0046

 1

 BEFORE THE WASHINGTON

 2 UTILITIES AND TRANSPORTATION COMMISSION

 3 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 4 WASHINGTON UTILITIES AND )

 TRANSPORTATION COMMISSION, ) Docket Nos. UE-150204 and

 5 ) UG-150205 (Consolidated)

 Complainant, )

 6 ) Pages 46 - 357

 v. )

 7 )

 AVISTA CORPORATION, )

 8 D/B/A AVISTA UTILITIES, )

 )

 9 Respondent. )

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11 EVIDENTIARY HEARING, VOLUME IV

 PAGES 46 - 357

12 ADMINISTRATIVE LAW JUDGE MARGUERITE E. FRIEDLANDER

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15 9:30 A.M.

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0048

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0049

 1 EVIDENTIARY HEARING

 VOLUME IV: INDEX

 2

 WITNESSES: PAGE

 3

 KELLY O. NORWOOD . . . . . . . . . . . . . . . . . . 79

 4

 Examination by:

 5

 Mr. Meyer . . . . . . . . . . . . . . . . 79

 6 Ms. Gafken . . . . . . . . . . . . . . . . 80

 Ms. Davison . . . . . . . . . . . . . . . 92

 7 Mr. Brooks . . . . . . . . . . . . . . . . 98

 Mr. Oshie . . . . . . . . . . . . . . . . 101

 8 Ms. Gafken . . . . . . . . . . . . . . . . 103

 Mr. Meyer . . . . . . . . . . . . . . . . 104

 9 Ms. Davison . . . . . . . . . . . . . . . 111

 Chairman Danner . . . . . . . . . . . . . 113

10 Commissioner Rendahl . . . . . . . . . . . 120

 Commissioner Jones . . . . . . . . . . . . 122

11 Commissioner Rendahl . . . . . . . . . . . 140

12

 ELIZABETH M. ANDREWS . . . . . . . . . . . . . . . . 145

13

 Examination by:

14

 Mr. Meyer . . . . . . . . . . . . . . . . 145

15 Mr. Shearer . . . . . . . . . . . . . . . 148

 Ms. Gafken . . . . . . . . . . . . . . . . 156

16 Mr. Brooks . . . . . . . . . . . . . . . . 179

 Mr. Meyer . . . . . . . . . . . . . . . . 186

17 Chairman Danner . . . . . . . . . . . . . 192

 Commissioner Jones . . . . . . . . . . . . 194

18 Mr. Meyer . . . . . . . . . . . . . . . . 203

19

 JENNIFER S. SMITH . . . . . . . . . . . . . . . . . 205

20

 Examination by:

21

 Mr. Meyer . . . . . . . . . . . . . . . . 205

22 Ms. Gafken . . . . . . . . . . . . . . . . 206

 Mr. Meyer . . . . . . . . . . . . . . . . 208

23 Commissioner Rendahl . . . . . . . . . . . 209

24

25

0050

 1 WITNESSES (cont.): PAGE

 2 KAREN K. SCHUH . . . . . . . . . . . . . . . . . . 211

 3 Examination by:

 4 Mr. Meyer . . . . . . . . . . . . . . . . 211

 Ms. Cameron-Rulkowski . . . . . . . . . . 212

 5 Ms. Gafken . . . . . . . . . . . . . . . . 213

 Mr. Meyer . . . . . . . . . . . . . . . . 219

 6 Commissioner Jones . . . . . . . . . . . . 221

 7

 PATRICK D. EHRBAR . . . . . . . . . . . . . . . . . 223

 8

 Examination by:

 9

 Mr. Meyer . . . . . . . . . . . . . . . . 223

10 Mr. Roseman . . . . . . . . . . . . . . . 224

11

 JAMES M. KENSOK . . . . . . . . . . . . . . . . . . 229

12

 Examination by:

13

 Mr. Meyer . . . . . . . . . . . . . . . . 230

14 Ms. Cameron-Rulkowski . . . . . . . . . . 230

 Confidential Excerpt . . . . . . . . . 233-289

15 Ms. Gafken . . . . . . . . . . . . . . . . 289

 Mr. Meyer . . . . . . . . . . . . . . . . 294

16

17 DON F. KOPCZYNSKI . . . . . . . . . . . . . . . . . 268

18 Examination by:

19 Mr. Meyer . . . . . . . . . . . . . . . . 268

 Mr. Casey . . . . . . . . . . . . . . . . 296

20 Ms. Gafken . . . . . . . . . . . . . . . . 317

 Commissioner Rendahl . . . . . . . . . . . 324

21 Commissioner Jones . . . . . . . . . . . . 334

 Chairman Danner . . . . . . . . . . . . . 349

22

23

 \* \* \* \* \*

24

25

0051

 1 EXHIBIT INDEX

 VOLUME IV

 2

 EXHIBITS FOR IDENTIFICATION ADMITTED

 3

 Bench 1 Multiparty Settlement Stipulation 72

 4

 Bench 2 Joint Testimony in Support of Multiparty 72

 5 Settlement Stipulation

 6 Bench 3 Cover Letter Response to Bench Request No. 1 72

 7 Bench 4 \*\*\*CONFIDENTIAL\*\*\* Response to Bench Request

 No. 2, with Attachment A 72

 8

 Bench 5 Response to Bench Request No. 3 72

 9

 Bench 6 Public Comment Exhibit 77

10

 Bench 7 Response to Bench Request No. 4 124

11

 Bench 8 Most Recent RRA Study, S&P Write-ups, and

12 Moody's Write-ups re: Avista 144

13 Bench 9 Breakout Between Pension and Medical Benefits 202

14 SLM-1T Prefiled Direct Testimony of Scott L. Morris 72

15 SLM-2 Overview of Avista and its Utility and

 Subsidiary Operations 72

16

 SLM-3 Map of Avista Electric and Natural Gas

17 Service Areas 72

18 SLM-4 Various Line Graphs 72

19 MTT-1T Prefiled Direct Testimony of Mark T. Thies 72

20 MTT-2C \*\*\*CONFIDENTIAL\*\*\* Avista's Credit Ratings,

 Embedded Capital Structure as of December 31,

21 2014, and Proposed Capital Structure 72

22 MTT-3C \*\*\*CONFIDENTIAL\*\*\* Avista's Interest Rate

 Risk Management Plan 72

23

 MTT-4 Equity Ratios and Returns on Equity Approved

24 by Various State Regulatory Commissions from

 July 1, 2014, through December 31, 2014 72

25

0052

 1 EXHIBITS FOR IDENTIFICATION (cont.) ADMITTED

 2 MTT-5C \*\*\*CONFIDENTIAL\*\*\* Avista's Planned Capital

 Expenditures and Long-Term Debt Issuances

 3 by Year 72

 4 KON-1T Prefiled Rebuttal Testimony of Kelly O.

 Norwood 72

 5

 KON-2 January 2014 Standard and Poor's Ratings

 6 Services, "Utility Regulatory Assessments

 for U.S. Investor-Owned Utilities" 72

 7

 KON-3 Tabulation of a Sample of Compliance and

 8 Reporting Requirements of Avista 72

 9 KON-4CX Excerpt of Avista’s 2014 Commission-Basis

 Report 72

10

 KON-5CX Avista Response to Public Counsel Data

11 Request No. 81 72

12 KON-6CX Avista Response to Public Counsel and

 The Energy Project Data Request No. 93 72

13

 KON-7CX Avista Response to Public Counsel and

14 The Energy Project Data Request No. 92 72

15 KON-8CX Open Brief of Petitioner Public Counsel,

 Thurston County Superior Court Cause

16 No. 13-2-01576-2 (consolidated) 72

17 AMM-1T Prefiled Direct Testimony of Adrien M.

 McKenzie 72

18

 AMM-2 Qualifications of Adrien M. McKenzie 72

19

 AMM-3 Description of Quantitative Analyses for

20 Capital Market Estimates of the Cost of Equity 72

21 AMM-4 ROE Analyses: Checks of Reasonableness 72

22 AMM-5 Capital Structure: Electric Group 72

23 AMM-6 DCF Model – Utility Group: Dividend Yield,

 Growth Rates, and DCF Cost of Equity Estimates 72

24

 AMM-7 DCF Model – Utility Group: BR+SV Growth Rate 72

25

0053

 1 EXHIBITS FOR IDENTIFICATION (cont.) ADMITTED

 2 AMM-8 Empirical CAPM – Current Bond Yield: Utility

 Group and Projected Bond Yield: Utility Group 72

 3

 AMM-9 Electric Utility Risk Premium: Current Bond

 4 Yield, Projected Bond Yield, Authorized

 Returns, and Regression Results 72

 5

 AMM-10 CAPM – Current Bond Yield: Utility Group,

 6 Projected Bond Yield 72

 7 AMM-11 Expected Earnings Approach – Utility Group 72

 8 AMM-12 DCF Model – Non-Utility Group: Dividend

 Yield, Growth Rates, and DCF Cost of

 9 Equity Estimates 72

10 AMM-13 Regulatory Mechanism – Utility Group 72

11 EMA-1T Prefiled Direct Testimony of Elizabeth M.

 Andrews 72

12

 EMA-2 Electric Attrition Study 72

13

 EMA-3 Natural Gas Attrition Study 72

14

 EMA-4 NARUC Rate Case and Audit Manual 72

15

 EMA-5T Prefiled Rebuttal Testimony of Elizabeth M.

16 Andrews 72

17 EMA-6 Revised Electric Attrition Study 72

18 EMA-7 Revised Natural Gas Attrition Study 72

19 EMA-8 Explanation of Electric and Natural Gas

 Attrition Models 72

20

 EMA-9CX Avista Response to Staff Data

21 Request No. 142 72

22 EMA-10CX Avista Response to Public Counsel Data

 Request No. 93 72

23

 EMA-11CX Avista Response to Public Counsel Data

24 Request No. 87, with Attachment A 72

25

0054

 1 EXHIBITS FOR IDENTIFICATION (cont.) ADMITTED

 2 EMA-12CX Avista Response to Staff Data Request

 No. 149, with Attachment B 72

 3

 EMA-13CX Avista Supplemental Response to Public

 4 Counsel Data Request No. 98 72

 5 EMA-14CX Avista Response to Public Counsel Data

 Request No. 98 72

 6

 EMA-15CX Avista Response to Public Counsel Data

 7 Request No. 99 72

 8 DFK-1T Prefiled Direct Testimony of Don F. Kopczynski 72

 9 DFK-2 Customer Usage: Washington Electric and

 Natural Gas as of September 30, 2014 72

10

 DFK-3 Utility-Scale Smart Meter Deployments:

11 Building Block of the Evolving Power Grid,

 IEI Report, September 2014 72

12

 DFK-4 2007 NARUC Resolution to Eliminate Regulatory

13 Barriers to the Broad Implementation of

 Advanced Metering Infrastructure 72

14

 DFK-5 2015 Washington Advanced Metering Project –

15 Business Case 72

16 DFK-6 Avista’s Two-Year Aldyl-A Pipeline

 Replacement Plan 72

17

 DFK-7CX Avista Response to Staff Data Request No. 70 72

18

 DFK-8CX Avista Response to Public Counsel Data

19 Request No. 67 72

20 DFK-9CX Avista Response to Public Counsel Data

 Request No. 53 72

21

 DFK-10CX Avista Response to Public Counsel and

22 The Energy Project Data Request No. 10 72

23 DFK-11CX Avista Response to Public Counsel and

 The Energy Project Data Request No. 57 72

24

 DFK-12CX Avista Response to Public Counsel and

25 The Energy Project Data Request No. 58 72

0055

 1 EXHIBITS FOR IDENTIFICATION (cont.) ADMITTED

 2 DFK-13CX Avista Response to Staff Data Request

 No. 84 72

 3

 DFK-14CX Avista Response to Public Counsel Data

 4 Request No. 93 72

 5 SJK-1T Prefiled Direct Testimony of Scott J. Kinney 72

 6 SJK-2 Avista’s 2013 Electric Integrated Resource

 Plan and Appendices 72

 7

 SJK-3 2013 IRP Forecast of Avista’s Load and

 8 Resource Positions from 2014 through 2033 72

 9 SJK-4C \*\*\*CONFIDENTIAL\*\*\* Avista’s Energy Resources

 Risk Policy 72

10

 CGK-1T Prefiled Direct Testimony of Clint G. Kalich 72

11

 CGK-2C \*\*\*CONFIDENTIAL\*\*\* Summary Output from the

12 Dispatch Model 72

13 WGJ-1T Prefiled Direct Testimony of William G.

 Johnson 72

14

 WGJ-2 Power Supply Pro Forma – Washington

15 Jurisdiction, System Numbers – October 2013

 through September 2014 Actual and 2016

16 Pro Forma 72

17 WGJ-3 A Brief Description of Each Adjustment 72

18 WGJ-4 Market Purchases and Sales, Plant Generation

 and Fuel Cost Summary, Washington Normalized,

19 January 2016-December 2016 72

20 WGJ-5 Pro Forma January 2016-December 2016, ERM

 Authorized Expense and Retail Sales, October

21 2013-September 2014, Historic Normalized Loads 72

22 JM-1T Prefiled Direct Testimony of Jody Morehouse 72

23 JM-2 Avista’s 2014 Natural Gas Integrated Resource

 Plan 72

24

 BAC-1T Prefiled Direct Testimony of Bryan A. Cox 72

25

0056

 1 EXHIBITS FOR IDENTIFICATION (cont.) ADMITTED

 2 BAC-2 Transmission Revenue and Expense Adjustments 72

 3 JMK-1T Prefiled Direct Testimony of James M. Kensok 72

 4 JMK-2 Revised Timeline and Budget Forecast, Avista’s

 Project Compass, June 2014, with Attachment A 72

 5

 JMK-3 Project Compass, Communications, Debbie

 6 Simock/Peggy Blowers 72

 7 JMK-4 Project Compass Communication Time Line and

 Customer Communication Time Line 72

 8

 JMK-5 Direct Mailing to Avista Customers Explaining

 9 the Project Compass Impact on Bills and

 Customer Accounts 72

10

 JMK-6CT \*\*\*CONFIDENTIAL\*\*\* Prefiled Rebuttal Testimony

11 of James M. Kensok 72

12 JMK-7C \*\*\*CONFIDENTIAL\*\*\* Overview of Project Compass

 with Attachments 1-18 72

13

 JMK-8C \*\*\*CONFIDENTIAL\*\*\* Summary of Contract and

14 Spending Information for Contract Companies

 Supporting Project Compass 72

15

 JMK-9C \*\*\*CONFIDENTIAL\*\*\* Avista Supplemental

16 Response to Staff Data Request No. 141C 72

17 JMK-10C \*\*\*CONFIDENTIAL\*\*\* Excerpt of Avista

 Response to Staff Data Request No. 140C 72

18

 JMK-11C \*\*\*CONFIDENTIAL\*\*\* Avista Response to

19 Staff Data Request No. 152C 72

20 JMK-12C \*\*\*CONFIDENTIAL\*\*\* Project Compass Employee

 Bonus Plan 72

21

 JMK-13CX Gartner Study 72

22

 JMK-14CX Avista Response to ICNU Data Request No. 206 72

23

 LDL-1T Prefiled Rebuttal Testimony of Larry D.

