHIBITS (cont.)

Number	Description	ADM
DJG-1T	Direct Testimony of David Garrett (60 pages)	75
DJG-2	Curriculum Vitae (15 pages)	75
DJG-3	Proxy Group Summary (2 pages)	75
DJG-4	DCF - Stock and Index Prices (2 pages)	75
DJG-5	DCF - Dividend Yields (2 pages)	75
DJG-6	DCF - Terminal Growth Determinants (2 pages)	75
DJG-7	DCF - Final Results (2 pages)	75
DJG-8	CAPM - Risk-Free Rate Estimate (2 pages)	75
DJG-9	CAPM - Beta Coefficients (2 pages)	75
DJG-10	CAPM - Implied ERP Estimate (2 pages)	75
DJG-11	CAPM - Equity Risk Premium Results (2 pages)	75
DJG-12	CAPM - Final Results (2 pages)	75
DJG-13	Cost of Equity Summary (2 pages)	75
DJG-14	Proxy Group Debt Ratios (2 pages)	75
DJG-15	Competitive Industry Debt Ratios (2 pages)	75
DJG-16	Hamada Model Results (2 pages)	75
MEG-1T	Direct Testimony of Mark Garrett (40 pages)	75
MEG-2	Qualifications and Curriculum Vitae of Mark E. Garrett (27 pages)	75
MEG-3	Electric Utility Revenue Requirement Accounting Schedules (11 pages)	75

EXHIBITS (cont.)

Number	Description	ADM
MEG-4	Gas Utility Revenue Requirement Accounting Schedules (10 pages)	75
MEG-5	Federal Reserve Economic Data on Inflation Rates (11 pages)	75
MEG-6	Avista's Response to Public Counsel data Request No. 169 (2 pages)	75
MEG-7	Avista's Response to Public Counsel Data Request No. 182 (2 pages)	75
MEG-8	Avista Response to Public Counsel Data Request No. 194, with Attachment A (4 pages)	75
MEG-9T	Cross-Answering Testimony of Mark Garrett (11 pages)	75
MEG-10	Updated Electric Utility Revenue Requirement (2 pages)	75
MEG-11	Updated Gas Utility Revenue Requirement (2 pages)	75
RLE-1TC	Direct Testimony of Robert Earle (39 pages)	75
RLE-2	Curriculum Vitae of Robert L. Earle (8 pages)	75
RLE-3	Avista's Response to Staff Data Request No. 34 (2 pages)	75
RLE-4	Econometric Analysis of Asymmetric Information (58 pages)	75
RLE-5	Avista's Response to Staff Data Request No. 177 (2 pages)	75
RLE-6C	Avista's Response to Public Counsel Data Request No. 307 with Attachment A (4 pages)	75

EXHIBITS (cont.)

Number	Description	ADM
RLE-7C, Att.	Avista's Response to Public Counsel Data Request No. 308 with Attachment A (3 pages)	75
RLE-8	Avista's Response to Public Counsel Data Request No. 134 (2 pages)	75
RLE-9	Avista's Response to Public Counsel Data Request No. 272 (2 pages)	75
RLE-10	Avista's Response to Public Counsel Data Request No. 273 (2 pages)	75
RLE-11	Avista's Response to Public Counsel Data Request No. 274 (2 pages)	75
RLE-12	Avista's Response to Public Counsel Data Request No. 275 (2 pages)	75
RLE-13	Avista's Response to Public Counsel Data Request No. 276 (2 pages)	75
RLE-14	Avista's Response to Public Counsel Data Request No. 277 (2 pages)	75
RLE-15	Avista's Response to Staff Data Request No. 35 (2 pages)	75
RLE-16	Bootstrap inference for general non-i.i.d. models (10 pages)	75
RLE-17T	Cross-Answering Testimony of Robert Earle (10 pages)	75

AWEC:

Number	Description	ADM
BGM-1T	Direct Testimony of Bradley Mullins (64 pages)	75
BGM-2	Regulatory Appearances of Bradley G. Mullins (3 pages)	75

EXHIBITS (cont.)

Number	Description	ADM
BGM-3	Electric Revenue Requirement Calculations (7 pages)	75
BGM-4	Natural Gas Revenue Requirement Calculations (7 pages)	75
BGM-5	Responses to Discovery Requests (41 pages)	75
BGM-6	Customer Tax Credit Balance Excluding Carry (3 pages)	75
BGM-7	CAISO Neutrality Charge Business Practices Manual (21 pages)	75
BGM-8T	Cross-Answering Testimony of Bradley Mullins (22 pages)	75
LDK-1TC	Direct Testimony of Lance Kaufman (58 pages)	75
LDK-2	Qualification Statement of Lance D. Kaufman (10 pages)	75
LDK-3	Discovery Responses (15 pages)	75
LDK-4	Cost of Service Study (6 pages)	75
LDK-5	Cost of Capital Models (26 pages)	75
LDK-6T	Cross-Answering Testimony of Lance Kaufman (15 pages)	75
LDK-7	Proposed Increase by Base Schedule (2 pages)	75

NWEC:

Number	Description	ADM
CT-1T	Direct Testimony of Charlee Thompson (26 pages)	75
CT-2	CV of Charlee Thompson	75

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EXHIBITS (cont.)

Number	Description	ADM
CT-3	Avista Energy Assistance Advisory Group Presentation, May 2024 (2 pages)	75
CT-4T	Cross-Answering Testimony of William Gehrke (12 pages)	75
LM-1T	Direct Testimony of Lauren McCloy (17 pages)	75
LM-2	CV of Lauren McCloy (3 pages)	75
WG-1T	Direct Testimony of William Gehrke (16 pages)	75
WG-2	CV of William Gehrke (2 pages)	75
WG-3	NWEC Schedule 99 Rate Spread Proposal (2 pages)	75
WG-4	Avista Schedule 151 (3 pages)	75
WG-5	Avista Response to NWEC Data Request 009 (2 pages)	75
WG-6	Avista Schedule 154 (4 pages)	75
WG-7	Avista Response to NWEC Data Request 010 (2 pages)	75
WG-8T	Cross-Answering Testimony of William Gehrke	75
WG-9	Excerpt of SNS-1T, Docket UE-240004 (3 pages)	75

THE ENERGY PROJECT:

Number	Description	ADM
RDC-1T	Direct Testimony of Roger Colton (78 pages)	75
RDC-2	Qualifications of Roger D. Colton (5 pages)	75

EXHIBITS (cont.)

Number	Description	ADM
RDC-3	List of American Community Survey data tables matched with Avista Census Tracts (2 pages)	75
SNS-1T	Direct Testimony of Shaylee Stokes (47 pages)	75
SNS-2	Qualifications of Shaylee N. Stokes (3 pages)	75
SNS-3	Avista Response to TEP DR 012 (3 pages)	75
SNS-4	Avista Response to TEP DR 013 (3 pages)	75
SNS-5	Avista Response to TEP DR 032 (2 pages)	75
SNS-6	"Racial disparities persist in electric service" (7 pages)	75
SNS-7	"Living Without Power: Health Impacts of Utility Shutoffs in California" (37 pages)	75
SNS-8	Lights out in the Cold (81 pages)	75
SNS-9	Surviving a Shut-Off (26 pages)	75
SNS-10	TEP Affordability and Equity Metrics (4 pages)	75
SNS-11	Avista Response to TEP DR 003 (3 pages)	75
SNS-12	Avista Response to TEP DR 002 (2 pages)	75
SNS-13	Avista Response to TEP DR 005 (2 pages)	75
SNS-14	Avista Response to TEP DR 004 (46 pages)	75

SIERRA CLUB:

Number	Description	ADM
JAD-1T	Direct Testimony of Jim Dennison (50 pages)	75

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EXHIBITS (cont.)

Number	Description	ADM
JAD-2	Professional Qualifications for Jim A. Dennison (2 pages)	75
JAD-3	Sierra Club Comments on Avista's 2023 Gas IRP (19 pages)	75
JAD-4	Oregon PUC, Order No. 24-156, No. LC 81 (88 pages)	75
JAD-5	Avista Response to Sierra Club Data Request SC-006 (2 pages)	75
JAD-6	Avista Response to Sierra Club Data Request SC-007 (2 pages)	75
JAD-7	Avista Response to Sierra Club Data Request SC-016 (1 page)	75
JAD-8	Avista Response to Sierra Club Data Request SC-019 (2 pages)	75
JAD-9	Avista Response to Sierra Club Data Request SC-017 (2 pages)	75
JAD-10	Avista Response to Sierra Club Data Request SC-020 (10 pages)	75
JAD-11	PSE, GRC Settlement: Targeted Electrification Pilot Updates (30 pages)	75
JAD-12T	Cross-Answering Testimony of Jim Dennison (12 pages)	75
JAD-13	Sierra Club et al. Letter to Dennis Vermillion (4 pages)	75

WALMART, INC.:

Number	Description	ADM
LVP-1T	Direct Testimony of Lisa Perry (29 pages)	75

EXHIBITS (cont.)

Number	Description	ADM
LVP-2	Witness Qualifications Statement (16 pages)	75
LVP-3	Reported Authorized Returns on Equity, Electric Utility Rate Cases Completed, 2021 to Present (5 pages)	75
LVP-4	Reported Authorized Returns on Equity, Electric Utility Rate Cases Completed, 2021 to Present (1 page)	75
LVP-5	Reported Authorized Returns on Equity, Gas Utility Rate Cases Completed, 2021 to Present (1 page)	75
LVP-6	Impact of Avista's Proposed Increase in Return on Equity Vs. Natural Gas National Average for Investor Owned Gas Utilities, 2021 to Present - Rate Year 1 (1 page)	75

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REPORTED FROM THURSTON COUNTY, WASHINGTON

Monday, September 30, 2024; 9:02 a.m.

* * *

JUDGE BROWN: Today is Monday, September -- September 29th -- I'm sorry -- September 30th, 2024, and the time is 9:02 a.m. I'm James E. Brown II, and I'm an administrative law judge with the Washington UTC, and I'm presiding in this matter with the commissioners to my right as well as Administrative Law Judge Connor Thompson. And what we have here today is an evidentiary hearing for the Dockets 240006 -- or rather, UE-240006 and UG-240007, which is captioned the Washington UTC versus Avista, doing business as Avista Utilities.

And so, for the record, let's take short appearances, starting with the company.

ATTY MEYER: Thank you, Your Honor. David Meyer appearing on behalf of Avista.

COMMISSIONER RENDAHL: And I just want -- a point of order. Commissioner Doumit would be here this morning but has a family emergency here today. So he's not able to be here, but he will read the transcript of the proceeding. Thank you.

JUDGE BROWN: I'm sorry. Could you repeat that one more time.

ATTY MEYER: David Meyer appearing on behalf of Avista. Thank you.

JUDGE BROWN: And now we'll go to Staff.

ATTY ROBERSON: Good morning. Jeff Roberson, AAG, appearing for Staff.

JUDGE BROWN: And Public Counsel.

ATTY ROBINSON O'NEILL: Good morning, Your Honor. Tad Robinson O'Neill, for Public Counsel.

JUDGE BROWN: AWEC.

ATTY MOSER: Good morning, Your Honor. Sommer Moser and Tyler Pepple, on behalf of AWEC.

JUDGE BROWN: Okay. And The Energy Project.

ATTY ZAKAI: Good morning. Yochi Zakai, on behalf of The Energy Project.

JUDGE BROWN: And NWEC.

ATTY GOETZ: Good morning. This is Mike Goetz appearing on behalf of NWEC.

JUDGE BROWN: And Sierra Club.

ATTY SMITH: Gloria Smith, on behalf of Sierra Club.

JUDGE BROWN: And we have Walmart.

ATTY CAVIGLIA: Good morning, Your Honor. Justina Caviglia, on behalf of Walmart.

JUDGE BROWN: Okay. Thank you, and good morning to everyone.

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So right now let's talk about our plans for the hearing. First, what we want to deal with is the admission of all prefiled exhibits and testimony, unless there are any objections.

ATTY MEYER: Avista does not object to stipulating in all the exhibits, cross exhibits, et cetera.

JUDGE BROWN: Okay. Good. And at this point we will allow for --

ATTY PEPPLE: Your Honor?

JUDGE BROWN: Yeah.

ATTY PEPPLE: Apologies --

JUDGE BROWN: No. Go ahead.

ATTY PEPPLE: -- I did want to just flag one exhibit. We don't object to any of the exhibits. The one potential exception is an exhibit that Public Counsel submitted for Mr. Miller. That's prefiled cross-examination and responses. We don't object to it so long as we have the opportunity to do redirect on that.

ATTY ROBINSON O'NEILL: Your Honor, if I could make a record about that. Public Counsel met and conferred with Avista and came up with an agreed testimony in lieu of our waiving of cross-examination questions. So it's in question-and-answer format. We have no objection if AWEC has follow-up questions to what is, in essence, written answers that I would have asked anyway in person.

JUDGE BROWN: Okay. That's fine.

ATTY PEPPLE: Just want to make sure that was clear.

JUDGE BROWN: All right. Thank you for the clarification.

So what we'll do is allow for brief opening statements, in the interest of time, and we'll limit those to ten minutes per party.

ATTY MEYER: Your Honor, may I -- just before we get to that -- I'm sorry --

JUDGE BROWN: Yeah.

ATTY MEYER: -- one last small detail.

JUDGE BROWN: Sure.

ATTY MEYER: And I appreciate you circulating yesterday what purports to be the very final version of the exhibit list. And it's much appreciated. You provided marking for identification of all the exhibits, particularly the cross-examination exhibits. We notice, in going through that last night, just a couple of minor corrections, if I just make those on the record. No need to republish that as far as I'm concerned, but just -- the designation is just slightly off. May I do so?

JUDGE BROWN: Yes.

ATTY MEYER: Okay. So as we look to the cross-examination exhibits for -- it's of Public Counsel, and it's of Kevin Christie.

Let's see. I want to make sure we get the right ones here. That's -- yeah. It's actually -- I'm mistaken. It's marked CGK-23X, and it's a cross-examination exhibit. And it should have a "C" designation after the identifier. Now, the description of the exhibit itself is correct because it refers to a confidential response, but just the identifier should have a "C" on it. Okay? And I believe there's one other one.

COMMISSIONER RENDAHL: Which number was that?

ATTY MEYER: It's CGK-23X. Okay? Should be -XC.

And then the other one is in the same set of cross exhibits. It is, if you will go up the page, CGK-16XC. Okay? -XC. Now, there, it does have the C designation in the identifier. But off to the side where you describe it, the description should be to -- "Avista's Confidential Response to Staff DR Number 230" -- C. Add a C in that description, if you would. Okay?

Those are just the minor edits.

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ATTY ROBINSON O'NEILL: Mr. Meyer, just to verify, the 23XC for CGK?

ATTY MEYER: Yes. Yes.

ATTY ROBINSON O'NEILL: I will confer with you before we get to that examination exhibit. Because I don't think I used the confidential attachment. I just used the uncon- -- nonconfidential text.

ATTY MEYER: I see. Okay.

ATTY ROBINSON O'NEILL: So I do not intend to elicit any testimony there. But if get anywhere near that when I'm asking questions, please let me know.

ATTY MEYER: Very good. Thank you.

CHAIR DANNER: And I just want to clarify. I believe you said that that was a Kevin Christie exhibit. That's a Clint Kalich --

ATTY MEYER: That's right. My mistake.

JUDGE BROWN: Thank you, Counsel, and so noted.

So if we can circle back to opening statements, which will be limited to ten minutes per party, and then we will be taking all witnesses individually. At this point, given time constraints, we will -- with regard to breaks, we will check in at 10:30 to see where the parties are with regard to breaks, and we'll look at how long to take for lunch -- again, based on where we are in the process. And we'll kind of take everyone's pulse with regard to the pacing.

And I just want to remind everyone to make sure that they keep their microphones muted unless they are speaking. And if you are having any tech issues or you observe a party or rep -- and when I say "rep," I mean representative -- that has dropped off during the online meeting, please let us know in the chat so we can take measures in that regard. And we also caution that the chat should only be reserved for technical issues and requests for breaks only.

And I do believe we have already stipulated to the prefiled exhibits and testimony, which should also include the cross-examination exhibits as well.

(Exhibits for Avista Corporation admitted.)

(Exhibits for WUTC and the parties admitted.)

And now, I also want to address the matters of the motions that are outstanding. I believe we have a motion for leave to file cross exhibits from Staff and a motion for leave to distribute additional cross-examination exhibits from Public Counsel, as well as a motion for leave to file cross-examination exhibits for cross-answering testimony, rather, on behalf of Staff. And I believe there's one more motion outstanding for leave to file testimony as well.

Have I captured all of the motions from the parties?

ATTY PEPPLE: Your Honor, this one's not related to the hearing, but I did just want to flag that AWEC has a motion to increase the customer sub fund that remains outstanding from June. So I just wanted to flag that one for your attention.

JUDGE BROWN: Thank you for reminding me. I'll make sure that that is addressed. And that order is issued and will be for the coming -- later this week. Thank you.

Does anyone have any objections with regard to those motions?

All right. Hearing none, the motions are all granted. And so now we'll proceed to opening statements. We'll start with Avista.

ATTY MEYER: Thank you, Your Honor. And if it's all right, I'll just remain seated so I'm close to the microphone.

I appreciate this opportunity to spend just a few minutes with you framing a few of the key issues that deserve, I think, special attention in this case. There are many issues. Mercifully, I'm not going to discuss cost capital in my ten minutes, but I will discuss power supply issues. And those issues really have, at their foundation, a dramatically changed power supply landscape. That's at the heart of much of what we are proposing in this case. And Avista believes it's -- it is time to explicitly acknowledge and recognize those changes in our supply that will, we believe, persist for several years to come.

We will be presenting the testimony of two witnesses who are steeped in knowledge in this space, Mr. Kalich and Mr. Kinney, who have been at this type of work for many years. They're well acquainted. And they look forward to visiting with you and having a real dialogue with you as commissioners and the bench in terms of what has changed and what the impact of those changes in power supply are on the company.

The rest of the issues in this case will take care of themselves in the normal course, as they always do. I mean, there are 150 identifying issues in the issues list, and clearly the parties are accustomed to dealing with those, as is the Commission.

So, first of all, our rebuttal testimony -- again, back to power supply -- responds to the points raised by the other parties and acknowledge where we should or we must -- certain changes need to be made and what we're proposing by way of a portfolio adjustment. We read that testimony, and on rebuttal -- and on rebuttal we actually reduced the size of that portfolio adjustment markedly down from 77 million to 43 million in terms of its Year 1 electric rate impact.

We also, in our rebuttal -- we also -- excuse me -- that was a revenue requirement delta. I gave you the 77- down to the 43-. But we also, in that rebuttal testimony, revised our ERM proposal, modified it somewhat based on some Staff testimony -- no longer a 95/5 sharing, but a 90/10 sharing. But then we added an asymmetrical sharing in the dead bands.

So all of that was to try and meet head on any issues that have been raised in that regard. And I'll speak more to the ERM and what it does do and what it no longer does in just a moment. But key issues remain: Power supply -- but before I get there, the two-year versus one-year rate plan is a matter of real concern to the company.

Staff -- no other parties, but Staff suggests just a one-year plan citing, basically, administrative burden of trying, also, to handle Rate Year 2 in this docket. They also argue that it would allow to better synchronize with the CEIP if we could have a separate Rate Year 2 filing down the road. There are no -- by the way, there are no CEIP costs in this filing in Rate Year 2.

So what Staff's argument really is, is -- let's -- let's turn this into a one-year rate case. That has really profound repercussions for the company. And that will make it very difficult for us to turn around and get another filing in without losing anywhere from 9 to 12 months of revenue requirement in the meantime while we put together and prosecute another case.

Moreover, it's really antithetical -- it's antithetical to what this multi-year rate plan legislation was all about. That was designed to allow parties to get off this treadmill of yearly filings. We've done that, and I think it would be a step backward to adopt Staff's proposal in that regard.

Next, we really hope that there will be a recognition at the outcome of this hearing of the changed power supply landscape. Things are much different now than they were before. The company is having great difficulty in monetizing the value of our thermal fleet in order to reduce our net power expense. It has limited hedging options, and the cost of collateral for that hedging is problematic.

Now, from that set of facts, I think the following flow. First, we need to modify the mechanism of the ERM. The ERM at its inception was meant to provide incentives for the company to prudently manage its power supply where it can. The company can no longer manage it with the customary tools of hedging and bilateral trades. It doesn't have the tools.

So, largely, it is subject to what has become not an incentive but a penalty, a penalty for things that it cannot control. And I don't think that was ever the intent of the risk allocation process built into the ERM. So you will hear that there's great concern about where that leaves the company at the end of the day and the extent to which it's actually being penalized -- unintentionally, but being penalized through the ERM process.

Secondly, the forecast power supply adjustment that's received so much attention in this case, as I mentioned at the outset, we modified that. That has been dropped considerably in terms of its scope, its value. But why is it important to even still consider? Well, it is important so that we establish the right baseline on which the ERM can operate. So it's back to the ERM. If you don't start from the right spot with a baseline, the ERM can't possibly function as intended. Even as modified, it can't function as intended.

So the question that I'm sure is front and center is -- well, why after rejecting PacifiCorp's ERM request should we grant Avista's ERM request? You will hear that there are really profound differences between where PacifiCorp and Avista find themselves. You'll find that Avista has much greater exposure, volatility with a market surplus that is so much greater than PacifiCorp's or Puget's. The problem is we can't monetize that. And in that way, the net power expense cannot be reduced in the way that we're accustomed to doing it.

And secondly, but not entirely the complete picture -- but secondly, Avista's much smaller than PacifiCorp. It can't absorb -- it can't absorb the body blows through absorption of the dead band and the sharing mechanism. The market capitalization for PacifiCorp allows it to weather the blows in a way that Avista cannot. And that's a -- that's a real thing. That's a real thing for a company the size of Avista.

So in closing -- in closing, at the end of this process, I hope that the Commission will have its questions -- you're the audience -- its questions answered with respect to how this power supply landscape has changed and what those repercussions are. And with that, I appreciate the opportunity, and we look forward to presenting our case. Thank you.

JUDGE BROWN: Thank you.

And now Staff.

ATTY ROBERSON: In the interest of time, Staff is happy to waive its opening statement.

JUDGE BROWN: Thank you.

Public Counsel.

ATTY ROBINSON O'NEILL: Thank you, Your Honor. Thank you for giving me the opportunity to speak briefly. I've timed myself. It should be less than ten minutes; so...

In the public comment exhibit, you will read from a 72-year-old woman -- her name is Cynthia Freyer -- who is receiving what she calls a "comfort plan" from Avista. She sets her thermostat at 60 degrees during the day, 55 degrees at night. You will also hear from another customer, Mary Arlt, who makes just a little too much to qualify for the discounts from Avista but is freezing and resorted to heating her -- heating her home with a natural gas stove until she realized that it was going to cost too much in January of this year.

Rate increases are about capital structure and new spillways and new PPAs, but they have real day-to-day impacts. From Mr. Bonfield, you will hear that there are 141,000 families in Avista's service "terry" and, at best, a plan next year to reach 36 percent of those families who have to make decisions about lowering thermostats and purchasing food or energy.

In Mr. Colton's testimony, you will hear that the same inflation that Mr. Christie talks about necessitating more money for Avista hammered these low-income individuals. Inflation is worse at the bottom, and these families don't have resources to bounce back. Mr. Colton's Table 8 in his testimony will show that, out of the 284,000 households in Avista's territory, 80 percent of them earn $61,000 a year or less. $61,000 a year or less is the -- 200 percent of the family poverty line for a family of four.

You will read that arrearages are highest among that group of people. And you will read Barbara De Vore's comment in the public comment, that "I qualify for some help" and that "It only covers one or one and a half months in the coldest month and -- so that I'm usually paying off my winter bills from Avista in June."

Against this sea of need, you will hear and read that, since 2015, Avista has grown its rate base from 2.5 billion to 4.3 billion. That's a 60 percent increase, a $1. billion addition to their capital base. In that same time period, you will hear that they have distributed $997 million in dividends. That's a billion dollars more of capital extracted from Avista's families and businesses.

In 2023, the last full year of data, Avista paid $140,680,314 in dividends. Balanced against $140 million in dividends to their shareholders, Avista used $21 million in the program here to support low-income families.

In February 2024 Dennis Vermillion, the CEO, assuring investors that Avista's board of directors are dedicated to shareholder interests, bragged that the board had increased the dividend for Avista shareholders for the 22nd consecutive year. That reaches back to as soon as the bailout from this commission from the Western energy crisis. That's through the 2008 Great Recession. That's through the greatest medical crisis in our history in the last 100 years. That's through the inflation surge and the recovery from COVID. Every year Avista has extracted more money for ratepayers to pay shareholders.

You will hear that, despite this robust growth and rosy financial health, Avista needs to extract more from families and businesses, despite the fact that Avista's earnings this year are higher than last year's per share; that they are on course to meet their current projected expectations for earnings; that they are on course for another 5 percent rate growth in their rate base.

You will read that Avista's financial models predict that they need a 10.25 percent return on investment for their equity holders, despite the fact that those same models have predicted a much higher rate of return than this commission actually awarded and which allowed Avista to grow the rate base as exponentially as they have.

You will hear that the largest chunk of this increase this year is in the alterations to the ERM. What you will not hear about those ERM alterations is that the proposed adjustments will make Avista's forecasts of power costs for the capture of thermal energy more accurate.

You will not hear that Avista's experienced professionals are better able or learning how to hedge in the new world of fewer bilateral trades, energy imbalanced markets, and power volatility driven in large part by lack of resources that utilities are the ones that have to build.

I'm going to attempt to share a screen -- I think this should work -- of a chart that you will see.

This is from Mr. Kalich's testimony. Exhibit 20X is the exhibit number. And what this shows is -- the blue line is how much money the customers have to pay under the ERM. The red line is how much the company has to pay. You will hear that what the company is asking -- or saying is that that red line is too high. And what they will ask you to ignore is that any alteration of that red line means the blue line has to get higher.

In 2023 Avista did pay $20 million into the ERM. Customers paid 60 million. The evidence will show you that these ERM alterations are simply a request to reallocate more money to shareholders, while Ms. Freyer, the woman I referenced at the beginning, is reduced to asking, tongue in cheek, if Avista plans to offer her thermal underwear for the coming years.

You will hear about wildfire risk, a new risk factor that has popped up in all of the credit ratings in the last four years. That is wildfire fear from liability for negligent operation of the power lines.

You will hear of Avista's $420 million ten-year budget to harden lines and manage vegetation, and that is warranted in this era of carbon-emission-driven climate change. But you will also hear, embarrassingly, that Avista does not track ignition events. They cannot tell you if that $420 million is going to stop a wildfire ripping through the Spokane Valley. They have and will make some concessions about the need for transparency, but this commission needs to order that to be done.

This is a fully contested rate case with hundreds of issues, 21 company witnesses, 18 intervener witnesses, literally thousands of pages, and the densest reports I have yet read in my 20 years as an attorney. In two days we're not going to touch but a small section of that. Although there will be hundreds of pages of briefs for you to read, I urge the Commission to look at some topics that I'm not going to be able to ask you about or talk about in these next two days.

The first is the executive pay, industry association dues, board of director compensation, and director -- and officer -- insurance that are testified to by Mark Garrett in his testimony. In the comments you will read a surfeit of anger by customers directed at executive compensation, and you will read in Mark Garrett's testimony that it is warranted. Municipal, utilities, line, and middle management staff receive the same amount of compensation that Avista's line and middle management staff do.

Executive pay, however, is higher at Avista. And that is probably warranted, but it's warranted because it benefits the shareholders. What Mr. Garrett has indicated or what -- has suggested is that we simply allocate that accordingly. At least 50 percent of that compensation needs to be paid by the shareholders.

You will read testimony on power agreement, PPAs, and a new statute that allows incentives for that. What you will not read from the company is that these PPAs that they're seeking interest on needed to be incented. They were the only way to approach the C plans, and it does not make sense to apply incentives where they are already on board.

You will read in Mr. Mullins's testimony about the need for individual -- individualized rather than portfolio review of provisional capital projects. What you will read in the testimony from Ms. Andrews is not that individualized review -- is the need for flexibility. That's why they're proposing portfolio review. But individualized review doesn't mean that you can't alter them. It just means that you have to provide an individualized explanation for each project. And that is necessary for this commission to do its job.

And this is to say nothing of the important work of TEP and of NWEC. They will have the chance for targeted briefing that Public Counsel may not be able to match. That's not from lack of importance, but from a lack of time and space. So I urge you to consider carefully their proposals.

In the end, Public Counsel does not dispute that the removal of Colstrip, the expansion of operations in management budgets, capital investments do support some increase in rates. But 140,000 -- 141,000 people having to set their thermostat low and 80 percent of the residents in the service territory being at close to 200 percent of the poverty line illustrate the increasing concentration of wealth that is bedeviling our country.

What is fair and just in 2024 in rates is to closely examine Avista's claim of poverty against their record stability and ever-increasing dividends and rate base and give them the minimum needed. Ratepayers are not a bottomless source of future income. They are increasingly desperate. People and businesses in the Avista service territory are squeezed, and rate increases need to be strictly limited to what is actually necessary, not what Avista shareholders would prefer. Thank you.

JUDGE BROWN: And next, we have AWEC.

ATTY PEPPLE: Thank you, Your Honor. Just a brief opening statement from me.

Well, as you heard from Mr. Meyer and Mr. O'Neill, despite the parties' efforts, none of the issues in this case have settled; so there are a multitude of issues for the Commission to resolve. AWEC alone has 15 different adjustments to Avista's revenue requirement. And every one of these issues is important to AWEC. But from our perspective, there are five main contested issues in this case: There's cost of capital, the power cost forecast error adjustment, Avista's requested changes to its energy recovery mechanism, rate spread, and whether to approve rates for one year or two years.

AWEC's arguments on cost of capital and the forecast error adjustment -- represented in its testimony and will be fleshed out at briefing. But it's worth identifying here that simply maintaining Avista's ROE -- current ROE and rejecting its unsupported forecast error adjustment effectively eliminates Avista's first year rate increase.

With respect to the ERM, despite what Mr. Meyer states, Avista makes largely the same arguments that PacifiCorp made in its most recent rate case to modify its power cost adjustment mechanism. The Commission rightfully rejected those arguments in that case, and we think the Commission would do well to reiterate its holding in those case.

On rate spread, AWEC and Avista are largely in agreement on this point -- on this issue, and AWEC does not oppose the rate spread provided by Avista in its rebuttal testimony. Public Counsel, however, has recommended that the Commission implement a uniform rate increase for all customers. Public Counsel makes this recommendation even though it took no issue with Avista's cost of service study and presents no evidence that a uniform rate increase would help alleviate the substantial inter-class subsidies that Avista's cost of service study show exists.

In fact, because of the substantial credit residential customers will receive when Avista's Colstrip rider, Schedule 99, rolls off, a uniform rate increase will actually result in residential customers paying less than the average rate increase in the second year of the rate plan.

Finally, with respect to the issue of whether to approve rates for one or two years, AWEC is generally agnostic on this issue. But however the Commission decides it, we recommend that the Commission base its decision on what it feels is best for the customers. Thank you.

JUDGE BROWN: Next we have The Energy Project.

ATTY ZAKAI: Good morning, Your Honor. A few brief comments this morning to start us off.

The Energy Project provides testimony on the impact of disconnections on low-income customers and other vulnerable populations. Avista's disconnection policies are problematic because they prioritize customers for disconnection if they have a history of energy insecurity or have not spent a long time at their current premise.

First, a history of energy insecurity. The factors that Avista looks at are how many months has it been since a customer was last eligible for disconnection for nonpayment, whether a customer has a write-off balance, and whether a customer owes a prior obligation -- or put another way, whether that customer has been disconnected for nonpayment in the past.

Second, the length of time at the premise. This will impact renters, who move more often and, as Witness Colton demonstrates, have lower incomes. I want to clarify that TEP's concern applies only to communications that threaten disconnection and the act of disconnection itself, not other types of communications.

First and foremost, when a customer becomes past due, the utility's first communications with those customers should notify them of their past due balance without threatening disconnection. Such a letter, that the Commission has called "targeted outreach" in the PSE case, would let the customer know that the bill is past due and inform them of the availability of energy assistance programs and how to contact their local community action agency.

The goal of TEP's proposals is to ensure that customers are not threatened with disconnection earlier merely because they have a history unrelated to their current past-due balance of energy insecurity and prior disconnection. Put simply, it doesn't matter if Avista labels these factors as credit scores or behavior scores. The Commission can work to help break the cycle of crisis and the cycle of energy insecurity by adjusting Avista's disconnection factors.

Finally, I want to briefly note that, for the first time in this case, the Commission is asked to look at a return on a PPA for shareholders. The Energy Project supports NWEC Witness Will Gehrke's testimony recommending that the Commission reject a return on PPA. Thank you.

JUDGE BROWN: Next we have NWEC.

ATTY GOETZ: Good morning. Thank you, Your Honor. In the interest of time, NWEC is willing to waive its opening statement as well. We stand by the positions we've taken in testimony and look forward to the opportunity to expanding on those in briefing.

I do have a small procedural matter to raise, and I'm not sure if this is the appropriate time.

JUDGE BROWN: No. Go on, please.

ATTY GOETZ: Yeah. From the email last Friday, it's -- understanding that the commissioners have questions for Witness Charlee Thompson. And I just wanted to indicate that she is unavailable from noon to 1:00 tomorrow. But that's the only issue with scheduling that we have; and otherwise, she's available for any questions that arise.

JUDGE BROWN: Thank you for that update.

ATTY GOETZ: Thank you.

JUDGE BROWN: Next we have Sierra Club.

ATTY SMITH: Thank you, Your Honor. Sierra Club is likewise willing to waive an opening statement just in the interest of time. Many, many issues in this case.

JUDGE BROWN: Thank you.

And last we have Walmart.

ATTY CAVIGLIA: Walmart also waives its opening statement in the interest of time. Thank you.

JUDGE BROWN: Okay.

Before we actually proceed to witnesses, I do have one bit of housekeeping. And that is the motion for leave to file cross-answering testimony of John Wilson on behalf of Staff. Unless there's an objection, that motion is also granted. Thank you.

And now we will -- and now we will proceed with the witnesses, starting with the first witness, Kevin Christie.

Please -- go on.

ATTY MEYER: Thank you, Your Honor. I call to the stand Mr. Kevin Christie.

Thank you.

DIRECT EXAMINATION

BY ATTY MEYER:

Q Mr. Christie, for the record, please state your name, your employer, and your position with that employer.

JUDGE BROWN: Before you proceed...

I need to swear you in. So if you will raise your right hand. Thank you.

(Witness duly sworn.)

JUDGE BROWN: Thank you.

You may proceed.

ATTY MEYER: Thank you.

Q BY ATTY MEYER: Go ahead, Mr. Christie.

A Kevin Christie. I work for Avista Utilities, and I'm the chief financial officer and chief regulatory affairs officer.

Q And, Mr. Christie, you've filed -- prefiled exhibits -- I believe testimony, but accompanying other exhibits. They've all been marked for identification. They've all been admitted.

ATTY MEYER: So Mr. Christie is available for cross-examination.

JUDGE BROWN: You may proceed with cross.

ATTY ROBERSON: Thank you.

CROSS-EXAMINATION

BY ATTY ROBERSON:

Q Good morning, Mr. Christie. How are you?

A Good morning. I'm well. How are you?

Q Doing okay. All my questions will concern your rebuttal testimony. Do you have it? I believe it's Exhibit KJC-4T.

A Yes.

Q And all of my questions will refer to that page of the testimony itself, not the page of the PDF; so ignore the cover page.

On page 1 you set out your job titles, which you also just did again here. One of them was chief

financial officer; correct?
A That is correct.
Q And as the chief financial officer, do you follow macroeconomic trends and data?
A I do.
Q And you testified about some of them -- correct? -- in your rebuttal testimony?
A That is correct.
Q One of those is inflation?
A That is correct.
Q Will you please turn to page 2. And I'm thinking specifically of lines 17 through 21.
A I'm there.
Q There you're discussing what you characterize as headwinds that the company's faced over the last two years; correct?
A Yes.
Q And, again, one of those is inflation?
A Which lines again?
Q I believe it's 17 through 21.
A Yes.
Q The sentence that begins at the end of page 3 of your rebuttal testimony -- I think it's line 28 -- there you note that the Federal Reserve has, quote, "continued to aggressively increase interest rates"; correct?

A Can you say which lines again, please.
Q I thought it was page 3, line 28. It's not going to be page 3, line 28. Hmm. That is a pickle.
Subject to check, would you say that it's fair to say that, at one point in your testimony, you said, quote, "The Federal Reserve has continued to aggressively increase interest rates"?
A Subject to check.
Q Cool. Thank you.
And I believe, in that same mystery paragraph, you link those raises to the Federal Reserve's attempt to achieve its target 2 percent inflation rate; correct?
A Subject to check.
Q So is it fair to say that there's a correlation between high inflation and high interest rates?
A There is a relationship between inflation and interest rates.
Q And that relationship is generally that, in order to bring inflation down, the Federal Reserve raises interest rates; correct?
A That's one of many tools I believe they utilize.
Q Can lower inflation provide the Federal Reserve with the leeway it needs to reduce interest rates?
A I think it's more complicated. That's one factor.
Q It is a factor, though?

A It is a factor.
Q Okay. In terms of the kind of inflation spike that you're testifying about, when did that begin?
A Subject to check, it began towards the end of 2021 or the beginning of 2022.
Q And do you know when it peaked?
A Well, if we're talking about interest rates and...
Q Sorry. No. Inflation. Do you know when the annual rate of inflation peaked in the spike that you're talking about?
A I don't believe that it has subsided; so we're still in an inflationary environment.
Q So you think that the annual inflation rate is as high now as it was in 2021 and 2022?
A I think the impact of inflation is cumulative. And the inflation rate has lessened recently, but the impact over that period of time is, again, adding year after year.
Q So the inflation rate is dropping; correct?
A The rate of inflation has declined.
Q Again, do you know when that inflation rate peaked?
A I do not know that.
Q Do you know what it peaked at?
A I'm sorry. Can you say that again.
Q Do you know what the average -- sorry -- the annual

inflation rate peaked at in this most recent surge of inflation?
A We can get that for you if you'd like.
Q Do you have an estimate?
A Not off the top of my head.
Q Do you know how much it's come down since its peak?
A I do not.
Q Do you know what the inflation rate -- annual inflation rate was for August 2024?
A Can you point to a place in my testimony where I share that?
Q I talk about inflation -- I'm just wondering -- we're gauging your knowledge of the inflation rate.
A I don't have the exact inflation rate decline off the top of my head.
Q Do you have a ballpark?
A I would say that inflation is roughly cut in half over that period of time, subject to check.
Q Okay. The Federal Open Market Committee meets a couple times a year; correct?
A At least a couple of times year.
Q Do you follow those meetings?
A I see the highlights from those meetings.
Q Do you know when the last meeting was?
A There was a meeting a couple -- three weeks ago.

Q Do you know what happened at that meeting?
A There was a reduction in the Fed rate, 50-basis-point reduction.
Q So is that unusual in terms of size?
A I believe that the market was predicting -- 25- or a 50-basis-point reduction.
Q So it's on the high end?
A Of market expectations, yes.
Q Okay. Did you read the press release?
ATTY MEYER: Which -- which press release, may I ask?
Q BY ATTY ROBERSON: Issued by the Fed in accord- -- well, accompanying the reduction in interest rates, the federal target -- the federal fund target rate.
A I did not. I read the news as published through various agencies and via various banks.
Q So in the news, did people offer opinions as to why the Federal Reserve was able to cut interest rates as much as it did?
A Due to a reduction in inflation and other positive economic factors.
Q Okay. Moving on -- I think it's page 3, but we've established that my mastery of your testimony's not very good. So just generally, you talk about the customer tax credit that Avista's been returning;

correct?

A Yes.

Q I'm curious about that. That was agreed to in the last settlement; correct? That was a measure Avista agreed to in that settlement; correct?

A Yes.

Q And it was going to return a set amount of money; correct?

A Yes.

Q Do you know where in the process Avista is with regard to returning that money? Has it returned most of it? All of it? Some of it? None of it?

A Yes. We've returned most of it, I believe, subject to check that the residual is returned to customers this -- late this fall, early winter.

Q So you talk about it being kind of a cash flow issue for Avista. Is it fair to say that that cash flow issue is going to ameliorate?

A Over time, it will.

Q Over a fairly near time frame; correct?

A Well, from a cash flow perspective in the metric that the rating agencies are looking at, we are significantly under, in 2023, the metric that they're looking at when reviewing us for potential downgrade. And we will get to that level if things go well by the

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end of 2024, but we'll have very little breathing room.
Q I apologize. I phrased the question poorly.
This tax credit's contribution to Avista's cash flow issues will ameliorate over the near term -- correct? -- in the fall because you're going to stop returning cash?
A For that particular tax credit, yes.
Q Okay. I'd like to jump forward to page 10.
A I'm there.
Q At the very bottom, you write -- and quote, "Clearly, the proposals of the parties in this case are not a good indicator of supportive regulation," end quote. I mean, the sentence goes on, but I just want to ask you about that fragment. Did I read that correctly?
A Yes. Yes.
Q How do you define "supportive regulation"?
A I define supportive regulation as regulation that allows the utility to earn a fair return that can be healthy and continue to deliver service to its customers.
Q So hypothetically, if the parties are right and those costs aren't properly passed to customers, should the Commission include them in Avista's revenue requirement to be a supportive regulator?
A Can you describe the specific costs you're referring

to.

Q Any hypothetical costs the Commission decides that the parties are right about.

A Well, of course, it's up to the Commission to rule. And to the extent that there are costs that the company incurs, the reasonably -- reasonable and prudent -- and they're not covered in rates, that'll put Avista in a position of financial weakness that will then, in turn, make it difficult for us to serve our customers.

Q But if the Commission concludes that they're not properly passed to ratepayers, should the Commission pass them along to be supportive?

A Can you describe what you mean by "properly passed to ratepayers"?

Q Let's say the Commission determines that the portfolio forecast error is not known and measurable and does not include it in Avista's revenue requirement.

A That will create financial headwinds that we'll do our best to mitigate or manage. And at the same time, something of that size -- will be very difficult to do so.

Q If I were to ask you a yes-or-no question, hypothetically, if the Commission disallows the cost, should it nevertheless pass it along to a ratepayer?

A Disallows a cost?

Q To be supportive, yeah.
A I don't think it's a yes-or-no answer.
Q But if I asked you for one...
A So will you ask me again.
Q Hypothetically, yes or no, if the Commission disallows a cost, should it nevertheless pass it to ratepayers in order to be a supportive regulator?
A No.
Q Okay. I'd like to move on to page 23. And there you're talking about the multi-year rate plan; correct?
A Yes.
Q And I'd also like to start with the end of your discussion of the multi-year rate plan, which I believe is on page 27 and the top of page 28.
A I'm on the end of page 27.
Q And there, your argument -- well, you're testifying that Commission Staff is not providing for similar treatment between PSE and Avista; correct?
A That's our understanding.
Q Are Avista and PSE similarly -- similar entities under State law?
A We're both investor-owned utilities.
Q Is Avista a large combination utility, as state law uses that term?
A No.

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Q Is PSE?
A That's my understanding.
Q Fair enough.
On page 24, starting at line 6, you say that you understand the benefits of staggering major utility rate filings; correct?
A I'm sorry. Which line?
Q I believe it's line 6.
A Yes.
Q What are some of those benefits?
A I believe that staggering the rate cases, if it were possible, would help to spread the workload among the various parties.
Q And that would lead to better vetting of the two cases; correct?
A I believe it would lead to more time. I don't know that it would create a -- better vetting. The schedules are similar either way.
Q Would you agree that, if an analyst has more time with a filing, he or she can do a better job looking for issues, finding errors, those kinds of things?
A I think, if an analyst has more time and they have nothing else in which to focus upon, yes, they could do a better job on a single issue. I suspect they also have multiple cases going on at the same time,

regardless of GRCs or otherwise.

Q But if PSE and Avista were staggered, there would be one fewer; correct? For that analyst?

A Correct.

Q And these are not small filings. Is that fair to say?

A They are significant.

Q Is another benefit, I guess, intervener resource allocations that can better participate in each of the filings?

A Potentially.

Q Okay. Moving back up to page 23 -- I believe it's lines 18 through 20 -- you describe the work that Staff would need to put in processing the second year of the rate plan as "simple"; correct?

A Not quite correct. We said "simply put."

Q Simply put. Fair enough.

Two other things I want to talk about, I guess. On page 25, you talk about Avista's clear intentions to file on a two-year cycle and PSE's filing for a three-year rate plan initially; correct?

A When referring to our prior case and Puget's prior case. Correct.

Q And those were the first GRCs filing -- filed under the multi-year rate plan statute; correct?

A That's my understanding.

Q And as we talked about at the start of your cross, that is when there was a surge in inflation; correct?
A It happened during the pendency of that case -- or those cases.
Q And in your testimony, you talk about the difficulties for utilities operating in a high-inflationary environment; correct?
A I do.
Q So should Staff be indifferent to those kinds of circumstances when looking at utility rate filing?
A Can you describe which circumstances.
Q A new law in a high-inflationary environment.
A I believe that both of those occurrences or factors are something that we've all had to manage through.
Q I guess my question is -- should Staff have pushed for a three-year rate plan for PSE given skyrocketing inflation and a new law?
ATTY MEYER: Object to the form of the question. Asking this witness to speculate on what some other party should have done.
JUDGE BROWN: Rephrase the question.
Q BY ATTY ROBERSON: Well, you describe Staff as settling on a two-year rate plan; correct?
A Correct.
Q "Settling" is a pejorative term; correct?

A I think settling is an action that's taken at times in a rate case proceeding.
Q You're using "settle" in the legal context. Okay. Okay. Fair enough.
Let's talk about alignment with the CEIP. On page 25, starting line 17, you stated that the company has a draft IRP that does not require any resources; correct?
A We state that there are no meaningful investments or costs that are related to compliance for CEIP.
Q Does the company have a CEIP tracker?
A What do you mean by a "tracker"?
Q A deferral mechanism.
A We do.
Q Is it deferring costs on it?
A Can you repeat that.
Q Is it deferring costs into that deferral mechanism?
A There are some costs being deferred in that mechanism.
Q And in the order approving the deferral, the Commission indicated it wanted to review those costs for prudence in the next GRC; correct?
A I don't know that.
Q Subject to check?
A Subject to check.
Q I think that's all I have. Thank you.

JUDGE BROWN: I believe Public Counsel is next.

ATTY ROBINSON O'NEILL: Thank you, Your Honor.

CROSS-EXAMINATION

BY ATTY ROBINSON O'NEILL:

Q Good morning, Mr. Christie.

A Good morning.

Q Just a quick follow-up on Mr. Roberson's question. Have you calculated the impact of the rate cut, the 50-basis-point rate cut as well as the fall in utility bond yields on your rate filing in your rebuttal testimony?

A No. I think Mr. McKenzie is in a better position to answer that question.

Q It's -- lower inflation, lower utility bond rates is credit improvement for your company; is that right?

A It can be, all other things remaining equal.

Q I -- in speaking with your counsel, I had some exhibits for Mr. Vermillion that I wanted to talk through with you in exchange for not testifying. Have you had a chance to review those exhibits?

A I have.

Q Okay. Do you have in front of you what was

Public Counsel Exhibit -- Cross Exhibit 2? It's now been designated as 4X -- DPD-4XC.
A Can you repeat that number for me, please.
Q I believe it's -- DPD-4X is the designation from the -- counsel. I think it was our second. It is -- if it helps you find it --
A Yes. I have it here.
Q It's a press release dated February 7th, 2024; correct?
A Yes.
Q The quarterly dividend at that time was raised to 475 a share; is that correct?
A 47 and a half cents a share.
Q And this is the 22nd consecutive year that the board has raised dividends; is that correct?
A Yes.
Q 22 years means that this record started in 2022 [sic]; is that correct?
A By my math.
Q That's shortly after the Western energy crisis; correct?
A Yes.
Q And through what's been called The Great Recession, Avista's been able to maintain dividend increases; is that correct?
A It has.

Q Through COVID?
A Correct.
Q Through the inflation that spiked after the COVID recovery?
A Yes.
Q And even into today?
A Yes.
Q Have you or do you know whether the board has ever considered not increasing the dividend in a year because of financial pressures?
A There's always robust conversation at the board level around dividend and the size of the dividend and whether it's appropriate to proceed.
Q If there were financial struggles, that is an option? To not increase the dividend?
A It is one tool.
Q Even not issue a dividend in a year; right?
A If we were to not issue a dividend in a year, without other very extenuating circumstances, the market reaction would be very adverse.
Q Do you know how much money that Avista has paid in dividends since 2010?
A I don't have that number, off the top of my head.
Q It's in the testimony. Subject to -- subject to check, would it surprise you that the amount since 2010 is

$1.337 billion?
A No.
Q Since 2015, according to the chart that was submitted in direct testimony, Avista has paid $997 million in dividends the last ten years, essentially. Does that number surprise you?
A No. Again, subject to check.
Q How much money did you pay in dividends last year?
A I don't have that number, off the top of my head.
Q Would it surprise you if it was a hundred -- over $140 million?
A That sounds about right.
Q What are you on course to pay this year?
A About 4 percent greater than that.
Q If you look at the exhibit, Mr. Vermillion has a quote in here. And he's the outgoing CEO? He's retiring; is that right?
A That is correct.
Q Do you know who his replacement is yet?
A It's Ms. Heather Rosentrater.
Q He writes that "The dividend increase approved by the board of directors marks the 22nd consecutive year the board has raised the dividend for our shareholders. I believe it demonstrates the board's commitment to maximizing shareholder value."

Did I read that correctly?
A That is a quote.
Q Does the board of directors for Avista -- is it committed to maximizing shareholder value?
A It's one of their duties -- one of their duties as a fiduciary duty to the shareholder. And our board understands that it's important to balance all the stakeholders in order to honor the returns to shareholders but also take good care of our customers.
Q Mr. Vermillion didn't say that in this statement. He just said that the board is committed to maximizing shareholder value.
A That is one of the things they're committed to.
Q And that's all he said in this ex- -- in this press release?
A In this press release.
Q I take it, as of February 2024 when this was issued, that the board was not so concerned about a lack of a portfolio adjustment error that would threaten the stability of the company, that it was not able to increase dividends in 2024. Is that fair?
A The board is very concerned about power supply costs.
Q But not enough to not increase dividends this year?
A They increased dividends this year.
Q You're aware that Avista has proposed an increase in

executive compensation as part of this rate case; is that correct?
A Can you rephrase.
Q Are you aware that Avista has proposed an increase in executive compensation as a part of this rate case?
A The component of executive compensation that customers would provide, yes.
Q Mr. Garrett, Public Counsel expert, testified about that executive compensation. Have you had an opportunity to review his testimony?
A Can you remind me of the...
Q It's not in your exhibit. I'm just questioning -- have you read Mr. Garrett's testimony?
A I reviewed his testimony.
Q He testified that hourly employees and middle management at municipality utilities earn approximately the same amount of pay as hourly and middle management employees at Avista. Do you have any reason to doubt that?
A That sounds about right.
Q You testified that the Commission should be concerned about a possible ratings downgrade and that that is one of the justifications for the amount of this rate case. Is that fair?
A Yes.

Q And you gave all of the information about your financial performance to those rating agencies; correct?
A That is correct.
Q You didn't mislead them about your financial situation or your metrics, did you?
A We provide accurate information to our rate agencies.
Q So they know about the actual returns versus awarded returns that they -- that you've earned; correct?
A They're aware.
Q If you could turn to what was PC4 for Mr. Vermillion and is now -- it's DPV-6X. This is Avista's Response to UTC's Staff Data Request 10, Attachment E, which is the most recent Moody's credit rating opinion.
A I have it in front of me.
Q They rated you as stable; is that correct?
A Moody's has, but S&P has not.
Q In August of 2024 this year, I know that miss -- Moody's issued another credit opinion as to Avista. Do you know what they rated you as in that 2024 filing?
A Are you referring to the August 16...
Q This is the most recent one you put in testimony. But I'm aware that, in this month, they issued the 2024 update. And I want you to confirm that you are rated stable yet again by Moody's.

A I have that in front of me. They rated us as stable with both opportunity and challenges.

Q Okay. Let's go back to the one that is part of the case. At page 1, the second full paragraph, it says "Avista's operating performance remains strong despite the weak financial metrics that were caused primarily by low cash flow generation due to a customer tax credit implemented in 2021 to offset tax increases" -- or "rate increases" -- excuse me.

Did I read that correctly?

A Yes.

Q The cash -- the customer tax credit was the tax credit that you were talking about with Mr. Roberson; is that correct?

A I believe so.

Q And that is -- that expired -- or is set to be done by the end of this year?

A It is.

Q Moody's uses FFO -- I think that you call it FFO; is that right? No. CFO pre-WC, which is cash flow from operations before changes in working capital to debt ratio. And that's a super-fancy way of saying how much cash you're generating versus how much debt you're carrying; right?

A Cash and how it relates to funding our operations.

Q Yeah. And they look for a ratio of 17 percent for their ratings decisions; is that right?
A For our current credit rating, 17 percent.
Q If you look at page 2 of that document, you'll see that there's factors that could lead to an upgrade, if it's above 18 percent, and less dividends above 13 percent on a consistent basis. Do you see that? It's at the bottom paragraph there.
A Oh.
Q If the -- could be upgraded if that CFO to pre-WC -- that is sustained above 13 percent and less dividends above 13 percent.
A It does say that. And it also points out factors that could lead to a downgrade --
Q Right.
A -- a decline in the regulatory environment.
Q Right. And that would be if the cash flow to -- what -- to pre-WC, that that ratio remains below 14 percent?
A That's, again, only one factor.
Q You said earlier in your examination with Mr. Roberson that it's your projection that, by the end of this year, you're going to attain that ratio. Did you mean the 14 percent ratio? Or the 18 percent?
A I believe we're blending rating agencies. When we were

talking before, we might have been talking about S&P. And those metrics are different levels and slightly different in how they're calculated. We're below the ratio for S&P. We're right at threshold for Moody's.

Q Okay. That's your projection for this calendar year?

A By the end of the calendar year, barring some unforeseen event like a power supply event, we would expect to be at threshold.

Q Okay. Have you calculated what amount of revenue increase you would need to meet that threshold in 2025 or 2026, the rate years at issue here?

A We run scenarios. And in certain scenarios, we would expect that metric to be above the threshold largely based on a good outcome -- or a constructive outcome in this case.

Q At the current requested rebuttal rate, what is your projection for how your -- I guess we can use Moody's, or we can use whichever is -- you're more familiar with. What's your projection for whether or not you'll meet targets?

A Again, that would be barring another event that would pull cash out of the organization, such as a power supply run-up.

Q Okay.

A If that were to occur, then we can't say here whether

or not we'd be above that threshold.
Q But what would you be -- if they were the rates as you requested right now, are you going to be above threshold?
A Assuming no event, we would be at or above threshold.
Q How far above?
A I believe, if we're referring to -- I believe that might be confidential information, actually.
Q Fair. We don't have to go there. It's not in your testimony, is it?
A It's not.
Q It could be, but it's just not?
A No. I think that we don't share that confidential information in testimony; therefore, it could -- could be seen by other -- other parties outside of the case.
Q Okay.
Let's turn to the S&P rating. That's what's been marked as DPV-7X. It is the Avista Response to UTC Staff Data Request Number 10, Attachment L.
A I'm there.
Q And this is the Standard & Poor's rating. They're the ones that use FFO, which is funds from operations?
A That is correct.
Q They're the ones that have the 13 percent target; right?

A 14 percent target.

Q 14 percent target. Fair.

You will see, if you look on page 2 of that document, that they assumed an FFO-to-date ratio -- -debt ratio of 13 to 14 percent in 2024. That's on page 2, under their outlook; is that correct?

A Can you point to about where on the page.

Q Page 2, under the subject "Outlook" just above where it says "downside scenario" --

A Yes.

Q -- it's the last sentence.

A Yes. I see it there. Thank you.

Q And that's the metrics that you're referring to that you are on course to meet barring another major event?

A Correct. 14 being the floor.

Q Okay. If you go down to the base case assumptions, which is on -- in a blue box on the next page, you'll see that, on their base case scenario, "continued use of regulatory" -- "existing regulatory mechanisms."

Did I read that correctly?

A Yes.

Q Avista is planning to continue using existing regulatory mechanisms. That's fair?

A That's actually the rating agency's assumption in their modeling.

Q Right. And you are going to meet that assumption? You're going to continue using these regulatory mechanisms like the ERM, like the deferrals, like the accounting trackers, et cetera?

A Barring some commission change.

Q "Periodic and timely rate case filings." I think that's what you referred to, the need for -- why you need two years versus one; right?

A Correct.

Q And that's explicitly mentioned on the next bullet, "implementation of multi-year rate case increase"?

A Yes.

Q It assumes the refund of customer tax credits, which we know is going to end after this year?

A Yes.

Q No material -- "no material weakening in the company's capital structure." Do you know what "material" means from this rating agency?

A It would be hard for me to say what they're...

Q Me too. I don't really know what they were talking about. All right.

Are you -- capital spending around $500 million annually. Do you see that?

A I do.

Q If this rate case were approved at the current requested levels from Avista, are you going to be able to meet that target?

A We would likely proceed spending that amount of capital due to the need -- serve our customers. If we do not receive constructive outcome in this case, we would then further under-earn, which would undermine the rating calculation here.

Q How much money do you need in 2025 and 2026 to meet this assumption? Have you calculated that anywhere in your testimony?

A I believe that's what our rebuttal case is based upon.

Q So you believe that, if you don't reach your rebuttal case, you're not going to be able to meet this target? That's your testimony?

A I believe that it's complicated and it's not just about the dollars received. From a margin perspective, it would impact the ratings.

Q Okay. Do you know how much you would need in the next two years to meet the expectation of Standard & Poor's to spend $500 million expanding your capital base?

A Large majority of our rebuttal case.

Q Okay. What's that majority? How much?

A I don't have an exact number.

Q It also assumes that you're going to continue averaging $145 million annually in dividend payments. That's the increase that you referred to earlier? The 4 percent above last year?

A Roughly 4 percent, yes.

Q And equity issuance of $120 million in 2023. I believe you met that; is that correct?

A Approximately.

Q And you're on course to meet your equity issuance targets for this year as well; correct?

A Barring our inability to issue equity in the fourth quarter, yes.

Q In case you -- refinancing of all debt maturities -- what debt maturities are outstanding? When are they due?

A We have no near-term debt maturities due.

Q And then discretionary cash flow, that refers to how much cash you have on hand; is that correct?

A I believe that's what they mean.

Q And the rating company already assumes that you're going to have a negative discretionary cash flow over the forecast period; correct?

A I don't know what's in their model. I can't answer that.

Q Well, they say that they're assuming a negative discretionary?

A That's their assumption.

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Q And that's their base case?
A That's what this says.
Q Now, let's look at your earnings report. If you turn to what's been marked -- it's Exhibit 1 to Mr. Vermillion under Public Counsel, but it's been marked as DPV-3X. This is the second quarter earnings presentation. I believe you actually were a presenter and were present for this presentation.
A I'm there.
Q That's your picture on the front page?
A Not my favorite one.
Q If you would turn to page 4 of that document -- I should preface by saying the information contained in this presentation is accurate. Is that fair?
A Yes.
Q You break out your earnings by diluted share by business segment, but there's also -- consolidated there at the bottom. And you break it out -- for quarter -- 2024 -- Quarter 2, 2024, over Quarter 2, 2023, and year to date; correct?
A We do.
Q And in each instance there, Quarter 2022 -- or 2024 is better than 2023; correct? Both in terms of the quarter and in terms of the year to date?
A When it relates to the quarter, it's not as

straightforward as "better." There's a shaping issue due to the tax credits that causes that number, and then -- positive or in balance, even though negative overall.

Q All right. But it's 29 cents a share in 2024 Quarter 2 versus '23 last year?

A Due to a series of factors, yes.

Q You'll see here that you've confirmed your consolidated earnings guidance of 2.36 to 2.56 per diluted share. So you're on course to meet those targets?

A We confirmed guidance last quarter, yes.

Q Let's look at page 5.

A I'm there.

Q And there's a column there that's called "Utility Margin, Pre-tax."

A Yes.

Q And if you look at the -- you broke it out by three months and six months. I'll look at the -- the six months. The utility margin for the six months ending June 30 of 2024 was 550- -- I think that says "550 million" but I could be wrong. Is it 550 million?

A For the 6 months ending, yes.

Q Right. And that is a $54 million improvement on the year before; correct? For those 6 months?

A Yes.

Q If you go to page 8...
A I'm there.
Q You'll see that there's a $500 million number in your expected utilities spend for 2024, 525 million in 2025, and 575 million in 2026. Did I see that?
A Yes.
Q Okay. The ratings agency said you needed to average 500-, but you've included an extra 100 million in the next two years. Is that the actual base case for if the Commission were to award the currently requested revenue increase?
A Can you repeat --
Q You're planning for additional spending in this -- these next two rate years, '25 and '26?
A I believe the rating agency document you're referring to described that as their base case.
Q Okay. So if -- in fact, if we were awarding, as you requested in your rebuttal to fund this additional $100 million, it would be above base case?
A It would be above the rating agency base case.
Q And to be clear, when Avista spends capital, they get a return on that investment over time; correct?
A Assuming rate relief.
Q And you're asking for 10.25 percent return on that amount; correct?

A That's correct.
Q That is an investment for the company? It's not just -- it's a benefit, long term, for the company; correct?
A It's a benefit for our customers because it provides for our ability to continue to serve them.
Q For every penny of capital, they have to pay more in rates. Fair?
A Net of depreciation.
Q Let's look at page 9. Scroll back...
You see there's a $25 million debt maturity in 2028 and then a larger one in 2035. Do you have any evidence to submit to this commission that you are going to have difficulty refinancing those debt maturities?
A First, we will issue, likely, debt every single year to fund ongoing operations.
Q But you're not issuing debt this year, are you?
A Yes. We did issue debt this year.
Q Okay.
A This is a replacement -- or I'm sorry -- these are debt maturities that would be replaced, but we have ongoing operations that we also issue debt on.
Q Do you have any evidence to suggest you're not going to be able to refinance those debt maturities?

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A Or issue new debt.
Q Or issue new debt. Well, I'm focused on the debt maturities because that's what your ratings commission said -- or ratings agency said.
Do you have any evidence to suggest you're going to have difficulty refinancing those maturities?
A Those are both so far out in the future that it's hard to say. Assuming we have constructive outcomes and markets -- power markets and what have you continue to remain stable, we should be able to issue.
Q All right. Let's look back -- next at page 10.
There's a third bullet point under the guidance assumptions. You write, "Effective August 1st we added a large electric customer in our service territory previously served by wholesale markets. The increase in utility margin due to the addition of this customer is expected to offset substantially all of the forecast impact of higher power supply costs on results in 2024."
Did I read that correctly?
A That's true for 2024.
Q In your testimony and rebuttal testimony of any of your witnesses, did you disclose the impact of this addition in August 1st substantially offsetting the 2024 higher power -- higher power supply costs on results in 2024?

A I believe the case is about 2025 and 2026.
Q Yeah. But you're also asking for an alteration of the ERM based on historical performance. And I'm asking you if you updated your charts and your testimony based on the fact that you're going to be able to offset substantially all of your power cost increase in 2024.
A We reviewed the impact of this new customer. And when we did that high-level analysis for 2025 and beyond, it would have created an additional 2 to 3 million of incremental revenue requirement need; and therefore, we decided, given where we're at in the case and the amount of change that would be required of the case -- given the August date -- that we would just set it aside and manage it going forward in the future case.
Q Maybe we can ask Mr. Kalich and Mr. Kinney more about that specifically.
A I'm sure they would like to answer that.
Q Now let's look at your exhibit -- it was PC3. It's now designated DPV-5X. This is the press release that was issued in concurrence with the 2024 quarterly earnings that we just discussed.
A I'm sorry. You said 5X?
Q Yes. I believe it's 5X.
A I'm there.
Q On the first page -- wait. These aren't page-numbered.

So yes. It's the first page. Under the first table, there's a quote. Again, this is from Mr. Vermillion. "Our financial results demonstrate the strength of our core utility operations, as our second quarter utility earnings were in line with our expectations."

Did I read that correctly?

A You did.

Q You stand by the statement that the -- that your core utility operations are...

(Reporter requests clarification.)

ATTY ROBINSON O'NEILL: Sure.

Q BY ATTY ROBINSON O'NEILL: Do you stand by the statement that your core utility separations are strong?

A I believe that's an accurate quote.

Q And that's based off of the financial results; correct?

A Our financial results and also our financial forecast, which includes constructive regulatory outcomes.

Q All right. Let's go down now to page 3 of this document.

JUDGE BROWN: Public Counsel? Mr. O'Neill?

ATTY ROBINSON O'NEILL: Yes.

JUDGE BROWN: Please speak a little closer to your mic.

ATTY ROBINSON O'NEILL: I apologize, Your

Honor.

JUDGE BROWN: No problem.

Q BY ATTY ROBINSON O'NEILL: I am interested in the -- "2024 Earnings Guidance and Outlook." And specifically in the second paragraph, about halfway through that paragraph it indicates, "In addition, forward market prices have not changed significantly since last quarter. As a result, the impact of the ERM on earnings is expected to be negative 7 cents per diluted share for the full year within the 90 percent customer/10 percent customer sharing band."

Did I read that correctly?

A You did.

Q And is that accurate?

A It is.

Q When you say "forward market prices" here, I just want to be clear. You're referring to your ability to capture -- as your attorney, Mr. Meyer, said -- the value of your thermal generation fleet?

A Well, the overall value of our fleet, thermal and otherwise, compared to availability.

Q And we'll talk about this more with Mr. Kinney and Mr. Kalich. So I recognize you're off a little bit of your expertise.

But what I'm mostly interested in is -- can you confirm that the forward market prices have not changed significantly since the last quarter?

A As you say, we'll need our experts on that one.

Q Okay. Do you -- you've been at the company for some time; is that correct? Since at least 2017?

A Yes, I have.

Q In 2017's initial filing, you asked -- Avista asked for $106 million in your initial filing. Do you know how much you were awarded?

A Not off the top of my head. I bet --

Q Subject --

A -- tell me.

Q -- subject to check, would it make sense that it was $8 million?

A I believe there were a series of factors involved with that differential.

Q In the 2019 GRC, your company asked for $78 million in their initial filing and received 36 million for one year. There were, again, extenuating circumstances, but that's the one-year comparison. Do you have any reason to doubt that? This is all matter of record.

A Sure.

Q 2020 you asked for 67 million and settled for 39.2. Do you have any reason to doubt the accuracy of those numbers?

A I do not.
Q 2022 you asked for 83.1 million and settled for 59.5. Do you have any reason to doubt that?
A All, again, subject to check.
Q My question for you is -- should we just apply a 30 percent discount to every one of your initial filings?
A No. There's a series of factors with every case that make them unique.
Q And yet, over that time period, you've been able to add to your capital base, increase your dividends, and maintain operations; correct?
A Those are all related.
Q Is it fair to say that you pad your numbers so that you have a surplus, a bonus, some kind of an additional "just in case" set of capital?
ATTY MEYER: Object to the form of the question. It's argumentative.
JUDGE BROWN: Sustained.
Please rephrase.
Q BY ATTY ROBINSON O'NEILL: In your current case, you testify that you need $132 million in more money for the next two years. My last question for you is -- how much do you really need?
A We would need, in order for us to maintain our ratings

and move forward and raise capital on behalf of our customers, the majority of that figure, assuming that we get a fair outcome with our energy recovery mechanism.

Q Thank you.

JUDGE BROWN: Is there any redirect?

ATTY MEYER: I think we have more cross to come, Your Honor.

JUDGE BROWN: Yes. But before that, did you have anything?

ATTY MEYER: Yes, I will. I can do it now or do a cumulative redirect once all the cross is in. Whatever your preference.

JUDGE BROWN: We'll proceed to AWEC next, and then you can do a cumulative cross -- or, rather, redirect.

ATTY MEYER: Thank you, Your Honor.

CROSS-EXAMINATION

BY ATTY PEPPLE:

Q Good morning, Mr. Christie.

A Good morning.

Q My first questions -- I have some questions about a couple of cross exhibits that we've designated for Mr. McKenzie. Do you have those cross exhibits with you?