24 La Bolle 72

25

0057

 1 EXHIBITS FOR IDENTIFICATION (cont.) ADMITTED

 2 LDL-2 Avista’s 2013 Asset Management Distribution

 Program Update, Dated February 17, 2013 72

 3

 LDL-3CX Avista Response to Staff Data Request No. 109 72

 4

 LDL-4CX Avista Response to Public Counsel and The

 5 Energy Project Data Request No. 80 72

 6 LDL-5CX Avista Response to Public Counsel and The

 Energy Project Data Request No. 90 72

 7

 LDL-6CX Avista Response to Public Counsel and The

 8 Energy Project Data Request No. 87 72

 9 LDL-7CX Avista Response to Public Counsel and The

 Energy Project Data Request No. 82 72

10

 LDL-8CX Documents Cited by Avista in Response to

11 Staff Data Request No. 112, with Attachment A 72

12 LDL-9CX Avista Response to Public Counsel and The

 Energy Project Data Request No. 39 72

13

 LDL-10CX Avista Response to Public Counsel and The

14 Energy Project Data Request No. 61 72

15 LDL-11CX Avista Response to Public Counsel and The

 Energy Project Data Request No. 81 72

16

 LDL-12CX Avista Response to Public Counsel and The

17 Energy Project Data Request No. 84 72

18 LDL-13CX Avista Response to Public Counsel and The

 Energy Project Data Request No. 77 72

19

 LDL-14CX Avista Response to Public Counsel and The

20 Energy Project Data Request No. 95, with

 Attachment A 72

21

 LDL-15CX Avista Response to Public Counsel and The

22 Energy Project Data Request No. 100 72

23 LDL-16CX Avista Response to Public Counsel and The

 Energy Project Data Request No. 79 72

24

 LDL-17CX Avista Response to Staff Data Request No. 109 72

25

0058

 1 EXHIBITS FOR IDENTIFICATION (cont.) ADMITTED

 2 GDF-1T Prefiled Direct Testimony of Dr. Grant D.

 Forsyth 72

 3

 KKS-1T Prefiled Direct Testimony of Karen K. Schuh 72

 4

 KKS-2 Capital Expenditures from 2005 through 2019 72

 5

 KKS-3 Handy Whitman Cost Index, Published May 2013,

 6 Transmission Substations, Transmission

 Equipment, Distribution Substations,

 7 Distribution Equipment 72

 8 KKS-4 Avista Capital Additions Detail (System)

 (Transfers to Plant), October – December

 9 2014, 2015, 2016, and 2017 72

10 KKS-5 Descriptions of Avista Capital Projects,

 including Business Cases 72

11

 KKS-6T Prefiled Rebuttal Testimony of Karen K. Schuh 72

12

 KKS-7 Slides Prepared to Aid the Discussion of the

13 Nine Mile Generation project 72

14 KKS-8 Avista Response to ICNU Data Request

 No. 198 72

15

 KKS-9 Email Communication From Liz Andrews, Avista;

16 to David Gomez, Commission Staff; carbon copy

 to David Machado, Avista; and Dated July 14,

17 2015, Regarding Data Request 183, Attachment C 72

18 KKS-10 Report to Shareholders With a Chart of Capital

 Expenditures by Functional Group 72

19

 KKS-11 2014 Capital Expenditure Final Report and

20 2015 Capital Expenditures Plan Update,

 Filed on February 26, 2015 72

21

 KKS-12CX Avista Response to Public Counsel Data

22 Request No. 100, including Attachment A 72

23 JSS-1T Prefiled Direct Testimony of Jennifer S. Smith 72

24 JSS-2 Avista Pro Forma Cross-Check for Electric

 Operations, Twelve Months Ended

25 September 30, 2014 72

0059

 1 EXHIBITS FOR IDENTIFICATION (cont.) ADMITTED

 2 JSS-3 Avista Pro Forma Cross-Check for Natural Gas

 Operations, Twelve Months Ended

 3 September 30, 2014 72

 4 JSS-4T Prefiled Rebuttal Testimony of Jennifer S.

 Smith 72

 5

 JSS-5 Revised Pro Forma Electric Cross-Check Study 72

 6

 JSS-6 Revised Pro Forma Natural Gas Cross-Check Study 72

 7

 JSS-7 Listing of Adjustments Proposed by Staff,

 8 Public Counsel, and ICNU 72

 9 JSS-8CX Avista Response to Public Counsel Data

 Request No. 94 72

10

 TLK-1T Prefiled Direct Testimony of Tara L. Knox 72

11

 TLK-2 Narrative of the Electric Cost of Service

12 Study Process 72

13 TLK-3 Electric Cost of Service Study Summary Results 72

14 JDM-1T Prefiled Direct Testimony of Joseph D. Miller 72

15 JDM-2 Narrative of the Natural Gas Cost of Service

 Study Process 72

16

 JDM-3 Natural Gas Cost of Service Study Summary

17 Results 72

18 PDE-1T Prefiled Direct Testimony of Patrick D. Ehrbar 72

19 PDE-2 Avista's Present Electric Tariffs and

 Service Schedules 72

20

 PDE-3 Avista's Proposed Electric Tariff Sheets 72

21

 PDE-4 Proposed Electric Revenue Increase by Schedule 72

22

 PDE-5 Avista's Present Natural Gas Tariffs 72

23

 PDE-6 Proposed Natural Gas Tariff Sheets 72

24

 PDE-7 Proposed Natural Gas Revenue Increase by

25 Schedule 72

0060

 1 EXHIBITS FOR IDENTIFICATION (cont.) ADMITTED

 2 PDE-8T Prefiled Rebuttal Testimony of Patrick D.

 Ehrbar 72

 3

 PDE-9 Proposed Electric Change by Service Schedule

 4 and Present and Past Rate Components by

 Schedule 72

 5

 PDE-10 Proposed Natural Gas Increase by Service

 6 Schedule and Present and Proposed Rate

 Components by Schedule 72

 7

 PDE-11CCX \*\*\*CONFIDENTIAL\*\*\* Responses to ICNU Data

 8 Request Nos. 268 & 269, including Attachments 72

 9 PDE-12CX Avista Response to The Energy Project Data

 Request No. 10 72

10

 PDE-13CX Avista Revised Response to The Energy Project

11 Data Request No. 11 72

12 PDE-14CX Staff Response to Data Request No. 1 72

13 DN-1T Prefiled Response Testimony of Dave

 Nightingale 72

14

 JMW-1T Prefiled Response Testimony of Juliana M.

15 Williams 72

16 JMW-2 Low Income Rate Assistance Program

 Multi-Year Funding Plan 72

17

 CSH-1T Prefiled Response Testimony of Christopher

18 S. Hancock 72

19 CSH-2 Electric Pro Forma Analysis 72

20 CSH-3 Natural Gas Pro Forma Analysis 72

21 CSH-4 Avista Revised Electric Pro Forma Cross-Check

 Study 72

22

 CSH-5 Avista Revised Natural Gas Pro Forma

23 Cross-Check Study 72

24 CSH-6 Major Electric ER Transfers as of

 June 30, 2015 72

25

0061

 1 EXHIBITS FOR IDENTIFICATION (cont.) ADMITTED

 2 CSH-7 Major Natural Gas ER Transfers as of

 June 30, 2015 72

 3

 CSH-8 Wood Pole Events Over Time 72

 4

 CSH-9 Prefiled Cross-Answering Testimony of

 5 Christopher S. Hancock 72

 6 BTC-1T Prefiled Response Testimony of Bradley

 T. Cebulko 72

 7

 JTB-1T Prefiled Response Testimony of Jason L. Ball 72

 8

 JTB-2C \*\*\*CONFIDENTIAL\*\*\* Electric Adjustments 72

 9

 JTB-3 Gas Adjustments 72

10

 JTB-4C \*\*\*CONFIDENTIAL\*\*\* Colstrip & CS2 O&M 72

11

 JTB-5C \*\*\*CONFIDENTIAL\*\*\* Transmission Revenue &

12 Expenses 72

13 JTB-6C \*\*\*CONFIDENTIAL\*\*\* IS/IT Line Items 72

14 CRM-1T Prefiled Response Testimony of Chris R.

 McGuire 72

15

 CRM-2 Staff Electric Attrition Study 72

16

 CRM-3 Staff Natural Gas Attrition Study 72

17

 CRM-4 Avista Revised Electric Attrition Study

18 (Provided as Attachment B to Avista Response

 to Staff Data Request No. 130) 72

19

 CRM-5 Avista Revised Natural Gas Attrition Study

20 (Provided as Attachment C to Avista Response

 to Staff Data Request No. 130) 72

21

 CRM-6 Excerpts of Historical Commission Orders on

22 Attrition 72

23 DCG-1CT \*\*\*CONFIDENTIAL\*\*\* Prefiled Response Testimony

 of David C. Gomez 72

24

 DCG-2 Avista's Washington-Allocated 2015 Pro Forma

25 Capital 72

0062

 1 EXHIBITS FOR IDENTIFICATION (cont.) ADMITTED

 2 DCG-3 Avista’s 2015 Pro Forma Major Capital

 Additions – Company 72

 3

 DCG-4 Avista’s 2015 Pro Forma Major Capital

 4 Additions – Staff 72

 5 DCG-5C \*\*\*CONFIDENTIAL\*\*\* Avista Supplemental Response

 to Staff Data Request 60C, with Attachments 72

 6

 DCG-6 Avista Response to Staff Data Request

 7 No. 134, with Attachment B 72

 8 DCG-7 Avista Response to Staff Data Request

 No. 133, with Attachments A – D 72

 9

 DCG-8 Avista Response to Staff Data Request No. 179 72

10

 DCG-9 Avista Response to Staff Data Request No. 183 72

11

 DCG-10 Avista Response to Staff Data Request No. 186 72

12

 DCG-11 Avista Supplemental Response to Staff Data

13 Request No. 137, and Supplemental Attachment A 72

14 DCG-12 Avista Response to Staff Data Request No. 170,

 and Attachment C, Docket UE-140188 72

15

 DCG-13 Avista Response to Staff Data Request Nos. 100

16 to 103, and Attachment A to Response to Data

 Request No. 101, Docket UE-140188 72

17

 DCG-14 Avista Response to ICNU Data Request No. 6,

18 and Attachment A 72

19 DCG-15C/B \*\*\*CONFIDENTIAL\*\*\* Avista Response to Staff

 Data Request No. 140, and Attachments A-C 72

20

 DCG-16C \*\*\*CONFIDENTIAL\*\*\* Avista Supplemental

21 Response to Staff Data Request No. 141C, and

 Attachment A - PCRs for Five Point and

22 Ernst & Young 72

23 DCG-17C \*\*\*CONFIDENTIAL\*\*\* Avista Supplemental

 Response to Staff Data Request No. 152C, and

24 Attachment A, and Supplemental Response

 Attachment A 72

25

0063

 1 EXHIBITS FOR IDENTIFICATION (cont.) ADMITTED

 2 DCG-18C \*\*\*CONFIDENTIAL\*\*\* Avista Supplemental

 Response to Staff Data Request No. 153C,

 3 and Attachments A and B 72

 4 DCG-19 Avista Response to Staff Data Request No. 154 72

 5 DCG-20 Avista Compliance Filing in Dockets UE-140188

 and UG-140189 (consolidated) of

 6 February 26, 2015 72

 7 DCG-21 Direct Testimony and Select Exhibits of Dave

 B. DeFelice in Dockets UE-140188 & UG-140189

 8 (consolidated) 72

 9 DCG-22 Avista Witness Jennifer S. Smith Work Paper in

 UE-150204 and UG-150205, 3) WA CapXAdditions

10 12.31.15 72

11 DCG-23 Scott J. Kinney Exhibit No. \_\_\_ (SJK-1T),

 Direct Testimony in UE-140188 72

12

 DCG-24 Direct Testimony of Avista Witness Scott J.

13 Kinney, Before the Idaho Public Utilities

 Commission, Case No. AVU-E-15-05 72

14

 DCG-25 Direct Testimony of Avista Witness James M.

15 Kensok, Before the Idaho Public Utilities

 Commission, Case No. AVU-E-15-05 72

16

 DCG-26 Direct Testimony of Avista Witness Don F.

17 Kopczynski, Exhibit No. \_\_\_ (DFK-1T)

 in UE-140188 & UG-140189 (consolidated) 72

18

 DCG-27 Docket UE-140188, Work Papers of Elizabeth

19 Andrews, Worksheet; WA CapX Additions 12.31.14 72

20 DCG-28 Dockets UE-140188 and UE-120436, Work Papers

 of Elizabeth Andrews, Aldyl-A Allocations 72

21

 DCG-29 Direct Testimony of Avista Witness Heather L.