A I believe so. Do you mind sharing the number?

Q Yeah. It's been marked as AMM-36CX. I'll note that this is a confidential exhibit. It starts with an email to Carrie and Jason (phonetic).

A I have it in front of me.

Q Okay.

CHAIR DANNER: I'm sorry, Mr. -- could you give me that cite again?

ATTY PEPPLE: Yeah. AMM-36CX.

CHAIR DANNER: Thank you.

Q BY ATTY PEPPLE: So as I mentioned, this is a confidential exhibit, but I think I can do this question without getting into confidential information.

So if you look on -- well, this document, I guess, provides the Willis Towers Watson expected return estimates that Avista uses in relation to its retirement plan; is that correct?

A Yes.

Q And who is Willis Towers Watson?

A They're a consultant that we utilize to help us with our pension plan, among other things.

Q And are they -- are they sort of generally recognized as an expert in that area?

A They are.

Q Okay. And how exactly are the estimates in this document used in relation to the retirement plan?
A The document is utilized in making decisions around expected return on assets as well as potential expense in how we think about funding the pension on a "go forward" basis.
Q Okay. So they sort of help establish the necessary funding level for the retirement plan; is that correct?
A They're one of the inputs into that decision, yes.
Q Okay. And would you say that having a return forecast that is as accurate as possible is important to Avista so that it is not over- or underfunding the retirement plan?
A That's the objective.
Q Okay. And does Avista consider the Wilson Towers Watson forecast to be accurate, or at least unbiased?
A For purposes of the pension, yes.
Q And does Avista rely solely on the return estimates of Wilson Towers Watson for -- to establish return estimates for the retirement plan?
A Not solely, no.
Q Okay. And do you have AMM-34CX, which is the other confidential exhibit? It's just a spreadsheet.
A Yes, I do.
Q Okay. And these are other return estimates from VERIS

and SageView and JP Morgan. You use those as well to inform the retirement plan?
A VERIS and SageView, and JP Morgan is a check against the other three.
Q Okay. And would you say that all of these estimates could be considered to be accurate with respect to the retirement plan?
A I believe they're all estimates based on each of those companies' analysis and --
Q I guess --
A -- they're all a component of how we review and make decisions around the pension.
Q Okay. And would you consider these estimates to be a reasonable short-run estimate of market runs?
A I now think you're getting into the cross for Witness McKenzie.
Q Okay. I'll leave that for him. So I'm going to switch gears and ask you just a couple of other questions about directors' fees.
Are you aware in this case that Avista has requested to include 90 percent of the cost of directors' fees in customer rates?
A I am.
Q Okay. And are you aware that this also includes stock awards?

A Yes.
Q Okay. Do you have what's been marked as KJC-13X?
A Yes.
Q Okay. So this exhibit is a response to a data request and an attachment to that data request that provides the director stock ownership guidelines; right?
A Yes.
Q Okay.
And under these guidelines, directors receive an annual retainer, a portion of which is paid in stock; correct?
A A portion in stock and a portion in cash. Correct.
Q Okay. And each director is required to hold a certain minimum amount of Avista stock while they serve as a director; is that correct?
A Yes.
Q And, in fact, the director cannot sell Avista stock if it would reduce the amount that the director holds below the minimum threshold; is that right?
A Yes.
Q Okay. If you look at page 2 of this exhibit, where -- under the "Purpose" section...
ATTY MEYER: Again, what's the exhibit?
ATTY PEPPLE: It's 13X, KJC-13X.
ATTY MEYER: Page number again, please.

ATTY PEPPLE: Page 2.

Q BY ATTY PEPPLE: You would agree, looking at the "Purpose" section, that one of the purposes of these ownership guidelines is to strengthen alignment of the financial interests of the board of directors with those of shareholders; is that correct?

A One of the four areas highlighted here.

Q Okay. And another purpose is to enhance the directors' perspective and focus on shareholder growth; is that right? Shareholder value growth, I should say.

A Yes.

Q Do these guidelines anywhere explicitly tie the interests of directors to the interests of customers?

A The board very well understands this virtuous cycle where, when honoring our requirements to serve our customers with outcomes, there -- it will help benefit shareholders.

Q Does this document have the word "customers" in it anywhere? You can -- I can tell you "No" if you want to accept it's subject to check.

A Subject to check.

Q Okay. That's all of my questions. Thank you.

ATTY ROBINSON O'NEILL: Your Honor?

JUDGE BROWN: Yeah.

ATTY ROBINSON O'NEILL: I was just going to

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note that the time is 10:49, which is the time you wanted to check in for a break. I don't know if --

JUDGE BROWN: Yeah. I didn't forget that, but I also didn't want to break the flow of the testimony. So my plan was to allow Mr. Christie to finish, unless you have a lengthy redirect.

ATTY MEYER: Well, assuming my witness is cooperative, it should be very short.

JUDGE BROWN: All right. So then what we'll do is proceed with the redirect. And then, if all parties would like, we could take a short break.

Proceed.

ATTY MEYER: Thank you.

REDIRECT EXAMINATION

BY ATTY MEYER:

Q Mr. Christie, you were asked by Public Counsel -- I believe by Public Counsel -- a series of questions about whether the Commission -- you think the Commission should approve costs that perhaps are not justified just in order to show regulatory support.

Do you recall that exchange?

A I do.

Q Is the company in any way, shape, or form asking this commission to approve any costs in this case that it

does not believe are justified?
A Certainly not.
Q And is it the company -- is it the company's -- what is the company's position if what it believes are material costs that are justified -- if they're not approved, the impact, if any, it might have on rating agency perceptions of supportive regulatory environment?
A Prudent costs not recovered are -- are a factor that the rating agencies consider and certainly could lead to a downgrade.
Q So dividend levels were discussed at some length. Is Avista's dividend policy in keeping with its peers?
A Our dividend policy -- dividend growth rate is in line with our regional peers.
Q And why is it important for the company to be in line with its regional peers?
A Investors take into consideration the number of factors when it comes to value creation and how they perceive Avista stock. There's really two parts: our performance, which leads to stock price change, and dividends. And with poorer performance over the last couple of years or under-recovery, dividend has been supportive but only really helping us tread water with our peers. We need to be able to compete for capital with our peers.

Q Thank you. And there's a fair amount of discussion around ratios, FFO percentages -- 14 percent, 13 percent, depending on the agency.

What is, to the best of your knowledge, the rating agency's point of view on the importance of the ERM and changes to the ERM?

ATTY ROBINSON O'NEILL: Just object to the question, Your Honor. Calls for speculation about the rating agencies.

ATTY MEYER: Your Honor, may I?

JUDGE BROWN: Yeah. I'm listening.

ATTY MEYER: Okay. Skeptically, it sounds like. Okay.

JUDGE BROWN: No.

ATTY MEYER: No. I -- in all seriousness, this witness has regular interaction with the rating agencies. I'm simply asking him to share what he -- his perception of that view is, accurate or not. That's all.

JUDGE BROWN: I'll allow you to proceed and, depending on where you're going, I will then rule. Go ahead.

THE WITNESS: I regularly interact with the rating agencies. I feel like have a pretty good understanding of how they look at all the factors related to Avista, cash flow being the one we talked about at length, and I think we've got that well covered.

One thing related to cash flow is the energy recovery mechanism. And to the extent that -- with markets outside our control or factors inside the power markets that we cannot control, the fundamental shifts that have taken place -- that it could lead to -- the mechanism itself could lead to cash flow metrics falling well below the threshold.

JUDGE BROWN: I'll overrule your objection.

ATTY MEYER: Thank you, Your Honor.

Q BY ATTY MEYER: And then, lastly, just a little bit of cleanup, there was some discussion about the CEIP and deferral of any costs. And, again, if -- you may want to defer these for the later witness. I think we have Shawn Bonfield, who could be also be a candidate for this; so feel free to do so.

But the question to you is -- is it your understanding that the Commission approved the deferral of costs of CEIP costs through the end of the CEIP period of 2025?

A That's my understanding.

Q All right. And do you happen to know what that current deferral balance is through June of 2024? Or is that a question better put to --

A I think that's a really good question for Witness Bonfield.

Q Okay. And lastly, do you know -- or does Mr. Bonfield perhaps answer this -- is that deferral balance currently a matter pending before the UTC in another docket?

A Again, I think Mr. Bonfield is well situated to answer that question.

Q You're learning your craft well, passing it along. Thank you. And I'm glad you did that. Appreciate it.

ATTY MEYER: No further redirect.

JUDGE BROWN: All right.

No questions from the bench?

And you are dismissed.

At this time, we will take a short ten-minute break and reconvene at 11:06. So we're off the record.

(Break in proceedings at 10:56 a.m.)

THE COURT: And our next witness is Adrien McKenzie.

ATTY MEYER: Thank you. I call to the stand virtually Mr. Adrien McKenzie. He should be accessing in through Zoom.

WITNESS McKENZIE: I am here.

ATTY MEYER: You're here. There you are.

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WITNESS McKENZIE: See video --

ATTY MEYER: -- yes. Okay. We see you, Adrien, and hear you. So I think that part's done.

Would you care to swear the witness in?

JUDGE BROWN: Yes. Would you -- ah. Thank you.

(Witness duly sworn.)

JUDGE BROWN: Thank you.

You may proceed.

ATTY MEYER: Thank you, Your Honor.

DIRECT EXAMINATION

BY ATTY MEYER:

Q And, Mr. McKenzie, you, I know, were listening in earlier. So you're aware that all of the exhibits, including cross-examination exhibits for you, were entered through stipulation; so we won't go through any of that.

I'll simply ask you, for the record, what is your -- what is your name? And what is your position? And what are you testifying to here?

A My name is Adrien McKenzie. I'm the president of FINCAP, Inc., which is a financial regulatory consulting firm located in Austin, Texas. And I'm testifying on the issue of rate of return on equity.

Q Thank you.

ATTY MEYER: And with that, he is available for cross-examination.

JUDGE BROWN: I believe Staff will proceed. No?

ATTY ROBINSON O'NEILL: I guess I'll go first. Everyone is pointing at me, Your Honor, to start.

JUDGE BROWN: Yes. That is agreed. Public Counsel, you'll excuse me, but I have a tendency to kind of go by row; so, actually, proceed.

ATTY ROBINSON O'NEILL: Thank you.

CROSS-EXAMINATION

BY ATTY ROBINSON O'NEILL:

Q Mr. McKenzie, can you hear me?

A Yes, I can. Thank you.

Q Do you have with you your rebuttal -- well, first of all, do you have all of your -- the exhibits that were designated as cross exhibits and your testimony?

A Yes, I do.

Q Okay. Can you turn to your rebuttal testimony page 80.

A Did you say 80?

Q Yes. Eight, zero.

A Okay.

Q Is it -- incidentally, is it normally true that your rebuttal testimony is significantly longer than your initial testimony?
A Well, that all depends on the number of witnesses that I need to rebut and the extent of their testimony. So it's not uncommon.
Q Okay. Page 80, if you could turn to line 17. You wrote, "By applying the DCF" -- and DCF here is what? Discount cash --
A Discounted cash flow.
Q -- "model in a way that is inconsistent with the information that is available to investors and how they use it, the use of GDP growth places the theoretical assumption of a financial model ahead of investor behavior."
Did I read that correctly?
A Yes.
Q Would you agree generally that a financial model is only valuable to the extent that it accurately predicts or explains investor behavior?
A Yes. I would agree with that statement.
Q And in this particular section, your point here is that the GDP rate is not used by investors; so it should not be used in the model; correct? That's why you put that sentence where you did?

A Yeah. As I say in the next question, GDP growth rates aren't commonly referenced as a guide to future expectations for individual firms. So it's not that investors don't pay attention to GDP. They certainly do. But when it comes to implementing the DCF model and trying to replicate the growth expectations that investors have, GDP is not that number.
Q But as you say, the GDP growth is available to investors; correct?
A Yes. Some projection of it is available, and multiple projections are available from different sources.
Q All right. Well, let's talk about the sentiment that you expressed here, which is that financial models are valuable if they predict actual behavior and whether they predicted Avista's behavior.
You'll accept that the goal of the Commission is to set a return that is, quote, "reasonably sufficient to assure confidence in the financial soundness of a utility to maintain its credit and raise money."
That's from Bluefield; correct?
A Yes. That is part of the Bluefield standards.
Q And that's what your modeling is designed to answer, what is sufficient or necessary to assure consistency in financial soundness to maintain credit and raise money; correct?

A Right. And provide a fair return to investors that is equivalent to those available from investments of comparable risk.
Q Do you alter your modeling to achieve a specific result? So, for example, in this case, you want -- your client wants a high result. Do you change your modeling to achieve that result for them?
A No.
Q So you would say you're consistent in your modeling?
A Reasonably. I wouldn't say that there may be instances where I've altered certain aspects of models over time because of information. But generally, the approaches I use have been consistent over time.
Q In this case, your modeling projects a range of 10.3 to 11.3. And if you need a reference, it's in your initial testimony at page 6.
A Yes. That's correct.
Q And you say that 10.4 is a conservative ROE; is that right?
A Yes.
Q What do you mean by "conservative"?
A It's at the lower end of my range.
Q Do you mean that, if the Commission goes below 10.4 under your modeling, Avista will no longer be financially sound?

A No. I'm not making any predictions about Avista's financial soundness based on a specific ROE outcome in this case. My purpose was to employ financial models to develop what I considered to be a fair range for investors' required return, and that's what the 10.3 to 11.3 represents.
Q But you're not testifying that, unless they get the 10.4 -- which you've said is conservative -- that they won't be financially sound, are you?
A No. I'm not testifying to that.
Q You're not testifying that, if they don't get 10.4, that they won't be able to raise money, are you?
A No. But at the same time, I think the Commission also needs to be mindful of the impact of the ultimate ROE decision on the company's financial strength. We heard earlier testimony regarding S&P's negative outlook on the company. It downgraded the company in 2022, and the negative outlook is a signal to investors that there's a potential for a further downgrade in the future. And that increases cost to customers as well since more of the company's financing is provided by debt than equity.
Q Were you on the line -- or did you see the testimony of Mr. Christie earlier today?
A I did listen to his testimony, yes.

Q So you're aware that Avista's currently on course for 2024 to meet its credit thresholds; correct?
A Yes. I don't have any knowledge of that, but I believe that's a correct representation of what he said.
Q If you go to page 7 of your initial testimony...
A I'm there.
Q In explaining the reasonableness of the ROE, which is about in the middle of page -- line 8, you list factors. One of them is funding significant capital expenditures exceeding 1.5 billion. Do you see that?
A Yes.
Q Does that come from the credit rating? Or does that come from the company's filing?
A My recollection is that that came from the company. I would have to investigate further in my testimony to confirm that. If you'd like me to look, I can.
Q Is it true, however, that, in the last ten years -- that every year, Avista has increased its capital base and needed capital funding; correct?
A Yes. Like pretty much every other utility in the industry.
Q And you have testified to this factor in all of the Avista cases since 2015; correct?
A I don't know that to be true.
Q Upon verification -- all of your prior testimony from

2015 is in the record but...

A Well, it wouldn't surprise me. I mean, it's a key consideration for the credit rating agencies, for investors. Obviously, the company needs to be able to have sufficient financial strength, not only to raise the capital but also to provide for the security of that capital in terms of coverage for interest, et cetera.

Q And more directly, it's literally in Bluefield that they have to be able to raise money? That's the goal; right?

A That's one of the goals, yes.

Q The next one is -- next factor you list is the hydro reliance on hydroelectric generation and dependence on natural gas.

A Yes.

Q That's the same -- that also has been in all of your testimony since 2015; correct?

A I don't know that to be true either.

Q Because you haven't reviewed your prior testimony?

A Right.

Q If it is, would that surprise you?

A No, it wouldn't.

Q Now, you include here, as documented in the testimony of Company Witness Kinney, "the ERM exacerbates the risk to Avista." This isn't your opinion; you're just relying on Mr. Kinney; correct? You're not offering your own expertise on the ERM, are you?

A I'm not an expert on the ERM, no. I do discuss the ERM later in my testimony and talk about the recognized issues that the investment community have with it. So, for example, if you look on page 18 of my direct, there I talk about what S&P views as a disadvantage relative to others.

Q Okay. Your next point is the ability to earn fair ROE and mitigate exposure, which isn't actually an element. That's just a description, I think; correct?

A Well, no. It is an element. I mean, one of the problems that Avista has confronted for many years now is a shortfall between what the Commission says is a fair and reasonable ROE and what the company is actually able to earn. Despite any regulatory mechanisms in place or multi-year rate plans, the actual allowed ROE has been higher than what the company's been able to earn.

So that should be a consideration for the Commission, I think, in setting the ROE. If you lowball the ROE, you're going to put the company in a position, again, of earning considerably less than the cost of equity.

Q So it's your testimony that there's a baked-in inefficiency in Avista that they can't make their awarded ROE?

A No.

Q Okay. Historically -- that is, in the last ten years -- they've been a little below their awarded ROE. That's what you're referring to?

A Yes.

Q Now that information is available to credit -- credit rating agencies; correct?

A Yes. In fact, they've commented on it. They've discussed the problem of attrition, specifically with respect to Avista, and pointed out that that undermines the company's credit strength.

Q And it's also available to investors? They're aware of that?

A Yes, they are.

Q Then the last point here is that the -- you make is the greater uncertainties associated with wildfire exposure; correct?

A Yes.

Q At the bottom of page 9, last bullet point, you write, "Continued support for Avista's financial integrity, including the opportunity to actually return a reasonable ROE, is imperative to ensure that the company has the capability to maintain and build its credit standing while confronting potential challenges associated with funding infrastructure development necessary to meet the needs of its customers."

Did I read that correctly?

A Yes, you did.

Q Now, earlier I'd asked you if your testimony was that the 10.4 percent was necessary to support financial integrity. And you said no, but this appears to say that. Are you backing off of this testimony? Or am I misreading it?

A No. I'm not backing off of my testimony at all. I mean, I think this is a true statement, that the company's financial integrity is a key issue. The opportunity to earn a fair ROE is a key issue. And the company's credit standings are key issues. And all of those things should be considered by the Commission in evaluating the relative ROE recommendations in this case.

Q Would it surprise you that that language appears almost verbatim in all of your testimony since 2015?

A No. It wouldn't at all.

Q Okay. Do you know or have you done any analysis of your own modeling projections against actual Avista behavior?

A You'd have to be more specific.

Q Since 2015 you've presented testimony on behalf of Avista in which you model the range and made a conservative estimate. Do you know how that -- your conservative -- your conservative ROE from your modeling, how that compares to what was actually awarded by the Commission?

A Well, I'm going to disagree with your questions and start with -- "conservative" is your word. I don't know -- did I say that in every testimony? And I think, in this case, when I say "conservative," I'm referring to the company's request, which is actually not the midpoint of my range.

So I'm not sure how to answer your question. It's not -- I haven't prepared a conservative analysis. I've done what I would consider to be an accurate analysis using the models that I believe are relevant and applying them as I see that they should be applied in developing a range. I'm not characterizing my range as conservative.

Q Well, your testimony will speak for itself.

Do you know how your recommendation has differed from the actual award from the Commission since 2015?

A Well, not surprisingly I suppose, the Commission's determinations have generally been lower than my recommendations, just as they've probably been a little higher than Staff's or the AG.

Q Okay. In your prior testimony, you testified about something known as forecasted long-term treasury bond yields in your ECAPM.

Are you familiar with this prospect or this -- forecasted long-term treasury bond yields?

A Yes. I am familiar with that.

Q And as I understand it from your testimony, when interest rates were low, you predicted that the interest rates would rise and then so adjusted your modeling to capture that future bond yield and then modified your testimony accordingly.

Is that -- have I understood your testimony in those prior cases --

A Yeah. I'm glad we're talking about this. I did look to projections -- not my own projections, but independent projections from economists and the investment community -- when interest rates were at historical low levels. And those projections demonstrated a very dramatic expected uptick in interest rates going forward.

So in that testimony, I argued that the Commission should at least give some consideration to the fact that capital costs were going to change -- at least investors expected them to do that. I've addressed that in this testimony as well showing that the latest projections of the top economists surveyed by Blue Chip showed that, basically, interest rates are expected to remain relatively flat. They're not expecting huge changes like they were back in that time when I used that information.

Q Are you aware of the recent 50-basis-point reduction in interest rates from the Fed?

A Yeah. And let's be clear. It's not a 50-point -- basis point reduction in interest rates. It's one specific rate.

Q Fair.

A It's the federal funds range, which is an overnight borrowing rate for banks.

Q Now, typically, as the Fed rate falls, what happens to bond yields?

A Well, typically when the Fed reduces the federal funds rate, it's a sign of easing monetary policy. So in general, that would tend to reduce interest rates in the markets. Of course, markets are always looking ahead. So they're forecasting continuously. This downward move in the Fed funds rate that we just saw at the September meeting has been widely anticipated. There haven't been dramatic changes in long-term bond yields since that reduction was announced --

Q But they have gone down?

A -- pardon me?

Q Bond yields have gone down?

A Yes, but not dramatically. So the current triple-B utility bond yield is about 5.4 percent. That's still over 220 basis points, I think, higher than when the Commission set Avista's ROE at 9 and a half in its last litigated case.

Q Your current testimony doesn't make any adjustment for that future bond yield fall. At least, I didn't see it. Can you point to where in your testimony you adjusted your ECAPM for future bond yields?

A I addressed the issue of future bond yields in my rebuttal. And actually, I take issue with Staff -- with Mr. Parcell's unsupported claim about falling bond yields in the future. And I point -- again, as I discussed in my last answer, I point to independent forecasts of top economists. This is on page 18 of my rebuttal testimony. These forecasts were made on June 1st. Again, moves in the Fed funds rate have been widely anticipated, and they would be presumably known by economists at major banks.

So there isn't a forecast that's showing a dramatic change in bond yields going forward. And as

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to the question -- how did I incorporate a 50-basis-point downward move in the Fed funds rate? That happened in September. My rebuttal testimony was already filed.

But again, it's meant that the long-term -- and we're looking at a spot yield which I think is not the best measure. But if we look at a spot yield, we're talking about 5.4 for the triple-B utility bond yield. It's still considerably higher than when the Commission last set Avista's ROE.

Q Mr. McKenzie, I understand your dispute with the Staff witness over the amount. I'm just curious as to why you omitted it entirely from your initial testimony if, as you testified, you attempt to keep your modeling consistent.

A Because the data is inconsistent. As I explained, when I relied on projected bond yields, there was data -- the same source, Blue Chip forecasts -- which suggested that investors expected a very dramatic upward move in interest rates, which coincidentally did happen.

Now what I'm telling the Commission is that, if you look at the same forecast today, the interest rates are not expected to move dramatically. And that's why I didn't incorporate it.

Q Wait -- in 2015 when you predicted there would be a rise in interest rates, it was -- it happened? It didn't, did it? It didn't happen until after COVID? Interest rates remained low?

A Okay. I didn't predict it. So I want to correct your question. This is not my predictions. It's not Mr. McKenzie making predictions about where interest rates are going. It's me looking at data concerning what investors expect. And at that time, they were expected to increase over the next five-year period. They have increased, ultimately.

Q All right. In -- I have to find the exhibit number now -- what's been marked as Exhibit 24X, which was -- it's the Werner & Jarvis article. Do you have a copy of that?

A Yes. Okay. I have that in front of me.

Q Have you had an opportunity to review that prior to today?

A Yes. I did review it. Not in depth, but I did review it.

Q When did you review it?

A Yesterday.

Q Have you had an opportunity to review the data underlying this report -- or this article?

A No. And it's a working paper; it's not a published article.

Q Fair enough. A working paper. You have not had a chance to review the data?
A No.
Q If you could turn to page 37 of that paper.
A Okay.
COMMISSIONER RENDAHL: Excuse me. Is that the page of the exhibit? Or the page of the article?
ATTY ROBINSON O'NEILL: My computer's not loading it; so I don't know -- to answer that question. I will momentarily.
COMMISSIONER RENDAHL: Okay. Thank you.
ATTY ROBINSON O'NEILL: Yeah. Page 37 of the study.
THE WITNESS: Of the paper?
Q BY ATTY ROBINSON O'NEILL: Yeah. It's 38 of --
A Okay.
Q -- 66. It starts with --
A Great.
Q -- "Conclusion" at the top.
A I'm there. Thank you.
Q Second full paragraph, they write, "Our analysis shows that the return on equity that utilities are allowed to earn has changed dramatically relative to the various financial benchmarks in the economy. We estimate that the current approved average return on equity is

markedly higher than the various benchmarks and historical relationships would suggest."

Did I read that correctly?

A Yes.

Q The last line is "Put another way, even our most conservative benchmarks come in below the allowed rates of return on equity that regulators set today."

Did I read that correctly?

A Yes.

Q Are you aware of research that's emerging that utility commissions have set utility rates higher than financial modeling would ordinarily predict?

A Well, I've seen a couple of articles to that effect. I strongly disagree with the premise --

Q Yes.

A -- and there's a lot of problems with these articles. But yes, I'm familiar that they're out there.

Q I suspected you would disagree.

You didn't address this concept in your rebuttal testimony, did you?

A Let me look. Mr. Garrett often cites this type of stuff; so I'm not sure if I addressed it or not. I actually think he took that section out of his testimony this time.

Q It's -- I didn't find anywhere in your testimony where

you mentioned this; so I'll --
A Yeah. I don't think any of the witnesses cited to this article in their testimony; so I wouldn't have had a chance to respond to it in testimony.
Q Interest rates were very low for a really long period of time. You would agree with me? 2002 to around 2021?
A Yes, they were.
Q Inflation was very low in that time period as well?
A Yes.
Q Now, typically, if interest rates are down and inflation is down, the modeling for discount cash flow or CAPM would ordinarily record a decrease in the ROEs; right? I mean, that's the typical association. Low inflation means easier --
A Well --
Q -- access to capital?
A -- you -- yeah. I mean, again, going back to our earlier discussion about models and what they do and whether they're working, of course any model is going to estimate the ROE with some degree of error. So it's not impossible that you could have a situation where interest rates would decline and a DCF value might increase.
But generally, I would say that, obviously, I

certainly agree that the cost of equity moves in the same direction of interest rates. But I think, coming back to this article, as I document in my testimony, the equity risk premium moves inversely to interest rates. So when interest rates go down, the premium expands; so that actually would blunt some of the impact of the ROE going down in tandem. It doesn't go down in tandem with interest rates, and it doesn't rise as fast as interest rates either.

Q You would agree, though, generally speaking, that in terms of that equity principle, that lower risk -- lower risks ought to have a smaller equity principle than high risk investments; right? That's generally true? It's a high risk; you need a higher invest- -- or higher return?

A Okay. You said "principle" in your question --

Q I misspoke.

A -- I would agree with the proposition that a higher risk investment requires a higher return, yes.

Q And a lower risk investment requires, typically, a lower risk -- or lower return; correct?

A That's right.

Q That's a general principle that applies?

A Yes. It's an important one.

Q Okay. That's all the questions I have. Thank you.

JUDGE BROWN: Counsel, did you want to redirect now? Or would you like AWEC to proceed?

ATTY MEYER: I would like AWEC to proceed. So far I have no redirect. Thank you.

JUDGE BROWN: All right.

Proceed.

ATTY PEPPLE: Thank you, Judge.

CROSS-EXAMINATION

BY ATTY PEPPLE:

Q Good morning, Mr. McKenzie. Can you hear me?

A Yes, I can. Thank you.

Q Okay. I have a few questions for you about your CAPM and your ECAPM analyses. And those are presented in your Exhibits AMM-9 and AMM-10; is that right?

A Yes. That's correct.

Q Okay. I want to focus on the column titled "Cost of Equity." Do you see that it's the same -- it's 11.7 percent in both studies. Do you see that?

A Yes.

Q Can you turn, if you have it, to what's been marked as Exhibits AMM-37X, which is an excerpt of your work papers --

(Reporter requests clarification.)

ATTY PEPPLE: Oh, sorry.

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THE WITNESS: I don't...

Q BY ATTY PEPPLE: It's -- on the printout, it's a fairly -- very small numbers, which -- I will apologize in advance, but I don't think we will actually need to look at them in detail; so...

A You know, I recall being sent that. But then, in the most recent set of exhibits that were actually numbered, it doesn't seem to show up. Do you remember the number that was assigned preliminarily to that so I can just pull it up?

Q Well, what I can tell you is that -- if you open your work papers from your initial filing, it's the tab that's "2023, 11 Market DCF."

A Thanks. I'm there.

Q Okay.

A Thank you.

Q So my understanding of how you arrived at the 11.7 percent number in the cost of equity columns for the CAPM and the ECAPM analyses is that you performed a DCF analysis on the companies that are listed in this exhibit, which are all from the S&P 500; is that right?

A That's correct. Those are the dividend-paying companies in the S&P 500 --

Q Okay.

A -- at the time I performed the analysis.

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Q Okay. And in your CAPM and your ECAPM analyses, this 11.7 percent reflects the expected market return for this S&P 500 portfolio; is that right?
A Yes. It's, again, not the S&P 500, quite, because I eliminate companies that don't pay dividends.
Q Okay. Understood. Can you then now turn to what's been marked as AMM-36CX. That's one of the confidential exhibits I was talking to Mr. Christie about, if you recall that. It's the --
A Yes.
Q -- one that starts with the email. And, again, I will note that this is a confidential exhibit, but I will try to keep my questions in the public realm.
So as you can see just from the first page of this exhibit, this provides the Willis Towers Watson expected return for Avista's retirement plan.
Do you see that?
A Yeah. I'll preface my answer by saying I'm not familiar with any of this information directly. But that looks to be an accurate characterization.
Q Okay. You say you're not familiar with the information. Are you familiar with Willis Towers Watson?
A No, I'm not.
Q Okay. Well, if you turn to page 3 of this exhibit, it

shows various types of assets and returns in a table. Do you see that?
A Yes, I do.
Q There's large-cap stocks and mid-cap stocks?
A Yes. I'm there.
Q Okay. Which of these assets would you say is most representative of the list of S&P 500 firms that you included in the work paper that we were just reviewing?
A That would be the first line, large-cap stock.
Q Okay. And just without looking at the numbers, you would agree that the numbers listed for the large-cap stocks for those mean returns are lower than the 11.7 percent that you calculated as an expected market return; is that right?
A Yeah. They're considerably lower. I mean, there's reasons for that, given that these are pension plan returns. But yes, they're lower.
Q Okay. Did Avista ask you to calculate projected returns for its retirement plan?
A No.
Q Okay. To your knowledge, Avista is not using your DCF or your CAPM or your ECAPM or your expected earnings analyses to inform the funding level of its retirement plan. Would you agree with that?
A I'd agree with that.

Q Okay. That's all my questions. Thank you.

JUDGE BROWN: Do you have any redirect?

ATTY MEYER: I do not. Thank you.

JUDGE BROWN: Any questions from the bench? All right. Witness McKenzie, you are excused.

THE WITNESS: Thank you, Your Honor.

JUDGE BROWN: We have a really interesting situation because, the next witness, it looks like their cross is going to be 90 minutes with Public Counsel following with 60 minutes. So it might be a good point for us to adjourn for lunch and take a half an hour and then reconvene...

All right. Would it upset the order of things if we were to do Garbarino right now?

ATTY MEYER: It would just upset Garbarino. That's all.

THE COURT: All right. So let's proceed with Mr. Garbarino.

ATTY MEYER: Calling to the stand Mr. Marcus Garbarino, who will enjoy his lunch much more after this.

JUDGE BROWN: All right.

Mr. Garbarino, if you will raise your right hand.

(Interruption in proceedings.)

JUDGE BROWN: We didn't see that.

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COMMISSIONER RENDAHL: Way too many binders.

(Witness duly sworn.)

JUDGE BROWN: All right. You may proceed.

DIRECT EXAMINATION

BY ATTY MEYER:

Q Mr. Garbarino, are you situated yet?

A I...

Q Okay. Great. For the record, please state your name, your employer, and your business title.

A Marcus Garbarino --

(Reporter requests clarification.)

ATTY ROBINSON O'NEILL: Press the button.

THE WITNESS: Okay. Thank you.

Marcus Garbarino. I work for Avista Utilities as a regulatory affairs manager.

Q BY ATTY MEYER: Very good. And you understand all your testimony has been entered already.

ATTY MEYER: With that, the witness is available for cross-examination.

JUDGE BROWN: AWEC, you may proceed.

ATTY PEPPLE: Thank you, Judge.

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CROSS-EXAMINATION

BY ATTY PEPPLE:

Q Good morning, Mr. Garbarino.

A Good morning.

Q I actually have some questions for you about the cross-answering testimony that Dr. Dismukes filed for Public Counsel. Do you have this with you?

A Yes. I believe I do.

Q Okay. And have you reviewed --

ATTY MEYER: May he have a moment just to get to it? I'm sorry.

ATTY PEPPLE: Yeah.

THE WITNESS: Okay.

Q BY ATTY PEPPLE: Have you reviewed this testimony?

A Yes, I have.

Q Okay. Dr. Dismukes's cross-answering testimony appears to suggest that the class parity ratios that are reflected in Mr. Miller's direct testimony would be materially different if you ran your cost-of-service study to reflect the rate increase that went into effect for Year 2 of your last multi-year rate plan.

Do you recall that?

A I don't. Is that...

ATTY MEYER: Would you direct him to a...

ATTY PEPPLE: Sure.

Q BY ATTY PEPPLE: So if you look at page -- sorry -- page 4 of his testimony, starting on line 15...

ATTY MEYER: Just take a moment to refresh yourself, if need be.

Q BY ATTY PEPPLE: Just that question and answer.

A Okay.

Q Well, why don't you tell me what you think Public Counsel is saying there.

A Just...

(Reporter requests clarification.)

THE WITNESS: So I think they're trying to say that the -- that the cost-of-service study didn't have the full effect of the prior rate case's increase.

Q BY ATTY PEPPLE: Okay. And I guess I just want to confirm that you've not performed a cost-of-service study reflecting the Year 2 rates from the last rate case. Is that correct?

A That's correct.

Q Okay. And you have no basis to know whether the class parity ratios would change materially if you had run the cost of service study, do you?

A That's correct.

Q Okay. It's possible, in fact, that the residential class parity ratio could be even farther from unity if you ran that cost of service study; is that correct?

A Without running it, I wouldn't.