22 Rosentrater, Exhibit No. \_\_ (HLR-1T) in

 UE-140188 and UG-140189 (consolidated) 72

23

 DCG-30 Direct Testimony of Avista Witness Scott J.

24 Kinney, Exhibit No. \_\_ (SJK-1T) in UE-120436 72

25

0064

 1 EXHIBITS FOR IDENTIFICATION (cont.) ADMITTED

 2 DCG-31C \*\*\*CONFIDENTIAL\*\*\* UE-140188 Kensok,

 Exhibit No. \_\_ (JMK-2), with Attachment 10

 3 and Confidential Attachment 15 72

 4 DCG-32 Avista 2015-2017 Two-Year Plan for Managing

 Replacement of Select Pipe Natural Gas System 72

 5

 DCG-33 Avista Response to Staff Data Request No. 143,

 6 with Supplemental Responses through July 10,

 2015 72

 7

 BRA-1T Prefiled Response Testimony of Barbara R.

 8 Alexander 72

 9 BRA-2 Credentials for Barbara R. Alexander 72

10 BRA-3 Supplemental Response to ICNU Data Request

 No. 76, with Attachments A, B, and C 72

11

 BRA-4 Avista Response to Staff Data Request No. 63,

12 with Attachment A 72

13 BRA-5 Avista Response to ICNU Data Request No. 200,

 with Attachment ETD-37 72

14

 BRA-6 Avista Response to Public Counsel Data

15 Request No. 65, with Attachment A 72

16 BRA-7 Avista Response to Public Counsel Data

 Request No. 60 72

17

 BRA-8C \*\*\*CONFIDENTIAL\*\*\* Avista Confidential

18 Response to Public Counsel Data Request

 No. 69C, with Attachment A 72

19

 BRA-9 Avista Response to Public Counsel Data

20 Request No. 70 72

21 BRA-10 Avista Response to Public Counsel and

 The Energy Project Data Request No. 47 72

22

 BRA-11 Avista Response to Public Counsel and

23 The Energy Project Data Request No. 22 72

24 BRA-12 Summary of Company-Data Provided to Staff

 from Docket UE-131087 72

25

0065

 1 EXHIBITS FOR IDENTIFICATION (cont.) ADMITTED

 2 BRA-13 Avista Response to Staff Data Request No. 114,

 with Attachment A 72

 3

 BRA-14 Avista Response to Staff Data Request No. 109 72

 4

 BRA-15 Avista Response to Staff Data Request No. 112,

 5 with Attachment A 72

 6 BRA-16 Avista Response to Public Counsel and The Energy

 Project Data Request No. 1, with Attachment C 72

 7

 BRA-17 The Berkeley Report 72

 8

 BRA-18 Avista Response to Public Counsel and

 9 The Energy Project Data Request No. 44 72

10 BRA-19 Avista Response to Public Counsel Data

 Request No. 57 72

11

 BRA-20 Avista Response to Public Counsel Data

12 Request No. 52 72

13 BRA-21CX Public Counsel and The Energy Project

 Response to Avista Data Request No. 1 72

14

 BRA-22CX Public Counsel and The Energy Project

15 Response to Avista Data Request No. 2 72

16 SMC-1T Prefiled Response Joint Testimony of Shawn

 M. Collins and Stefanie A. Johnson 72

17

 SMC-2 Estimated 2014-2015 Households Served Under

18 LIRAP 72

19 SMC-3 Avista Response to Public Counsel Data

 Request No. 79 72

20

 SMC-4 An Estimate of the Number of Households

21 in Poverty Served by Avista Utilities in

 Washington State, by Brian Kennedy, MS;

22 D. Patrick Jones, PhD, May 2015 72

23 SMC-5 Impact of 5-year Funding Plan on Percent of

 Eligible Customers Served 72

24

 DMR-1CT \*\*\*CONFIDENTIAL\*\*\*Prefiled Response Testimony

25 of Donna M. Ramas 72

0066

 1 EXHIBITS FOR IDENTIFICATION (cont.) ADMITTED

 2 DMR-2 Summary of Public Counsel Electric Adjustments 72

 3 DMR-3 Summary of Public Counsel Natural Gas

 Adjustments 72

 4

 DMR-4 Qualifications of Donna Ramas 72

 5

 DMR-5 Response to Staff Data Request No. 130,

 6 and Attachment C 72

 7 DMR-6 Revised Response to Staff Data Request No. 130

 and Revised Attachments A and B 72

 8

 DMR-7 Response to Staff Data Request No. 131,

 9 and Attachment C 72

10 DMR-8 Revised Response to Staff Data Request

 No. 131, and Revised Attachments A and B 72

11

 DMR-9 Response to Public Counsel Data Request No. 28 72

12

 DMR-10 Response to ICNU Data Request No. 29, and

13 Attachment A 72

14 DMR-11 Response to Staff Data Request No. 148 72

15 DMR-12 Response to Public Counsel Data Request No. 10 72

16 DMR-13 Response to ICNU Data Request No. 31

 (excluding attachment) 72

17

 DMR-14 Response to Public Counsel Data Request No. 9 72

18

 DMR-15 Response to Public Counsel Data Request

19 No. 23 (excluding attachment) 72

20 DMR-16 Response to Public Counsel Data Request No. 17

 and Attachment A (excerpt of pages 1 and 46) 72

21

 DMR-17 Response to ICNU Data Request No. 177

22 (non-confidential version),

 (excluding attachments) 72

23

 DMR-18 Response to Staff Data Request No. 174, with

24 Attachment A 72

25

0067

 1 EXHIBITS FOR IDENTIFICATION (cont.) ADMITTED

 2 DMR-19 Response to Staff Data Request No. 41, with

 Attachment A 72

 3

 DMR-20 Response to Staff Data Request No. 42, with

 4 Attachment A 72

 5 DMR-21 Avista Response to Staff Data Request

 No. 131, and Attachment D 72

 6

 DMR-22 Avista First Revised Response to Staff

 7 Data Request No. 143, with Revised

 Attachments A and B 72

 8

 DMR-23 Response to Public Counsel Data Request

 9 No. 32, with Attachment A 72

10 DMR-24 Response to Public Counsel Data Request No. 51 72

11 DMR-25 Response to Public Counsel Data Request No. 49 72

12 DMR-26T Prefiled Cross-Answering Testimony of

 Donna M. Ramas 72

13

 BGM-1CT \*\*\*CONFIDENTIAL\*\*\*Prefiled Response Testimony

14 of Bradley G. Mullins 72

15 BGM-2 Qualification Statement of Bradley G. Mullins 72

16 BGM-3 Revenue Requirement Calculations 72

17 BGM-4C \*\*\*CONFIDENTIAL\*\*\* Responses to Data Requests 72

18 BGM-5T Prefiled Cross-Answering Testimony of

 Bradley G. Mullins 72

19

 BGM-6 Updated Revenue Requirement Calculations 72

20

 MPG-1T Prefiled Response Testimony of Michael

21 P. Gorman 72

22 MPG-2 Qualifications of Michael P. Gorman 72

23 MPG-3 2016 Natural Gas Attrition Study,

 Calculation of General Revenue Requirement 72

24

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0068

 1 OLYMPIA, WASHINGTON; OCTOBER 5, 2015

 2 9:30 A.M.

 3 --o0o--

 4

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

 6 JUDGE FRIEDLANDER: All right. Let's be on

 7 the record. I'm Marguerite Friedlander, the Administrative

 8 Law Judge assigned to this proceeding.

 9 This is the time and place set for hearing in

10 Dockets UE-150204 and UG-150205, tariff revisions filed by

11 Avista Corporation, doing business as Avista Utilities.

12 When we finish the preliminaries, I'll bring

13 the Commissioners in as well, but for the moment, let's

14 take appearances, starting with Avista.

15 MR. MEYER: Thank --

16 JUDGE FRIEDLANDER: And this is just short

17 appearances --

18 MR. MEYER: Thank you --

19 JUDGE FRIEDLANDER: -- by the way.

20 MR. MEYER: -- Your Honor.

21 David Meyer for Avista.

22 JUDGE FRIEDLANDER: Thank you.

23 On behalf of Staff?

24 MS. CAMERON-RULKOWSKI: Jennifer

25 Cameron-Rulkowski, assistant attorney general, and I am

0069

 1 joined by Patrick Oshie, Brett Shearer, and Christopher

 2 Casey.

 3 JUDGE FRIEDLANDER: Thank you.

 4 And appearing today on behalf of Public

 5 Counsel?

 6 MS. GAFKEN: Lisa Gafken, assistant attorney

 7 general, appearing on behalf of Public Counsel.

 8 JUDGE FRIEDLANDER: Thank you.

 9 Appearing today on behalf of The Energy

10 Project?

11 MR. ROSEMAN: Thank you, Your Honor. Ronald

12 Roseman, representing The Energy Project.

13 JUDGE FRIEDLANDER: Thank you.

14 Appearing today on behalf of the Industrial

15 Customers of Northwest Utilities?

16 MS. DAVISON: Melinda Davison and Jesse

17 Cowell.

18 JUDGE FRIEDLANDER: Thank you.

19 And appearing today on behalf of the

20 Northwest Industrial Gas Users?

21 MR. BROOKS: Tommy Brooks from Cable Huston.

22 JUDGE FRIEDLANDER: Thank you.

23 So let's go ahead and deal with admission of

24 exhibits. My thought is to admit them en masse unless you

25 all have objections to certain exhibits, so I would

0070

 1 entertain objections now or a discussion.

 2 MR. MEYER: Your Honor, Avista doesn't object

 3 to the introduction of the exhibits en masse.

 4 We do have concerns about the relevancy in

 5 this proceeding of one exhibit. I'll bring that to your

 6 attention, and that is PDE-11C. That's an ICNU

 7 cross-examination exhibit, and that exhibit has several

 8 pages, and it addresses Schedule 90, the impact of DSM

 9 pricing and benefits.

10 And as you'll recall, within the last two

11 weeks, in another docket, 151148, we had a prehearing

12 discussion about the appropriate forum to take up that

13 issue. And if memory serves, Your Honor, you determined,

14 at that point, that it was not an issue to be taken up at

15 that time in that docket, and that it -- it perhaps should

16 be vetted first through a technical advisory group.

17 And so I question whether that information in

18 that exhibit is pertinent to what's before us in this case

19 today.

20 JUDGE FRIEDLANDER: So are you suggesting

21 that -- that you would be -- that it would be acceptable to

22 admit all exhibits save that one, and we have a discussion

23 on it when it's introduced?

24 MR. MEYER: I would not object to the

25 introduction of that exhibit in this case.

0071

 1 JUDGE FRIEDLANDER: Okay.

 2 MR. MEYER: But with the clear understanding

 3 that the Company's position is that that subject should be

 4 taken up elsewhere.

 5 JUDGE FRIEDLANDER: Okay. Understood.

 6 And Ms. Davison, do you have anything to add?

 7 MS. DAVISON: Well, Your Honor, I guess if

 8 the Company is not objecting to the admission of the

 9 document, then they can make their argument in brief and we

10 can make ours and the Commission can make a decision

11 whether costs that are included in this rate case are

12 relevant for consideration.

13 JUDGE FRIEDLANDER: Okay. And does any other

14 party wish to weigh in?

15 MR. OSHIE: Your Honor, Patrick Oshie on

16 behalf of Staff.

17 Mr. Meyer has accurately described what I

18 believe is the -- is the outcome of the recent proceeding,

19 and in -- it -- I thought it was very clear from the

20 Commission's order that it would be taken up outside of

21 the -- outside of the docket in which it was presented,

22 which is the Schedule 90 docket that involves -- that

23 virtually involves Staff and a -- and Avista, and also then

24 included an -- the intervention of ICNU.

25 So I believe that's the -- that was the

0072

 1 intent of the order and, in that sense, it's -- this -- the

 2 Commission's aware of that and the Commission can decide

 3 how it wants to treat it.

 4 JUDGE FRIEDLANDER: Thank you. All right.

 5 If there's nothing further, then all of the exhibits on the

 6 exhibit list will be admitted into the record.

 7 Is there any other preliminary matter that

 8 needs to be addressed before I bring the Commissioners in?

 9 MR. BROOKS: I have one question, Your Honor.

10 JUDGE FRIEDLANDER: Sure.

11 MR. BROOKS: We were still waiting to find

12 out if you knew whether Mr. Gorman would be required to --

13 JUDGE FRIEDLANDER: Yes.

14 MR. BROOKS: -- appear at all.

15 JUDGE FRIEDLANDER: Yes. Thank you. And I

16 believe he will.

17 MR. BROOKS: Okay.

18 JUDGE FRIEDLANDER: I believe there will be

19 questions. I can get back with you for certain, but I

20 believe they were -- the Commission would have some

21 questions from the Bench.

22 MR. BROOKS: All right. Thank you very much.

23 JUDGE FRIEDLANDER: Thank you. All right.

24 MR. MEYER: Your Honor, I believe there may

25 be -- in discussions with Public Counsel, there may be some

0073

 1 revised cross-estimates that we should perhaps bring to

 2 your attention.

 3 JUDGE FRIEDLANDER: Oh, thank you.

 4 MS. GAFKEN: I'm sorry. I actually have

 5 three items to -- to talk about this morning, but first,

 6 I'll start with the cross-estimates. I do have a few

 7 revised cross-estimates to --

 8 JUDGE FRIEDLANDER: Certainly.

 9 MS. GAFKEN: -- to provide.

10 For -- for Mr. Norwood, I -- I may have a few

11 more minutes than 30. It may be 35, 40.

12 JUDGE FRIEDLANDER: Okay.

13 MS. GAFKEN: And the same for Ms. Andrews.

14 JUDGE FRIEDLANDER: Okay.

15 MS. GAFKEN: And then for Ms. Smith, that

16 decreases to 5 minutes.