ATTY MEYER: Don't speculate if you don't know.

THE WITNESS: I...

(Reporter requests clarification.)

THE WITNESS: Sorry.

THE REPORTER: I didn't hear that last answer.

THE WITNESS: So no. Without running it, I wouldn't be able to answer the question.

Q BY ATTY PEPPLE: Okay. If you could turn to page 7 of Dr. Dismukes's cross-answering testimony there.

A Okay. I'm there.

Q And if you look at line 15, he states that "Residential service and low load factor customers see a greater decrease in overall electric bills with the removal of Schedule 99 because these customers saw a larger allocation of costs associated with the Colstrip facility over the years."

Do you see that?

A Yes, I do.

Q Okay. First, Dr. Dismukes is correct that residential customers will see a larger decrease from the roll-off of Schedule 99; is that right?

A I think Mr. Miller would actually be able to answer

that better than I.
Q Okay. That's fine.
My question to you, I think, is that Dr. Dismukes is not correct that residential customers have seen a larger allocation of costs associated with Colstrip over the years, is he?
A I'm trying to...
ATTY MEYER: Follow that question? I don't.
Q BY ATTY PEPPLE: All right. Let me be more specific.
So in your cost of service study, the share of total plant and service that is allocated to Schedule 25 customers, for instance -- of that share, a larger percentage of that plant and service is associated with Colstrip than the percentage that is allocated to residential customers. Would you agree with that? Or should we look at the study?
A I guess I don't understand the question.
Q Okay. Let's go to your Exhibit 2, and I'd like you to go to page 34.
A Okay. I'm there.
Q Okay. So if you look at line 205, that is showing the steam production plant. Do you see that?
A Yes.
Q And residential customers are receiving approximately $50 million, where Schedule 25 customers are receiving

approximately 10 million; is that right?
A Right.
Q Okay. Now if you go to page 35, line 265 --
A Okay.
Q -- the total plant and service for residential customers is about 2.2 billion. And for Schedule 25 customers, it's about 236 million; is that right?
A Yes.
Q Okay. Now, would you accept, subject to check, that the percentage of steam production plant allocated to residential customers as a percentage of the total electric plant and service is 2.2 percent?
A Subject to check --
Q Okay.
A -- to check, yes.
Q And for Schedule 25, would you accept that that percentage is 4.2 percent?
A Subject to check, yes.
Q Okay. So that would be -- so in other words, as a percentage of production -- of electric plant and service, Schedule 25 customers receive a higher percentage of steam production plant, which would include Colstrip. Would you agree to that?
A Yes.
Q Okay. Okay. That's all my questions. Thank you.

JUDGE BROWN: Any redirect?

ATTY MEYER: No redirect. Thank you.

JUDGE BROWN: All right.

And hearing nothing from the bench, you are dismissed. Thank you.

So at this time, we'll take a break for lunch.

Yes, Counsel?

ATTY MEYER: Okay. I'll be the one that says it. I heard an estimate of 30 minutes, and the murmuring I'm hearing around the table is we're not sure we can get lunch in 30 minutes. Is that negotiable? Is that -- I don't know how we do this otherwise.

JUDGE BROWN: All right. It looks like we're actually at a good pace. So is 45 acceptable? Or do you need more?

ATTY MEYER: You guys know the area around here. It's usually an hour. It's a little tougher up here than it used to be.

JUDGE BROWN: All right. I'll hold you to staying on schedule if you -- if we're going to take an hour. All right? All right.

ATTY MEYER: Thank you.

JUDGE BROWN: We'll adjourn for an hour and return at 1:00. We're off the record.

(Whereupon a lunch break was taken from 12:00 p.m. to 1:05 p.m.)

JUDGE THOMPSON: Thank you. I believe our next witness is Scott Kinney. If you could please call Mr. Kinney to the stand.

ATTY MEYER: Thank you, Your Honor. Mr. Kinney, would you please take the stand.

JUDGE THOMPSON: Thank you. And if you could please raise your right hand.

(Witness duly sworn.)

JUDGE THOMPSON: Thank you. You may be seated.

And, Counsel, you may proceed.

ATTY MEYER: Thank you.

DIRECT EXAMINATION

BY ATTY MEYER:

Q All set?

A All set.

Q Thank you. For the record, please state your name, your employer, and your position.

A Scott Kinney. I work for Avista Utilities, vice president of energy resources.

Q Thank you.

ATTY MEYER: And because his material has been entered by stipulation, I tender him for cross.

JUDGE THOMPSON: Thank you.

Staff, you may proceed.

ATTY ROBERSON: Thank you.

CROSS-EXAMINATION

BY ATTY ROBERSON:

Q Good morning, Mr. Kinney. How are you?

A I'm doing well.

Q Excellent. All of my questions will concern your rebuttal testimony, which is Exhibit SJK-17T.

A I have that in front of me.

Q I should not touch on any confidential information, and all of my questions will deal with the actual page of the exhibit; so -- if that helps...

(Reporter requests clarification.)

ATTY ROBERSON: Is that better?

THE REPORTER: Yes. Thank you.

Q BY ATTY ROBERSON: I'd like to start on page 8 of your rebuttal testimony.

A I'm there.

Q And just so I -- I'm clear and understand, at the bottom, there's a sentence where you note that the forecast error adjustment is part of the pro forma power costs adjustment, which is made in all cases; is

that correct?
A Can you state that again, please.
Q So in the very last sentence on that page, you testify that the forecast error adjustment is simply part of the pro forma power cost adjustment, which is something that Avista makes in every case; is that correct?
A That's correct.
Q And what you're saying there is that Avista makes a pro forma power cost adjustment in every case; correct? It's not that you've made something like the portfolio forecast error adjustment in other cases?
A That -- that's correct.
Q So the forecast error adjustment is not -- it's not something that the Commission has addressed before?
A Well, I -- I would say that the portfolio adjustment that we had brought into this case is not any different than other assumptions we make when we try to set our net pres- -- net power supply expense. There's a lot of variables that come into play in trying to forecast what our future costs will be. And what we recognize is -- there's another input that we feel is prudent to bring into that methodology to set that, to set our power supply expense.
Q Okay. But setting aside how similar the adjustment is to other adjustments that you've made as part of the

power cost adjustment update -- or power cost adjustment -- the forecast error is novel; correct? You've never -- Avista's never made an adjustment like that?

A That's correct.

Q On page 10 of your testimony, you state that, quote, "Aurora modeling standing alone simply cannot reflect all these changes without some additional changes to input assumptions"; is that correct?

A That's correct.

Q Avista is not making the forecast error adjustment as an input into the modeling; correct? It's taking the modeling outputs and adjusting for what you think is the error in the output; correct?

A That is correct. And -- because we recognize that we could do it the other way as -- put it into the model. But we wanted to bring this forward as something that was of concern to the company in order for us to really set our net power supply expense. Now, recognizing, though, this was a previous methodology that we used in direct which we have now changed in our rebuttal.

Q But setting aside the change in methodology, you're not -- with a new methodology making adjustments to the inputs to the models; correct?

A Correct.

Q So what was true in your opening testimony is still true?
A That's correct.
Q Okay. On page 11, speaking of that new methodology, that's where you begin setting it up; correct?
A Yes, it is.
Q So Avista proposes taking the difference between forecast and net power expense and the actual net power expense for the last three years; correct?
A Yes.
Q If one were to look at an ERM filing, is the deferral balance equal to the difference between those two values run through the dead and sharing bands?
A Can you repeat the question.
Q Is the amount of power cost variance that Avista books into its ERM deferral equal to the difference between those two numbers run through the dead and sharing bands?
A In the methodology we used?
Q Yeah.
A I believe the methodology -- and subject to check -- I think Witness Kalich is probably more appropriate to maybe ask this question to to verify. But I believe it was the total difference from actual to G -- than what was filed in the GRC. So it was the total -- it was an

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average of the total difference on an annual basis.

Q How -- well, if you can answer, how different is that on average between what that value would be and -- for the year, not the average over the three years, but per year -- what you're calculating for the error adjustment and what's booked into the ERM deferral?

A Well, it varies on an annual basis; so, you know, one of the years, it was, I believe, $24 million. And another year, it was 49-. So again, we were taking a three-year average to try to address that variation than can occur on an annual basis.

Q Okay. Is it fair to say that there's a relationship between the methodology you're using to calculate the forecast error adjustment and what gets booked into the ERM deferral?

A I mean, there is some relation. I mean, we are using our methodology to try to set our future forecasts on our net power supply expense. But what the ERM is trying to do and what this methodology is trying to capture is the difference in the actuals versus what was set in our general rate cases.

Q The difference between actuals and what was set is what's booked into the ERM?

A It's what's booked into the ERM and analyzed through the ERM, yes. But --

Q And how is it different -- sorry.

A -- sorry. What we're seeing, though, is that that shows how different or how difficult it is to set our net power supply expense accurately. So what we are proposing as a way to try to get that baseline set more accurately -- based on the conditions that we're seeing in the market or changes and embedding that back in to try to set our baseline more appropriately.

Q Methodologically, what is the difference between what gets booked into the ERM and what you're using to calculate the forecast error adjustment per year?

A I mean, the ERM is set up, of course, to share that difference between the company and our customers; right? But again, what we're trying to address is that -- that difference is a reality, which means that we -- with the methodology we have in place to set our power supply expense, we have not set it as accurately as we could have. And so, the intent is to try to do a better job of setting that baseline in our rate cases --

(Reporter requests clarification.)

THE WITNESS: -- by using an average of that difference that we've observed.

Q BY ATTY ROBERSON: Setting aside the fact that you're averaging over a couple of years, is the only real difference between what gets booked into the ERM and what you're using to calculate that portfolio forecast adjustment, the dead...

(Reporter requests clarification.)

ATTY ROBERSON: Yeah.

Q BY ATTY ROBERSON: The only difference between the forecast error adjustment is the dead and sharing bands?

ATTY MEYER: Is that a question?

ATTY ROBERSON: Yes. Correct.

THE WITNESS: Correct.

Q BY ATTY ROBERSON: So then, basically, what you're doing to calculate the annual forecast error adjustment is try to predict what you think will be booked into the ERM at the end of the year; correct?

A Well, yes. We're trying to predict, but we're trying to base it on what is "known and measurable" from what's happened previously in our cases of actual versus the net power supply expense that was set.

Q I might want to pick the known and measurable topic up in just a minute. But I have one more question here, which is -- can you think of another example where the Commission allows a tracking and deferral mechanism and allows a utility to predict what will be in that deferral mechanism before the difference materializes

and then embed that into rates?
A I'm not aware of any.
Q Okay. In your original proposal, Avista would have used five years' worth of data to calculate the portfolio forecast error; correct?
A I believe so.
Q Was it 2018 through 2022?
A Yes.
Q And on rebuttal, you're proposing using three years; correct?
A That's correct.
Q And that's '21, '22, and '23?
A That's correct.
Q And in those years, Avista's power costs exceeded the baseline; correct?
A Yes, they did.
Q But for '18, '19, and '20, that's -- the opposite happened; right? The baseline was set higher than the actual power costs?
A I would have to check on that. I'm not sure on those specific years.
Q Subject to check?
A Yeah. Subject to check.
Q So Avista, in revamping its methodology, has eliminated the years where the error was biased towards

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ratepayers; correct?
A Subject to check, yeah.
Q So if Avista were to use a longer time period, the size of the forecast error would be reduced; correct?
A Yes.
Q Returning now to the known and measurable topic, when you describe something as "known," what is your understanding of that term in the context of utility rate-making?
A Something that has been verified.
Q And how does the Commission generally look to see if -- well, is that known? Or is that measurable -- I guess is the first question.
A I'd say that's known.
Q Do you see the two as distinct? Or do you see them as just kind of the same? Like, there's one known and measurable standard?
A I would say they're the same.
Q Okay. If an event has taken place and will not be in place in the rate year -- you've verified it -- is it still known for purposes of rate-making?
A Yes.
Q So the Commission could set rates based on events that are unrelated to rate year costs under that reading; correct?

A Potentially. But again, we're trying to -- we're trying to figure out a good methodology to capture what we see as changes -- dramatic changes in the market that we think will be here for a long period of time. And that primarily is driven by the position of the region as a whole from a resource adequacy perspective.

Q Okay. But when Avista is making a pro forma adjustment for a known and measurable change, does the company see the goal as setting rates more accurately for the rate year? Isn't that the purpose?

A Yes. That's the intent.

Q So wouldn't you want to be looking at rate year events for that?

A Well, rate year -- again, that's -- setting our net power supply expense is forecast; right? So it's difficult -- right? -- to predict and have all of the right inputs to try to set that, the net power supply expense level. So we take a lot of different inputs, and we do averages on some of those inputs to try to get a better indication to, again, try to drive accuracy in setting our power supply expense.

Q Does, say, the variability in power costs in 2021 affect the variability of power costs in 2024?

A Under these conditions, yes.

Q How so?

A Because the market has shifted. Primarily, like I indicated, the region as a whole -- the resource acquisition of the region has changed dramatically. We've gone from a sufficient excess, having excess capacity energy in our region, to a shortage or even -- or a neutral position, which -- because of that situation -- has greatly increased the power prices in the region.

And so, that's something that we've seen since '21, 2022, which is a change that we've seen in the market. And so, we were trying to capture that and trying to accurately set our power supply expense.

Q And I think I understand that. I think my question is more -- is there a causative link between variability and power costs in 2021 and variability and power costs in 2024? I understand that you're testifying that it reflects a different market. But what happened in 2021 doesn't affect power costs in 2024; correct?

A Not all of it. But there are some components that do still have an impact when it comes to, again, the position of the region as a whole.

Q Okay. Every year Avista's incurring new costs; correct?

A That's correct.

Q And maybe buying from different suppliers, different

parties, those kinds of things; correct?
A That's correct.
Q So if you're changing your procurement and you want to capture offsetting factors, don't you need to look at rate year events to do that?
A Well, we capture the offsets in our annual ERM review.
Q Yes. And I'm worried less about that right now than the baseline that's being embedded in rates.
A Can you repeat your question.
Q How does looking at past procurement capture future offsets if you're buying from new suppliers, buying new quantities, those kinds of things?
A Well, I mean, I guess as we get into new years, there are new opportunities. But one of the other things that we are observing is the lack of liquidity in the market and the -- be able -- the ability to find partners to transact in in the current situation.
Q I understand that. I'm just not sure how that matters to the question of offsets.
A Well, we will pick up offsets, of course, in the rate years.
Q Which would be captured in the ERM, but not in the setting of the baseline here; correct?
A It would be -- yes. They would -- that's correct.
Q So to the extent that you're not capturing those

offsetting factors, the ERM baseline would be set too high; correct?

A Correct.

Q Sitting here now, can you tell the Commission what's going to cause the variability between whatever's embedded in rates and whatever's recovered through the ERM?

A Not with complete certainty. But I -- we -- but I can say that, again, with the current market conditions that we've seen for the last a couple of years and understanding that it's going to take a significant amount of build by all utilities in the region to change the situation from a resource adequacy perspective.

So it's similar to what we, I think, last observed with the energy crisis in the early 2000s. And that took several years for the region to change its position to where it was surplus again and people could rely on the market. And so, we're in a similar situation now where it's -- this -- these conditions are going to exist for quite a while until we collectively build enough resources to change the current conditions.

Q Okay. Circling back to the known and measurable standard, I guess Avista is calculating the portfolio

forecast error adjustment as 29 million; correct?
A Correct.
Q You don't have receipts in hand for a $29 million expenditure that you haven't incurred yet; correct?
A For future year?
Q For power costs variability.
A That's correct.
Q Or signed contracts that reflect power costs variability of $29 million?
A Not specific, no.
Q Ledger entries?
A No.
Q Do you have any documents that would prove that your rate year power cost variability is going to be $29 million other than the documents that went into calculating the adjustment proposed here?
A No.
Q I just have one more topic, actually. It turns out I was wildly pessimistic with my cross estimates.
At the very bottom of your testimony -- I believe it's on page 30, but we've already established that I'm not very good at that. I'm hoping --
A What page again?
Q -- page 30.
A Okay. I'm there.

Q And one of the arguments you make against incorporating CCA costs into dispatch logic is that it would export the CCA into Idaho; correct?
A That's correct.
Q Avista operates in both territories?
A That's correct.
Q Does Idaho have a PUC?
A Yes, they do.
Q Is it the Idaho PUC?
A Yes, it is.
Q Does it have similar power over rates as this commission has?
A Yes, it does.
Q So it would be citing rates that it would deem fair, just, reasonable, and sufficient?
A That's correct.
Q Is it possible that it could disallow those costs or impute revenues to Avista that would eliminate any exporting of the CCA?
A Can you restate that.
Q Is it possible that the Idaho PUC could take action that would either disallow costs or impute revenue to Avista that would eliminate the effect of attempting to export the C -- CCA, as you put it? Sorry.
A Yes.

Q I'm done. Thank you.

JUDGE THOMPSON: Thank you.

Public Counsel.

ATTY ROBINSON O'NEILL: Thank you, Your Honor.

CROSS-EXAMINATION

BY ATTY ROBINSON O'NEILL.

Q Good afternoon, Mr. Kinney.

A Good afternoon.

Q You started with Avista in 1999; is that correct?

A That's correct.

Q And in 2013 you became the director of pub- -- power supply?

A That's correct.

Q And then in 2022, the VP of energy resources?

A That's correct.

Q Were you employed with Avista in 2017 when William Johnson testified about power costs for Avista?

A Yes, I was.

Q What was your relationship with Mr. Johnson?

A I was his manager.

Q If you could turn to what's been marked SJK-24X. This is the rebuttal testimony of William Johnson in Avista's Case Docket UE-170485.

A Just a second.
Q Sure.
A I'm there.
Q And now I need to make sure I'm there.
If you could turn to page 2 of that document.
A I'm there.
Q At page -- or line 11, Mr. Gomez, who was the Staff witness in that matter -- Mr. Johnson summarizes what Mr. Gomez was asking for. And you'll see that, on line 14, he says -- "he," meaning Mr. Gomez, contends that "Since the company's actual power supply expenses have been lower than authorized level included in base rates in five of the last six years, there must be some inherent or intentional bias in the company's power cast" -- "forecasting methodology that consistently overstates power costs," and that "this has harmed customers and unduly benefited the company."
Did I read this correctly?
A Yes.
Q In this rate case, you are arguing that your power forecasts consistently understate power costs and that this has harmed the company and unduly benefited customers; is that correct?
A Actually, what we're trying to do is bring in methodology that could work either way depending on the

conditions.

Q We'll get to your three years -- flexibility -- going your way. But for right now, the last three years that you've included, it's because you're forecasting understated power costs?

A That's correct.

Q Okay. Let's look at Avista's position in 2017. If you'd turn to page 12 of Mr. Gomez's testimony.

COMMISSIONER RENDAHL: Sorry. Mr. Gomez's testimony?

ATTY ROBINSON O'NEILL: I'm sorry. Mr. Johnson's testimony.

COMMISSIONER RENDAHL: Thank you.

ATTY ROBINSON O'NEILL: I apologize.

ATTY MEYER: What page number, please?

ATTY ROBINSON O'NEILL: Page 12, line 9 is what I'm interested in.

THE WITNESS: Line 9, you said?

ATTY ROBINSON O'NEILL: Mm-hmm.

THE WITNESS: Is that the table?

ATTY ROBINSON O'NEILL: No. It's page 12 -- line 9 starts, "And, again, I want to emphasize..."

ATTY MEYER: On page 12?

COMMISSIONER RENDAHL: It's actually page 13 of 17.

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ATTY ROBINSON O'NEILL: Ah. In the PDF it's page 13 to 17.

ATTY MEYER: Are you there --

THE WITNESS: Where are you pointing me to?

Q BY ATTY ROBINSON O'NEILL: It's below the table. Line 9 starts, "And, again..."

A On page 13?

ATTY MEYER: Yes.

THE WITNESS: Okay. Okay. I'm there.

ATTY MEYER: Okay.

Q BY ATTY ROBINSON O'NEILL: Just to be really clear so we're all on the same page, it reads, "And again, I want to emphasize that the methodology for rate case forecasted power costs was thoroughly vetted by all parties in a prior rate case proceedings and approved by the Commission. They were not developed by Avista without any scrutiny. Avista has not somehow changed the methodology to work only in its favor."

Did I read that correctly?

A Yes.

Q Did you vet the forecast methodology with Public Counsel prior to your filing in January?

A We did not. We did not have time to do so.

Q Did you vet the current version of that methodology with Public Counsel prior to your rebuttal testimony in

August?

A We did not.

Q Did you vet it with Staff?

A We did not.

Q Did you vet it with any party in this matter?

A We did not.

Q You put your heads together and you came up with a methodology that you liked, but you did not vet it; correct?

A That's not correct. We were -- when we were putting our case together, we recognized that we had not been able to adequately predict net power supply expense baseline. And when we looked at the data, we recognized that there was an opportunity to more correctly set power supply expense. And that's why we included the portfolio in our methodology.

Q And in 2017 Staff proposed a methodology to more accurately forecast cost. And you complained that it hadn't -- that it wasn't vetted, unlike the methodology that everybody had agreed to; correct?

A That's correct.

Q Let's turn now to your rebuttal testimony, page 8 of your rebuttal testimony.

A I'm there.

Q Starting at line 12, you indicate that "In the interests of full transparency on the issue, Avista separated out this feature of the pro forma power supply adjustment rather than attempt to integrate it within a complex Aurora model."

Did I read that correctly?

A That's correct.

Q Will you agree with me now that making a significant change to power forecasting that would have a 65.8 million -- or $29 million impact should never be buried in the complex Aurora model?

A It should not. Well, yes. Without some conversation around that, yes.

Q All right. I want to talk a little bit about the 3 versus 5 years. Have you done any kind of analysis of how accurately the current version of the forecast models would predict variability if it was 5 years versus 3 years?

A I have not.

Q How about 10 years?

A No.

Q How about 20 years?

A I have not, but I could -- I would defer to Witness Kalich. He might have something to say on that.

Q I suspect we will be talking to Mr. Kalich about this.

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You could do one year too; right?

A Yes.

Q It would be rational to assume that volatility is measured more accurately in terms of recent time versus over a longer period of time. Fair?

A That's fair.

Q But you didn't do that?

A We picked up a three-year average.

Q Right. Why three years? Why not six months? Why not six weeks? Why not three months as -- how you do for forward cost?

A Because of the variation we were seeing.

Q Now, this new methodology that you adjusted to three years you claim was a simpler method that accounts for offsetting factors?

A Yes.

Q What were the offsetting factors in 2023?

A I don't have them. I can't say that I could state them. Again, I think Mr. Kalich might be able to in -- more appropriately answer that question.

Q What were the offsetting factors in 2022?

A Same response.

Q What were the offsetting factors in 2021?

A I mean it's the things that we would have evaluated in our ERM review.

Q How do you -- how does the averaging of the three factors which you don't know lead to a more accurate power forecast?
A We receive a change in the ability -- or, actually, the ability to, we feel, accurately predict our net power supply expense. And so, we were looking for an opportunity to better -- to better set our baseline rates. And so, that's why we brought in this adjustment that really is an adjustment to inputs because we weren't getting accuracy to set the baseline.
Q If you could turn to -- it's Exhibit 20X, Attachment B. It was our original 2A, if that --
A I'm there.
Q This was a -- after the 2017 rate case, it's true that Avista then held a series of workshops about improving its power cost forecasts; correct?
A That's correct.
Q One of the things that you did in response to that was to consult or have a consultant review to determine if there was any bias in the power forecasting; correct?
A That's correct.
Q And that company was -- that produced this is -- this Attachment B, that's their report; correct?
A That's correct.

Q E3, I think they call themselves.

I want to turn to page 3 of that document, paragraph 3A.

ATTY MEYER: Again, which exhibits, please?

ATTY ROBINSON O'NEILL: This is SJK-20X, Attachment B.

ATTY MEYER: Thank you.

THE WITNESS: I'm there.

COMMISSIONER RENDAHL: So, Counsel, just to clarify, the document I have refers to it as Attachment A.

ATTY ROBINSON O'NEILL: Yes. And the --

COMMISSIONER RENDAHL: That's the E3 report. Is that what we're looking at?

ATTY ROBINSON O'NEILL: Yes. It is Attachment A. But on the exhibit list that we got from --

COMMISSIONER RENDAHL: Okay. Just wanting to clarify. Okay. Thank you.

Q BY ATTY ROBINSON O'NEILL: And this was -- this report was issued in part of -- as part of that workshop between 2017 and 2020?

A That's correct.

Q Paragraph A -- 3A, it says, "While E3 was unable to verify all of Avista's calculations, it is nonetheless clear that the majority of Avista's energy cost variations are due to fluctuations in continental commodities in markets -- particularly natural gas prices and natural gas basis spreads -- which have a downstream impact on electricity market prices.

"It is notable that the ERM resulted in under-forecasts of Avista's energy costs during the years in which natural gas prices were generally rising and over-forecasts during the years in which natural gas prices were generally falling."

Did I read that correctly?

A Yes.

Q Was that accurate?

A Yes.

Q So in 2020 you were aware of your issue with -- or exposure to natural gas basis spreads; correct?

A Yes.

Q That's the implied heat market rate that you talk about in your testimony; correct?

A Well, yes. I mean, the implied market heat rate is comparison -- to be your power price to your gas price.

Q Right. That's what they're talking about? Natural gas basis spreads?

A Yes.

Q Okay. And the idea behind this is -- you sell a whole bunch of gas-generated power, and if the price of natural gas goes up and brings the price close to the costs or the electricity price, you don't make as much money. But if there's a big spread, you make a lot of money?

A Yeah. We sell, on behalf of our customers, our excess energy, yes, to monetize that value.

Q That was known in 2020?

A The prices that were in 2020 were known, yes.

Q But you knew that the natural gas basis spreads were a factor in why your forecasts were high or low?

ATTY MEYER: Do you understand the question?

THE WITNESS: I don't.

Q BY ATTY ROBINSON O'NEILL: E3 pointed out that the -- natural gas's base spreads, which have a downstream impact, were particularly critical to your over-forecasting and under-forecasting such that, when natural gas prices were generally rising, you under-forecast. And when you -- natural gas prices were generally falling, you over-forecast; correct?

A Correct.

Q Did you adjust your power cost projections of future natural gas thermal value in 2020 after E3 pointed out this -- this vulnerability?

A We didn't -- we didn't adjust. We modeled based on the

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forward market prices.
Q Let's turn back to your rebuttal testimony on page 5. Here you begin a list. It goes through this -- it's next page of six factors that underpin your need for a forecast error adjustment; correct?
A Correct.
Q The first factor is market dynamics. The fundamentals, you said, have changed; correct?
A Correct.
Q And that's because of availability of -- lack of availability of longer-term bilateral trades. What do you mean by "longer-term" here, incidentally?
A Beyond -- typically, longer term is beyond 12 months.
Q And it's true that -- you also mentioned that this part of the market fundamentals is resources adequacy in the Pacific Northwest; correct?
A That's correct.
Q Is it your testimony then that your exposure to this market dynamic is going to last as long as utilities don't create new generation?
A That's correct.
Q How long is it going to take utilities to create new generation?
A That's something that I can't answer.
Q What's the horizon?

A I would say for a long period of time.
Q Okay. Now, the second point you mentioned here is the forward premium in the implied heat rate -- market heat rate; correct?
A Correct.
Q And that's, as you indicated earlier, the distinction between -- the difference between natural gas and electricity prices; correct?
A Correct.
Q Now, in sub 3, you say the value of your thermal feet -- fleet has increased tenfold from 15 million to 300 million; is that correct?
A That's correct.
Q How much of that is because of increased generation, gas generation?
A It's not from increased. It's recognizing the value of our existing portfolio.
Q Right. So the -- basically, the price of electricity has gone up?
A Prices of electricity definitely has gone up, while the price of gas has stayed more stable.
Q Okay. Well, it's spiked, and now it's come back down?
A Correct.
Q Now, ordinarily, you would expect, since you're selling electricity, that that price spike would kind of -- it

would help you? You would make more money on your sales; correct?

A Yes. On behalf of our customers.

Q Your problem is you're having difficulty forecasting how much money you're going to make in the future; correct?

A It's not a forecast of what -- the difficulty we're seeing is the power prices that we model. And our general rate case has a premium built into it for a lot of different reasons that I've laid out in my rebuttal testimony. And then, when we actually get to the prompt months where we can actually act on our position and sell in the market, it's at a lower price than what was -- than what we had modeled. And we are having difficulties finding partners to trade with.

Q I will accept that you can't control future gas prices and electricity prices, probably, as well. You can control your forecasting; correct?

A Well, our forecasts are based on forward market prices.

Q I know. But you're the one that makes the forecast; correct? Avista -- you have 100 percent control over what you put into your forecast?

A We contract for those forward prices. Somebody else does the analysis for us.

Q But you have 100 percent control over the inputs that

go into that modeling?
A Not on the forward power prices. We do when we set our net power supply expense through our methodology, but not -- we don't calculate the forward price.
Q Right. Someone -- you pay someone to do it for you?
A That's correct.
Q And then you input it?
A Yes.
Q And you do three months average?
A Yes. According to our methodology.
Q You could change it to six?
A But that's not what we had agreed to or what was traditionally done.
Q You could do it to nine months? You could change it?
A Yes, we could.
Q So you have control over what the inputs are into your modeling; correct?
A Yeah.
Q And that's what needs to be changed here? Not the market, but your forecast?
A Again, it's a methodology that we use that we've -- that we have had this -- conversations with through our modeling workshops. And that's what set the 90-day.
Q And that was part of the vetting process that we -- that you went through extensive --

A That's correct.

Q -- 2007 to 2020? But you haven't done that this time?

A No. Because we did not have time.

Q All right. Let's look at your original testimony, page 69. This is SJK-1T.

A Page 69; is that correct? Okay. I'm there.

Q In your original testimony, you identify that the big-ticket items in 2022 and 2023 are different. 2022 witnessed approximately 35 percent run-up in power prices, which could have helped you with higher revenues. However, because natural gas prices were above 95 percent -- were about 95 percent above forecast, the relationship between electricity and natural gas fell, dropping the value of our thermal fleet; correct?

A Correct.

Q In 2023, the main driver was the poor hydro conditions; correct?

A That was, yes, one of the factors, yes.

Q And natural gas prices actually fell 6 percent from forecast; correct?

A That's correct.

Q But electricity prices fell by double that amount, and that's why you had problems?

A Not in 2023.

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Q Natural gas prices through --
A Oh, hang on. Sorry. Sorry. Didn't read all the way through that. Yes. So the heat rate collapsed on us.
Q So in 2022 both prices went up, and the gap -- the heat rate was small. In 2023 both of them fell. But because of the differential, the gap remained small; correct?
A Yeah. We lost the -- yes. In 2023, we had hydro -- low hydro. And, again, the power prices fell; so the revenue that we could achieve from selling that excess power was significantly reduced. That's 2023.
Q In 2024 your natural gas prices were low again; correct?
A Yes, they were.
Q And your hydro was bad?
A Yes.
Q But in the second quarter earnings report, your ERM differential between forecast and actual is such that it's going to fall within the dead bands; correct?
A As of that time, that is no longer the case as we've worked our way through the summer months because of our bad -- poor hydro situation.
Q What are the hydro conditions and natural gas prices going to be in 2025?
A We don't know.

Q What are they going to be in 2026?
A Well, I should say we don't know hydro. We've got an idea of what the forward market prices are based on the information we get from our consultant.
Q And generally, we're going to assume the prices are high because of the scarcity; correct?
A Correct. The power prices are high. The gas prices are lower -- are more traditionally what we've seen in the last decade.
Q If hydro improves in 2025, then you'll have a surf -- surplus?
A Of resources, yes.
Q How does the ERM adjustment averaging of the three years help predict natural gas prices in the future?
A It doesn't help predict. What it does is factor in all -- all of the components.
Q Let's answer the pertinent question. How does it predict future gas prices?
A It won't predict future gas prices.
Q How does it predict electricity prices?
A It -- it doesn't predict them exactly. But what it does is -- it's using the -- what we've seen in the more recent trends to try to do a better job of setting our net power supply expense.

Q And how does it predict the market rate? The implied heat market rate?
A Does not.
Q If you look at Illustration 7 there in your original testimony...
A Do you have the page number?
Q I'm looking that up right now. It's on page 60.
ATTY MEYER: Say that again. I'm sorry. Your direct testimony page -- what?
ATTY ROBINSON O'NEILL: 60. Six, zero. It's Illustration Number 7, the implied market heat rate.
ATTY MEYER: Thank you.
THE WITNESS: Yeah. I'm there.
Q BY ATTY ROBINSON O'NEILL: Is the information contained in this chart accurate?
A To the best of my knowledge.
Q And there are positive and negative deltas here.
A That's correct.
Q What does the positive and negative refer to? I think -- I was confused by this, but I think it's from your forecast; is that right?
A This -- I believe that's the case.
Q Okay. So you made a forecast that could calculate an implied heat rate, and then this chart is measuring how much the actuals differed from that? Or...

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A I believe it's the -- it's the difference in the actuals versus what was forecast based on the market prices.
Q Okay. So when it's positive, Avista made more money on its thermal fleet. When it's negative, they made less money than projected; correct?
A Correct.
Q In 2020 there is a negative 4,000 -- I'm not sure what the units are here, Btu's divided by kilowatt hours -- but negative 4,000 anyway?
A Yes.
Q And went all the way up to positive in 2021?
A Correct.
Q Dropped in 2022?
A Yes.
Q And then went back up in 2023?
A Yes.
Q Do you know what 2024's implied delta is? Is it back up? Or...
A I don't -- I do not know.
Q And so you're -- does your forecast methodology capture or predict what the next development will be?
A No.
Q I'm curious as to why we aren't in a power cast -- power cost workshop with Avista right now trying to

find variables that correlate with this problem, which is a known problem for Avista. Has been for a very long time. You knew about it in 2020 when E3 called it out.

Why isn't that the appropriate methodology for the Commission to approach here, which is to actually talk about variables and predict -- and how predictive they are?

A We've suggested that in rebuttal.

Q But you also want them -- this commission to put the thumb on the scale so that --

ATTY MEYER: Object to the form of the question. That's argumentative. We're doing no such thing. There's no thumb on the scale.

ATTY ROBINSON O'NEILL: I'll withdraw that and ask a new question.