17 JUDGE FRIEDLANDER: Okay.

18 MR. MEYER: Is that an issue with you,

19 Ms. Smith?

20 MS. SMITH: No. I think I'll be okay with

21 that.

22 MR. MEYER: So we don't object.

23 JUDGE FRIEDLANDER: Very good.

24 MS. GAFKEN: And then I do have a few more

25 questions for Mr. La Bolle, so I'm anticipating maybe --

0074

 1 maybe up to 60 minutes. I'm -- I'm hoping it's not that

 2 long, but I had more questions than I think 45 minutes will

 3 be able to handle.

 4 JUDGE FRIEDLANDER: Okay.

 5 MS. GAFKEN: And then I have no cross for

 6 Mr. McGuire.

 7 JUDGE FRIEDLANDER: Okay. I'm sure he'll be

 8 happy about --

 9 MS. GAFKEN: Heartbroken.

10 JUDGE FRIEDLANDER: -- that. Right. Yeah.

11 Yeah. I'm sure he'll be very heartbroken about that.

12 So just to recap, you said that you probably

13 have additional questioning for Mr. Norwood, so 35, 40

14 minutes. Who was the second witness?

15 MS. GAFKEN: Ms. Andrews.

16 JUDGE FRIEDLANDER: Ms. Andrews. Okay. And

17 you have about --

18 MS. GAFKEN: About 35 minutes.

19 JUDGE FRIEDLANDER: About 35. Okay.

20 And Mr. La Bolle?

21 MS. GAFKEN: Mr. La Bolle, I'm estimating up

22 to 60 minutes.

23 JUDGE FRIEDLANDER: Okay. Good to know.

24 All right. Are there any additions or

25 clarifications for the cross-estimates from any of the

0075

 1 other parties? Yes?

 2 MS. DAVISON: Your Honor, to offset Public

 3 Counsel, we -- ICNU will not be crossing Mr. Hancock.

 4 JUDGE FRIEDLANDER: Okay. All right. Thank

 5 you.

 6 MS. CAMERON-RULKOWSKI: Your Honor?

 7 JUDGE FRIEDLANDER: Yes?

 8 MS. CAMERON-RULKOWSKI: From Staff,

 9 Ms. Schuh, instead of 15 minutes, should be about 5.

10 JUDGE FRIEDLANDER: Okay.

11 MR. BROOKS: We can revise ours just a touch,

12 too.

13 JUDGE FRIEDLANDER: I'm sorry?

14 MR. BROOKS: For Mr. Norwood, we would expect

15 it to only be less than 5 minutes.

16 JUDGE FRIEDLANDER: Okay.

17 MR. BROOKS: And probably no more than 10 for

18 Ms. Andrews.

19 JUDGE FRIEDLANDER: Okay.

20 MR. BROOKS: And very likely, we won't have

21 any questions for Ms. Schuh.

22 JUDGE FRIEDLANDER: Okay. Excellent. Thank

23 you. Thank you for the update.

24 All right. I think that takes care of

25 everybody. I will go off the record, and we'll --

0076

 1 MS. GAFKEN: Oh, I -- I had two other --

 2 JUDGE FRIEDLANDER: Oh, you do?

 3 MS. GAFKEN: Yes.

 4 JUDGE FRIEDLANDER: Okay.

 5 MS. GAFKEN: I'm not sure if we want to talk

 6 about this now, but the public comment exhibit --

 7 JUDGE FRIEDLANDER: Yes. That will be --

 8 MS. GAFKEN: Perhaps at the end of --

 9 JUDGE FRIEDLANDER: -- Exhibit No. 6.

10 MS. GAFKEN: Okay. No. 6.

11 JUDGE FRIEDLANDER: Yeah.

12 MS. GAFKEN: That was my question.

13 JUDGE FRIEDLANDER: And when do you think

14 that Public Counsel will be able to provide that to the

15 Commission?

16 MS. GAFKEN: Well, I was thinking the

17 comments would come in through October 8th, the last day

18 that's calendared for this hearing. I doubt we'll

19 actually --

20 JUDGE FRIEDLANDER: Right.

21 MS. GAFKEN: -- be here that day, but --

22 JUDGE FRIEDLANDER: Right. Right.

23 MS. GAFKEN: -- it's calendared through the

24 8th, so the public should be able to provide comments until

25 then.

0077

 1 JUDGE FRIEDLANDER: Sure.

 2 MS. GAFKEN: And then to allow time for Staff

 3 to compile it and send it to me, and then for us to put it

 4 into an exhibit, would filing it on Monday, October 19th,

 5 be acceptable?

 6 JUDGE FRIEDLANDER: That's perfect.

 7 MS. GAFKEN: Okay.

 8 JUDGE FRIEDLANDER: And is there any

 9 objection to admission of the Public Counsel public comment

10 exhibits -- exhibit?

11 MR. MEYER: No objection.

12 JUDGE FRIEDLANDER: Thank you. Okay. So

13 that's October 19th?

14 MS. GAFKEN: Yes.

15 JUDGE FRIEDLANDER: Okay. And you said you

16 had one other --

17 MS. GAFKEN: One other.

18 JUDGE FRIEDLANDER: -- matter?

19 MS. GAFKEN: So we did send updated -- or

20 revised exhibits for Ms. Ramas, her testimony, DMR-1CT and

21 then one of her exhibits, DMR-3. I do have paper copies

22 for the parties and also for the Bench.

23 JUDGE FRIEDLANDER: Thank you, because I

24 don't believe that we've received the --

25 MS. GAFKEN: Okay.

0078

 1 JUDGE FRIEDLANDER: -- paper copies.

 2 MS. GAFKEN: Yeah. And they're -- they're

 3 full replacement copies.

 4 JUDGE FRIEDLANDER: Perfect. Perfect. Thank

 5 you.

 6 MS. GAFKEN: Thank you.

 7 JUDGE FRIEDLANDER: Yeah. That is definitely

 8 helpful, not having to replace only certain pages when

 9 we're up here, so.

10 All right. If there's nothing else, and

11 there's no other party or interested person that wants to

12 make an appearance, then I will -- we'll be in recess.

13 Thank you.

14 (A break was taken from 9:39 a.m. to 9:45 a.m.)

15 (Chairman Danner, Commissioner Rendahl, and

16 Commissioner Jones joined the proceedings.)

17 JUDGE FRIEDLANDER: All right. We'll go back

18 on the record.

19 Mr. Meyer, if you'd like to -- oh, actually,

20 I should note that appearing with me are Chairman Dave

21 Danner, Commissioner Ann Rendahl, and Commissioner Philip

22 Jones.

23 And Mr. Meyer, if you would like to introduce

24 your first witness?

25 MR. MEYER: Thank you, Your Honor. I call to

0079

 1 the stand Mr. Kelly Norwood.

 2

 3 KELLY O. NORWOOD, witness herein, having been

 4 first duly sworn on oath,

 5 was examined and testified

 6 as follows:

 7

 8 JUDGE FRIEDLANDER: Thank you. You can be

 9 seated.

10 And you can begin, Mr. Meyer, if you want.

11 MR. MEYER: Thank you.

12 JUDGE FRIEDLANDER: Thanks.

13 \*\*\* EXAMINATION BY MR. MEYER \*\*\*

14 BY MR. MEYER:

15 Q. Mr. Norwood, for the record, please state your

16 name and your employer.

17 A. Yes. Kelly O. Norwood. I'm employed by Avista

18 Corporation.

19 Q. And in what capacity?

20 A. Vice president of state and federal regulation.

21 Q. And have you prepared rebuttal testimony in this

22 docket marked as Exhibit KON-1T?

23 A. Yes.

24 Q. And are you also sponsoring what have been marked

25 as Exhibits -- and admitted as Exhibits KON-2 and KON-3?

0080

 1 A. Yes.

 2 Q. Any corrections or changes to make to any of those

 3 exhibits?

 4 A. No.

 5 MR. MEYER: With that, Mr. Norwood is

 6 available for cross.

 7 JUDGE FRIEDLANDER: All right. Thank you.

 8 And I believe we'll begin with Ms. Gafken.

 9 MS. GAFKEN: Thank you.

10 \*\*\* EXAMINATION BY MS. GAFKEN \*\*\*

11 BY MS. GAFKEN:

12 Q. Good morning, Mr. Norwood.

13 A. Good morning.

14 Q. Would you please turn to your rebuttal testimony,

15 Exhibit KON-1T, and go to page 2, lines 37 to 41?

16 A. I have it.

17 Q. There, you criticize Staff for using an

18 unreasonably low escalation factor for operations and

19 maintenance expense; correct?

20 A. That's correct.

21 Q. Staff is recommending using an escalation factor

22 of 2.41 percent for O&M? Is that --

23 A. Yes.

24 Q. -- correct?

25 And Avista proposed an escalation factor of

0081

 1 3 percent for O&M expenses in its initial filing; is that

 2 correct?

 3 A. That's correct.

 4 Q. Avista's currently proposing an escalation factor

 5 of 5.16 for O&M expenses in its rebuttal filing; correct?

 6 A. For electric, yes.

 7 Q. Okay. Is it Avista's position that the 3 percent

 8 escalation factor that it proposed in its initial filing is

 9 unreasonably low?

10 A. It was lowed based on -- it was based on the

11 information that was available at the time, and in this

12 case, we have reflected updated information on all issues,

13 and the most recent updated information would reflect an

14 escalator of approximately 5 percent.

15 Q. We're staying with your rebuttal testimony, and on

16 Exhibit KON-1T, I'd like you to turn to page 16, and turn

17 your attention to Illustration 1.

18 A. I have it.

19 Q. Illustration 1 provides Avista's Commission-basis

20 report on equity for Washington operations for each year,

21 2008 through 2014; is that correct?

22 A. Yes.

23 Q. And the returns shown in Illustration 1 are

24 adjusted returns, not actual unadjusted returns; correct?

25 A. That's correct. They're adjusted for adjustments

0082

 1 that have been previously approved by the Commission, so

 2 that's why it's referred to as a Commission-basis analysis.

 3 Q. And Avista uses the average-of-monthly-averages

 4 approach for rate base in its Commission-basis reports;

 5 correct?

 6 A. That's correct.

 7 Q. Illustration 1 presents return on equity for

 8 Washington operations on a combined electric and natural

 9 gas basis; is that correct?

10 A. That's correct.

11 Q. Please turn to Cross-Exhibit KON-5.

12 A. I have it.

13 Q. Do you recognize the exhibit --

14 JUDGE FRIEDLANDER: Could we -- let's just

15 hold on a minute while the rest of us get it.

16 MS. GAFKEN: Okay.

17 JUDGE FRIEDLANDER: Thanks.

18 MS. GAFKEN: Sorry.

19 JUDGE FRIEDLANDER: No. That's okay.

20 Okay. Thank you. Please proceed.

21 BY MS. GAFKEN:

22 Q. Mr. Norwood, do you recognize Cross-Exhibit KON-5

23 as Avista's response to Public Counsel Data Request No. 81?

24 A. Yes.

25 Q. In its response to Public Counsel Data Request

0083

 1 No. 81, Avista provided the information you presented in

 2 Illustration No. 1 for each year, 2008 through 2014, and

 3 separates electric operations and natural gas operations;

 4 correct?

 5 A. That's correct.

 6 Q. And the returns, again, shown in Exhibit KON-5

 7 reflect adjusted returns, not actual unadjusted returns;

 8 correct?

 9 A. For those Commission-based adjustments, yes,

10 that's correct.

11 Q. And Cross-Exhibit KON-5 shows that Avista's

12 adjusted ROE for its electric operations was 10.6 percent

13 in 2014; correct?

14 A. That's correct. And there were some unusual

15 circumstances that drove that in 2014 that were not

16 adjusted out.

17 Q. And Avista's adjusted ROE for its natural gas

18 operations in 2014 was 6.4 percent; correct?

19 A. That's correct.

20 Q. Is it Avista's position that the Commission should

21 evaluate the recently earned rates of return on equity on a

22 combined basis for both electric and natural gas

23 operations?

24 A. They should look at both separately and set rates

25 separately, and they should also consider all the factors

0084

 1 that go into that return.

 2 And as I mentioned before, there's -- there were

 3 some unusual circumstances that drove the 10.6 in 2014.

 4 Q. Okay. Would you please turn to your rebuttal

 5 testimony, Exhibit KON-1T, and go to pages 14 and 15?

 6 A. I'm there.

 7 Q. The sentence that I would like to ask you about

 8 begins on line 21 -- or I'm sorry, 25 of page 14, and it

 9 ends on line 2 of page 15. Would you please that sentence

10 that begins with, "Although the settlement"?

11 A. "Although the settlement agreement in the last

12 case, with rates effective January 1, '15, did not include

13 agreement on an attrition methodology or a specific

14 attrition adjustment, increased revenues associated with

15 the effects of attrition were embedded in the final 'black

16 box' revenue requirement number."

17 Q. The settlement in Avista's last rate case, the

18 2014 general rate case, was an all-party settlement;

19 correct?

20 A. I believe that's correct.

21 Q. And as you noted in your testimony, it was a black

22 box settlement that presented no agreement on attrition;

23 correct?

24 A. Yeah. And the attrition adjustment were a

25 methodology, that's true.

0085

 1 Q. And the Commission order that accepted the

 2 settlement with conditions did not attribute attrition to

 3 the revenue -- revenue requirement, did it?

 4 A. Not that I recall.

 5 Q. Your statement that "increased revenues associated

 6 with the effects of attrition were embedded in the final

 7 'black box' revenue requirement numbers" is Avista's view

 8 of the settlement; correct?

 9 A. That's correct.

10 Q. Would you please turn to, again, your rebuttal

11 testimony, Exhibit KON-1T, page 25, lines 17 to 19?

12 A. I have it.

13 Q. There, you state, "If, however, Ms. Ramas's

14 intention in her testimony was that the second component of

15 Puget's ERF Filing, the K-Factor, would then be applied

16 prospectively to the historical test period numbers, then

17 that would lead us right back to an attrition analysis."

18 Is that an accurate reading?

19 A. Yes.

20 Q. You're making a reference to the -- Puget Sound

21 Energy's recent expedited rate filing in Dockets UE-130137

22 and UG-130138; correct?

23 A. Yes.

24 Q. In your testimony, you noted that the K-Factor was

25 designed to accomplish the same thing as an attrition

0086

 1 adjustment; correct?

 2 A. Yes.

 3 Q. Are you aware that Public Counsel opposed Puget's

 4 K-Factor proposal before the Commission?

 5 A. I am, and before the Thurston County Superior

 6 Court.

 7 Q. You anticipated my next question.

 8 And in this case, Public Counsel is opposing

 9 Avista's attrition adjustment; correct?

10 A. Yes.

11 Q. Would you please turn to your rebuttal testimony,

12 KON-1T, page 31?

13 A. I'm there.

14 Q. Okay. And turn your attention to Table 4.

15 According to your testimony, Table 4 illustrates the

16 earnings shortfall that Avista would experience if the

17 Commission adopts the recommendations of Public Counsel and

18 the other intervenors; is that correct?

19 A. Yes. Excuse me. Yes.

20 Q. The results shown in Table 4 assumes that the rate

21 base contained in Avista's revised attrition study

22 presented in its rebuttal case is adopted by the

23 Commission; correct?

24 A. I believe that it -- yeah. That's correct.

25 Q. And table -- so Table 4 does not incorporate

0087

 1 Public Counsel's rate-based proposal, does it?

 2 A. That's correct.

 3 Q. Table 4 also assumes that Avista's updated revenue

 4 requirement proposal of 3.6 million increase in electric

 5 rates is correct?

 6 A. That's correct.

 7 Q. Okay. Please refer to -- I'm going to refer you

 8 to two cross-exhibits now, Cross-Exhibit KON-6 and KON-7.

 9 A. I have those.

10 Q. Do you recognize Cross-Exhibit KON-6 as Avista's

11 response to Public Counsel and The Energy Project's Data

12 Request No. 93?

13 A. Yes, I do.

14 Q. And do you recognize Cross-Exhibit No. 7 as

15 Avista's response to Public Counsel and The Energy

16 Project's Data Request No. 92?

17 A. Yes.

18 Q. You have testified that Avista is not seeking a

19 prudence ruling from the Commission at this time regarding

20 Avista's AMI proposal; correct?

21 A. I did mention that we are looking for an

22 indication on the Company's decision in principle to move

23 forward. We -- I was clear in my testimony, we are not

24 asking for a prudence decision on the investment or

25 operating expenses associated with new investment in

0088

 1 Advanced Media Infrastructure, or AMI.

 2 Q. Is -- is Avista seeking a prudence dec- --

 3 prudence decision from the Commission on its decision to

 4 move forward with AMI?

 5 A. There's -- there's two pieces to what we're

 6 requesting of the Commission. One has to do with an

 7 accounting order, which is related to the decision to move

 8 forward, and -- and because they're so closely related, you

 9 really can't separate them.

10 And so once the Company decides to move ahead with

11 AMI, assuming that we do move forward with AMI, if we sign

12 an agreement with a vendor to replace the meters, then

13 under the accounting rules, that triggers a point where the

14 Company has to write off the existing investment and the

15 existing meters unless we have an accounting order from the

16 Commission that allows us to transfer that investment from

17 plant in service to a regulatory asset.

18 So we -- the Company will not move forward with

19 AMI unless we have that accounting treatment, because we

20 wouldn't move forward in the face of a $21 million

21 write-off.

22 And along with that accounting treatment is a

23 return on that regulatory asset during the amortization

24 period, and if we don't receive a return on that like we're

25 receiving today in plant in service, that would be a

0089

 1 $3.7 million write-off. So -- so we need a decision from

 2 the Commission in this case on the accounting treatment for

 3 existing meters in order to move forward.

 4 So as part of that, we've also presented a

 5 cost-benefit analysis related to AMI, because for them to

 6 give us the accounting decision, we felt like they needed

 7 to have the basis for our decision to move forward, which

 8 was the cost-benefit analysis.

 9 And so we are asking the Commission, in this

10 proceeding, to give us the accounting treatment that

11 we mo- -- need to move forward and some indication of

12 whether they support the decision to move forward with AMI.

13 Or, in the alternative, if -- if they choose not

14 to give us an affirmative prudence or approval of the

15 decision to move forward, let us know if there's any red

16 flags or material concerns that they have, at this point,

17 about moving forward with AMI.

18 Q. I want to break that down a little bit, because I

19 think you went over your -- your entire testimony on the --

20 on the topic, which --

21 A. And I -- and I apologize.

22 Q. That's --

23 A. It's just so interrelated, I think you have to

24 talk about both pieces.

25 Q. No. I -- I think it was a nice summary of what

0090

 1 you stated in your testimony, but I do want to break it

 2 down in -- into a few different components.

 3 So I want to look quickly at the -- at the two

 4 exhibits that I referred you to, because there's a couple

 5 of statements in there that I want to ask about. In

 6 Exhibit 6, K- -- KON-6, Avista states that it is requesting

 7 an affirmation that the Company should proceed with the

 8 implementation of AMI, so long as the costs of imple- --

 9 implementation are prudently incurred?

10 A. Right.

11 Q. And then in Exhibit 7, KON-7, Avista states that

12 it has provided sufficient evidence that warrants support

13 from the Commission of Avista's decision in principle?

14 A. Yes.

15 Q. Is that the cost-benefit analysis that you

16 mentioned?

17 A. Yes. And so I think it's important to -- to

18 understand what we're asking the Commission to do and what

19 we're not asking them to do right now. One is --

20 Q. Well, let -- may -- can I ask --

21 A. Right.

22 Q. -- the next question? Because I think that --

23 A. Right.

24 Q. -- might get to the answer that I think we need.

25 A. Okay.

0091

 1 Q. Or one of them.

 2 What standard is Avista asking the Commission to

 3 apply to Avista's request for an affirmation that the

 4 Company should proceed with the implementation of AMI?

 5 A. I don't know that there's a specific standard with

 6 the -- the request that we are making at this point in

 7 time. We've made it clear that we're not asking for a

 8 prudence determination on the investment or the costs

 9 associated with implementing AMI.

10 Our plan is to come back at a later date and

11 demonstrate that we took the right steps, we hired the

12 right vendors, we selected the right equipment, and we

13 spent the right amount of money to implement it.

14 But based on the cost-benefit analysis that we've

15 presented, we have decided that we believe now is the time

16 to move forward with AMI, and the cost-benefit analysis

17 demonstrates that. And so what we're looking for here is

18 some kind of affirmation or indication from the Commission

19 that, based on the analysis presented to them, that they're

20 in agreement to move forward with this project.

21 Q. What benefit does Avista receive from an

22 affirmation from the Commission regarding its decision to

23 invest in AMI? What's the benefit that Avista's seeking?

24 A. And -- and again, it's related to the accounting

25 treatment, because we -- we obviously will not move forward

0092

 1 with it if we don't get the accounting treatment that's

 2 needed to avoid the write-off associated with the existing

 3 meters.

 4 So what we're really looking for, as I indicated,

 5 was an affirmation, "Yes. Do that," from the Commission.

 6 "Yes. We do think it's time to move ahead with this," or,

 7 "No, we don't. Here's our concerns that you need to

 8 address for us."

 9 Q. So is the affirmation that the Company is seeking

10 approval of the accounting treatment?

11 A. That's the primary request that we have is the

12 accounting treatment, set the existing meters aside in a

13 regulatory asset with a return during the amortization

14 period.

15 Q. Okay. I do have a question about the return on --

16 but I -- I think I'll save that for Ms. Andrews.

17 A. Mm-hmm.

18 MS. GAFKEN: Those are all the questions I

19 have for Mr. Norwood.

20 JUDGE FRIEDLANDER: Thank you.

21 So Ms. Davison? Thank you.

22 MS. DAVISON: Thank you, Your Honor.

23 \*\*\* EXAMINATION BY MS. DAVISON \*\*\*

24 BY MS. DAVISON:

25 Q. Good morning, Mr. Norwood.

0093

 1 A. Good morning.

 2 MS. DAVISON: Mr. Meyer, could you please

 3 just sit back a little bit so I can have eye contact with

 4 your witness? I can't see through you. I'm sorry.

 5 MR. MEYER: You're wise to my tricks. Okay.

 6 MS. DAVISON: All right.

 7 MR. MEYER: You got me.

 8 MS. DAVISON: Thank you.

 9 BY MS. DAVISON:

10 Q. Now that I can see you, Mr. Norwood, let's just --

11 I know that -- let's just --

12 JUDGE FRIEDLANDER: Excuse me.

13 Q. -- lay the foundation to make sure the record's --

14 JUDGE FRIEDLANDER: Okay. Go ahead. I'm

15 sorry.

16 Q. -- the -- the record's clear.

17 What is Avista's current authorized return on

18 equity?

19 A. In the last case, it was a black box settlement,

20 so there wasn't a specified ROE. In the one before that, I

21 believe it was 9.8 percent.

22 Q. Yes. And then in the current joint-party

23 settlement, what is the ROE that Avista has agreed to in

24 that settlement if it's adopted by the Commission?

25 A. 9.5 percent.

0094

 1 Q. Thank you.

 2 So let's turn to your testim- -- testimony at

 3 KON-1T, page 13.

 4 A. I have it.

 5 Q. And on that page, you have a chart, Table 3, in

 6 which you have calculated the return on equity; is that

 7 correct?

 8 A. That's correct. And this table matches the bar

 9 chart that was referred to by Ms. Gafken under KON-5.

10 Q. Thank you.

11 And so for 2013 -- and I'm focused on electric

12 operations only -- Avista earned 9.9 percent according to

13 your chart; is that --

14 A. On a --

15 Q. -- correct?

16 A. -- normalized basis; yes.

17 Q. And so, then, for 2014, we have the 10.6 that we

18 talked about earlier this morning?

19 A. That's correct. And as I mentioned, there were

20 some unexpected, unusual items that drove that.

21 Q. Right.

22 But despite the unusual items, is it fair to say

23 that, for both years, Avista has over-earned for its

24 electric operations?

25 A. Yes.

0095

 1 Q. And even going back to 2013, there's over-earning

 2 on the electric operations; correct?

 3 A. Yes.

 4 Q. Let's turn to our cross-exhibit, which is KON-4.

 5 A. I have it.

 6 Q. And this is your 2014 Commission --

 7 Commission-basis report; correct?

 8 A. That is correct.

 9 Q. And you're familiar with this report; correct?

10 A. Generally, yes.

11 Q. And this also supports the 9.8 percent ROE number

12 that we just talked about; correct?

13 A. I think the ROE isn't specified. What it

14 calculates is a rate of return instead of an ROE.

15 Q. And for that rate of return, that's 7.92 percent;

16 correct?

17 A. That's correct.

18 Q. And would you agree that, subject to check, if you

19 translated that 7.92 percent ROR to an ROE number, that

20 that is well over 10 percent? Approximately 10.3 percent.

21 Does that sound about right?

22 A. I would agree with that, subject to check.

23 Q. So looking at the Company's recent 10-K report,

24 ICNU Witness Mr. Mullins testified that the Company's net

25 incre- -- income increased 72.8 percent from 2013 to 2014.

0096

 1 Do you have any basis to dispute his calculation?

 2 A. No. But I think we all know that much of that was

 3 driven by the sale of Ecova and the gain on that sale.

 4 Q. And then also looking at Avista's 10-K, ICNU

 5 Witness Mr. Mullins testified that Avista returned

 6 approximately $158 million to shareholders through dividend

 7 payments and stock repurchases in twenty-six- -- 2014; is

 8 that correct?

 9 A. No. I -- I read Mr. Mullins' testimony, and --

10 and the way he characterized that is not correct, because

11 to buy back a stock is not a return to existing

12 shareholders. It's -- it's a buyback, so he's melded the

13 two.

14 Q. But is it fair to say that there was over

15 100 percent increase in the dividend return to

16 shareholders?

17 A. No, it's not.

18 Q. And what number would you say the increase in the

19 dividend was?

20 A. The dividend is what it is. The stock buyback is

21 just what it is. We're buying back stock from existing

22 shareholders, so it's not a dividend to existing

23 shareholders.

24 Q. So despite -- we may disagree on the buyback and

25 the -- the dividend payments, but I -- I think it's fair to

0097

 1 say that, the last several years, Avista has been a very

 2 financially healthy company; is that correct?

 3 A. Avista's definitely financially healthy, but as

 4 we've talked about, the financial impacts for '14, much of

 5 that was driven by the sale of Ecova, an unregulated

 6 business, and the gain on that sale.

 7 Q. And -- but despite being financially healthy, it's

 8 Avista's position that you need an attrition adjustment; is

 9 that correct?

10 A. Yes. And we've demonstrated that in this case, as

11 well as Staff's analysis of attrition.

12 Q. And is it your intention to continue to file

13 annual rate cases?

14 A. If we need to, yes. And we -- if we continue

15 along the path of doing single-year rate-making, then we

16 will need to file every year for the very reasons that

17 we've outlined and Staff has outlined in their testimony,

18 and that is rate base and operating expenses are going up

19 at a faster pace than revenues, so there's a need,

20 annually, for rate adjustments.

21 Q. And you wouldn't dispute if I told you that one of

22 your largest customers was told to expect annual rate cases

23 for the next five years, would you?

24 A. I -- I don't know, but I think that's a reasonable

25 expectation, yes.

0098

 1 MS. DAVISON: No further questions. Thank

 2 you.

 3 THE WITNESS: You're welcome.

 4 JUDGE FRIEDLANDER: Thank you. Please --

 5 MR. BROOKS: Could I borrow your microphone?

 6 MS. DAVISON: Yeah. One minute. Let me move

 7 my stuff out of your way.