Q BY ATTY ROBINSON O'NEILL: You want them to adopt the $29 million portfolio adjustment error while we do that; correct?

A Yes. To help better set the accuracy of our net's -- power supply expense in our case.

Q We'll get to Mr. Kalich in a moment. He testifies -- I want -- give you a chance as well. He testifies -- and I'm going to quote him here -- "One should be cautious when using a short historical dataset, especially when conditions do not reflect the median conditions," end quote.

Now, he's talking about hydro forecast. Would you agree with me that you should be cautious in using the short historical dataset?

A I think it's something you have to consider, yes.

Q And your contention is there has been more volatility and that we aren't in the median time period but in a whole new world; correct?

A That's correct.

Q Does the adoption of the current version of the forecast adjustment assist you in better predicting -- well, I'll strike that. I think I already asked that question; so I'll move on.

Does the proposed ERM adjustment predict the volatility in the future years?

A No. It does not predict.

Q And the application of this adjustment is not going to address the root problem of acquiring new resources in the coming years, is it?

A Can you restate that.

Q Sure. Adopting this ERM modification is not going to incentivize the company to build more power plants?

A No. Their modifications, no. That's something we do through our integrated resource plan.

Q And are you acquiring any new resources this year in your integrated resource plan?
A Not -- well, we are bringing on some additional resources that we previously contracted for.
Q If you turned to page 52 of your testimony, it's Illustration Number 5.
A I'm there.
Q This shows the deltas -- the ERM deltas from 2003 to 2022; correct?
A Correct.
Q And these are the things you're averaging in your current methodology; correct?
A That's correct.
Q And you'll see that, early on in 2003 to 2008, there were over-collections -- I'm sorry -- under-collections. You needed surcharges?
A Correct.
Q From 2011 until 2020, we needed refunds? Under -- there were over-collections?
A Correct.
Q And the switch back in 2021 and 2023 would be a big bar as well; correct?
A That's correct.
Q Have you -- you said that this will swing both ways, this current model, because you're taking the

three-year average. Have you gone and done an analysis of how these numbers would have changed over time had we applied this three-year approach for knocking off the -- I mean, the -- trying to smooth out the swings?
A No, we have not.
Q Wouldn't you agree that it's important for us to know to determine whether, in the future, should your model ever get its feet back under it, it would even out the refunds as well?
A Yeah. But I think the numbers speak for themselves. And the conditions that drove these numbers are different based on the conditions in the market.
Q How much difference does it make? Do you know? If you go back and backcast, are we talking about reallocating the same money in different places? Or what's the -- do you know?
A I do not know.
Q Thank you. That's all the questions I have.

JUDGE THOMPSON: Thank you. I believe AWEC has some cross for this witness as well.

ATTY MOSER: Yes. Thank you, Your Honor.

CROSS-EXAMINATION

BY ATTY MOSER:

Q Good afternoon, Mr. Kinney. How are you?

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A Good.
Q Good. I'm going to hope to keep things pretty brief and build on some of the questions that you were asked by Mr. Roberson and Mr. O'Neill.
A Okay.
Q So my first question for you -- I believe we reached an area of agreement or point of agreement that the forecast error adjustment is a new adjustment in this proceeding?
A That's correct.
Q Okay. So it was not included in a previous case, and it was not included in the agreed power supply modeling methodology; correct?
A It was not.
Q Okay. Can I have you, please, turn to your rebuttal testimony on page 30.
A Okay. I'm there.
Q Okay. And starting on line 7 is a Q&A where you're responding to an adjustment made by Mr. Mullins; is that correct?
A That's correct.
Q Okay. And it's related to transmission rates to the California-Oregon border, or COB; correct?
A That's correct.
Q And then, if we move down to the next Q&A, you state

that you don't support that adjustment. And the reasons that you give there are that the adjustment for COB transmission was not included in previous cases and is not included in the agreed power supply methodology; correct?

A Correct.

Q So I'm just trying to understand the principle or the standard for inclusion in -- of changes for power cost methodology. The company has said that it's not a basis for inclusion for Mr. Mullins's adjustment because it wasn't included in previous cases and it's not included in the agreed power supply modeling methodology. But you also just testified that neither is a forecaster adjustment.

A That's correct. But the magnitudes are significantly different.

Q And so, is it your testimony that, because it's a -- an adjustment that the company believes is in its -- would increase power costs at a time where you find that there has been under-recovery of power costs -- there's a risk of under-recovery -- that that's a basis for inclusion of an adjustment; but if it goes the other way, then it's not?

A Can you repeat the question.

Q Well, we've got two sides of the coin; right? The

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company's forecaster adjustment is an increase to net power costs; correct?

A Yes.

Q And then, Mr. Mullins's would be a decrease to net power costs?

A That's correct.

Q And so, are you saying that, because it's an increase to net power costs at a time where the company is concerned about under-recovery of power costs, that that is enough to overtake the standard that you've articulated for rejecting Mr. Mullins's adjustment?

A Well, I believe that our response to this question was we've -- that we were actually taking into consideration, actually, this transmission revenue through the modeling and the adjustment and the agreements that are made in the model. But I think that might be an oversight from what we actually used to do when it comes to COB transmission, which I believe was a five-year average in previous cases.

Q When you say "oversight," are you saying that this is now an adjustment that the company would accept? Or...

A Yes. I think we'd be willing to do that.

Q Okay. No further questions. Thank you.

JUDGE THOMPSON: Thank you.

Any commissioner questions? Or -- sorry. Let's

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move to redirect first.

ATTY MEYER: Yes, I do. Thank you.

REDIRECT EXAMINATION

BY ATTY MEYER:

Q So let's return -- let's return to basics, here.

You were asked any number of questions that get to -- perhaps the same central question is -- how do we set the baseline of the ERM correctly? Do you understand that to be a central objective of what we're doing here?

A Yes.

Q And why is that so important in this power supply market?

A Because we can't -- the company doesn't have full control of setting what is actually happening in the market. Again, it's a resource adequacy concern in the region that is driving a premium in the forward price that has really escalated the value of our thermal plants, which is actually a good thing for our customers. They get the benefit of that, but the company is taking a lot of the risk of that revenue not materializing. And that's what is -- we're seeing that's actually happening.

Q So without doing something -- and that something in

this case was a portfolio adjustment -- how will that baseline as currently established accurately or more accurately reflect changed market conditions?
A Because it's factoring in what we've seen in the last couple of years where we've seen a dramatic change in the market itself.
Q So is it fair to say the company's attempting to do something by way of an adjustment to get to a more accurate baseline?
A Yes. That was the intent --
Q Okay.
A -- of the adjustment.
Q And is it conversely -- have any of the other parties suggested any fix or any approach that would more accurately set that baseline?
A No, they have not.
Q So if the -- you said the market conditions are changing. Now, you chose to -- on rebuttal chose to go back and utilize a look back for three years -- not five, three years. Now you didn't -- did you pick three because it benefited the company as opposed to five?
A No. We were just trying to put together a methodology that we felt would more accurately produce a net power supply expense.

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Q Okay. And this three-year methodology on rebuttal made use of actual information; correct?
A That's correct.
Q In what sense it doesn't make use of actual information?
A It uses the actual ERM that has vetted through a process with the Commission and parties that captures, basically, our actual net power supply expense versus what was modeled in our rate case.
Q And that vetting process through the ERM review carries with it the opportunity to audit contracts, receipts, invoices, everything you could imagine; correct?
A Yes, it does.
Q So there is no wanted documentation backing that up as part of the ERM review process; correct?
A That's correct.
Q Okay. Now, you've proposed power supply adjustments that have been in your work with the company for years and for decades. Isn't it true that this commission has approved power supply adjustments, generally stated?
A Yes.
Q Okay. And those power supply adjustments are pro forma in the sense that they make use of reasonable assumptions; correct?

A That's correct.
Q And what are some of those reasonable assumptions that are routinely incorporated into that pro forma adjustment?
A An average or median hydro year. Maintenance outages of our generating facilities are based on an average.
Q What about three months of forward pricing?
A Yes. Yes.
Q What about weather-normalizing loads?
A Yes. That is all built in into our methodology.
Q Using power plant operating performance over some average period?
A Yes.
Q So these are all assumptions that have been routinely made as part of power supply adjustments?
A That's correct.
Q And yet that process has survived, if you will, challenges that -- it's not known and measurable. In fact, this commission has issued a policy statement essentially allowing for those kind of pro forming adjustments; correct?
A Yes.
Q All right. So in -- to argue that this adjustment -- this portfolio adjustment is somehow out of bounds because it's not known and measurable, how is that

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different than what the Commission already does routinely?

A It is -- the known and measurable isn't any different than any of the other inputs into our power supply methodology. There's similar averages and similar projections or forecasts that are used.

Q So in a nutshell, the portfolio adjustment is no more nor less known and measurable than what we do otherwise in power supply adjusting?

A That's correct.

ATTY ROBINSON O'NEILL: That question is leading.

Q BY ATTY MEYER: Next question...

JUDGE THOMPSON: Hold on, Counsel.

Public Counsel, can you please restate that.

ATTY ROBINSON O'NEILL: Yeah. The question is leading. That was an argument, not a question.

JUDGE THOMPSON: Could you --

ATTY MEYER: I'm moving on, if that helps.

JUDGE THOMPSON: -- okay. Thank you.

ATTY MEYER: Okay.

Q BY ATTY MEYER: So does Aurora modeling standing alone reflect anymore this market transformation?

A Not -- not very well. We're finding it more difficult that the Aurora model itself is able to produce the conditions that are currently in the market.

Q And does -- is there any inherent -- not inherent flaw -- but does the Aurora modeling serve to over state the value of thermal assets in this changing environment?

A Yes, it does. Based on the inputs that it uses, the information that goes into the -- into the model -- that we're seeing that that's the case.

Q So at the end of the day if we choose -- or I'm sorry -- if the Commission chooses to accept recommendations of the other parties and essentially do nothing about addressing transformations in the power supply market, where does that leave the company with the ERM and the baseline in the ERM?

A Well, what we've seen is that we will work our way through all of the dead bands and see significant risk and impact to the company's revenue. And we don't see it as a -- instead of incentivizing behavior, it's behavior that the company can no longer really control. It's outside of our control, and we will work -- we are working through the dead bands, which is a significant risk to us.

So that's why we had -- we are proposing an adjustment. And we are also proposing adjustment to the ERM too to be a little bit more equitable with our

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peers with regards to how we -- the percentage of the dead band compared to net power supply expense -- for us compared to our peers, we're about one and a half to two times greater exposure through the dead band in the current construct of the ERM.

Q Thank you. That's all I have. Thank you. Appreciate your time.

JUDGE THOMPSON: Thank you.

Any questions from the bench?

COMMISSIONER RENDAHL: I do have a few.

Good afternoon.

THE WITNESS: Good afternoon.

COMMISSIONER RENDAHL: So this may -- we've been talking about this issue of the -- this new forecast error issue in the context of the ERM and the dead bands and the sharing bands.

So as you just said, in addition to your proposal to reduce the dead bands and the sharing bands on the ERM, you've discussed this need to address the forecast error; correct?

THE WITNESS: Yes.

COMMISSIONER RENDAHL: Okay. So in your rebuttal testimony, if you look at Exhibit 17T page 9, on lines 13 and 14, you state, "The ERM does not capture forecast error; it simply allocates it through

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the sharing bands." Do you see that?

THE WITNESS: Yes.

COMMISSIONER RENDAHL: So does that mean that, when you're reducing -- you're proposing to reduce the dead bands and the sharing bands of the ERM and recovering the forecast error on top of that, you're -- essentially, what used to be a forecast error within the dead bands -- those dead bands are reduced, and now you're adding something in addition on top of that -- that that's almost having a double-effect?

THE WITNESS: It can, depending on the situation. Again, we feel that it's important first to set the baseline, which is what we're trying to do with our proposed adjustment.

And then, beyond that, again, the ERM is set up to capture the difference between what actually happens and what was in the forecast. But what we're seeing is, even with that adjustment, there's concern that we will still work through the current dead bands because of the situation in the market and the resource adequacy concerns that are driving a significant premium in the forwards -- that, actually, you know, again is good for our customers for the value of our thermal plants, but we are not being -- we've not been able to capture all of that value when we actually go to transact.

So again, we're going to correct baseline -- make the baseline as accurate as we can, but what we're seeing is still an inability, potentially, where actuals will be -- move us well beyond the dead bands without us being able to have much control in that.

COMMISSIONER RENDAHL: Okay.

Chair Danner, did you want to ask anything?

CHAIR DANNER: Not right now.

COMMISSIONER RENDAHL: Okay.

I think much of this has been covered. I think I'm done. Thank you.

JUDGE THOMPSON: Okay. Thank you.

That concludes the questions, and you may be excused.

THE WITNESS: Thank you.

ATTY MEYER: I'll call Mr. Kalich to the stand, please.

JUDGE THOMPSON: Before Witness Kalich comes up, can we just have a moment to discuss how we want to proceed with the order of witnesses. I know that he's next on the list; but given time, we want to make sure we use this afternoon as efficiently as possible.

We're going to actually ask if it's okay with the company that we call Witness Howell next, and then we'll take a break and move on to Kalich from there.

ATTY MEYER: Sure. Very well. Thank you.

JUDGE THOMPSON: Thank you.

ATTY MEYER: So I will say that, while the witness is situating himself, we did have a PSPS event yesterday in our system in Spokane. First -- first of its kind. And if the Commission is interested, this witness could provide just a very brief recap of what happened and how it concluded.

CHAIR DANNER: I think, for my purposes, I'm very interested, but I would not want to use this forum to have that discussion. But I defer to my colleague. I think that I would prefer that we just...

COMMISSIONER RENDAHL: I appreciate we just keep going with the hearing but do -- eventually would like to have a recap on that.

ATTY MEYER: Very good. Happy to provide --

CHAIR DANNER: Thank you for the offer.

ATTY MEYER: Yeah. Thank you.

JUDGE THOMPSON: Okay. I'll go ahead and swear you in.

(Witness duly sworn.)

JUDGE THOMPSON: Thank you. You may be seated.

Please proceed, Counsel. Thank you.

DIRECT EXAMINATION

BY ATTY MEYER:

Q Thank you. Mr. Howell, for the record, please state your name and your employer.

A David Howell, Avista Utilities.

Q And understand that your testimony has been entered and -- as have the other exhibits; so you are available for cross-examination. Thank you.

JUDGE THOMPSON: Thank you.

Public Counsel, you've indicated cross for this witness.

ATTY ROBINSON O'NEILL: Yes, Your Honor. Thank you.

CROSS-EXAMINATION

BY ATTY ROBINSON O'NEILL:

Q Mr. Howell, there was a back-and-forth between me and Mr. Meyer about your testimony. And there were some questions that were provided. Have you had a chance to review those?

A Yes.

Q Also, there were exhibits -- cross exhibits that are very detailed, your 2020 Wildfire Plan and your 2023 update. I'm mostly interested in the total amounts that you -- if you want to refer to them. Roughly

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speaking, however, in 2020 when you first created the wire -- wildfire plan, you intended to spend approximately $328 million; is that correct?
A There's both capital and expense that we've included in the wildfire plan.
Q And I think, combined between the two, it was 328 million. Does that sound right?
A With verification, yes.
Q And that's approximately -- that's over ten years?
A Correct.
Q In your current testimony, you provided a spreadsheet, and that total amount, both capital and operation expense, is 437 million; is that correct?
A With verification, yes.
Q In terms of the capital investment, there was about a 15 percent increase. To what do you attribute that increase?
A The majority of our capital is attributed to what we refer to as "grid hardening." And we've determined that we're going to pursue some undergrounding and covered conductor. And you'll see there's a year that we actually have an increased capital, and that'll be the year that we'll be exploring the undergrounding and covered conductor.
Q And that's 2026?

A That is correct.
Q Okay. In the same time period, there's 100 percent -- more than a 100 percent increase in operations and management. And from my rough look, it appeared to be primarily in terms of vegetation management; is that correct?
A That's correct.
Q Why has there been a 100 percent increase in vegetation management?
A Our vegetation management program within the wildfire plan, we refer to it as "enhanced vegetation management." But it's really focused on risk trees, so dead, dying, and diseased trees. We made a commitment to do annual risk tree inspections. And once we started that process, we found over double the number of risk trees that we had originally estimated would need to be removed from the system.
Q So that's why the increases -- is your -- you have to take more trees down?
A That is correct.
Q Okay.
A That's the goal as part of the risk tree, just to mitigate those by removal.
Q Mr. Howell, will Avista agree to provide justification for any budget changes greater than 15 percent from

plan in your annual wildfire resiliency plan communicated in the next GRC?
A Yes.
Q Can you describe your fire weather dashboard tool and the status of sharing that tool with other utilities.
A Our fire weather dashboard is a tool that we use -- we use it for -- for long-term enhancement, so grid-hardening decisions, but more importantly, for transient weather conditions on our system.
So it models weather, and it takes into account housing, fuels, weather conditions, and then makes a prediction of what the potential risk is -- the operating risk is to our system. We have shared that through our peer groups, the Northwest Utility Forum that we initiated as part of the development of our wildfire plan, as well as -- we actually have an article in ESRI in which we've shared the development of our tool and how it's put together.
Q And is Avista willing to commit to continue to develop that dashboard tool?
A That tool has been developed, but we are continuing to look at ways to enhance that tool as we move forward and are willing to share it with our peers and have offered it to others.
Q Now, I want to talk to you about the progress you've

made over the last four years since the implementation of the plan. You mentioned your hardening plan. That's various things, but it includes replacing wooden crossbeams with fiberglass. It includes wrapping poles in fire retardant -- I don't know if it is a mesh.

A It is a mesh.

Q Yeah. Fire retardant mesh replacing steel -- wooden with steel. How many lines -- or how many miles of lines have you hardened?

A I'm assuming it's in my testimony. But if you could refer to me where it's at, I would validate that. I don't have it off the top of my head.

Q It wasn't actually in your testimony. It was in the 2023 wildfire plan, which is more than a year and a little bit old. At the time, it was about 14 percent. Does that sound right?

A With verification, yes.

Q And do you know how much you've done in the last year?

A I'd have to look in the plan to determine -- do you mean 20- -- this year? '24?

Q Yeah.

A It's ongoing. I don't know the current status.

Q Is there enough -- well, it's also true that you do not track ignition events; is that correct?

A We do. I heard your opening statement. We do track ignition events at some level. But to the degree that those -- that we're capturing all of them, it's really allocated to text fields within our existing outage management system.

Our existing outage management system is focused on outages and cause of outages. It has been -- it wasn't designed, when it was originally created, for tracking of fire-related events. We do have the ability, though, to add text that we've been trying to add as we know -- have known events.

As an example, if we have a pole fire -- common event in the utility industry, especially when you don't have a fiberglass crossarm. We will denote that in the text field, and we know that we have a potential spark event or heat event on our system.

Q And in 20- -- next year, 2025, you're deploying a new technology; is that correct?

A Yes.

Q What is that technology?

A It's an ADMS, so advanced distribution management system.

Q Will that system have the ability to track ignition events?

A It will. We're going to refer to them as heat events on our system; so if I could explain a little bit of how it's going to look different.

Currently, if we have an event on our system -- let's just say that the wind blows a tree into a line and we have an outage. That event is what we call "rolled up." It is -- it's stored on our system at the next upstream device that we could take -- we could -- a fuse, for example -- meaning all customers downstream of that will be out of power; so it stops at that fuse.

We don't know if that fuse was 100 feet or if it was a half a mile from that event; so we don't have an accurate location of that tree contacting the line. But we do know we have an outage, and we know the number of customers because that's how that system was built.

As we move forward, our intention would be to say that we have cause -- tree came into contact with a line due to weather -- and that we have a heat event associated with that and that we could then accurately map the GIS location of the actual event so that we know what zone within our wildfire dashboard or within our WUI map that we actually have the event that occurred on our line.

Q So you have better data?

A We'll have much better data.

Q And that will be deployed in 2026; correct?

A That is the current plan.

Q You did include some metrics that you do track -- pole fires, tree fall-ins, tree grow-ins, overhead equipment, spark events; correct?

A Correct.

Q And you have been tracking how often those occur? For example, pole fires were 154 in 2021 and 67 in 2023. And that's actually up from 2022 when it was 56; correct?

A With verification, yes, I'd have to look at that table.

Q Have you done any analysis to determine whether the hardening -- the hardened lines have fewer pole fires, fewer tree fall-ins, fewer overhead equipment events, fewer spark events?

A I'll use the fiberglass crossarms as an example. And this is part of the reason that it ended up in our plan -- was we know that if we install a fiberglass crossarm, we can almost eliminate pole fires. And the reason for that is that you get additional insulation that's associated with the fiberglass over the wood. You get tracking on wood when you get contaminants. And so, early on we know that that is almost -- will eliminate pole fires on our system.

Q I just needed to cough. I wasn't going to interrupt you.

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Well, that's -- illustrates a point I have for you. If paying for grid hardening and replacing fiberglass eliminates the need for pole fires, why would you need to also wrap them?

A Our wildfire plan has, really, three objectives: safety, reliability, and then protecting our financial interests. Reliability, if you have a wildfire that starts outside of our system -- so we want to prevent spark events. That would be something perpetuating from our system. But we do have reliability concerns if a wildfire starts outside of our system and a fire burns through our system. If we have -- and especially transmission poles is where we're focusing the fire mesh wrap -- if that fire goes through a right-of-way and we have an old wood pole, there's a high probability that that pole will start on fire and then we'll lose transmission, which impacts reliability for our customers.

Q Have you been able to -- or have you conducted a cost-benefit analysis for the various strategies -- say, wooden crossarms, substations, interrupters -- and I can't remember what the exact -- re- -- it's a new kind of substation that lets you cut out power better. Reclosers, I think.

A Reclosers.

Q Have you done a cost-benefit analysis for each of those strategies in terms of the amount of reduction of wildfires?

A What we're trying to do is reduce spark events from our system. Not every spark event results in a wildfire adjacent to our system. But we know that, if we can reduce spark events or -- in the future, I'm going to use this term -- "heat events," something that creates something that has the potential for a fire, that's what we're going to achieve. And we want to make sure that we achieve that during the right times of the year. The winter, those are less risky than they are during significant wind events and dry, low-humidity conditions.

When we developed our wildfire plan, we did an initial risk analysis. We tried to create an understanding of what the mitigative actions -- what the benefit of those was going to be. But we do have plans for creating -- creating -- using a -- so that was done internally. We're going to use a third party to do a similar analysis to understand what the benefits are. Our ultimate goal is that the benefit of the mitigation is more valuable than the costs that we're implementing.

Q And have you done that cost-benefit analysis in this

testimony presented?
A We're presenting it within our 2023 plan, which references back to the original cost-benefit analysis that was completed. That was done internally with subject matter experts from across the company.
Q And are you willing to commit to updating that cost-benefit analysis?
A Yes.
Q Can you tell me how many spark events caused a wildfire in the last four years in your service territory?
A No.
Q Can you tell me how much overhead equipment failures -- there were 641 last year -- caused a wildfire in your service territory?
A No.
Q How about tree fall-ins or grow-ins? Can you tell me how many of those caused wildfires?
A No.
Q How about full fires?
A No. As I indicated earlier, our goal is to reduce spark events not -- your -- wildfire is caused not just by spark events, but it has to have some circumstances around it. Simply put, if we have a spark event during the winter when there's snow on the ground, real low likelihood of a wildfire. So there's not a

correlation. But if we have a spark event on a very windy, gusty day with perpetuated winds, there's a higher probability of a wildfire.

So our focus has been on reducing spark events across our system as opposed to the question you're asking, which is reduction -- or known wildfires. Wildfire has external factors that influence its initiation.

Q In any kind of safety plan like this, your initial investment will get quite a bit of significant returns in terms of safety. You'll reduce risk a lot, but then, as marginal investments occur after, the reduction gets smaller and smaller. Would you agree with that?

A In those areas that we've applied the mitigation, I would agree with that.

Q Okay. On the undergrounding, you've identified 13 lines that you are considering undergrounding. Are those hardened already?

A I don't know the answer to that.

Q If we are paying to harden the line and then underground it, it feels like that un-hardening investment might have been not prudent. Have you -- or will you commit to studying that in the next general --

A -- yes.

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(Reporter requests clarification.)

Q BY ATTY ROBINSON O'NEILL: Will you commit to studying that in the next general rate case?

A Thank you. Yes. As part of our risk analysis, just to further build on that, within our hardening we have what I'll call "base grid hardening." That's our traditional grid hardening that we started with as part of our plan. We added undergrounding and covered conductor.

And we want to understand the benefits of both of those kind of added grid-hardening tools that we're going to put on our tool kit to mitigate wildfire. We want to make sure that we're applying them in the right locations, kind of building on your question to me. We want to make sure undergrounding is done in the right place or traditional grid hardening is done in the right place -- or covered conductor, where we need to apply that.

Q Will Avista commit to doing a full cost-benefit analysis for the next general rate case?

A Yes.

Q That's all the questions I have. Thank you.

JUDGE THOMPSON: Thank you.

Any redirect?

ATTY MEYER: No redirect. Thank you.

JUDGE THOMPSON: Any questions from the bench?

COMMISSIONER RENDAHL: I have a couple questions.

Good afternoon, Mr. Howell.

THE WITNESS: Good afternoon.

COMMISSIONER RENDAHL: So as the company -- obviously -- so I guess wildfire -- the response to wildfire potential ignitions has changed over time. Over the last few years, this issue has become more prevalent in the Northwest; correct?

THE WITNESS: Yes. Correct.

COMMISSIONER RENDAHL: And you're learning from your peers of what's working and what's not?

THE WITNESS: Correct.

COMMISSIONER RENDAHL: So one of the first treatments was to put up covered conductor to potentially prevent an ignition; correct?

THE WITNESS: We have not used -- within -- since our wildfire plan was developed, we have not had covered conductor in our plan. It wasn't -- we just had a base grid hardening -- which was primarily replacing small copper conductor, fiberglass crossarms, animal guards -- but we're exploring covered conductor as a tool within our service territory.

COMMISSIONER RENDAHL: Okay. So you wouldn't -- as you're evaluating going forward, as Public Counsel suggested, you're going to evaluate in which areas covered conductor might be more beneficial and undergrounding may be more beneficial, but you wouldn't do covered conductor and then underground the same line?

THE WITNESS: That's not how we would test what we're going to do. We need to better understand the cost and installation of covered conductor and the cost of undergrounding. Historically, both of those have been more than the traditional grid hardening. They may produce greater benefits, and so the offsets may be worth the investment for our customers and risk reduction.

COMMISSIONER RENDAHL: And part of that cost-benefit is looking at the risk -- the risk profile of the area and what you might be -- what sort of ignition or what sort of resilience you might -- benefit you might be gaining?

THE WITNESS: That is correct. Just as a simple analysis, if you had open area but it was upstream of significant development, you might use a traditional grid hardening because you have very low risk of something being blown into a line because of a weather event.

But if you have significant number of trees in an area that are difficult to trim back, you may choose to underground if you have significant development downstream, potentially, of where you're -- where you're going to be installing that. But you wouldn't go in and do a traditional and then underground it. You would choose to do a traditional, a covered conductor or an undergrounding, as you make an informed decision on your risk model.

COMMISSIONER RENDAHL: Okay. And that's part of that benefit cost of these various treatments that you're committing to do going forwards?

THE WITNESS: That's correct.

COMMISSIONER RENDAHL: Okay. Thank you.

CHAIR DANNER: I just have a follow-up.

Good afternoon.

THE WITNESS: Good afternoon.

CHAIR DANNER: So we're talking about risk trees, and you're finding more and more every year. So you found 19,000 in '22 and then 22,000 in '23. Are you changing the definition of risk? Is it more frequent inspections? What -- tell me what's driving this dramatic increase. And then, also, the Gray fire, that was -- you cleared out 3,000 -- 5,000 trees --

THE WITNESS: 5,000.

CHAIR DANNER: -- that were in the area of the fire? Or was this -- so I'm sorry. I've confused it with two different things --

THE WITNESS: That's okay. I appreciate the question.

Related to risk tree -- and we committed to an annual risk tree inspection -- essentially, we're looking for dead, dying, and diseased. I'm not aware that we've changed our inspection criteria. But we do that know we've historically -- recent history has had a beetle infestation, which has impacted our system. And so, if you have a beetle kill that comes into an area, it can impact an area within a 12-month cycle.

And so, we've been -- we only initiated this a couple years ago to do the annual risk tree inspection. So our -- our assumption was that, the first couple of years, we're going to see a higher volume of risk trees removed because we haven't done the annual risk tree inspection and we know we've had this more near-term beetle infestation that's caused a kill.

Related to the Gray fire -- and this is where variability comes into our risk tree program. And I actually had land in this area of this Gray fire, and so I saw the impact of it. But we had -- you know, that Gray fire impacted over 250 homes. It -- large swath of land. Trees were -- essentially everything was burned, and those trees were still standing adjacent to power lines. Those immediately, the next day, became a risk tree because, if we didn't remove it after the fire, we were going to be removing it for three or four years. And it had a high probability of dying and then a significant wind event blowing into those.

So we have some variability in our risk tree program. We know that we have kind of a standard annual risk tree program. But if we have a significant event like the Gray fire adjacent to our facilities, we're going to have to go remove those trees. And that's what that additional 5,000 trees was that we indicated.

CHAIR DANNER: Okay. And then, just one last question.

When you're looking at risk trees, the risk is both that they could blow into a line and bring the line down, but the other is that they are themselves combustible? I mean, what -- is that the criteria? Or is it mostly just how they would impact your infrastructure by falling into them -- or contact?

THE WITNESS: We have criteria for what is a healthy tree and what is a non-healthy tree -- for example, dead, dying, and diseased. We could also have a codominant stem, which means a branch stem that has the potential of breaking off during a wind event. But it's not so much the fuel that we're concerned with. There's lots of fuels that are in the area. The concern is when you have significant wind events that you have a tree or a branch that gets broken off of something and comes in contact with our facilities. That's what we're trying to address with this program.

CHAIR DANNER: Okay. Thank you. That's helpful. No other questions.

JUDGE THOMPSON: Thank you. I think that concludes the questions for this witness.

You may be dismissed.

THE WITNESS: Thank you.

JUDGE THOMPSON: And at this time, I'm going to recommend we take a brief recess. Is ten minutes sufficient for the parties? I'm seeing nods. Okay. Let's reconvene at 2:51, and we'll be off the record for now. Thank you.

(Break in proceedings at 2:41 p.m.)

JUDGE THOMPSON: And next I believe we have Witness Kalich.

And if you could please raise your right hand, I'll swear you in.

(Witness duly sworn.)

JUDGE THOMPSON: Thank you. You may be seated.

And, Counsel, you may tender.

ATTY MEYER: Thank you.

DIRECT EXAMINATION

BY ATTY MEYER:

Q For the record, would you please state your name, your employer, and position.

A Yeah. My name is Clint Kalich. I'm employed by Avista Corporation.

Q And your testimony and other exhibits have been introduced already; so you are -- so you are available for cross.

JUDGE THOMPSON: Thank you.

Staff, you may proceed.

ATTY ROBERSON: Thank you.

CROSS-EXAMINATION

BY ATTY ROBERSON:

Q Good afternoon, Mr. Kalich. How are you?

A I'm well. Good afternoon.

Q As with your colleagues, all of my questions concern your rebuttal testimony, if you have a copy of that in front of you.

I'd like to start with something of a general discussion about the company's view of the ERM. On page 34, at lines 17 through 20, you testified, quote, "In the case where MPE is under-forecast, the ERM becomes punitive to the company"; correct?

A Yes.

Q And then, a little bit later, at the end of page 35, specifically the last sentence which starts on 35 and continues on to the next page, you testified that, without the inclusion of the forecast error adjustment, quote, "the company almost certainly will continue to be" --

(Reporter requests clarification.)

Q BY ATTY ROBERSON: -- "continue to be on the losing end of the ERM"; correct?

A Could you direct me to where that is? I don't see that at the bottom of page 35.

Q I've done it again. Let's see if we can find it.

ATTY ROBERSON: It's on the next page? Thank you.

THE WITNESS: Yeah. The sentence reads, "In this case, the company has demonstrated that, without a forecast error adjustment, the company almost certainly will continue to be on the losing end of the ERM."

Q BY ATTY ROBERSON: Before the ERM, did Avista have a tracking and deferral mechanism for its power costs?

A We did not.

Q And with the ERM, Avista and ratepayers share the risks of deviation from the power cost forecast; correct?

A From whatever is authorized in rates, yes.

Q And so, before the ERM, Avista had all the downside of kind of power costs escalation above what was authorized in rates and all of the benefits of under-forecasting; correct?

A And that was a completely different time in our business. Prices for a decade were $15 to $20 a megawatt hour. We just hadn't seen the variability and volatility that, ultimately, the energy crisis, I think, highlighted to the entire West Coast. And we're seeing something similar here today.

Q Okay. Well, with the changed environment, if the Commission were to reject the forecast error adjustment and the changes to the ERM, should it abolish the ERM itself?

A No, sir.

Q And why would Avista want to continue with a mechanism that is punitive and with which it is on the losing end of?

A Avista's not asking to do that, although I would suggest that our original proposal to have a 95/5 sharing of costs would resolve a lot of the concerns associated with the forecast error. But since we are at a point where there's concern over removing the dead band -- sharing, it becomes more important than ever.

I mean, as I look back on my history and my testimony, the testimony of other parties including Staff, there was a large concern that the company was unable to -- I hesitate to use the word "accurately" -- but in this case, to correctly forecast what power supply expense was. And at the time, Staff was concerned because our forecasts were modestly above -- excuse me -- above what our actual costs were. So Staff was in a position of being concerned about those -- the over-recovery of -- for lack of a better phrase.

Q Yes. But my question was -- why would Avista want to continue on with a mechanism that is, quote, "punitive," and with which it's constantly on the losing end of, absent those changes?