 8 JUDGE FRIEDLANDER: All right. And this is

 9 Northwest Industrial Gas Users.

10 MR. BROOKS: Correct.

11 JUDGE FRIEDLANDER: Okay. Please proceed.

12 MR. BROOKS: Thank you.

13 \*\*\* EXAMINATION BY MR. BROOKS \*\*\*

14 BY MR. BROOKS:

15 Q. Good morning, Mr. Norwood.

16 A. Good morning.

17 Q. Just a few questions for you. In your rebuttal

18 testimony, which is KON-1T, on pages 8 and 9, you give a

19 brief description of the process that Avista's board goes

20 through to establish the amount it's going to spend on

21 capital projects. Do you recall this testimony?

22 A. Yes, I do.

23 Q. Can you remind us what that process is and -- the

24 process that the board goes through in order to arrive at

25 that total amount?

0099

 1 A. Yes. It really begins with the department

 2 submitting requests for funding for projects, and on this

 3 page 8 that you referred to, you can see, from 2011 to 2014

 4 the department requests, which is in the second column

 5 there and the amount that's funded, and so there's an

 6 amount each year that's not funded. So it begins with

 7 departments requesting funding.

 8 The board has chosen to not approve the level of

 9 funding that the departments have requested, and they've --

10 they've done that to balance meeting the needs to keep the

11 assets in good shape with the rate impact to customers, so

12 it's a balancing act that -- that goes on, and -- with both

13 senior management as well as the board.

14 Q. And based on that description in -- in its most

15 basic terms, is it more accurate to say that the board

16 decides how much it's going to spend over a certain

17 five-year period and then prioritizes projects within that

18 amount, or does the board look at what needs to be built

19 and then determine what amount it probably needs to spend

20 in order to build that?

21 A. You know, we're -- we're both talking about the

22 board, and so we probably ought to step back to the senior

23 management, who is really making the first evaluation of

24 how much we should spend on capital each year.

25 And so Mark Thies, the CFO, and others in -- in

0100

 1 the Company, again, look at the requests from departments,

 2 look at the amount of capital that -- and the rate impacts,

 3 and so they balance the need for funding with the rate

 4 impacts and other issues to make the decision on how much

 5 capital we're going to spend in the next five years. That

 6 recommendation, then, is taken to the board for their

 7 approval.

 8 Q. And after the board's approval, is it -- it's

 9 accurate that the capital planning group then implements

10 that approval and makes tweaks as necessary throughout that

11 planning horizon?

12 A. That's right. And that's described both in my

13 testimony as well as the testimony of Ms. Schuh.

14 Q. And then at what point does the board get

15 reinvolved?

16 A. You know, I don't know all the particulars on

17 that, but I know that if there's a major change, whether

18 there's another major project that comes in, and I -- then

19 I -- my understanding is at least the finance committee of

20 the board is informed of major changes. And if -- my

21 understanding, too, is that if the plan is to spend more in

22 a year, then they will inform the board of that also.

23 MR. BROOKS: That's all I have for you.

24 Thanks.

25 JUDGE FRIEDLANDER: Thank you.

0101

 1 Any redirect?

 2 MR. MEYER: I do. Yes.

 3 MR. OSHIE: Before -- before we move on, Your

 4 Honor --

 5 JUDGE FRIEDLANDER: Yes.

 6 MR. OSHIE: -- Staff would like to ask a

 7 question in response to Mr. Norwood's testimony.

 8 JUDGE FRIEDLANDER: Oh. All right. That's

 9 fine.

10 MR. OSHIE: All right. Thank you.

11 \*\*\* EXAMINATION BY MR. OSHIE \*\*\*

12 BY MR. OSHIE:

13 Q. Mr. Norwood, would you please turn to your

14 rebuttal testimony, on page 42?

15 A. I have it.

16 Q. Okay. Now, in that -- in your testimony at the

17 top of the page, you say, "Absent the accounting

18 treatment" -- and that's the accounting treatment for AMI

19 that you have spoken to in your -- in your

20 cross-examination testimony -- "the AMI project would be

21 delayed or terminated"?

22 A. Yes.

23 Q. Now, in your direct answer to at least Ms. Gafken,

24 you did not use the word "delayed." You said the project

25 would be, if I recall -- I believe you said the project

0102

 1 would not move forward without the approval of the

 2 Commission of the accounting treatment and some indication

 3 that the Commission is -- affirmation that the Commission

 4 is comfortable -- let's use that term -- with your decision

 5 to move forward with AMI.

 6 So is "delayed" still part of the Company's case,

 7 or is it just that the Company will walk away from its --

 8 this AMI project that they have planned?

 9 A. No. I think what we would choose to do following

10 this case will be dependent on the direction that we get

11 and the desires of the Commission. So if -- if the

12 Commission doesn't approve the accounting treatment, then

13 obviously, we would not move forward right away.

14 But there may be some interest in more information

15 or -- which -- which may cause us to revisit and come back

16 at another time. So there's always -- we believe that this

17 is the right thing to do long-term, so whether we do it now

18 or later, we -- we think, in the long term, it's going to

19 happen.

20 Q. Thank you, Mr. Norwood.

21 When I -- when I heard your testimony, what I

22 thought is that you were -- it was either a black-or-white

23 decision that you're presenting to the Commission, but it

24 appears that there's a gray area.

25 A. There is, and thank you for --

0103

 1 Q. Thank you.

 2 A. -- clarifying.

 3 JUDGE FRIEDLANDER: Thank you.

 4 MS. GAFKEN: May I ask a follow-up question

 5 to a question that ICNU asked? It should be quick.

 6 JUDGE FRIEDLANDER: Okay. I'll allow it.

 7 Thank you.

 8 \*\*\* EXAMINATION BY MS. GAFKEN \*\*\*

 9 BY MS. GAFKEN:

10 Q. Mr. Norwood, ICNU asked you a question about -- or

11 you responded in -- in a question from ICNU counsel that

12 the Ecova sale was driving the higher returns that Avista

13 experienced in 2014; is that correct?

14 A. The major driver of the increase in net income in

15 '14 was driven by the sale of Ecova.

16 Q. Okay. Were those revenues included in the CBR,

17 and did that drive any of the 10.7, I believe --

18 A. It did --

19 Q. -- return?

20 A. -- did not drive the 10.6 return. That's correct.

21 MS. GAFKEN: Thank you.

22 THE WITNESS: Mm-hmm.

23 JUDGE FRIEDLANDER: Thank you.

24 Are there any other cross-exam questions

25 before we move on to redirect?

0104

 1 All right. Mr. Meyer?

 2 MR. MEYER: Thank you, Your Honor.

 3 \*\*\* EXAMINATION BY MR. MEYER \*\*\*

 4 BY MR. MEYER:

 5 Q. Returning to the colloquy around AMI and the

 6 accounting order, is it the Company's desire to move ahead

 7 at this time with AMI, assuming it receives the favorable

 8 accounting treatment that you've discussed?

 9 A. Yes.

10 Q. And how soon after the issuance of this

11 Commission's order, presumably in December, would it intend

12 to enter into contracts with vendors for meters?

13 A. Actually, we have requests for proposals out and

14 proposals received, and so we are actually in the process

15 right now of identifying vendors, and so we would expect,

16 very early in the first quarter, to move ahead with

17 executing agreements with vendors to move forward with the

18 project.

19 Q. So is the Company ready to proceed in that regard?

20 A. Yes.

21 Q. And will it proceed in that regard without the

22 accounting order from this Commission, in this order, doing

23 so at that time?

24 A. We would not proceed if we don't receive the

25 accounting treatment that is requested, simply because we

0105

 1 would have a 20 or $21 million write-off right up front.

 2 Q. And that request included not only the deferral,

 3 but a return on the unamortized balance; correct?

 4 A. That's correct.

 5 Q. Okay. Now, you were asked about adjusted returns,

 6 and I'll direct you back to your table. I believe it's at

 7 page 17 of your testimony, rebuttal testimony. So if you

 8 could turn to that, please.

 9 A. I don't see a table on page 17. It must be a

10 different page.

11 Q. 16. I beg your pardon.

12 A. I'm there.

13 Q. All right. And that is your Illustration No. 1.

14 And does that purport to show Commission-basis returns on

15 equity for Avista?

16 A. Yes.

17 Q. And then do you subsequently discuss returns on

18 equity for the electric portion of Avista's business on a

19 Commission basis?

20 A. Yes. Back in Exhibit KON-5.

21 Q. And in that Exhibit KON-5, you were asked about

22 the returns in '13 and '14 for Avista's electric

23 operations; correct?

24 A. Yes.

25 Q. And you discuss those unusual circumstances, in

0106

 1 your words, that might have contributed to the returns in

 2 2014 that were in excess of the then-allowed ROE. Do you

 3 recall that?

 4 A. Yes.

 5 Q. What were those unusual circumstances?

 6 A. Two primary items in 2014. One is, with our

 7 pension post-retirement medical assets that fund those

 8 obligations, the return -- stock market returns on those

 9 assets for 2014 were very positive, and as we all know, the

10 stock market was very strong that year. That resulted in a

11 reduction in expense for pension post-retirement medical in

12 2014.

13 Since that time, market returns have been much

14 lower and -- and have returned to what would be viewed as

15 more normal, so the expense has gone back up in '15 and

16 '16. So just that one issue alone in '14 is approximately

17 $5 million for the electric operations, which by itself,

18 would reduce return from 10.6 down to about 10.1.

19 Secondly, we've talked about the Ecova sale, and

20 we also acquired Alaska Electric Light and Power in 2014,

21 so we had two transactions in '14, 2014, where there were

22 staff time, executive time, dedicated to those

23 transactions, which do not affect -- they're unrelated to

24 the Avista utilities operations.

25 The bottom line is, you had people assigning or

0107

 1 directly assigning their time to those transactions, which

 2 reduced the expense in 2014 related to the operations. And

 3 for Commission-basis reports, we don't normalize the

 4 pension post-retirement medical issue, nor do we normalize

 5 out these types of transactions where there was a benefit

 6 to customers. So if you normalize those out, the

 7 normalized returns in 2014 would have been very close to

 8 the authorized return.

 9 Q. So do you believe that attrition, standing alone,

10 and the attrition amounts built into the agreed-upon

11 revenue requirement, in and of themselves, drove those

12 returns?

13 A. No.

14 Q. Now, let's stay with these -- these two versions

15 of the table. The one was in page 16 of your rebuttal

16 testimony, and the other one was discussed with you, and

17 that is in your Exhibit KON-5.

18 Now, the first set of tables runs from 2008

19 through 2014, as does the second set of tables. The first

20 set of tables is expressed on a blended basis for both gas

21 and electric; correct?

22 A. Yes.

23 Q. And the second set of tables breaks it out for

24 electric and gas on a service-by-service basis; correct?

25 A. Yes.

0108

 1 Q. So if we look at KON-5, and you were asked about

 2 the return on equity of 10.6 percent for Washington

 3 electric, weren't you?

 4 A. Yes.

 5 Q. And would you put that 10.6 percent return on

 6 equity for 2014 into some kind of perspective?

 7 A. Well, as I mentioned, as compared to the 9.8

 8 authorized return and then the unexpected items that

 9 occurred in 2014, if you make adjustments for those that

10 are really not reoccurring, then you'd end up very close to

11 the authorized 9.8.

12 Also, if you look at the prior years, we

13 under-earned for five of those seven years. And also, with

14 the natural gas side, obviously, we've -- we've

15 under-earned repeatedly for the last seven, eight years,

16 which, as you looked at the proposed revenue requirements

17 in this case, you have roughly a $10 million increase on

18 the natural gas side, which is driven primarily by the

19 under-earning that we've been experiencing.

20 And -- and we're proposing a lower electric

21 increase, which is driven, in part, by the fact that, for

22 the past couple of years, we've been earning pretty close

23 to that allowed return, and so the need for rate relief is

24 lower.

25 Q. So what was the purpose, then, in showing a

0109

 1 landscape across years beginning in 2008 of returns on

 2 equity? Was it to demonstrate the impact of prior usage of

 3 historical test period pro-formed rate-making versus where

 4 attrition has taken us?

 5 A. Yes. As I explained in my testimony, prior to

 6 2013, the Company did not present or reflect in its revenue

 7 requirement an attrition adjustment, and the use of

 8 attrition, at least for the Company, has been reflected in

 9 the two-thousand- -- two-thousand-four- -- 2013, 2014

10 numbers. That's the major difference between the 2013 and

11 '14 versus 2008 to 2012.

12 Q. Okay. Thank you.

13 You were also asked about the use of a 3 percent

14 O&M trend adjustment in the attrition study in our direct

15 case versus a 5.16 percent O&M trend in the rebuttal case.

16 Do you recall that?

17 A. I do.

18 Q. And why did the Company elect to -- to move to the

19 5.16 percent?

20 A. Well, as we've progressed through this case, as

21 I've mentioned before, we've been updating information for

22 all known changes and using the best information available.

23 And so the -- we have accepted Mr. McGuire's

24 natural gas O&M escalator of 2.2 percent, but as you look

25 at the best, most recent information, the 5 percent number

0110

 1 on the electric side is more representative of the change

 2 from the 2014 test year to the 2016 rate year.

 3 Q. Would you agree that far and away the biggest

 4 issue that separates the Company and the Staff in their

 5 respective attrition studies has to do with the O&M trend

 6 percentage?

 7 A. Yes. That is the primary difference between

 8 Staff's attrition analysis and Avista's attrition analysis.

 9 Q. In fact, does that explain approximately

10 $7 million of the difference in revenue requirement from

11 the two studies?

12 A. Yes, it does.

13 Q. So it -- it is important for the Commission to

14 give serious attention to the level of O&M as built into

15 either attrition study?

16 A. Yes.

17 MR. MEYER: All right. And let's -- I

18 believe that's all. Thank you.

19 JUDGE FRIEDLANDER: Thank you.

20 And Ms. Davison, you had a question --

21 MS. DAVISON: Yes. I --

22 JUDGE FRIEDLANDER: -- for the Bench, or --

23 MS. DAVISON: No. I had a follow-up based on

24 Mr. Meyer's questioning. Is that all right?

25 JUDGE FRIEDLANDER: We don't usually allow

0111

 1 recross, but if Mr. Meyer doesn't have an objection --

 2 MR. MEYER: I don't object.

 3 JUDGE FRIEDLANDER: Okay. Then we'll allow

 4 it.

 5 \*\*\* EXAMINATION BY MS. DAVISON \*\*\*

 6 BY MS. DAVISON:

 7 Q. Mr. Norwood, just so the record's clear, you

 8 talked that -- 2014, that you had unusual circumstances

 9 that led to your over-earning. Did you have unusual

10 circumstances in 2013 that led to your over-earning?

11 A. Not of the magnitude that I described.

12 Q. Do you have work papers that show the 10.6 down to

13 10.1 based on what you claim to be the good pension

14 results?

15 A. There is an exhibit, one of Ms. Andrews' exhibits.

16 I'll see if I can get a reference for you. It is Exhibit

17 No. EMA-6, page 12 of 13. At the top of that page, you'll

18 see the difference in the pension post-retirement medical

19 between 2013 and 2014 of approximately $5 million.

20 Q. Okay. And then if I understood your testimony

21 correctly -- I just want the record to be clear on this --

22 that the 10.1 down to 9.8 --

23 A. Mm-hmm.

24 Q. -- you said was based on executive time not being

25 charged to ratepayers?

0112

 1 A. Not -- not just executive, but other employees of

 2 the Company who spent time analyzing and finalizing the

 3 transaction to purchase Alaska Electric Light and Power.

 4 So employees, whether it be officers or other employees in

 5 the Company, dedicated time to that.

 6 Because of that, they were assigning their

 7 expenses to those transactions, which reduced the cost --

 8 the costs that would get reflected in our Commission-basis

 9 reports.

10 Q. Do you have a --

11 A. That, together with the --

12 Q. I'm sorry.

13 A. -- Ecova sale.

14 Q. I'm sorry. Do you have a work paper that supports

15 that?

16 A. I don't have a work paper here with me now, and I

17 didn't try to quantify how much that was, but it was --

18 Q. So you're just back-of-the-envelope ballparking?

19 A. I just remember the -- the transaction costs

20 associated with AEL&P were several million dollars, and

21 some portion of that would have been employee time,

22 executive time, that would have been directly assigned to

23 that transaction, which would have moved costs away from

24 customers during that one year.

25 MS. DAVISON: Thank you. No further

0113

 1 questions.

 2 JUDGE FRIEDLANDER: Thank you. Are there any

 3 clarification questions from the Bench?

 4 CHAIRMAN DANNER: Yes. I have just a few.

 5 \*\*\* EXAMINATION BY CHAIRMAN DANNER \*\*\*

 6 BY CHAIRMAN DANNER:

 7 Q. I'm still trying to get my hand around, with

 8 regard to AMI, what it is that you're asking us to do and

 9 what you would have us do at a later date, because I'm

10 concerned that if we approve an accounting treatment and we

11 give guidance, what discretion is left to us in future

12 proceedings that would give us the flexibility to say,

13 "Well, maybe this isn't such a good idea"?

14 So, I mean, really, what are you asking us to do

15 today, and what are you leaving for us to do at a later

16 date?

17 A. Right. We struggled with the approach to take on

18 this, but as a regulated company, we really are in a

19 partnership -- Avista, the Commissioners, the Staff, and

20 all the other stakeholders -- to try to do the right thing

21 for customers, both in the near term and the long term.

22 So with AMI, there's really lots of opportunities

23 there to the future, and -- and so our desire is to move

24 ahead with that. But we've already talked about the

25 accounting treatment, and so to answer your question about

0114

 1 what's left for the Commission to decide for the future, as

 2 I mentioned, we've essentially spent no dollars on that

 3 yet, but we're going to spend money pretty soon.

 4 And so we're not asking the Commission today to

 5 respond or issue any kind of decision relating to the

 6 prudence of the dollars we're going to spend, the vendors

 7 we choose, the equipment we choose. So we will need to

 8 come back later to demonstrate we went about it the right

 9 way, we spent the right amount of money.

10 And at that point, the Commission can say, "Okay.

11 You spent too much money. You selected the wrong product.

12 You selected whatever." That's when the Commission would

13 rule on the prudence of what we installed and the dollars

14 that we spent.

15 So what we're looking for now is, we believe now's

16 the time to -- to move ahead with -- and I think there's

17 one exhibit that I think's really important to look at, and

18 that is -- it's Exhibit LDL-15, which is a cross-exhibit

19 for Mr. La Bolle. Again, that's LDL-15, and that's page 6

20 of that exhibit.

21 CHAIRMAN DANNER: Okay. Hang on just a

22 second.

23 COMMISSIONER JONES: Okay.

24 CHAIRMAN DANNER: Did you say 15 or 16?

25 THE WITNESS: 15.

0115

 1 COMMISSIONER JONES: Okay.

 2 A. And on the upper right-hand corner of the page,

 3 there's -- it says -- 6 of 40 is the page I'm looking at,

 4 and it shows a map of the United States.

 5 This is part of a presentation that was presented

 6 to this Commission earlier this year, and what it really

 7 shows is, if you look in the left-hand blue box, it

 8 forecasts that from 50 to 70 percent of meters will be

 9 basically AMI meters by 2020. If we get started today,

10 it'll be almost 2020 before we're done and installed.

11 And so if you look at the map, also, you can see

12 the number of states that either have -- already have it in

13 place or are working toward it. And it's also important to

14 note that Seattle City Light already has AMI, our neighbors

15 Kootenai Electric, Inland Power, in our neighborhood,

16 Tacoma Power and so on.

17 And so as we've looked at the cost-benefit

18 analysis that we've presented to the Commission, we believe

19 that there are sufficient benefits to outweigh the costs

20 over the life of the project, and we think now is the time

21 to move ahead with this.

22 So we're really looking for some kind of

23 indication from the Commission. No. 1, the accounting

24 treatment, but also, if there's any concerns, then we'd

25 like to hear about those now, because I think -- I view us

0116

 1 as working together on this to do the right thing for

 2 customers long term.

 3 BY CHAIRMAN DANNER:

 4 Q. So I'm still struggling, though, with if we --

 5 basically, it sounds like what you're asking for right now

 6 is a wink and a nod to go forward. "Hey, good idea."

 7 Then, later, we either say, "You've -- you've

 8 overspent or underbuilt or selected the wrong technology

 9 and so forth," but then the question of -- of whether this

10 is the right project, haven't we, in essence, given you

11 kind of a prudency review by saying, "This is -- this is

12 the right thing to do going forward"?

13 A. No. And -- and so let me be more specific and

14 tell you what I would be looking for, I think, and we would

15 be looking for.

16 If the Commission approves the accounting

17 treatment with the return on the unamortized balance so

18 that there's no write-off, and if the Commission's order

19 doesn't have any kind of "You guys shouldn't be doing

20 this," then even silence on the rest of it, I think, would

21 be sufficient for us to move ahead.

22 And we would interpretate -- interpret the

23 Commission's decision to give us the accounting treatment,

24 to set up the regulatory asset with a return, as some kind

25 of indication that you think it's okay to move ahead with

0117

 1 this, without ruling -- giving us a specific prudence

 2 decision on this project, if that makes sense.

 3 Q. Well, it does. I'm -- what I would foresee,

 4 though, is if we were to come back later and say, "Okay.

 5 We think you've chosen the wrong vendor," or whatever kinds

 6 of things --

 7 A. Mm-hmm.

 8 Q. -- the defense is going to be, "Well, look. On

 9 this date, you gave us a green light to move ahead with

10 AMI," and I -- I'm just trying to figure out how that

11 defense would -- would undo our flexibility going forward.

12 A. No. And -- and I'm glad you brought that up,

13 because we are not asking you to rule on those kinds of

14 decisions today.

15 I -- we basically said, "It's really our burden to

16 come back and to demonstrate, to support the vendor that we

17 chose, the equipment that we chose, the dollars that we

18 spend." So we think all of that is fair game for the

19 Commission to evaluate and decide whether we did the right

20 thing going forward.

21 Q. Okay. All right. Thank you.

22 Then my other question actually was a follow-up on

23 a question from the -- the Gas Users. Basically, it was

24 asked whether the -- you have basically a budget that is

25 set aside for capital expenditures and then the various

0118

 1 groups, basically, prioritize to meet a budget, and I

 2 wasn't clear what your response to that was.

 3 A. Okay.

 4 Q. Is that, in fact, the way it is done?

 5 A. I think it's important to go back to page 8 of my

 6 rebuttal testimony. On that page, beginning on line 13 to

 7 17, it -- it shows the actual capital investment from 2011

 8 to '14 and then the total requests.

 9 So this really starts with the departments,

10 especially generation, transmission, technology, submits

11 requests for funding for future capital for the next five

12 years, and what we -- we find is that they're requesting

13 more dollars than what senior management and the board is

14 willing to spend.

15 And so there's a limit. We basically give them a

16 limit, the departments, and have this capital planning

17 group figure out, "What is the highest priority?" so that

18 they -- they budget for and target projects within the

19 limit established by senior management.

20 Q. So -- so that suggests to me, then, that -- that

21 you have a dollar amount in mind about what the

22 expenditures will be and then you prioritize them into the

23 preexisting budget, so it's not necessarily a case of -- of

24 making a determination that a particular capital project is

25 needed now.

0119

 1 It seems more like this is -- this could be

 2 nice-to-have projects, and you're saying, "Okay. But we're

 3 not going to spend more than 386 million, so anything

 4 bey- -- beyond that, if it doesn't meet the priorities, is

 5 cut out." But everything within 386 would be, whether it's

 6 immediately necessary or can be -- be left off for a year

 7 or two, and that's what I wanted to get clarification on.

 8 A. Right. Well, the direction to departments is not

 9 to provide a wish list. They're directed to provide

10 projects that need to be done, whether it's related to

11 reliability or to a systematic replacement of items over

12 time, so it's not a wish list.

13 So because senior management limits the total

14 amount, then each department has to go back -- and the

15 capital planning group does this -- to figure out which has

16 the highest priority.

17 Q. And by "highest priority," that includes the

18 immediacy, meaning if -- if this can -- if this can wait

19 five years, it will wait five years, but --

20 A. Or --

21 Q. -- if it needs to be done now --

22 A. Or --

23 Q. -- it needs to be done now?

24 A. -- a year or two.

25 And of course, there's been times -- and I believe

0120

 1 it's 2013 or '14 -- we're actually spending more than the

 2 350 million that we targeted because there's some other

 3 projects we determined that need to be done. And so then

 4 you go back and say, "We need to spend more," and so we do

 5 spend more because of the risk involved in putting it off

 6 or because there's some kind of compliance requirement

 7 where we absolutely have to do it.

 8 Q. Okay. So this is not just meeting the budget.

 9 This is -- this is dealing with projects that have an

10 immediacy to them, and so if there's costs that are to be

11 borne by the ratepayers, they're not being asked to do

12 something that's not necessary?

13 A. That's absolutely correct.

14 CHAIRMAN DANNER: Thank you. That's all from

15 me.

16 JUDGE FRIEDLANDER: Thank you.

17 Commissioner Rendahl?

18 \*\*\* EXAMINATION BY COMMISSIONER RENDAHL \*\*\*

19 BY COMMISSIONER RENDAHL:

20 Q. Good morning, Mr. Norwood.

21 A. Good morning.

22 Q. So I'm going back to this AMI topic. So you

23 mentioned in your response to a question from Chairman

24 Danner that you see Avista and the Commission as partners

25 in this process. So under the regulatory compact, shall we

0121

 1 say, is it the Commission's responsibility to make

 2 operational and management decisions for the Company?

 3 A. No.

 4 Q. So you're asking us to make a decision for the

 5 Company on whether to go forward in this matter; correct?

 6 A. No. What we're asking -- what we're communicating

 7 to the Commission is, we're saying, "We believe it's time

 8 to move forward, and we will plan to move forward as long

 9 as we get the accounting treatment that's needed in order

10 to -- to avoid a write-off."

11 And so what we're looking for, otherwise, is, if

12 the Commission sees something that we don't see at this

13 point, if they believe now's not the right time, we're

14 looking for that kind of in- -- indication. We're not

15 look- -- asking the Commission to make the decision for us.

16 Q. So you're asking the Commission to make a decision

17 on the timing rather than the decision to go forward?

18 A. We're asking the Commission to agree -- indicate

19 whether they agree with the Company that now's the right

20 time, because we think now is the right time.

21 Q. So in terms of the accounting treatment, has the

22 Company filed an accounting petition in this case, or

23 you're just expecting the Commission to -- to give a wink

24 and a nod, as Chairman Danner said, and then you would go

25 ahead and file that petition?

0122

 1 A. We've actually included the specific accounting

 2 request in the testimony, I think, of either Ms. Andrews or

 3 Ms. Schuh, where we've requested the specific accounting

 4 treatment with the account numbers to be used. And so

 5 we -- we are requesting that the Commission's order in this

 6 case approve that requested accounting treatment, but we

 7 have not filed a separate petition.

 8 COMMISSIONER RENDAHL: Okay. And I think

 9 that's it. Thanks.

10 JUDGE FRIEDLANDER: Thank you.

11 And Commissioner Jones, did you have any

12 clarifying questions?

13 COMMISSIONER JONES: Yes.

14 \*\*\* EXAMINATION BY COMMISSIONER JONES \*\*\*

15 BY COMMISSIONER JONES:

16 Q. So maybe this is best left for -- good morning --

17 A. Good morning.

18 Q. -- Mr. Norwood. Good to see you up here.

19 A. Thank you.

20 Q. Maybe this is best left for Ms. Schuh, but I had a

21 question. In your rebuttal testimony, KON-1T, and the

22 different descriptions of it, I see the net book value of

23 the, quote, "older meters" at 20 million or 21 million, but

24 on page 27 of Ms. Schuh -- what's the number on this

25 one? -- KKS-1T, I see page 27, it's 20.2 million.