A Well, I think you have to look at what the alternatives are, and maybe that's where you're going here. Certainly, having an ERM in place is of benefit to the

corporation. But we're showing, in this case, that having an ERM that has a correct baseline is really the most -- is a hugely significant piece and has been testified to in previous proceedings.
Q That was my next question, actually. So I guess, in summary, Avista gets enough benefit from the ERM that it wouldn't want to see it go away even if there are no changes to it?
A Well, I can -- I can think of a number of analogies that I could use to help illustrate the box you're placing me in. But something is better than nothing, but that doesn't mean one shouldn't strive to get a better outcome, ultimately, for all parties involved.
Q Fair enough. Okay.
I'd like to talk about the forecast error itself. And if I did this correctly, I'm thinking of page 24, lines 6 through 7.
A This is the -- Witness Wilson, your witness -- on the forecast error difference not being an expense.
Q Yeah. I want to ask you specifically about your testimony. And here I'm quoting -- tell me if I'm reading this correctly -- "Forecast error is by definition a cost, as it is driven by the differences between authorized and actual expenses"; is that correct?

A The only modification I'd make there is -- I think I'd replace, in hindsight, the word "driven" by the word "measured." So forecast error is a measure of the difference between -- between authorized and actual expense. So the choice of "driven" probably wasn't the best word, and maybe that's part of the confusion there. But it measures the deltas.

Q Okay. This is going to sound foolish, but I have to ask it. Avista does not contract for the purchase of forecast error; correct?

A I would say, in totality, no.

Q And it doesn't have receipts for the purchase of forecast error?

A Okay. I think I see where you're going there. Forecast error, again, is the result of cost and expenditures and outcomes that occur in the normal ongoing business.

So, for example, we have a contract with Chelan County PUD for a certain volume of energy at a certain price. And to the extent that the volume of energy -- because it's hydro-based -- is less or more, we have more -- well, actually, the Chelan contract's a fixed price contract. So if we had less or more energy, it would be -- we'd pay the same. And therefore, there would be a cost associated with the performance differing from the normalized assumption going into what that Chelan cost was.

So I guess, at that point, I would have to back up and say that these are reflective of costs that we do incur in our business in our contract base.

Q So -- but there's a difference between, I think, the cost you're speaking of and the forecast error; correct? Avista is paying Chelan for the delivery of power; right?

A We're paying Chelan for the actual output of their project for which we have to make assumptions to normalize our power supply expense on. So Chelan doesn't guarantee us a delivery.

Q So to the extent that Avista's paying a cost for service, it's paying for the delivery of that power; correct?

A It's -- we're paying a certain amount of dollars in the Chelan example, and we get the power that's created by those hydroelectric facilities.

Q But you don't pay Chelan for the forecast error involved with the contract; right?

A There's no premium or any additional payment to Chelan to guarantee their deliveries, if that's what you mean.

Q So that's a no? There's no payment associated with the forecast error?

A I'm struggling to understand the question. But we don't -- we pay a certain level for an expected output. And depending on the weather and the hydro flows, we get more or less energy. And the cost is substantially the same.

Q I guess my question is -- you're saying it's not a cost -- or it is a cost -- sorry. You're saying this is a cost. What is the commodity or the service that Avista is purchasing when it pays this cost?

A Let me try a little different way. So if you -- you contract for a certain quantity of power from Chelan. And if that delivery ends up being less than the forecast and power supply expense, our cost is going out and replacing that energy and -- potentially in the wholesale market or -- additional natural gas --

(Reporter requests clarification.)

THE WITNESS: Yes. Certainly. Sorry.

So we would incur additional costs that would be measured as part of that -- as part of our power supply expense that then would go through the annual ERM review.

Q BY ATTY ROBERSON: And those would be embedded in the annual ERM review in the form of payment for different service; right? Power from another supplier? Where are you actually exchanging money for the forecast error?

A And maybe that's where we're -- talking, you know, beside each other here.

So when there is -- when the forecast, in this example, of hydro output is above what the actual delivery was, it becomes an expense in the form of additional commodity energy. We have to procure from the marketplace, be it natural gas to fire a turbine or commodity electricity from the wholesale marketplace. Either one of those expenses are tracked and are a cost incurred by the company.

Q And I understand that. But where is the cost separate and apart from the cost -- well, who do you buy the service or the commodity from, separate and apart from the replacement power? Who gets the money from the forecast error in exchange for a service or a commodity?

A And, again, maybe we're not communicating well here. The -- what we're measuring there with that adjustment is where the estimates -- maybe it's good to think of it as an estimate -- where our best estimates aren't correct. So we have to replace that energy. I don't know how otherwise to say it. I'm sorry.

Q I guess I'm just trying to figure out, for an auditor like the Commission, where on your books would that be reflected in an inventory or a service purchase or a good purchase?

ATTY MEYER: Excuse me. Where would what being reflected?

ATTY ROBERSON: The portfolio forecast error.

THE WITNESS: So I'll do my best there. I'm not involved in those audits with your staff. But, for example, if you looked at -- at our filings with the federal government, you would see purchases of wholesale power. You would see the revenues -- or the expenditure, in this case -- associated with that replacement power in this example.

Q BY ATTY ROBERSON: And that will be reflected on the books, but you're saying that this is separate and apart from that; correct? Because you're modeling those costs; right?

A It -- I am modeling costs associated with normalized power supply expense. So we make a number of -- trying to think of the best word to use -- we make a number of assumptions. One of the very important assumptions is median hydro conditions, which we know don't happen year to year. We don't expect median hydro. We're pretty pleased if we get it, but we have bad and good hydro years.

Similarly, we use forward market prices because, after a lot of conversations with the various parties in this room and internally within our company, it was determined that, even though those -- using a three-month average of forward gas and electric prices is not a great indicator of what market prices that we'll experience are. They provide, maybe, a best estimate. Similarly on loads, we use weather-normalized loads and historical outages and planned maintenance.

So it's -- there's a set of normalized assumptions which -- you know, this goes back decades in how power supply expense is determined. And you expect variation from that. And there's normal variation and normal variability and volatility, and then there's major shifts in the marketplace. I spoke to one earlier where we had the energy crisis where we moved from $15, $18 power for decades all of a sudden to seeing prices where -- we hadn't seen before. We're hitting price caps on the West Coast.

So there are -- there's normal variability, and then there's major market shifts which magnify the -- you know, that delta between what you forecasted and what, ultimately, you experience.

Q That might be a good place to pivot. Let's turn to what I hope is page 22, line 6 through 7.

A Seems I wrote my testimony backwards.

Q Gotta keep you on your toes.

A 6 through 7, you said?

Q Yeah.

A Forecast error being the difference between actual revenues and cost? That question?

Q The question -- again, I'm concerned with, I guess, the first sentence of the answer after the word "no." And tell me if I read this correctly. "A forecast error adjustment is only included to get the expected level of MPE correct under normalized conditions."

A Yes.

Q What is normalization?

A I've given some examples already, but the idea is to come up with -- sometimes people define it as averages. So in the case of forced outages at our plants, we might -- we've used a five-year average to represent what we think in the future forced outages will be because we don't know, really, what they're going to be. Similarly, on hydro there's an 80-year water record, and we use median conditions for that.

So those things become normalized. We're having to make, essentially, forecasting assumptions, which is actually rather different than many areas of our business because we are making projections here, substantially -- substantial assumptions about the future based on -- on the best information we can, which -- we've define that as normalized.

If everything came out as we would want -- maybe "want" is the wrong word because we would want more zero-cost energy; right? Keep rates down. But based on what we think is a reasonable expectation of the future, what would the cost be? If, ultimately, that estimate -- something changes -- then you're going to end up with some type of an adjustment to reflect -- in the Chelan example, an underage of generation from the contract.

Q A couple of follow-ups there. So from what I just heard, obviously, it uses normalized data to adjust cost to arrive at an expected rate year cost. Is that a fair characterization of what you just said?

A Yes. Although I think it's important not -- to recognize as well, within those assumptions that are made, if there are extenuating circumstances, we might change the -- examples -- a good example, I think, in this case would be our Rattlesnake Project. And actually, Staff identified an error that the company made, and we adjusted for that difference. And because there wasn't five years of data, we have a much shorter time frame. We used the information from the -- the

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PPA -- ultimately, the megawatt hours that were bid in for that PPA that the owners expected to generate.

So we diverge away when data doesn't exist to maybe provide a full expectation of what we think the prediction will be.

Q Okay. You spoke of normalization as essentially an average. Why does rate-making employ an average?

A I don't want to nitpick differences. I don't think it picks averages. I just gave an example with -- with the Rattlesnake Wind Farm. When there's a reason to diverge from something that's an expected experience -- same thing with maintenance outages. We generally -- it isn't necessarily an outage, but it's a reflection of some -- some averaging. But we can potentially -- if we think there's something that won't be averaged, we would adjust for that. So again, it's normalized; so we try to come up with something that we think will represent the future most reasonably.

Q So would it be better to say that Avista is looking for a norm based on past data?

A We are trying to project what we think our power supply expense will be, actually, in the future test period. So it's not a reflection of what it's been; it's a reflection of our hope that we can achieve a cost that approximates what our future is.

Q But speaking more generally, not just with the forecast error, meaning hydro conditions -- I believe you said 80 years' data; correct?
A Yes.
Q So that's looking back a significant amount of time in order to project into the future?
A Absolutely.
Q Weather normalization is ten years; is that correct?
A Weather normalization?
Q Yeah.
A Subject to check, I think it's 20. But certainly, it's -- to your point, it's many years.
Q In your testimony on page 39, you list a number of examples that are normalized. Most of those are at least five years; correct? Power plant operating performance, transportation contracts -- feel like there was one other...
A Yeah. It does talk about, yeah, generation -- hydro generation based on median water. The contribution of our power plants, based on a five-year average of how they can offset peak loads, which are correlated with higher prices -- those types of things, yes.
Q But here Avista is picking a much shorter time period; correct?
A We are. And for me, as a -- statistician-type

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individuals, for pretty obvious reasons.

So there's -- without getting into statistics, you may have heard somewhere in your experience normalized -- normal distribution. And that's what we do with data that -- obvious things like weather, temperature, those types of things are generally somewhat normal. But other things, like the current situation where we have a pretty significant deficiency as a region of capacity, those aren't things that really are normal anymore. So they don't -- it doesn't make a lot of sense to me at all to just take long-term averages, anything like that. Because they don't reflect what's going on today.

Some things aren't just -- like the weather, they aren't random. They're results and outcomes based on years of choices that are made, whether it's by companies or policymakers, those types of things. So certain aspects just don't lend themself well necessarily to using those types of averages.

And the example of power prices, we don't use any -- really any historical information. In fact, there's not 80 years' worth of price discovery data available; so...

Q But for the way that Avista is calculating the forecast error adjustment, the ERM's been in effect since --

what? -- 2003? You do have data going back 20 years?
A Yeah. We have data back to 2003. And yeah, it's in my testimony and Witness Kinney's as well.
Q And in your testimony, you identify essentially three different ERM areas; correct? 2003 to 2008, there's surcharges; 2009 to 2020, there's rebates for customers; and then the current era? Is that --
A Yeah. There's these general trends that seem to be sustained. And if you look at the fundamentals of the marketplace, you can see why those trends occur. And actually, that's what we've seen in recent years. We're seeing that return to a different condition of the market being short.
So -- so you're right. There -- really, in the ERM, if you look at it, there's, yeah, that -- almost an S-curve type of a view to it.
Q And I guess my question is -- wouldn't it be better to include data from all of those three areas just so you're getting a representative sample of what the ERM looks like?
A If -- again, if all of the data was normalized, if it was random -- more is more. In fact, I -- Johannes, Marian, and I went around decades ago -- around normalization on hydro and what data should be used. And in that case, ultimately, it was the determination

of the Commission to use that long-run average. And that's, again, because it's normal. It's random. What we're seeing now isn't a normal, random occurrence. It's the outcome of markets based on significant changes to the underlying fundamentals of it.

So I don't view today's conditions a random walk. It's based on a set of choices that really are substantially outside the control of this company. We have adequate resources to meet our peak load requirements; others in the marketplace do not. So even while we have adequate resources to meet our customer loads, we're exposed to the volatility and the extreme price variance and variability that are caused by the fact that the region itself doesn't have enough capacity.

So I view the last few years and many years into the future -- going to take us years to figure this out. We're trying to -- not only are we dealing with a deficit, we're dealing with a major transition, some pretty exciting new resources and technologies. And we have to figure out as an industry how to solve that. So we have to solve the deficit problem and solve the technology problem and ensure, of course, we can keep the lights on.

So those are things that are going to take many years to figure out. A lot of the things folks are talking about today are not commercial technologies, and there aren't a lot of good choices for utilities built today.

Q Could you have had this conversation, hypothetically, with someone else sitting in my chair in 2009 and have it sound very similar? A change in market fundamentals due to the fracking boom? Drops in natural gas prices?

A I thank you for that question. Because I think -- I think it's really important to reflect what you know and what you understand. And if you look back at Avista's testimony, we've talked about the variability in the market that's always made us uncomfortable. We've always been uncomfortable with the exposure to risk, and I think that's a natural position for any utility in front of the Commission asking for cost recovery.

What we're seeing here in the past few years is something, fundamentally, that we just haven't seen before. I mean, the fact that our -- our two big gas-fired plants -- and, actually, I'll call Rathdrum's -- we got three big gas-fired plants, 8- -- maybe 7-, 800 megawatts. Those together used to be worth $10- or $30 million. And that's what they were justified and rate based under their prudency review.

Customers are now getting something that's almost three times the entirety of our net power supply expense.

So we have this variability in the markets because no longer do gas and electricity move together like they have for so, so long. We have an exposure here where we're building in hundreds of -- literally hundreds of millions of dollars in value for customers. Customers benefit tremendously from that. It's a wonderful outcome. But we end up wearing any shortage. And what we're seeing in the marketplace is a clear overestimation of the operating margin on those plants by the time we get into the realtime operations.

At the same time, unfortunately, we can't forward transact and lock in that value for the customer. There just simply is not an electric market -- the forward electric market that's willing to pick up those positions on our gas plants.

So that's really what, to me, is -- I mean, it makes all -- almost makes me think the pleas we've had in previous proceedings were pretty trivial relative to what we're experiencing today. And it's demonstrated by the increase, the massive increase in the value of these thermal plants.

I never would have forecasted you could basically buy a big gas plant with the revenues on our portfolio every year. I mean, it's that big a number that's going into rate base today.

Q You were here for the cross of Mr. Kinney; correct?

A I was, yes.

Q Did you hear my question to him about whether he could think of another case where the Commission allowed a utility to track and defer costs and then pre-embed those costs into rates before the deferral materialized?

A I did hear that question, yes.

Q He couldn't. Can you?

A My vocabulary escapes me, the best way to describe this question. But there's a huge difference between traditional tracking of costs that are based on actual expenses, where we only track costs that -- that go into a bucket to being recovered versus something where, right from the get-go, we're building in costs that -- we don't expect many of those costs to materialize. It's been demonstrated for years that we've not been able to recover what would be the expected value of these gas plants. Huge value. We'll still capture huge -- maybe out of that --

(Reporter requests clarification.)

THE WITNESS: Yes. Yes. Sorry.

So to me, this is a completely different type of a situation. These aren't traditional costs that are measured and the deltas are tracked in -- because, by definition, the pro forma -- the normalization is a forecast. And that's, I think, uniquely different from those other tracking mechanisms.

Q BY ATTY ROBERSON: I guess two things. One, so it's not a "No" that you can't think of another situation like this?

A I can't, no.

Q And then, I guess the follow-up is -- setting aside that question of, you know, pre-embedding the deferral -- actually, I think I have what I need. Let's move on.

Page 33, between lines 7 and 8, which -- if it helps, it's the underlined line. There you testify that, absent some manner of error adjustment, the company's, quote, "set up," end quote, because, quote, "the baseline is skewed against," end quote, it; is that correct?

A Yes. That's substantially what's written there.

Q So on page 38, you testify about the difference between Avista's direct and rebuttal proposals for the forecast error; correct?

A That's not how I would interpret page 38. Is there a question you had?

Q Well, between lines 7 and 11, you talk about the difference between the two; correct?
A Between the -- oh, between the direct and the rebuttal?
Q Yeah.
A Propose -- yes, sir.
Q So the dollar amount on direct was 65.8 million; correct?
A Yes.
Q And on rebuttal, it's 29.7 million?
A That's correct.
Q Subject to check, that's a difference of roughly $36.1 million; correct?
A It's a 55 percent reduction.
Q Should the Commission see the original proposal as skewing the baseline against customers by 55 percent or $36.1 million?
A I actually stand by the $65.8 million. The change was made in response to the various parties and a desire to offer up a methodology that would be based on actual data, actual experienced data through the actual versus authorized. So you end up with a much lower number that's something that, probably at least amongst the parties here, is more defensible and more achievable.
So kind of back to your earlier question, getting something's better than nothing. So getting

45 percent's better than getting zero. So trying to be responsive to the parties' concerns.

I -- earlier in the discussion with Witness Kinney, I think there was -- and I think you had some concerns that we didn't have time to do workshops. So from my perspective, putting zero in is not the right answer. I proposed workshops in rebuttal, which may be able to help us refine the methodology here that we land on. But the 30 million's certainly better than zero, even if it isn't 66 million that I had in my direct.

Q That's all I have. Thank you.

JUDGE THOMPSON: Thank you.

Public Counsel?

CROSS-EXAMINATION

BY ATTY ROBINSON O'NEILL:

Q I'll start right there, Mr. Kalich. Is that your testimony then that, methodologically, the current proposal is unsound?

A Not at all. I would just say it may not reflect all of the risks that the company is facing. It's going to move us in the right direction.

Q You said that the goal of forecasting is to project a reasonable expectation of reality. Do you recall that

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testimony?
A I don't. I'm a little bit embarrassed by the use of the word "reality." But certainly an attempt to get the costs to reflect what the normalized value is expected to be or will be -- expect to happen under normalized condition.
Q You've testified that the major reason that there's a problem in the current market -- or difference in the current market is that we are facing regional scarcity; correct?
A Regional scarcity is one of the facets. There's a number of other ones I could opine on --
Q Why aren't we coming up a variable that links that regional scarcity with its impact on prices? Why are we just adding 65 or 30 million to the baseline?
If the goal is to create a reasonable expectation of reality, and the issue is scarcity is affecting prices, why aren't we talking about how scarcity affects prices?
A I think your outcome's the same. Again, the scarcity, as I expressed earlier, is not created by Avista; and therefore, we have to react to the scarcity and reflect those costs in our base power supply expense.
Q What do you mean, it's not created by Avista? You have plans for creating generation. You're not creating any

this year. That's part of the regional resources; correct?

A But Avista is 1 percent of the Western Interconnect. We're five percent-ish of the Northwest. So even to the best of our ability, I -- it's certainly unreasonable for Avista to build out the capacity needed to support the region's energy and capacity needs. So we have to react. We've done our part, in my view, and we have to react to what the rest of the marketplace has or has not done.

Q Again, then why aren't we talking about a variable that tracks the impact of that regional scarcity on electricity prices?

A I think we are.

Q All right. Let's -- if you could turn to page 36 of your testimony. And I'm going to project this again so that everybody can see it, I hope.

ATTY MEYER: This is on the direct testimony?

ATTY ROBINSON O'NEILL: It is exhibit -- hold on.

ATTY MEYER: This is what you had up earlier; right?

ATTY ROBINSON O'NEILL: Yeah. I put it up a little bit ago. 20X is the exhibit number.

Q BY ATTY ROBINSON O'NEILL: Do you recognize this chart?

A I created it, yes.
Q Is it accurate?
A Yeah.
Q The blue line here represents what you call the cumulative cost share that the customers, I guess, absorb; is that right?
A It's the cost that we spent -- prudently spent -- that ultimately customers paid for, with the red line being the cost that the company absorbed.
Q And the reason why there's an upward trend through 2008 is because Avista was over -- no -- under-recovering and needed to do surcharges?
A That's correct.
Q And in 2009 there's a bit of a flat line, and then it declines. And that's because Avista started over-collecting and having to do refunds?
A So after 17 years with the ERM in place, we've managed to get back to zero, yes.
Q Okay. And that's a little bit odd. So it means that the customers were getting a share of the overage from 2009 to 2020. And that's why their amount is declining?
A That's correct.
Q But what was actually happening in that time period was that Avista was keeping a percentage of the share?

More revenue?
A Well, I view it differently in the sense that Avista had expended tens of millions of dollars of company money for prudently incurred cost that, ultimately, we got to receive back over -- like I said, it took 17 years for us to ultimately write that back to zero.
Q In all times from 2003 to 2023, you'll see that the blue line is above that of Avista?
A Yes.
Q And when there are surcharges, the blue line is rap- -- is vastly above the red line. I mean, in 2009 it's a $20 million difference than currently. In 2003 it's a $40 million difference; correct?
A Those are the values.
Q If the Commission were to adopt your proposal for a portfolio adjustment, these -- blue line would go up, and the red line would go down; correct?
A Only to the extent that that cost exceeded -- exceeded the forecast.
Q So we're talking about a loss to the consumers that would go up as a result of the changes to the ER; correct?
A No. You're saying that the company should eat on absorbed costs that were incurred on the benefit of customers.

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Q In any case, this chart would look different because the blue line would be higher and the red line lower?

A The -- could you restate the question. I'm sorry. I want to make sure I got the line of questioning -- I'm sorry --

Q I will rephrase the question.

A That works.

Q We adopt your proposed forecast adjustment and alteration to the ERM baseline, the blue line is going to get higher, and the red line will get lower?

A No. Actually, that's not at all what would happen. If the forecast adjustment is there, you would see a straight line of zero across it capped out -- it will be closer at zero all the way through. So both parties will be at zero because the cost will be estimated correctly. Customers will pay what -- prudently -- costs are incurred, and the company won't absorb anything.

Q And they would be locked in at the current delta between them?

A Oh, you mean the current delta here on...

Q Yeah.

A So you're implying that the company should -- for those costs the company absorbed, they shouldn't recover those?

Q I'm not implying anything. This is an allocation between two parties of risk. You're saying that that blue line is too low and the red line is too high.
A No. I'm not saying that at all. I'm saying the estimates used --
Q Well, let's --
A -- that went through authorized versus actuals was not set correctly. So we're trying to do a better job of setting actual -- the actuals -- excuse me -- the authorized so that the actual -- the delta between the actuals and the authorized isn't so -- any longer or so large -- either direction.
Q Let's move on.
And were you present for the testimony of Mr. Christie?
A I was, yes.
Q Did you hear that the ERM balance for 2024 is within the dead band?
A I'm not sure if he said that or not. My understanding is the value is 17 million projected through end of the year -- I think one of you all made a comment based on -- through Q2 -- that the current projections will be well through the dead band into the 90/10 sharing.
Q Well, it was actually your second quarter report that said it was going to be within the dead band.

In any case --
A That's changed, yes.
Q -- do you know what 2024 looks like in terms of your implied heat rate -- market heat rate?
A What 2024 -- no, sir. I don't have that data in front of me.
Q There are two variables in an implied market heat rate; correct? There the price of gas and price of electricity. And it's the relationship between the two; correct?
A That's right.
Q Have you done any analysis of how your proposed ERM adjustment would more closely align the projections of your thermal fleet value into the future?
ATTY MEYER: Do you understand the question?
THE WITNESS: I'm just pausing. Could you try it a different way? Let me see if -- I think I understand the question. I want to make sure I understand it.
Q BY ATTY ROBINSON O'NEILL: The main problem that you're having with your future -- with your forecasts is that you value your gas production, the delta, at more than what is actually happening in real life. That is, the price of gas is closer than the price of electricity; right?

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A Yes, sir.
Q That's what's happening?
A (No audible response.)
Q In 2024 that delta is low enough that you're at 17 million or so, right at the dead band levels. In 2023 you were not. There was a huge delta; correct?
A The delta was, I think, 23 million in '23. You might be referring to '22 where it was approaching 50-.
Q Fair. '22, '23 -- high.
Why isn't that coming back to normal? I mean, if there was -- there was a war in Iraq that caused the gas prices to go up; right? I mean, not in Iraq, in Ukraine; correct?
A Yes.
Q Since then -- and we can go through each of the exhibits, but the gas prices in the United States have dropped -- right? -- back towards normal?
A They -- I don't know that I would want to debate whether the gas prices are normal, but they're certainly low.
Q They're under $4 per million --
A Closer to $2 at AECO, yeah.
Q And they're -- we're -- the United States reserves are currently fairly full on natural gas, which is a predictor that prices -- natural gas prices are going

to stay low.
A Right.
Q You don't know what your hydro year is going to be next year, do you?
A We don't have any indication of what hydro will be next year. We're using budgeted normals.
Q So isn't it true that your forecast is going to get better? I mean, for 2024, 2025 when you've got low gas prices?
A I don't think so. I think there's a fundamental misunderstanding of what we're trying to do here, which is reflect a chronic overestimation of that implied market heat rate.

Just for the commissioners, the implied market heat rate is not rocket science. It's the mid-C price divided by the price of natural gas; so it's a fairly simple piece of math. What we see the forward markets -- and I was able to demonstrate it. In my direct testimony, I had data going back to 2011 all the way back. And what we've seen here in the more recent years is -- when you look 14 months forward, you see a premium -- the market just simply isn't willing to transact; so you end up with these large premiums which express themselves through high electricity prices and low natural gas prices.

And what we generally, then, have seen is -- we get closer to delivery -- so next day, even the next month, next hour -- the price of electricity comes down; natural gas stays pretty stable. I mean, it has a downward trajectory. No question. But the magnitude, the issue we're talking about here is -- that value on your gas plants, this huge $300 million value moves down and becomes -- this isn't -- subject to check, but it's an example -- you get $200 million in value.

So the gas price didn't move a lot, but the electricity price -- once everybody's right close to delivery, they know what their resource positions are. They're not as concerned -- they're concerned about the deficits in the marketplace. So they don't want to sell forward; so you have these large premiums.

When you get there, everybody's out rushing to balance because they've been conservative in the forwards because they're concerned about resource adequacy, and so we're stuck taking the --

(Reporter requests clarification.)

THE WITNESS: The natural reaction to that, at least historically, would have been to go out and try to do some hedging -- buy some gas, sell some of that power forward to cover those positions. But there

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just isn't liquidity anymore. We can't lock any of that in, really, anymore.

So we're almost entirely exposed -- and that's really a key issue, a key thing that has changed in the marketplace in the last two or three or four years. We see this great value out there. We build it into rates. And then, we get to the point where we can actually transact it, buy gas and sell electricity, the price of electricity's collapsed on us.

Q BY ATTY ROBINSON O'NEILL: In your testimony have you done a data analysis of the rate of collapse as it approaches the future? Like, does it collapse by a set rate? Does it -- is there a formula or an algorithm that you could write to capture that collapse in this current market of scarcity?

A I didn't do that analysis. All of it was provided to your witness. He could have done those analyses --

Q He didn't -- that analysis in your testimony, and I'm asking if you did it.

A As a work -- no. There was -- there was no look back at that. I mean, there is definitely trending analysis that -- the analysis to show it goes all the way back to 2011, as I said earlier. So the data exists. So if that's what you mean by analysis was done, yes, it was. But --

Q Are there any --

ATTY MEYER: Please allow the witness to finish his response.

Would you direct Counsel to do so.

JUDGE THOMPSON: Yeah. Let's please be sure not to talk over one another. And so, if Public Counsel is asking a question, let's let him finish. And if the witness is providing a response, let's go ahead and hold the next question until that response is finished, please, unless the response is not directive to the question. Thank you.

ATTY MEYER: Thank you.

Q BY ATTY ROBINSON O'NEILL: I've completely lost track of where we were; so I don't know if you were speaking or I was.

A I'll let you speak.

Q Have you looked for variables that track that collapse? Natural gas delta collapse?

A I would say my analysis was more reactionary in the sense that it's quantifying what actually occurred. Company Witness Kinney talked about the fundamentals, and we talk about -- in testimony, we talk about EIM. We talk about resources adequacy. We talk about the shift to renewables. We talk about CCA. We talk about a lot variables.

And I would say, in totality, individual specific correlations -- I don't think a statistician would have success identifying those tight R squares -- again, to use another statistical term. But in totality, when you look at them together, they express themself in a dataset that we've used that I did on direct that showed a rather large number, at least relative to what our rebuttal position was. And they expressed themselves as well through our ERM filings that we based our rebuttal case upon.

Q Where in your testimony did you talk about the R squared value of your forecast versus any variable?

A So I was just using that as an example. I said I don't -- wouldn't expect there to be a strong R square statistic. You were asking if there was an analysis or some type of a -- my words -- an equation or representation or way to express those mathematically. And I was just saying, assuming you were looking for a mathematical representation that could be translated to a power supply expense forecast, that there wouldn't be a way to do it.

Q I mean, to be honest with you, that's kind of what I expected to read in testimony about the change in your forecast. It's not there. This is just a calculation of average error, something I could do, math-wise.

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And does it -- what is the relationship of the ERM in terms of its regression analysis, the average miss, to the implied heat rate -- market heat rate? What's the -- what's the statistical correlation?

A First of all, I don't know what your expectation was coming in or what my testimony would be. My testimony is what it is. But as far as coming up with a mathematical way to do this work to reflect the changes we've seen in the marketplace -- you've probably heard this before: If you could predict prices perfectly, you'd probably be doing something else associated with a beverage and a beach.

So the bottom line is there aren't simple relationships like that. And in absence of that, you look for something that is related to it. And I think it's pretty clear that the differences between our -- the authorized and actuals provide a decent place to land.

Q So your proposal is to take a three-year average. You had three years that are high in terms of the under-forecast of the -- under-forecasted value -- or over-forecasted value -- excuse me -- underachievement of that forecast.

And your proposal averaged that out and added to the next year, 2025, and then shift by one year, add

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the two high years against the current low year, and then add that forward. You're not actually increasing the accuracy in your test- -- your projections; you're decreasing it. What you're doing is taking a high and averaging it out --

ATTY MEYER: Object --

ATTY ROBINSON O'NEILL: I haven't finished my question.

ATTY MEYER: Well, there is no question. That's my objection. It's testifying. If he has a question, put the question to the witness, please.

ATTY ROBINSON O'NEILL: I'll try to restate it again.

JUDGE THOMPSON: Okay. If we can go ahead and restate the question.

Q BY ATTY ROBINSON O'NEILL: All you're doing is shifting these three years into the next year. That's not making it more accurate; that's just shifting the loss.

JUDGE THOMPSON: Can we have a question, please.

ATTY MEYER: Where is the question?

Q BY ATTY ROBINSON O'NEILL: Correct?

A You're asking me if -- if you take a historical period and apply it to a future period, it's...

Q All you're doing is taking the average highs and

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shifting it forward one year to the next year for your baseline forecast. That's what your proposal is. Take a three-year average, add it to the baseline for this year, and presume you'd add it to the baseline for the next year and year after that -- you're just shifting whatever the losses or gains in that year forward a year; correct?

A I think a person could imply that's -- I mean, that's the basic math. The simpleton math is certainly that. But what I view it as is a reflection of conditions we've seen in the marketplace for a number of years and we expect to continue for many years.

And if you look at history of that illustration that you had in the exhibit, it shows this circumstance will carry, whether it's up or down, extend for many years. So I view it quite a bit differently than that.

Q I often aspire to be accused of being a simpleton.

A Oh, sorry. I didn't accuse you of --

Q Simple truths are often very profound. You're averaging losses and gains and asking it to be applied. You're not talking about improving your forecast; correct?

A I believe that using recent historical conditions -- outcomes based on actual conditions will be a better forecasting of the future than ignoring the circumstances of history -- of recent history.

Q Let's talk about -- let's talk about hedging. Normally, hedging is a practice that reduces the impact of volatility. That's the traditional definition; correct?

A Yes.

Q And you claim that there's a decrease in liquidity, particularly in the bilateral market; is that correct?

A For certain products that we need to hedge our gas -- our gas plant portfolio, certainly.

Q What you actually say -- and this is on page 29 of your testimony from 7 to 8.

A Of, again, rebuttal? I think --

Q Yes. I'm sorry. Rebuttal.

CHAIR DANNER: Did you say page 28?

ATTY ROBINSON O'NEILL: 29, lines 7 to 8.

CHAIR DANNER: Thank you.

THE WITNESS: I'm there.

Q BY ATTY ROBINSON O'NEILL: You write, "Premiums in the marketplace for these forward contracts are high, meaning that we cannot transact under favorable terms even when forward market prices show an opportunity."

Did I read that correctly?

A Yes.

Q With increased market volatility, taking a position in

the market with forward contracts subjects the company and any other party in the market to a very high margin call relative to history; is that correct?
A Yes.
Q And it -- these changed conditions related to the high electric prices, that affects all participants?
A It does.
Q That includes Puget Sound Energy, for example?
A Yes.
Q And what was marked as Exhibit 9 -- it's 20- -- it's CGK-27X now -- this is the testimony of Brennan Mueller from April 30th of this year. Did you have a chance to review that?
A I did, yeah.
Q Can you turn to page 12.
ATTY MEYER: I'm sorry. I lost the exhibit reference number. What is that?
ATTY ROBINSON O'NEILL: It was R9, but it's 27X -- CGK-27X.
ATTY MEYER: Thank you.
THE WITNESS: I'm sorry. Did you say page...
Q BY ATTY ROBINSON O'NEILL: I did. Page 12.
A Page 12 of 29? Or 15 of 32 -- I see the exhibit number --
Q Yeah. Let me pull it up so I have it. Hang on a

second.
A Maybe you're referring to Table 2.
THE WITNESS: Sorry. Sorry about...
Q BY ATTY ROBINSON O'NEILL: Yeah. I'm actually page 12 of 29 on the bottom.
A Okay. I'm there.
COMMISSIONER RENDAHL: I'm sorry, Counsel. There's two exhibits included in this, at least that I have. One that's an April 2024, and one's a September 2024. I might have this incorrectly in my book but...
ATTY ROBINSON O'NEILL: I hope you have it incorrectly in your book because I only have the April version.
COMMISSIONER RENDAHL: All right. So let's go with the April version. Thank you.
ATTY ROBINSON O'NEILL: I apologize.
Q BY ATTY ROBINSON O'NEILL: And actually -- and I even got the page number -- page 13 is the page I'm most interested in, lines 1 to 3.
"The 19.7 million net increase relative to rates from the spot market purchases and sales was more than offset by benefits from financial hedge contracts that were 57.9 million higher than forecasted in rates."
Did I read that correctly?

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A Yes.
Q So in 2023 Puget Sound Energy was able to do these financial hedge contracts on their power costs and were -- was able to generate 57.9 million in revenue. I take it that, when you say that it's not possible to hedge, your position will be that PSE's different than Avista?
A I can't purport to say what specific hedges Puget's talking about here. I can only say that we are unable to find counter-parties to hedge the surplus natural gas-fired generation that we have.
Q Have you talked to Puget Sound about how they were able to generate $59.7 million in financial hedge contracts to offset their power costs in 2023?
A I have not. Although I have no reason to believe that it had to do with their gas-fired portfolio. And I don't see any reference to that here.
Q Fair. Could be that's the difference. Is it possible that Puget Sound Energy's hedging professionals are just better than Avista's?
A Puget Sound Energy has a gross deficiency for meeting their peak load obligations and has to buy, out of the power supply market, substantial energy quantities.
Q Do you know whether those financial head contracts were bilateral --

ATTY MEYER: Was the witnessing finished with his last answer?

Q BY ATTY ROBINSON O'NEILL: I'm sorry. I didn't mean to. I thought you were.

A I think you got the cue right. Yes, I was done.

ATTY MEYER: You were done. Thank you.

ATTY ROBINSON O'NEILL: I thought I had a good read there. Now, I've forgotten my question, but it was a good objection. I'll just -- I'll leave it. That's fine. Thank you.

Q BY ATTY ROBINSON O'NEILL: I want to go a little bit over ground that Mr. Roberson covered. So I don't want to repeat it all. Do you remember hearing him asking you about why you picked three years versus five years? Versus ten years? Versus four years?

A You mean in regard to using the historical actuals versus authorized?

Q Mm-hmm.

A We had a, yeah, short conversation there. Sure.

Q Did you run any analysis of whether or not a five-year -- or adjustment that was based on five years, rather, would be more or less predictive of the future volatility in the heat rate -- market heat rate?

A I've done that work after the fact. Again, when the work was originally done, it was more to reflect conditions we're seeing in the marketplace that had changed. So when that occurred, it made sense to go back about three years when we started seeing these major changes. So you can certainly go back and add two more years. The forecast error will go down. Simple math.

But again, trying to reflect the future, not all of the past -- and I guess what that means is -- the more -- most recent couple three years is, in my view, uniquely different than the years prior to that, at least a number of the years. Certainly, if you went back to the early years of the ERM, you'd see some similar type of deltas between the actual and authorized.

Q You...

Page 54 of your testimony.

A I'm there.

Q This is testimony that you gave in response to testimony from public counsel's expert about the EIM benefits?

A Yes.

Q And if you look at line 6, you'll -- you've pointed out, for example, there's only 25 months of actual EIM data to evaluate?

A That's right.

Q Then you go on to say, at the bottom, on line 13 to 15, "One should be cautious when using the short historical dataset, especially when conditions do not reflect median conditions." Did I read that correctly?

A Yes.

Q You stand by that testimony?

A I do. And I think everybody in this room should be cautious when we move away from, say, a 5-year average or a 20-year average. There should be reasoning why you do it. And I think I've explained, as did the Company Witness Kinney, why we chose '18 through 20- -- excuse me, '21, '22, and '23.

Q What I remember is -- the question was -- did you choose the years that had the most loss to the company, and his answer was yes. Is that what you remember?

A His answer was that those happened to be the three years. You didn't ask them if there was a reason that you might not include the other two years.

Q Okay. If -- in the early years, 2003 to 2008, where there were significant under-collections and search options, what was the -- was there volatility in fundamental market changes in that time frame?

A Yeah. During the energy crisis, absolutely.

Q Well, the energy crisis was 2000-ish. That's Enron;

right? 2003 to 2008, was there a fundamental change in market that caused the implied market heat rate to change so that your forecasts were off back then?

A So yeah. This is important. So in that period of time, it wasn't so much that the implied market heat rate was down. What was driving our costs at that time was a collapse in natural gas prices from -- pushing close to $10, working their way down to $2.

So again, we had a completely different market circumstance for that period of roughly a decade. So -- and I think we have testimony explaining, through all of those periods, just a few tens of millions of dollars was the value of our gas leak.

What's happens in the last three years is it's gone up to be 300 million and really reflects -- and that is, to me personally, the crux of this -- of this adjustment -- is the fact that the market conditions really have pivoted in the last three years. And we see no reason that that won't continue until the region can build out capacity for the region.

Q You didn't, in 2008, suggest that we modify your forecasts to better capture the change in natural gas prices, did you?

A There were a number of parties that wanted to do something different. And we recognized that we were overstating the costs in 2017. We did a workshop that ultimately -- we weren't able to come up with a methodology to address the specifics of the drivers of those costs. So --

Q Well, now you're -- sorry. Just to interrupt, you've jumped -- period. So we've got the first period, where there were surcharges. Then there -- the long period where there were refunds. And then now there's a short period of surcharges; right?

A That's right.

Q So I want to talk about that first period where there were surcharges. You didn't -- in 2008 you didn't come in and say, "We need to change the forecast modeling," did you?

A In 2008 -- now you're asking me to go back far enough in time to determine what we were doing at that point. I actually honestly cannot recall and would have to go research that if we had even moved yet to today's methodology, which is to use forwards. I don't think we had. I think we still were putting gas prices into Aurora, pushing the button and generating electricity prices.

Q When did you add forwards?

A I can say with certainty that we added forwards after the power supply methodology process happened but --

and it was, I believe, a couple cycles before -- before that. But I don't know specifically.

Q You settled on three months as an average for those forwards?

A 60 days, which approximates three trading months, yes.

Q There's a difference between forwards and futures --

(Reporter requests clarification.)

Q BY ATTY ROBINSON O'NEILL: There's a difference between forward prices and future price market; correct?

A I don't think in our business there is.

Q Okay. Have you considered altering that forecast -- those forecast price values?

A I think that would be a good thing to consider going forward. We -- in my rebuttal testimony, I talked about some power supply workshops. That may be something we should consider to address that. For example, that implied market heat rate. Maybe it's better to use an historical implied market heat rate anchored off the gas price versus putting gases and electric in. But in the interest of the time we had for this case, there just wasn't time for a workshop.

Q Why not just take the time to get it right, then?

A I think you'd be asking the company to absorb substantial -- potentially tens of millions of dollars in losses. We're making a best effort here to get an estimate that's reasonable that is based on actual historical experience and actual expenditures and actual errors.

Q You know that the -- you know the maximum amount you could lose next year through the dead bands. I mean, that's a knowable quantity. It's not hundreds of millions of dollars. It's a set rate. I mean, you could do the calculations; right?

A So you're suggesting that we just absorb the dead band and the 10 percent as opposed to making any adjustment at all?

(Reporter requests clarification.)

Q BY ATTY ROBINSON O'NEILL: As opposed to the consumers, yes, I am. Why wouldn't we do that?

A Because the cost that we demonstrate in those ERM proceedings are based on prudently incurred costs. They're not errors or choices the company made that were improved. So customers should recover -- should pay for those costs.

Q Customers will pay for the cost. That's what the ERM does. They pay a surcharge; right?

A No, sir.

Q All right. Well, we can disagree. Thank you.

JUDGE THOMPSON: Is that all the questions?

ATTY ROBINSON O'NEILL: Yeah.

JUDGE THOMPSON: Okay.

AWEC?

CROSS-EXAMINATION

BY ATTY MOSER:

Q Good afternoon, Mr. Kalich. How are you?

A I'm well. Good afternoon.

Q Good. I have just a few questions for you, and I'm going to try do it without pointing you to specific exhibits. But if I need to, I can. They're pretty high level.

Would you agree that the forecast error adjustment is a pretty controversial adjustment in this case?

A With -- between AWEC, Staff, and the interveners, yes.

Q Yes. Yes. There's not agreement among the parties?

A Absolutely not.

Q And going back to 2017 -- the 2017 rate case, there was also a lot of consternation among the non-company parties about the way that the company was -- is -- or was forecasting its power cost in that case; correct?

A Yes.

Q And that's what got us into a series of workshops to get to the current methodology today?

A That's correct.

Q Okay. And then the exhibits that we included as cross exhibits provide some updates on how that process went as we moved through it. So there's your direct and rebuttal testimony from the 2019 rate case and then your testimony in the 2020 rate case. And generally speaking, when I reviewed those documents, I took it as -- the company's experience through that process was favorable. Would you agree?

A Absolutely.

Q And so, in this case where we're faced with another significant controversial issue in the company's power cost forecast, wouldn't it be a benefit to work through this issue in a collaborative workshop process?

A And we're offering to do that on rebuttal.

Q Okay. So the company is willing to engage in that process going forward; it's just that you're not willing to remove the request for an adjustment?

A Yeah. We're just -- simply, we need to have better recovery of our costs.

Q Okay. Thank you.

JUDGE THOMPSON: Thank you.

Is there any redirect?

ATTY MEYER: Just a follow-on to that last a couple of -- series of questions on workshops.

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REDIRECT EXAMINATION

BY ATTY MEYER:

Q I think your testimony was fairly clear, as I understood it, Mr. Kalich. But you proposed, as you just mentioned, that the company would willingly participate in workshops to try and get to the bottom of this through that process; correct?

A That's correct.

Q And at best, that would not lead to possible solutions or changes that could be implemented until the next rate filing -- general rate filing; correct?

A Likely, it could. My recollection, subject to check, is -- the workshops proceedings we did last time took a little over two years; so I think we had one rate filing where we essentially just provided an update on the process.

Q So if that is the only approach to take here, just meet and confer rather than -- in a workshop -- rather than address here and now in this case for the next two years of the rate plan, will the company be adversely affected financially?

A That's why we proposed the adjustment that we did here based on the methodology we included. Because we needed to make sure that we could get a better approximation of power supply expense in the interim.

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Q So simply put, why not do both? Is that your position? Recover now --

A I would welcome doing both.

Q Okay. Thank you. That's all I have.

JUDGE THOMPSON: Thank you.

And do we have any questions from the bench?

Okay. You may be dismissed at this time. Thank you for your testimony.

THE WITNESS: Thank you.

JUDGE THOMPSON: Okay. At this time, would the company be willing to call Witness Andrews?

ATTY MEYER: We would be.

JUDGE THOMPSON: Thank you.

ATTY MEYER: Thank you.

JUDGE THOMPSON: And I do not believe we have any cross from the parties for this witness, but I just wanted to double-check if that is still the case. Okay. I'm seeing head nods. Thank you.

MS. ANDREWS: Good afternoon.

JUDGE THOMPSON: Good afternoon.

Are you ready?

MS. ANDREWS: I am.

JUDGE THOMPSON: Okay. If you could please raise your right hand.

(Witness duly sworn.)

JUDGE THOMPSON: Thank you. You may be seated.

Counsel, you may proceed.

ATTY MEYER: Thank you. And her qualifications are attached to her testimony; so she's available for cross-examination.

JUDGE THOMPSON: Thank you. Commissioners, I'll give you just a second.

CHAIR DANNER: Yeah. If you would give me just a second to get my materials here.

All right. Good afternoon. I think I'm ready.

THE WITNESS: Afternoon.

CHAIR DANNER: So my question -- in your rebuttal testimony, which is at EMA-16, at page 18, you respond to AWEC's capital investment testimony addressing the need for flexibility in capital projects and expenditures over the course of a multi-year rate plan and the documentation provided to support the expenditures. And you testified, "The company continues to experience earnings erosion despite implementation of multi-year rate plans," but you don't directly address AWEC's concern related to the inclusion of new business cases at the time of provisional plant review.

Setting aside your argument about flexibility, do you believe the provisional plant review process -- a form of compliance process is appropriate for wholly new projects to be introduced?

THE WITNESS: Good question. I do. And I think that this -- sorry?

JUDGE THOMPSON: If you could please turn on your microphone.

THE WITNESS: Oh. I talk loud enough, I thought it was on.

JUDGE THOMPSON: Thank you. That's just for the folks online. Thank you.

THE WITNESS: Sorry about that. Try that again. Gather my thoughts again.

I do. And I think that the review process contemplates the fact that, when we file -- when we file a rate case -- a two-year rate plan, especially, or any multi-year rate plan with this commission -- we will make assumptions and projections of assumed plan. We obviously built in, in this case, capital investment for Calendar '25 and '26. That is many months from the time we file our rate case, put our materials together, determine the investment that we are going to include in our rate plan. That is many years -- could be 12 months, 24, 36, depending on the year -- that we're trying to make determinations in what our capital investment is going to be in that rate year.

So the provisional capital report, in my opinion, takes into consideration the fact that we have the opportunity to provide what we -- we provide what we can in the case. And in our case, we have thousands of pages of documentation that we've provided to this commission in this case around what we expect our capital investment to be through business cases and materials.

But with the provisional capital report, we have the opportunity to provide what actually happens through this commission. And if we, for example, trade out -- you know, we determine, as we go through the year -- and we look at our capital investment monthly to determine if the levels that we're spending, what we're doing, is appropriate for operations. We may have to shift as things -- as we -- as those -- as we go through the year and we go into the next year.

If we change and add a new business case, for example, then when we provided our capital report -- which we have done now for '22 and '23 -- any new business cases, we provided with that provisional cap report. And I will say that they are typically few and far between. There may be variances between what we thought we were going to spend or the timing of when

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that investment goes in, but there has been a pretty limited number of new business cases that maybe was contemplated here. So at least that's what our experience has been.

So I think there's opportunity -- because there is limited new business cases, there's plenty opportunity for parties to review that information. And it's after the fact. It's actuals, now, that they get to review. And if this commission approves what Staff has proposed, parties will have six months to review that information, which is actually more than they typically do in a rate case.

CHAIR DANNER: But the -- you're saying that -- the information is there for proper prudency review, even though we're constrained to a two-year rate plan, that we're not -- you know, we're not finding ourselves outside of that bounds of that rate plan?

THE WITNESS: Absolutely not. I mean, unless I'm misunderstanding what you're asking me, I feel like we're -- we're providing ample information when we file our case. We determine the level of rate base. The Commission approves the level of rate base that the company then has to come back and prove that that level that you approved actually happened. And if it didn't, then, obviously, it's subject to refund, and so customers are protected. And under this methodology, it also protects the company.

CHAIR DANNER: Okay.

COMMISSIONER RENDAHL: So that's under a portfolio basis review; correct?

THE WITNESS: Yes.

COMMISSIONER RENDAHL: So if the Commission, in our policy statement, had said, "No. We're going to do a project-by-project review," then this would not be the case?

THE WITNESS: It would be -- I think if you did a project-by-project review, which -- I understand that is what AWEC's witness Mr. Mullins is suggesting -- I think that you put -- I think it just puts too much at risk. And it might be different in the days when we were only building in -- you know, we were only allowed to build in capital investment even before any rates went into effect. And we were only dealing typically with one-year rate plans.

When you're talking about multi-year rate plans, it makes it very difficult on the company to assume that, when we put our materials together, let's say -- we finalized numbers in November/December of last year, and we filed our case in January. We're talking about a two-year rate plan with capital investment that's going to occur in '25 and '26.

And so, what you run into is -- the company needs to have the ability to operate its business. And there may be choices that have to be made as we actually get into that two-year rate plan to run our business appropriately. Examples are -- we have a wildfire that comes through, and now we have new capital investment to replace that wildfire. Are we supposed to not do that and stick to the -- what was so scripted? I just think --

COMMISSIONER RENDAHL: I think there's --

THE WITNESS: -- we don't want to be penalized for that. Sorry.

COMMISSIONER RENDAHL: No. I'm sorry to speak over you.

So I think there may be a difference between some of those investments that are essentially -- you know, for years we talked about pole replacement. That's sort of a program -- programmatic level of investment versus -- I'm thinking developing one plant or investment in a specific project and then not doing that and doing an entirely different project, which is different than the programmatic. How do you think that -- how would you speak to that?

THE WITNESS: Well, I think, again, when we're talking about -- you know, here we were -- built up the capital investment. And even though we had an opportunity to update things during the process, at least for the first three off four months of this year, we're still talking about what could happen in '25 and '26.

There is -- I can't think of anything that comes to mind right now because the majority, 80-plus or more percent of the capital investment that we've built into our case, you can see within the testimony is projects or business cases that are kind of ongoing or -- you know what types they are. So there's -- pretty limited amount of new business cases. And I would think that, if we made that choice, there's a good, solid business reason for it.

And when we file our capital report, to describe that -- we should be describing that to you. We should be giving you the business case. We should be explaining why we chose to use that -- to include that project. And, by the way, if something else got moved to the wayside, we explain why that project also got moved and we moved in a different direction. It's just operational. And I can't -- I can't think of an example right now, but I think it's important to have

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that flexibility.

COMMISSIONER RENDAHL: So for the provisional reviews -- and this is still somewhat new for the Commission -- we haven't had any of those contested before the Commission at this point; correct?

THE WITNESS: We have not. Because we've had two reports in front of you, 20- -- our Calendar 2022 and Calendar 2023. It was reviewed, and Staff filed reports with the Commission stating that they had no concerns that we met our obligations or we met -- we -- in both years, I believe our overall net rate base was higher than what the Commission had approved. And so, there wasn't any contested because I don't think there was anything to contest. And the Commission accepted those reports.

COMMISSIONER RENDAHL: So in your rebuttal testimony at page 23, lines 6 through 8, you testified that the company has a long-standing practice of constraining the level of capital investment.

Do you see that?

THE WITNESS: I do.

COMMISSIONER RENDAHL: So, you know, we just talked about those 2022 and 2023 provisional plant reviews. Are you aware that those -- the documents that support those plant reviews reflect that the company exceeded the level of capital investment authorized by the 2022 GRC final order and settlement agreement?

THE WITNESS: I do.

COMMISSIONER RENDAHL: So how does this represent cost control on behalf of company if we approve a rate and then the company comes back in provisional capital and that's a larger amount?

THE WITNESS: Well, again, as I mentioned earlier, we're trying to determine the investments way in advance of when it actually occurs. So I would expect that costs would change. I think we also saw -- it's not surprising to me that our capital investment for even the projects -- even if we had nothing new -- and I don't remember there -- I don't recall there being any real big changes in, like, new investment that -- business cases we had to include that wasn't already included in the case. I think there was maybe one or two, that I recall.

But it's not surprising to me that the cost would be higher because, at the time we filed those business cases and determined what we thought those plant investments were going to be, a lot has changed. We talked about inflationary pressures and cost increases. Those obviously would also have an impact on those investments that we were making in '22, in '23, in '24, from when we first had initial expectations of what those costs would be. That -- obviously, inflationary has kind of hit across the whole utility, including capital investment cost.

COMMISSIONER RENDAHL: So not only are you saying that the company can add additional projects that weren't included, but the company can increase what was already authorized in the case in those provisional plants reviews?

THE WITNESS: Well, what are -- we were tasked to do, of course, was to provide support of what actually happened each of those years compared to what the Commission authorized. And so, we -- I don't believe the door is closed on that if, let's say, we come to find out that whatever happened -- prudently incurred capital investment was significantly higher than what the Commission had approved. We aren't -- we weren't able to defer that or build that into recovery. Of course, any change in investment would just be -- would be a part of our test period in the future case.

I don't know if the doors closed that -- let's say we come to find that we have some large -- maybe a large wildfire or something -- some larger capital investment that occurred that was necessary -- prudent

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incurred. And it was, you know, several million dollars above what the Commission approved on a revenue requirement basis. I'm not even talking on investment. You know, I would hope the doors -- close, that the company might be able to seek recovery of that besides just in the next rate case. Otherwise, it's just regulatory lag that we've experience before but...

COMMISSIONER RENDAHL: So where the company is expending a level of capital supplement that exceeds your projected capital investments that we improved in the general rate case and that the company continues to argue earnings erosion, how does spending in excess of what we agreed to and that we authorized in the rate case and assessed a rate of return based on that -- how does that not contribute to earnings erosion?

THE WITNESS: Well, obviously, if, as we move through time, any of our expected costs -- whether it be capital investment or expenses -- if we spend more than what we anticipate, there's going to be earnings erosion.

The question is -- are the actions that the company made -- were they prudent to make those investments? And I think that what Mr. Christie's testimony showed is that -- one of the things that we're running up against is that we have a level of capital investment that we're doing annually, whether it be 500, 525. We have hundreds of millions of dollars in other projects that our company is saying, "Hey, we need to do these, but we were having to manage what is right for right now in each year," and that changes over time.

And so, you've got a combination of more and more investment that's necessary to run our business, to provide reliable service for our customers. We have costs pressures from inflationary things that's also causing -- those capital investments that we originally thought maybe would cost this are costing more. We have issues, like this says, with project delays or just being able to have -- you know, we contract a lot of some of that work that -- you know, do you have the contracts involved?

I mean, all those things put pressure on the overall cost. It doesn't mean that the company isn't managing its costs or doing the best that it can to keep its costs down for its customers, but it's all those things that kind of fall in the mix that put pressure on those costs.

We're doing the best that we can, and it may likely -- you know, we're trying to keep our costs where -- what we've included in the cases and -- so we

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don't have as much erosion. But I think it's going to be difficult for the company to say, like, for anyone, the -- you know, what you budget and what you expect is that -- exactly what things come to.

I think what you look at is that -- I don't think it was huge increases above what we had built in to the case. But it also was not below; and therefore, there was no need for a determination of refund to customers.

CHAIR DANNER: So how do we keep these situations where the capital investment exceeds the projects costs from -- you say it doesn't happen often; so how do we make this continue to be the exception and not become the norm? I mean, it's -- I'm trying to figure out how to put -- you say, "Oh, we're doing our best to make sure we're controlling costs."

How do we do our best to make sure that you're trying to control costs?

THE WITNESS: Well, you know, it's -- our capital investment, we -- the information that we're providing, we provide in the record we provide through the provisional capital report. It's really no different than previous cases where the prudency of those investments are -- can be looked at and reviewed and -- I'm not really sure what else to say.

I mean -- I mean, commissioner -- or --

commissioner -- excuse me -- Kevin Christie, in his direct testimony, talks -- explains our process, our vetting process of capital. And I -- there is a few people in this room that sit on monthly -- what we call CPG, or capital project committee -- that's not quite right -- but that monthly review our capital to make sure -- are we -- we have all this investment that needs to be done. Are we doing what we should be doing now and as we move forward? And there is a lot of vetting to say, "This project needs to wait. This" -- "now we need" -- you know, "If this project is less, then we're going to" -- you know, "can we use it here where it's needed?"

I mean, there is so much analysis that's done by the company from the top down of trying to determine the right capital investment that should be done in a year. That's why I feel confident and comfortable that what we're including in these cases are prudent and need recovery from this commission in order to manage our business, do the right thing for customers, have a reliable utility.

It's not about spending up to whatever you approve. It's about doing the right thing for the utility, doing the right thing for our customers, and doing what we have to do in order to keep -- you know, keep the utility running where it should be to be reliable.

CHAIR DANNER: Okay. Do you have -- oh, all right.

Thank you very much. All right. That's all I have. Thank you very much.

JUDGE THOMPSON: Thank you. I believe that's all the questions. You may be dismissed.

Okay. At this time, we will take a quick ten-minute recess, and then we plan to go ahead and finish up with Witness Bonfield, if nobody has any objection to that. Surveying the room...

ATTY MEYER: And just in the interest of completeness, we also have Witness Miller who might have just a bit of cross. I don't know. It would be nice just to finish the entire panel of everyone today.

JUDGE THOMPSON: I believe that the cross for Witness Miller originally was from Public Counsel. When I sent out the revised updated cross list, I changed that time estimate in the Public Counsel time column but did not think to change it in the total time estimate. And so, subject -- I'm going to look to my right. Commissioners, do you have any questions for...

CHAIR DANNER: I have no questions for Miller if there's no cross of Miller.

ATTY ROBINSON O'NEILL: I think we'd discussed at the beginning of the hearing -- the company and Public Counsel came to an agreement on the testimony. That's the new exhibit that got filed. But AWEC wanted to ask questions that followed up on those answers.

JUDGE THOMPSON: Okay.

ATTY ROBINSON O'NEILL: It's a fair -- two-page document; so I don't think it's going to be a lot, honestly.

ATTY PEPPLE: I was anticipating 15 minutes or so.

JUDGE THOMPSON: Okay. So then, after a ten-minute break, we'll go ahead and proceed with Witness Miller and then finish up with Witness Bonfield, if that's okay with the court reporter. Is that...

THE REPORTER: (No audible response.)

JUDGE THOMPSON: Okay.

ATTY MEYER: Thank you.

JUDGE THOMPSON: Thank you. We will be off the record, and we will come back at 4:40.

(Break in proceedings at 4:30 p.m.)

JUDGE THOMPSON: Before we swear in Witness Miller, I'm going to turn to Public Counsel for

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a quick housekeeping matter.

ATTY ROBINSON O'NEILL: Thank you, Your Honor. In my opening statement, I referenced from comments that are from the public comment matrix that Public Counsel is in the process of preparing and will be filing in a week's time from now.

I provided to the parties copies of those comments, and I'm going to provided them to the bench as well so that you have them because those -- that exhibit won't be filed for a week. And that's -- and I move for -- I don't know if I can -- if you want, I can move for those to be admitted as an exhibit now and then replaced with the pub- -- the full matrix. That might be most logical thing to do.

JUDGE THOMPSON: Yeah. We'll go ahead and treat it as a motion for leave to file, and that will be granted.

So if you could follow up in writing, perhaps Wednesday after -- or if we get done early tomorrow and you have time, whenever's convenient, and we'll go ahead and expect to see that. But the motion is granted.

ATTY ROBINSON O'NEILL: Thank you.

JUDGE THOMPSON: Okay. Are we ready to turn to Witness Miller? Okay.

If you could please raise your right hand, I'll swear you in.

(Witness duly sworn.)

JUDGE THOMPSON: Thank you. You may be seated.

And, Counsel, you may proceed.

ATTY MEYER: Thank you, Your Honor.

DIRECT EXAMINATION

BY ATTY MEYER:

Q For the record, please state your name, your employer, and your position.

A My name is Joseph Miller. I work for Avista Utilities as senior manager of rates and tariffs.

ATTY MEYER: With all of the exhibit material being entered, the witness is available for cross.

JUDGE THOMPSON: Thank you.

AWEC, you may proceed.

ATTY PEPPLE: Thank you, Your Honor.

CROSS-EXAMINATION

BY ATTY PEPPLE:

Q Good afternoon, Mr. Miller.

A Good afternoon.

Q My questions for you are in response to a

Public Counsel cross exhibit that I believe has been marked JDM-20X. It's a series of cross questions and answers that have been stipulated into the record.

Do you have that?

A Yes.

Q Okay. So in this document, you testify that an equal spread of the rate increase from your initial testimony makes a modest movement toward rate parity on a return ratio basis. Do you recall that?

A I do.

JUDGE THOMPSON: And, Mr. Miller, if you could please speak into the mic. Thank you. And if you could just repeat your answer. Thank you.

THE WITNESS: Yes, I do.

Q BY ATTY PEPPLE: It does not, however, make any movement toward rate parity on a parity ratio basis, though, does it?

A That's correct. On a revenue to --

(Reporter requests clarification.)

ATTY PEPPLE: Did you get that answer?

(Reporter requests clarification.)

Q BY ATTY PEPPLE: Sorry. Could you repeat that answer.

A I said that is correct. It does not make movement on a revenue-to-cost basis.

Q Okay. And can you just explain briefly what the

difference is between parity ratio and return ratio.
A Yeah. So when we talk about a return ratio, it's measuring the rate of return by each schedule. So their relationship, their proportional rate of return to the overall rate of return at present rates as compared to revenue to cost, which is their overall revenue compared to their allocated cost from the cost of service model.
The return ratio ends up being a smaller delta between the ratios; so it's a little bit more -- the ratios involve -- they're directionally the same as the return ratio, but they are more, I guess, diverse. And it's easier to make a little bit of movement in that ratio.
Q Okay. So I guess maybe -- is another way to say it that, with a return ratio, absolute dollar amount of subsidy from one class to another does not change?
A That is correct.
Q Okay. So I guess, if we're interested in moving rate classes closer to unity relative to each other, what we care about is parity ratio, not return ratio; is that right?
A It might be that would be a more accurate ratio to look at. And I think that's acknowledged in the cost of service -- the WAC rules governing the cost of service,

which identifies the revenue-to-cost ratio as the ratio to show amongst the parties.

Q Okay. Thank you.

Now, you also testified in this exhibit that the Commission awarded Avista its -- if the Commission award Avista its full rate increase from its rebuttal testimony and adopted AWEC's rate spread, the result would be a $23 million increase for residential customers above what that class would experience at an equal spread. Do you recall that?

A I do.

Q Okay. And to be clear, that $23 million number is an aggregate number over both years of the rate plan; is that right?

A That's correct.

Q So if we're only looking at the first year of the rate plan, the difference is closer to 9 million. Would you agree with that?

A Subject to check, yes.

Q And in addition, residential customers will see an offsetting reduction when Colstrip rolls out of rates at the end of 2025; is that right?

A Yes. That's correct.

Q And that reduction for residential customers is about 17 million. Would you agree with that?

A Subject to check.
Q Sure. If you could, do you have Exhibit 4 from your -- JDM-4?
A I do.
Q Okay. And then, just looking at the first page there, for Rate Year 2, there's a column that says "Schedule 99, Colstrip rate adjustment." Do you see that?
A Yes, I do.
Q And what's the negative dollar value for residential customers there?
A It is approximately 16.9 million.
Q Okay. And then, for Schedule 25 customers, that number is a little less than 600,000; is that right?
A That's correct.
Q And the allocations of those cost reductions associated with removing Colstrip are not due to how Colstrip has been historically allocated to customers classes, but is instead how the settlement allocated Schedule 29 -- 99 revenues to customer classes; is that right?
A It's my recollection that the Colstrip revenue spread was based on a pro rata allocation of the company's prior rate case spread.
Q So I guess, just to put a finer point on our discussion here -- assuming a two-year rate plan is approved,

Avista is awarded everything it asks for, and the Commission adopts the rate spread from your rebuttal testimony, the incremental impact to residential customers, relative to a uniform increase in the first year, would be about 9 million. And in the second year, the incremental impact would be about 14 million; is that right? Subject to check?

A Yes. To -- subject to check.

Q Okay. And then, at the same time that residential customers see the second-year rate increase, they will also see a $17 million reduction associated with Colstrip; right?

A Yes. That's correct.

Q Okay. So in terms of a build impact, would you agree that, if the Commission ordered a uniform spread of the rate increase, residential customers would actually see a lower than average increase in Year 2?

A Yes. Subject to check.

Q Okay. One other topic you covered in this exhibit is battery storage. You testified that the cost of battery storage is expected to decrease in the future. Do you recall that?

A Yeah. It's per the EIA report that's provided. That report indicated that battery storage --

(Reporter requests clarification.)

THE WITNESS: -- was going to increase.

Q BY ATTY PEPPLE: I'm sorry. Was going to increase? Or decrease?

A Excuse me. Decrease.

Q Okay. Are you familiar with ELCC, or effective load carrying capability?

A I am not.

Q Okay. I thought you might not be. I have an exhibit that I would like to hand out, which is just an excerpt of Avista's integrated resource plan.

ATTY PEPPLE: I have a few copies for the parties if you don't mind me approaching.

JUDGE THOMPSON: Please go ahead and approach.

Q BY ATTY PEPPLE: Okay. Do you have that in front of you?

A I do.

Q Could you turn to the second page where it says "qualifying capacity credit."

ATTY ROBINSON O'NEILL: Can you mark this JDM-21X?

ATTY PEPPLE: Yes. Is that...

Can we mark this exhibit as JDM-21X?

JUDGE THOMPSON: Let's -- let's go ahead and address one other matter really quick.

Does anybody object to this exhibit being admitted?

ATTY MEYER: Avista does not.

JUDGE THOMPSON: Okay. I am seeing no objection; so we will go ahead and admit this exhibit as JDM-21X.

(Exhibit JDM-21X admitted.)

ATTY ROBINSON O'NEILL: Your Honor, if I may, I just want to reserve the right to -- if I -- I have to review it. I may want to put the entire IRP in just for completeness. But for now, I don't have an objection.

ATTY MEYER: I understand. I'll have to go back, but I believe the entire IRP is already in. I don't object to this as just being an excerpt from that because it sort of concentrates the focus for this cross. So I think we're already there.

ATTY ROBINSON O'NEILL: Okay.

I will accept Mr. Meyer's representation. But if, for whatever reason, that's not true, I may file a subsequent written motion. But for now, I have no objection.

JUDGE THOMPSON: Okay. Thank you.

ATTY MEYER: JK2, if that helps.

JUDGE THOMPSON: JK2. Okay.

Counsel, you may proceed with questioning.

ATTY PEPPLE: Okay. Thank you.

Q BY ATTY PEPPLE: So if you look at qualifying capacity credit, here they're talking about QCC, which is the qualifying capacity credit under the Western Resource Adequacy Program. And they equate it to ELCC, which is effective load carrying capability.

Do you see that discussion there?

A I do.

Q Okay. And I'll represent to you that ELCC generally describes a resource's ability to contribute to a utility's capacity need.

And so, if you look at the bottom of this page going onto this next page, it says that "Avista expects the WRAP will lower QCC values over time as more variable energy resources and storage are added to the system."

And then if you look at the graph, it shows the QCC estimate for wind, solar, six-hour storage, and 12-hour storage. Do you see that?

A I do.

Q And you see how as more -- more storage is added to the system, the lower the QCC or the ELCC value is? Do you agree with that?

A I -- I see that.

Q So, in other words, while storage may get cheaper over time, in order to meet Avista's capacity needs, at least according to this forecast, Avista will also have to purchase more storage resources.

Would you agree with that?

A Yes, I'd agree with that.

Q Okay. That's it. Thank you.

JUDGE THOMPSON: Thank you.

Mr. Meyer, do you have any redirect?

ATTY MEYER: I do not.

JUDGE THOMPSON: Okay. And do we have any questions from the bench?

Okay. Thank you for your testimony. You may be dismissed at this time.

ATTY MEYER: While the next witness, Mr. Bonfield, is taking the stand, just a word about my process for tomorrow.

I had limited cross planned for two of the Staff witnesses. I -- rather than have them fret overnight about whether it'll be crossed or crossed about what, I'm telling you now, I don't have any cross for them. So that's -- I think that should help. That would be Betty and --

JUDGE THOMPSON: Okay. Thank you.

(Reporter requests clarification.)

ATTY MEYER: Yeah. Two the witnesses are Sofya and Betty Erdahl. I had 15 minutes a piece set aside. I will not be using that tomorrow.

JUDGE THOMPSON: Okay. Thank you for that. And I believe the commissioners may have questions for one or both of those witnesses, and so we ask that they still be available. But I do appreciate that; so thank you very much.

Mr. Bonfield, if you could please raise your right hand, I'll swear you in.

(Witness duly sworn.)

JUDGE THOMPSON: Thank you. You may be seated.

And, Counsel, you may proceed.

ATTY MEYER: Thank you.

DIRECT EXAMINATION

BY ATTY MEYER:

Q For the record, your employer, your name, your position, please.

A Good evening. Shawn Bonfield, Avista Utilities, senior manager of regulatory policy and strategy.

ATTY MEYER: And before we proceed with further cross, may I, with your permission, just ask a few questions that were deferred to him by Company

Witness Christie having to do with CEIP costs? I believe he suggested that Mr. Bonfield might be better.

JUDGE THOMPSON: Yes. You may proceed with those questions.

ATTY MEYER: All right. Thank you.

Q BY ATTY MEYER: Do you recall, Mr. Bonfield, the exchange where Mr. Christie was asked about whether there were CEIP costs during this rate period and he deferred that to you; so what is your response?

A Yes. I do recall that. In terms of our CEIP deferral that was approved by the Commission, it was originally approved in 2022, and it was modified earlier this year. What was originally approved is that we would be able to defer two pieces. One was related to what we call our Named Communities Investment Fund. And the other was related to incremental cost to implement our CEIP.

For the Named Communities Investment Fund, there was no end date prescribed for when that deferral would end or when we were allowed to stop deferring costs. For the other implemental cost to implement the CEIP, the first order allowed us to defer those costs up until the rate effective period of this current rate case, December 21st, 2024.

At the time of filing this case, we didn't have

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material balances deferred for those other incremental costs, and so we did not include them in this case. Earlier this year, we filed an amended petition seeking the approval to continue to defer those incremental costs for the end of the CEIP period or the end of 2025. And then, the Named Community Investment Fund portion would also continue on as previously approved.

The Commission, by way of Order 02, approved that in -- I think it was the July time frame. So we are continuing to defer those incremental costs. We have a pending tariff filing in front of the Commission as we speak where we're seeking to recover $1.9 million for the time period of June 2024. $1.1 million of that is the incremental cost to implement our CEIP, really related to conditions that were approved by the Commission. Much of those costs are one-time in nature. There are some labor costs, but others are one-time in nature, such as consulting fees for a distributing energy resources study, and so we don't expect most of those costs to continue on.

The remainder of what has been deferred to date is for that Named Communities Investment Fund. And with the approval to continue to defer through the end of the CEIP period, our plan is to use the tariff rider mechanism to recover those costs through the deferral.

So there are no costs -- what I would call material costs that were happening during the course of this upcoming rate plan, if approved by the Commission, and there are no resource additions that we're seeking to defer within that approved deferral mechanism.

Q So what, if anything, does that have to say about whether the Commission should approve a one- or two-year rate plan based on synchronizing with CEIP?

A In my opinion, it has no bearing on the decision of the one- or two-year rate plan. They're completely separate from one another. As I mentioned, those incremental costs to implement the CEIP were -- many of them are one-time in nature. There were a limited amount that were ongoing. But they weren't for resources -- resource additions, which are obviously much larger in scale. So I don't see that they're related to each other. And rather, I would say they're mutually exclusive -- that the rate plan proposed in this case isn't reflective or shouldn't be held up because of the small amount of costs we're deferring to implement a CEIP.

Q Thank you.

ATTY MEYER: And now he's available for other cross-examination.

JUDGE THOMPSON: Thank you.

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Public Counsel, I believe you've indicated cross.

CROSS-EXAMINATION

BY ATTY ROBINSON O'NEILL:

Q Good afternoon, Mr. Bonfield. Can you confirm that Avista is committed to considering equity and equity impact in its rate cases?

A We are committed to that, yes.

Q You're aware that the Commission defined energy justice -- and I'm going to quote here -- "focuses on ensuring that individuals have access to energy that is affordable, safe, and sustainable and affords them an ability to sustain a decent lifestyle." And that comes from your last rate case, final order 1040, paragraph 106.

A I do recall that.

Q And you've testified in this matter on your rebuttal testimony -- on page 8, if you want to refer to it -- that the Commission should continue to consider affordability in its decision-making?

A That's correct.

Q Have you reviewed the testimony of TEP Witness Colton?

A Yes, I have.

Q And if you turn to page 3 of your -- I'm sorry -- rebuttal testimony -- that's wrong page. Hang on a second while I get the right page number.

I apologize for the delay.

Okay. It's page 4. The -- line 1 to line 3, you testified, "Per my direct testimony in this case, one of Avista's primary avenues for addressing affordability is through its low-income rate assistance program, LIRAP"; is that correct?

A That's correct.

Q You do not, in your testimony -- rebuttal testimony -- offer any alternative analyses to what Mr. Colton did, do you?

A I do not specifically provide responsive analysis to the work that he had done. What I do is reference many of the mechanisms and reporting that we have in place to major affordability, I would say, through performance-based rate-making mechanisms, the multi-year rate plan, reporting mechanisms required by the Commission, through previous low-income needs assessments and other metrics, I reference what we are providing, and that speaks to affordability.

Q Mr. Colton used some of those metrics to examine the 248,000 households in your service area and performed analyses of the rate impacts or the energy burden impacts of this rate increase; correct?

A That's my understanding, yes.

Q Do you have any reason to doubt his number about the 248,000 households in your service area?

A I do. According to our analysis, we have 302,000 households that we serve in Washington state.

Q Okay. But you didn't provide that in your rebuttal testimony or any analysis -- or redo his analysis of the impact of rate increases on affordability?

A No. We did not have time to redo his work.

Q Okay. Let's talk then about LIRAP. In your initial testimony on page 19, line 6...

A I'm there.

Q You testified that the LIRAP program -- the total energy assistance saturation rate was up to 24 percent on December 31st, 2023; is that correct?

A That's correct.

Q And I think that means that, as of December of 2023, you were reaching 24 percent of the 129,266 eligible residential ratepayers that you were aware of in 2023?

A At that point in time, that's correct. The data has changed, both in terms of the number of eligible households as well as the saturation rate as of today.

Q And it's now 141,000?

A That's correct. Eligible low-income households as determined by 80 percent of area meeting income of 200 percent of federal poverty level.

Q If you turn to Table 2 in your original testimony -- that's on page 19...
A Okay.
Q You will -- you'll see on Table 2 that the total distributed through -- from October through December of 2023 was $4.5 million; is that correct?
A That's correct.
Q For a three-month period, if you were to annualize it to a year, that would be about $18 million?
A That is not accurate. You can't annualize those numbers. We implemented our bill discount program on October 1 of 2023. So to use the first, essentially, four months and extrapolate that out further, I don't believe would be accurate in terms of the saturation and increase we've seen since we've started that program.

Through the month of August, for example, we have now provided just under $27 million worth of assistance through the LIRAP program.
Q Through August of this year?
A Through August of this year. There's one month remaining in the program year, which -- today's the last day of that program on I don't have data for.
Q So that would be the total program year, roughly?
A Through the end of September it would make it...

(Reporter requests clarification.)

THE WITNESS: Sorry.

For the first 11 months of the program year, we provided nearly $27 million in direct assistance to our customers.

Q BY ATTY ROBINSON O'NEILL: If you turn to page 25 of your original testimony...

A Okay.

Q Line 11 to 12, you indicate that the current total LIRAP funding is approximately 22 million per year?

A Again, yes. That's what we indicated. At the time of filing, that was the funding that was being collected to support the program.

Q Okay.

A Much has changed since the time of preparing my direct testimony.

Q So we should substitute in 27 for that 22 million? Or a little bit more than 20?

A It's all -- point in time. It changes every day. So if you were to ask me yesterday how much we provided, it would be different than tomorrow. So it depends on the time frame in which you're looking for.

Q What is your current saturation rate?

A As of the end of August, we are at approximately 37 percent saturation rate.

Q If you will look at your rebuttal testimony, page 7...
A I'm there.
Q You write -- this is as of July of this year -- "the saturation rate through July was 29 percent."
A That's correct. And now, one month later, we're about 37 percent, which shows the tremendous growth we're experiencing month to month, the amount of customers we're reaching.
Q What is your current projection for your saturation rate in 2025?
A First, we'll start in 2024. Based on when we're at today at roughly 37 percent, it's likely that we will achieve 40 percent or even slightly higher by the end of this calendar year. For the budget that we've prepared for the 2024-2025 program year, which extends from October 1st of this year through September 30th of 2025, we based our budget forecast on serving 51 percent of the eligible population.
Q What was marked as cross Exhibit 2 -- it's now SJB-10X...
A I have it.
Q This is the tariff filing -- make sure I have it here as well -- for electric customers.
A Again, I was slightly off from that cross exhibit. I said 51. It's actually a projection of 53 percent

saturation level -- is what this budget is based off of. And I will say that the number of customers referenced at 51,071 is incorrect. The number should be 75,187. And that's on page 13 --
Q 13.
A -- of 16, last paragraph.
COMMISSIONER RENDAHL: Could you repeat that number.
THE WITNESS: Yes. So page 13 of 16, the 53 percent saturation rate equates to 75,187 customers.
Q BY ATTY ROBINSON O'NEILL: Okay. So if you turn to page 13 of the document -- 13 of 16 on the bottom.
A Yep.
Q So it says there, for the 2004-2005 program year, Avista now estimates that approximately 141,863 customers would potentially qualify for its LIRAP. This nearly 10 percent increase in potentially eligible customers coupled with anticipated increase in saturation of 53 percent. And then there in parentheses it's 51,071. That needs to be corrected?
A Yes. That's the number that I reference that should be updated to 75,187.
Q Are there any -- in terms of the projected budget, is there an error in the projected budget for the difference?

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A There is not. The budget was accurate. It was -- the 51,071 was just pulled from an incorrect cell of the correct work paper that supported this filing. So it was simply just a translation error of pulling the wrong cell value.

Q So the total of LIRAP was 27,770,000?

A For electric only.

Q And then, how much for electric?

A For the gas portion -- the direct -- the total direct service budget was 35.8 million. So the difference between 27.8 and 35.8, roughly 8 million for gas.

Q And that's the 50 --

A 53 --

Q -- saturation, yes.

(Reporter requests clarification.)

ATTY ROBINSON O'NEILL: I apologize.

Q BY ATTY ROBINSON O'NEILL: How much -- if we were to project that, then, for reaching all of the customers that potentially qualify, do you know what that amount would be?

A For 100 percent saturation level, I don't know that number. What I do know is that, you know, as I mentioned, today is the last day of the program year implementing the full discount. It's been tremendously successful in helping make energy service affordable for those that are eligible and participating, but the program will inevitably change.

We have just started post-enrollment income verification, and so that process will lead to, potentially, changes in the amount of discount that customers are receiving. And so, we have -- still have a lot to learn and a lot to access about the success of the program. So it's hard to project what 100 percent saturation level may look like in the future. Where we are constrained is -- it's discussed within this filing is -- there's a 5 percent cap on what we're essentially allowed to provide in direct service funding to support this program and bill discount.

And so, that 5 percent, as we discussed within this filing, we're already brushing up against that cap.

Q Do you track your penetration rates at various income levels?

A I am not aware that we are currently tracking the participation rate by income level. We know the discount that a customer receives is based on income and household size. So I do believe that information is likely available. But again, we have not come up with our -- the reporting that we will provide on this program in collaboration with our Energy Assistance

Advisory Group. That work is ongoing for how we will assess the bill discount, including factors as -- what you just mentioned in terms of income level and who's participating.
Q Your bill discount program is tiered; is that correct?
A That's correct.
Q The people at the lowest receive the biggest discount; the people at the top receive the smallest discount?
A Yes. Correct.
Q Do you know the penetration rate of people who qualify for the lowest level -- or not the most amount of assistance the --
A Zero percent income receive a 94 percent discount. I don't know the saturation level for the customers within that category.
Q How about at the top? Do you know the saturation rate?
A I don't know the saturation rates -- saturation rates at each individual level.
Q Are you aware roughly of what the federal poverty level is currently for individuals in 2024?
A I've seen the table of FPL, but I cannot recall it, off the top of my head. I know it depends on household size and whatnot.
Q For an individual, that would be about $15,000. Does that sound about right?

A I would agree, subject to check.
Q And for a family of four, it's $31,000.
A Subject to check. I will take your word for it.
Q Let's look at what was marked as -9X. This is your monthly update from August.
A Okay.
Q And this includes both -- all of your jurisdiction; so it's not just Washington. So if you turn to page 10, that's where Washington starts. And if you look at page 11, that's your "My Energy Discount" --
A Yes.
Q -- where you identify 41,000 participants?
A Yes.
Q Is this accurate as of August of 2024?
A No. As I mentioned, this was through month end July of 2024. As of the end of August in 2024, the number of active participants has increased from 40,000 -- 41,110 to 50,931 -- significance increase in the month of July for those customers participating.
Q Do you have in front of you a document that you're referring to? Otherwise, your facility with numbers is pretty spectacular. Would you object to making that exhibit -- that an exhibit?

ATTY ROBINSON O'NEILL: We can call it SJB-9XA, I suppose?

ATTY MEYER: Be more specific, just so I'm clear on what you propose.

ATTY ROBINSON O'NEILL: He's referring to a document. I don't know what it is.

THE WITNESS: It's the same report that you've included as Cross Exhibit 9X but updated through the month of July. It's the next monthly report.

ATTY ROBINSON O'NEILL: Okay. I'd like to mark that exhibit.

ATTY MEYER: And we would have no objection, Tad.

ATTY ROBINSON O'NEILL: Okay. And so, we'll figure out how to get copies distributed.

JUDGE THOMPSON: Okay. And does any other party have an objection to that? Okay.

We will go ahead and admit that and update. What would the number of that exhibit -- are we going to replace 9X? Or are we going to --

ATTY ROBINSON O'NEILL: I was just -- we can make it another -- we can make it 12X, if we want. I was going to say 9XA because it's an updated version; so...

JUDGE THOMPSON: Okay. Thank you.

ATTY ROBINSON O'NEILL: Which do you want me to do?

JUDGE THOMPSON: Could we have copies of that tomorrow? Would that be possible?

THE WITNESS: Yes.

ATTY MEYER: Yes.

JUDGE THOMPSON: Okay. Thank you. And that will be admitted.

COMMISSIONER RENDAHL: 12X.

ATTY ROBINSON O'NEILL: 12 -- 12X.

(Exhibit SJB-12X admitted.)

Q BY ATTY ROBINSON O'NEILL: And I don't have 12X in front of me; so I'm going to ask you questions about 9X, which is the older version.

A It is an identical report just --

Q Different.

A -- so...

Q If you look at the My Energy Discount, the 91 -- 94 percent and 74 percent, kind of teal and orange...

A Yes.

Q Both of those are below 5,000?

A I see that.

Q With that combined, I think they add up to 5,000.

Did you look at Mr. Colton's numbers about how many households are below that number, 5,000 -- or below 50 percent of the poverty line?

A I did review his testimony, but I don't recall those numbers specifically.

Q Do you know what percentage of penetration that would suggest?

A I do not know that.

Q On the next page, you've got a year-to-date 2024, and then you've got billed accounts, 310,703. Why is that such a big number in comparison to the 40,000 participants?

COMMISSIONER RENDAHL: Counsel, what page are we on?

ATTY ROBINSON O'NEILL: Page 12 of exhibit 9X -- SJB-9X.

THE WITNESS: I don't manage the day-to-day aspects and didn't perform this analysis myself, and so I don't know the answer to that question.

Q BY ATTY ROBINSON O'NEILL: Okay.

Mr. Colton testified about the impact that inflation has on lower income households and that it is different than higher income households. Do you remember that testimony?

A Vaguely, yes.

Q Did you do any analysis of the way inflation affects lower income households?

A I did not.

Q Did you do any analysis of the way inflation is different for lower income households that have higher proportion of rent, higher proportion of food expenses, higher proportion of energy burden, for example?

A No, we did not.

Q Would you disagree with Mr. Colton if he testifies that low-income customers have less ability to adapt to rate increases?

A I would disagree in the fact that he did not consider the effects of our LIRAP program in his analysis. In fact, he didn't mention our LIRAP program whatsoever or bill discount in the work he did. And so, I would disagree in the fact of -- that statement. Because the intention of the bill discount and LIRAP was to make energy service available, and it's doing just that.

Q For the 53,000 -- or 53 percent that you currently reach?

A And growing.

Q That means that there's 47 percent who don't have that benefit at all; correct?

A As of today, but we hope that we will find those customers and get them connected to that benefit.

Q Until you hit the 5 percent cap?

A We may hit the 5 percent cap and redesign the program or adjust the discount amount so that any eligible customer continue to participate while operating within that budget, which is why it's an adaptive management of the program to review and modify as needed in collaboration with those on an advisory -- including Public Counsel.

Q That sounds like a lot of words where you're going to have to lower the number of people that you can help.

A We will not lower the number of people we can help. We will continue to help all that seek assistance. We will design the program in a way so that all customers that want to participate can participate.

Q Mr. Colton also did analysis of renters in your service area. Did you read that as well?

A Again, I read his testimony. I don't recall all of the work that he did in testimony.

Q Do you have any alternative testimony to offer about the impact of rate increases on renters?

A I do not.

Q Do you have the capacity to model the impact of these various percentage increases in rates and how they're -- how they would impact the various classes of your -- in your bill discount program?

A Possibly, but I am not the expert on the data analysis that we're able to perform to say yes or no to that question.

Q And then, the last -- in your testimony, do you discuss the steps that -- that families have to take to manage their own -- or their energy bills, even with the discount program?

A I do not address that.

Q That's all the questions I have. Thank you.

JUDGE THOMPSON: Thank you.

The Energy Project, you've been waiting patiently all day. You may proceed with cross.

ATTY ZAKAI: Thank you, Your Honor.

CROSS-EXAMINATION

BY ATTY ZAKAI:

Q Good afternoon, Mr. Bonfield.

A Good afternoon.

Q I just have one line of questions for you.

You mentioned in your prior exchange with Public Counsel you speculated a bit about, you know, what actions you might take if the -- what actions you might take in response to the costs of these programs hitting the 5 percent arc specified in what we commonly refer to as SB 5295; correct?

A That's correct.

Q Have you discussed with the low income advisory group or other parties -- their interpretation of SB 290 -- 5295 and if they agree with the company's

interpretation of that?
A I appreciate the question. And we realize that we were approaching the cap for direct service days before we made the filing in front of the Commission. We have raised the issue with our Energy Assistance Advisory Group with -- many of these parties sitting at these tables are a part of and are partners there, which we are grateful for.
And it's a question that is open and we're seeking guidance on. We would like to hear from our advisory group members what their opinions are of that. I think we're looking to the Commission as well to say, how should this cap be applied? Is it a strict 5 percent? And if it is, we have some decisions to make as an advisory group for where to go.
If it's something different than that, I think we'd like to know that because that informs those discussions as well. And I think you all are a part of those discussions. And yes, we'd love to hear the opinions of The Energy Project and Staff and Public Counsel as well.
Q Thanks. And so, it's fair to say that those conversations haven't occurred in full yet?
A That is correct.
Q Thank you. No further questions, Your Honor.

JUDGE THOMPSON: Thank you. And Sierra Club, are you still online?

ATTY SMITH: Yeah. Sierra Club is still online. Thank you very much.

CROSS-EXAMINATION

BY ATTY SMITH:

Q Good afternoon, Mr. Bonfield.

A Good afternoon.

Q I have a couple of -- I have a couple of questions about the company's approach to complying with Washington's Climate Commitment Act. And my questions refer to rebuttal testimony on pages 50 to 55.

Do you still have that before you?

A Yes, I do.

Q On page 50 of your rebuttal, you stated that the CCA does not, in fact, require a reduction of natural gas usage or reduction of actual emissions from the -- from natural gas utilities. Is that accurate?

A Yes.

Q That's on page 50.

A Yes. That is accurate.

Q But the CCA says "a statewide cap on covered greenhouse gas emissions"; is that correct?

A It is a statewide cap. It is not a cap on individual

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emitters. And so, there are multiple ways to comply. You can either reduce your emissions, or there's a cap invest or cap-and-trade-based programs, and we can purchase allowances to offset our emissions. So while the statewide cap may go down over time, there is not a specific requirement that any emitter -- individual emitter must reduce their emissions.

Q But as you just stated, the emissions cap does decrease over time. Do you agree with that?

A Yes. For the state as a whole.

Q And according to the act, by 2050, the statewide emissions cap will be reduced to a level 95 percent below the 1999 -- 1990 emissions level. Accurate?

A That is correct.

Q Do you agree that there are multiple covered entities whose emissions all count towards the statewide -- statewide cap that you just mentioned?

A Yes. The CCA covers the majority of sectors within the state.

Q And given all those sectors, all those covered entities under the act, all of those entities will need to purchase allowances to cover their emissions in each year as well; right?

A Those will be the options before them. They can either reduce their emissions or purchase allowances. I would say it's still unclear what will happen if the State of Washington links with Quebec and California. That expands the market of availability for allowances. There's also secondary markets.

And it's also price dependent on what is the most cost-effective, lowest reasonable cost to comply with the act while serving our customers as well as -- the other industries will probably do the same. And so, it may be a lot, buying allowances today, but in the future, it may be alternative fuels or something different. So there are a lot that could occur between now and 2050 for how emitters comply with the act and the declining statewide cap.

Q Thank you. I'm just going with what we know now. And is it true that, if a covered entity cannot purchase enough allowances to cover its emission, it could be subject to penalty under the CCA?

A That is my understanding.

Q And if a covered entity reduces its emissions, it will have to purchase fewer allowances to meet CCA obligations. That's kind of what we talked about; correct?

A If reducing the emissions is more cost effective than purchasing an allowance, then yes, that's likely what an emitter may do, resulting in the need to buy

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additional allowances.

Q But if all of the covered entities continue emitting at or near current levels and comply with the CCA only by purchasing allowances, then as the statewide emissions cap decreases, statewide emissions will exceed the cap at some point; isn't that correct?

A That could be possible. I'm not an expert on all of the details related to the Climate Commitment Act as well as the potential linkage with other markets as well as the secondary market for the ability to buy allowances.

Based on my understanding, there are enough allowances today and in the near term or midterm, if you would call it, for entities to buy the allowances they need to meet their compliance obligation.

Q But setting aside any idea that we may partner with another nation or another entity, I'm just focusing on -- this is a state law. I'm focusing on what that CCA reads today. And given what we just talked about, is it truly accurate to say that the CCA will not require a reduction of natural gas usage or a reduction of actual emissions from natural gas utilities, at least at some point?

A The law does not require that. That may be an outcome, but the law does not specifically require a reduction of emissions from a natural gas utility or emitter.

Q Thank you Mr. Bonfield. I don't have any further questions.

JUDGE THOMPSON: Thank you.

Does the company have any redirect?

ATTY MEYER: We do not.

JUDGE THOMPSON: Okay. Thank you. Commissioners, do you have any questions?

CHAIR DANNER: All right. Thank you.

Good afternoon.

THE WITNESS: Good evening.

CHAIR DANNER: Still afternoon. Still afternoon. If we get into the evening, I would blame Mr. Meyer for wanting to have a long lunch.

Thank you. All right. So throughout the testimony of both TEP and NWEC, both refer to the energy burden analysis, or the EBA, and a low-income needs assessment. Witnesses for both -- and witness for both reference different years for the most recent LINA.

What do you see is the difference between the EBA and the LINA? That is, the difference between the energy burden analysis and the low-income needs assessment?

THE WITNESS: Sure. The low-income needs

assessment -- the last one we performed -- I have the date here. I believe it was in '21-'22 time frame. So it looks at the service territory to identify the number of low-income customers that we serve as well as -- it went beyond that, and it also looked at the number of customers that had a high energy burden, the energy burden as a whole for all of our customers, and the amount of assistance that would be needed to reduce the high energy burden to a level that was acceptable by industry standard, 6 percent or 3 percent depending on fuel type.

And so, it's a point-in-time data to look at more than just eligible population, but also the effectiveness of the programs that are in place to serve those customers. So it also includes demographics and what you're doing to reach those customers.

And energy burden assessment is more looking at, on a more regular basis, what is the energy burden of our customers, which is the total energy bill divided by a customer's income -- or we use averages for the most part. And so, it's a more granular metric to track over time, simply how -- the effectiveness of your programs each year -- is what I would say, which -- we're providing those metrics already through our performance-based rate-making metrics of -- that began in 2022 -- of what the energy burden is of our customers that we serve.

CHAIR DANNER: When did you complete your last EBA? And when did you complete your last LINA?

THE WITNESS: Give me one second here. Our last low-income needs assessment was completed in 2021. I would say, what we would classify as our energy burden assessment -- or the metrics that we calculate to look at energy burden -- it's provided on an annual basis, with the most recent year being calendar year 2023. We provided that as part of our performance-based rate-making metrics. And it's also part of our clean energy implementation plan customer benefit indicators.

CHAIR DANNER: And do you see the way you're using these reports to be consistent with the way the advocacy --

(Reporter requests clarification.)

CHAIR DANNER: Thank you.

So basically, the question I had was -- is it your understanding that you're using these reports the same way the advocates are?

THE WITNESS: I do believe we're using them the same way. I think there is a request for a refinement and to understand the methodologies and calculations in turning -- including the income and inputs that go into those analyses. So we're using them in the same format. There is -- there was some confusion over the terminology "low-income needs assessment" and "energy burden assessment." But in reality, I think where we're all headed is the same direction.

Does there need to be continued refinement working with our advisory groups on the metrics that are provided to understand them and monitor them? Yes. We should continue to do that, and we plan to with our advisory groups.

CHAIR DANNER: Okay. Thank you for that.

I wanted to ask you another question about the language access plans. In your rebuttal testimony on page 33, you discuss the -- your company's collaboration with the three advisory groups related to work on a multi-language strategy -- and the CEIP -- of a participation plan. Do you recall it?

THE WITNESS: I do recall it, yeah.

CHAIR DANNER: You note that Avista consults with these groups on an annual basis. And since its work began, and it was in August 2023, how many times has Avista consulted with each of the advisory groups on the language strategy?

THE WITNESS: We have monthly meetings with our equity advisory group, and we have quarterly meetings or sometimes every other month with our Energy Assistance Advisory Group. Language access isn't always a topic at the monthly meetings, but it has been talked about multiple times.

As I mentioned in the rebuttal testimony, we also have our public participation plan, which -- yes, it's required as part of your CEIP, but it's actually much broader than that. It speaks to helping our communication outreach and engagement strategy with our customers for our program participation to the CEIP itself. And so, that's a docket -- document that we talk to our advisory group about before it's filed. It's coming up again. We have a timeline we're working on to do that work for May 1st of 2025, which involves input from our advisory group. So...

CHAIR DANNER: So is it your view you're coordinating -- you think you're coordinating often enough? You don't need to increase it? Or...

THE WITNESS: I do believe so. And I think what had -- pointed out in testimony -- is that I don't know that all the parties are aware of all the activities we've undertaken. We've included some of those here, including the translation of our website to Spanish, our PSPS map into Spanish. We're looking at our IVR into Spanish. We do much more communications.

And so, I don't know that all the parties were aware of all the activities that have been undertaken. I do believe we have the right groups in place to continue these conversations, and we're committed to doing that. I don't know that we need a directive to do more. We understand the expectations around the CEIP and collaborating with our advisors, which we've done for a lengthy period of time. And we have very successful advisory groups, in my opinion, in terms of how we work together. So I think the mechanics are all there. I know it's a continued discussion. I believe we have what's in place, what is needed to continue those discussions.

CHAIR DANNER: Okay. And you mentioned Spanish. And, I mean, what is going on with regard to other languages besides Spanish?

THE WITNESS: I appreciate the question. And so, if you look at page 31 of my rebuttal testimony, lines 11 through 19, really, 97.9 percent of our customers speak English. And so, those that don't, it's 2.1 percent. And you can see the demographic makeup of that. 1 percent -- percent -- 1 percent of non-English speakers speak Spanish. Going down that list, you can see a half percent --

CHAIR DANNER: Sorry. You said 1 percent of non-English speakers?

THE WITNESS: Correct. 1 percent of the overall population --

CHAIR DANNER: Okay.

THE WITNESS: -- of our customer base speaks --

CHAIR DANNER: So you've got 97 percent --

THE WITNESS: Yes. Sorry.

CHAIR DANNER: -- 2.1 other --

THE WITNESS: Yes. Thank you.

CHAIR DANNER: -- which serves .9 that I haven't --

THE WITNESS: Correct. That is correct. And that's where that -- the rest of that list comes in. The half percent prefer Asian-Pacific island. Half percent prefer other Indo-European language.

The challenge with those two other categories is -- it's not a single language like Spanish. It's actually made up of many languages. And so, there are very, very, small pocket of customers that speak another language. So we do have translation services available through our call center that translate to 240 languages. So we have a resource available to those customers.

We also have to balance the cost of performing some of those translation activities. I believe it was -- we did a survey related to our CEIP in Spanish, Russian -- and I want to say Ukraine. I'm forgetting the third language. And so we did that work, and the response was zero or next to zero. And so we have to balance looking at.

CHAIR DANNER: You mean the response from --

THE WITNESS: -- those groups --

(Reporter requests clarification.)

THE WITNESS: The uptake for customers that responded in those other language was zero or near zero. And so, we recognize that we need to do more with language access, but we also have to balance the cost and time and resources to look at those other language and do that translation when the pockets are so very small.

So there may be other paths to take through community partners to reach those customers, but it is an ongoing conversation about -- what do you do beyond Spanish when so few of our customers speak other languages that aren't Spanish?

CHAIR DANNER: So right now, there's no plans

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for a website in any other language besides English or Spanish?

THE WITNESS: At this moment, no. But it is a continued discussion and evaluation for if and when we should do that.

CHAIR DANNER: Okay. Thank you. No further questions.

JUDGE THOMPSON: Commissioner Rendahl?

COMMISSIONER RENDAHL: Just one follow-up.

Good afternoon. Almost good evening.

THE WITNESS: Almost.

COMMISSIONER RENDAHL: So you mentioned that the potential linkage -- this is on the CCA topic.

THE WITNESS: Okay.

COMMISSIONER RENDAHL: The potential linkage with California and Quebec and Washington would expand the supply of carbon allowances for Avista and covered entities in Washington.

Are you aware that the California and Quebec current markets also have declining market caps?

THE WITNESS: I am aware of that. I don't know all of the details of their two markets, but I am aware that they also have a form of decline in cap.

COMMISSIONER RENDAHL: So it's not a sort of never-ending supply of allowances, even with those two markets?

THE WITNESS: That would be reasonable. I know that our market will expand in the near term, but I can't speak to the specifics as we get out further into the future about the scale of how big that market will be.

COMMISSIONER RENDAHL: Okay. Thank you. I have no further questions.

JUDGE THOMPSON: Thank you.

I think that concludes the questions for you, Mr. Bonfield. And you may be seated.

At this point in time, we will go ahead and end the proceeding.

CHAIR DANNER: I -- actually, let me ask -- I'm -- the questions I just asked Mr. Bonfield, I would also like to ask those of Charlee Thompson of NWEC, who I think is available. Well, she's -- we're on topic, and she has some scheduling problems tomorrow; so I think we could do this very quickly.

Counsel for NWEC?

MS. THOMPSON: Chair Dan, it looks like our counsel had to drop off. But if you give me a minute, I can reach out to him and see if he can rejoin. Or we can do this tomorrow too.

CHAIR DANNER: Okay. We can do it tomorrow.

You've heard the questions; so -- anyway.

JUDGE THOMPSON: Okay. And tomorrow your availability is just restricted from noon to 1:00; is that correct?

MS. THOMPSON: Yes. That's correct.

JUDGE THOMPSON: Okay. Thank you.

Okay. And do we have any other housekeeping matters before we end today?

ATTY ROBINSON O'NEILL: Your Honor, I think that the only other -- so TEP Witness Colton is only available in the morning; so maybe we could start with Mr. Colton.

JUDGE THOMPSON: And I believe that's true for Witness Mullins as well; correct?

ATTY PEPPLE: Well, Witness Mullins just has a time zone issue. It's not really an availability issue; so...

JUDGE THOMPSON: Right.

ATTY PEPPLE: I think -- I guess the only -- Dr. Kaufman, I know, was -- the commissioners may have some questions for him. He's not available after 1:00 tomorrow; so -- my hope is that the hearing may be concluded by then, but we'll see.

JUDGE THOMPSON: Okay. It sounds like we have no questions for Colton, and so let me look at the list really quickly.

COMMISSIONER RENDAHL: We could probably start with Mullins.

JUDGE THOMPSON: That's what I'm thinking as well -- is -- we'll probably start with Mullins in the morning to deal with the time constraint. And then, if it's okay with the parties, we'll move back on track from there. Does that sound acceptable?

ATTY ZAKAI: Yes. And just to confirm, TEP Witness Colton is now excused?

JUDGE THOMPSON: That is correct.

ATTY ZAKAI: Yeah. Thank you.

COMMISSIONER RENDAHL: And the commissioners will have questions for Staff Witness Erdahl and Hillstead -- is my understanding.

JUDGE THOMPSON: Okay. And so, the plan for the morning is -- we'll go with Witness Mullins first -- Mullins and then Staff witnesses, and we'll proceed from there. Because it sounds like Charlee Thompson is available all but the noon-to-1:00 hour. And I'm hoping that we'll get there before noon.

So at this time, we'll go ahead and conclude for the day and be off the record.

(Proceedings adjourned at 5:49 p.m.)

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CERTIFICATE OF SHORTHAND REPORTER

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This is to certify that I, Stephanie C. Rhinehart, a Washington Certified Court Reporter, Oregon Certified Shorthand Reporter, and Registered Professional Reporter reported the within and foregoing proceedings; said proceedings taken before me on the date herein set forth; and that I was authorized to and did report said proceedings.

I further certify that the foregoing transcript is a true and correct record of the proceedings; that said proceedings were taken by me stenographically and thereafter reduced to typewriting under my supervision; and that I am neither counsel for, related to, nor employed by any of the parties to this case and have no interest, financial or otherwise, in its outcome.

IN WITNESS WHEREOF, I have hereunto set my hand this 7th day of October, 2024.

/s/Stephanie C. Rhinehart, RPR
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