0123

 1 So is that the correct number? I'd like to get it

 2 on the record now what you will be asking for in this case.

 3 You're asking in this case for a regulatory asset for this

 4 20 or 21 million; right?

 5 A. That's correct. And so what we're -- we're asking

 6 for is -- if you look at my testimony, is in the month that

 7 we sign an agreement with a vendor --

 8 Q. Right.

 9 A. -- to replace the meters, that will trigger either

10 a write-off or a moving the net plant over to a regulatory

11 asset. So depending on the month that that happens, the

12 number's going to be slightly different because you're

13 continuing to depreciate it, so the number's going to be

14 somewhere in that 20 to $21 million number, depending on

15 the timing of the signing of the agreement.

16 Q. Well, you did indicate the first quarter of 2016

17 is your target to sign both for the advanced meter and the

18 meeting -- the metering infrastructure and the

19 communications vendors; right? First quarter?

20 A. Yes. That's our expectation.

21 Q. So could you maybe --

22 A. And some of that may drift into the second --

23 second quarter.

24 Q. Could you maybe pro for- -- or -- or provide the

25 Commission -- this would be a Bench request -- what -- what

0124

 1 that would be, let's say, in February?

 2 A. Yes, we could.

 3 Q. Okay. Well, if Mr. McGuire --

 4 MR. MEYER: I -- I have that as Bench Request

 5 No. 4; is that --

 6 JUDGE FRIEDLANDER: Actually, it'll be --

 7 we'll -- we'll have it as exhibit -- Bench Request 4, but

 8 it'll be Exhibit 7.

 9 MR. MEYER: Okay.

10 JUDGE FRIEDLANDER: Thank you.

11 BY COMMISSIONER JONES:

12 Q. I'm -- I'm moving to the attrition analysis of --

13 at a somewhat higher level. And you indicated in answer to

14 questions from Ms. Davison that you will be filing annual

15 rate cases; correct?

16 A. That's our expectation, yes.

17 Q. Do you intend to use an attrition analysis for all

18 future rate cases, or will you use a modified historical

19 test year, or both?

20 A. You know, I -- I think over time, circumstances

21 may change, and so we would want to use a method that

22 properly reflects the rates that are fair, just, and

23 reasonable for the rate period.

24 Unless there's a change in what we see today, I

25 would expect a continuation of attrition, so we would

0125

 1 expect to use an attrition analysis, together with a

 2 cross-check study, so that there's confirmation of that

 3 information.

 4 And as we've seen in this case, a number of the

 5 other parties used modified historical test period with

 6 limited pro forma adjustments, and Staff concluded that,

 7 when you do that, you don't end up with sufficient revenues

 8 to cover costs and earn that reasonable return.

 9 Q. I don't think you're answering my question

10 precisely. So are you going to use an attrition analysis

11 in future test years based on your work in the past case,

12 which settled? Correct?

13 A. Mm-hmm.

14 Q. You did an attrition analysis for that case;

15 right?

16 A. We did.

17 Q. And you did a thorough attrition analysis.

18 Mr. Forsyth did the original one, right, for this case?

19 A. No. It was actually reflected in Ms. Andrews'

20 testimony --

21 Q. Okay.

22 A. -- but some of the statistics were conducted by

23 Mr. Forsyth.

24 Q. Okay.

25 A. But the direct answer to your question is, the

0126

 1 next case is probably going to be early 2016, and so our

 2 expectation is, yes, we will use an attrition analysis in

 3 the next case.

 4 Q. Next question regards the ratings agency. You

 5 included an exhibit, did you not, KON-2?

 6 A. I did.

 7 Q. From S&P?

 8 A. Yes.

 9 Q. What was your purpose in providing that S&P

10 ranking? Was it to show that the Commission was No. 46, or

11 was -- or was it to show that the Commission has a stable

12 and adequate credit rating?

13 A. I thought that I might get in trouble on this one.

14 Q. You are.

15 A. It was really in response to Mr. Gorman's

16 representation of this particular --

17 Q. Okay. Well, I --

18 A. -- docket.

19 Q. -- wanted to go there as well.

20 A. Okay.

21 Q. So -- so did you read Mr. Gorman's analysis on

22 MPG-1T, specifically on pages 9, 10, and 11?

23 A. I did.

24 Q. His point is that -- and I'm reading from page 9,

25 lines 22 through 24 -- "Both Standard and Poor's and

0127

 1 Moody's have recognized that Washington adjusts rates in a

 2 balanced manner. They both knowledge that Avista's last

 3 rate settlement was constructive for the utility and

 4 clearly was something acceptable to other stakeholders in

 5 the process. S&P rates Avista Corp. as an A minus with a

 6 stable outlook," and then it goes on to Moody's.

 7 So do you -- do you disagree or does Mr. Thies

 8 disagree with that?

 9 A. No. The -- the reason for my rebuttal testimony

10 is to -- to address why S&P and Moody's did view the recent

11 orders from this Commission as being constructive. And the

12 reason they viewed it as being constructive is that it was

13 a departure from the prior use of using historical data to

14 set future rates. And so --

15 Q. Okay.

16 A. -- they rightly recognized that the change to

17 recognize there's attrition was a positive change, and

18 that's why I mentioned with regard to this report -- this

19 report was issued in early '14. I think this -- this

20 report did not reflect the -- this change, this positive

21 change that's -- that's going on in rate-making. So I

22 think that's why the Commission --

23 Q. I see.

24 A. -- in this report was at 45, and today, I think

25 they're much -- much improved.

0128

 1 Q. Well, could you consult with Mr. Thies and -- and

 2 provide something for the record, if there is a 2015 report

 3 from S&P, please?

 4 A. I have checked, and there -- they have not issued

 5 a report since this time.

 6 Q. No report?

 7 A. I've checked with them. We met with them just a

 8 few months ago, and they have not. They are planning to

 9 issue the same form of report. They did not commit to a

10 date, but they expect to issue something similar in the

11 future.

12 Q. Okay. Is there anything in writing -- Mr. Thies,

13 I'm sure, gets back to Wall Street quite a bit with the

14 ratings agency and the buy-side equity firms. Is there

15 anything in writing that provides an assessment of the

16 constructive nature of the recent rate case settlement?

17 A. You've referenced the recent write-ups of S&P and

18 Moody's. Those are --

19 Q. Right.

20 A. -- very clear that the recent orders have been

21 constructive. Also, Regulatory Research Associates

22 prepares a similar assessment of each state, and what

23 you'll see in the most recent report there -- I don't have

24 it in front of me -- is that Washington is -- is much

25 higher in the group versus what's reflected here.

0129

 1 Q. S&P talks about it, in its report, the -- the

 2 factors that it uses to evaluate state commissions, and

 3 here are some of them, and I think this is no surprise to

 4 you, Mr. Norwood: consistency and predictability, as well

 5 as efficiency and timeliness, to limit uncertainty. So

 6 would you agree with those concepts?

 7 A. I do.

 8 Q. So your direct case proposed on the electric side

 9 33 million, and then you went down to 10.0 million, and on

10 rebuttal, 3.9 million?

11 A. Yes.

12 Q. So isn't that a wide range? Doesn't that create

13 more uncertainty in terms of the way the Company has

14 presented evidence in this case?

15 A. I would agree it's a very wide range, but there

16 are very good reasons for those changes, which we've

17 outlined on page 34 of my testimony.

18 Q. Okay. Let me get there. Page what?

19 A. Page 34.

20 Q. Was that the exchange you had with Ms. Davison and

21 others?

22 A. No, it's not.

23 Q. No.

24 Okay. I'm there.

25 A. Okay. So you mentioned 33 million electric, which

0130

 1 is -- and I'm going to use the line numbers, which is

 2 inside on the page. Line No. 1, the multiparty settlement

 3 which was filed reduced it from the 33 million down to

 4 16.8.

 5 Q. I see that.

 6 A. Part of it was cost-to-capital. Part of it was

 7 the power supply. And part of this, as you know, natural

 8 gas prices have declined. We filed a purchase gas

 9 adjustment recently to substantially reduce rates --

10 Q. Right.

11 A. -- for customers.

12 Q. I'm aware of that.

13 A. We've -- we've updated that information into this

14 filing, and so that's part of the reduction, in addition to

15 some other corrections. We negotiated an agreement with

16 Chelan PUD, again, with prices coming down. It was better

17 than what we had originally expected. So then let's go to

18 line 7, which is revised revenue requirement, July 2015.

19 Q. I'm there.

20 A. So when we put our case together, it was in -- in

21 the December time frame. The federal government decided

22 they were going to grant bonus depreciation again. They

23 don't make that decision until December. When we get to

24 bonus depreciation, we have deferred taxes, which reduces

25 our rate base.

0131

 1 Also, we revise our allocation percentages in

 2 January of every year, and what we found was that loads in

 3 Idaho are growing faster than loads in Washington, which

 4 means you allocate cost and rate base from Washington to

 5 Idaho. That was not insubstantial.

 6 And so then you moved costs away from Washington,

 7 which reduces our -- our need for rate relief in

 8 Washington. So those are all items that we didn't have at

 9 the time we filed our case, and they're a good thing,

10 because it reduces our need for regulated --

11 Q. Right.

12 A. -- rate relief in Washington.

13 So then if we go down to line 9, the delay in

14 replacing the existing meters, our --

15 Q. Yeah. We just talked about that.

16 A. Our proposal was to start that amortization in

17 2016. On the rebuttal, we're saying, "Okay. Let's wait

18 until '17 to start that," which would reduce our need for

19 rate relief.

20 Normalizing the hours based on thermal

21 maintenance, we have some lumpy maintenance that's going to

22 happen in 2016. Staff and the other parties suggested

23 normalizing that, spreading it out over multiple years, but

24 their proposal was to do it for customers, but not for the

25 Company.

0132

 1 So if we can have a deferral mechanism to spread

 2 that out for both the customer and the Company, then it

 3 doesn't cost customers any more, but it smooths out the

 4 lumpiness, and it would reduce our need for rate relief in

 5 this case. So that's the 3 million. The other is pretty

 6 small. It gets you down to the 3.6.

 7 So all very straightforward, updated information,

 8 which, you know, it's a big change, but they're all

 9 understandable changes over the course of this case.

10 Q. The ratings agencies and other Wall Street

11 agencies follow rate cases closely. They're probably

12 listening in today. So has Mr. -- have you or Mr. Thies

13 briefed the ratings agency for this fairly significant

14 reduction in revenue requirement on the electric side?

15 A. Mr. Thies, Mr. Morris, and I actually visited with

16 Standard and Poor's and Moody's in, I believe it was, July.

17 At that time, if you go up to line 7, the $10 million

18 electric, so I did communicate to them at that time,

19 that -- that the need for rate relief has come down and so

20 there wouldn't be a surprise.

21 Q. Okay. Thank you.

22 A. You're welcome.

23 Q. On line 15 there, I was going to ask you a

24 question about the estimated power supply update in

25 November of 2015. Wouldn't you agree that this is

0133

 1 hypothetical at this point?

 2 A. It's an estimate. We checked in with Mr. Johnson

 3 just this past week, and so his estimate is that if we --

 4 if we were we -- to rerun it today, it would still be in

 5 that 8 to $10 million range, but certainly, it is an

 6 estimate, and it could change between now and a filing in

 7 November to update it.

 8 Q. But, Mr. Norwood, is this your best estimate?

 9 You -- you filed this rebuttal testimony in early

10 September; correct?

11 A. I don't remember the date.

12 MR. MEYER: Yes.

13 JUDGE FRIEDLANDER: I believe it's

14 September 4th.

15 A. Yes. Thank you. Yes.

16 BY COMMISSIONER JONES:

17 Q. You lose track, don't you --

18 A. I do.

19 Q. -- in these cases.

20 So was that 10.0 million based on the best

21 estimates of natural gas forward strips and Mid-C prices,

22 et cetera, at that time?

23 A. Actually, at that time, we did not adjust power

24 supply costs, because those costs were settled as a part of

25 that multiparty settlement. And the understanding is,

0134

 1 assuming that the Commission approves that, we would refile

 2 in November. So the 10 million doesn't reflect any change

 3 in power supply costs. That --

 4 Q. Okay.

 5 A. -- additional change would be shown on line 15

 6 that we were talking about.

 7 Q. Okay. Let's move to page 42 of your testimony on

 8 the normalization of hours-based thermal maintenance on

 9 Coyote Springs 2 and Colstrip. And again, regulatory

10 certainty is a good thing -- I think most people agree --

11 but again, this is one where the Company, Staff, and all of

12 us have been back and forth on this issue.

13 Do you recall -- and I think you cite in your

14 testimony -- that Staff -- because I remember the public

15 comment hearing in Spokane on this. I think Mr. Schooley

16 and Mr. Schoenbeck were there.

17 A. Yes.

18 Q. But both of you reached a settlement to put -- to

19 put this in the settlement at that time, for major

20 maintenance associated with CS2 and Colstrip; right?

21 A. That's correct.

22 Q. And then, in the next case, it went out. You --

23 you reversed course; correct?

24 A. And I did not like it one bit, but that's -- there

25 are some give-and-take that goes on, and so sometimes you

0135

 1 just --

 2 Q. Okay.

 3 A. -- have to give in order to get something

 4 someplace else.

 5 Q. So, now, we're back in a litigated case and the

 6 three Commissioners have to make a decision with widely

 7 varying positions on normalization. I -- I just want to

 8 get the historical record correct. So it's been in, it's

 9 been out, and now you're asking us to make another decision

10 on this?

11 A. Well, and I -- it's important to talk about this,

12 because, you know, if you look at the -- the parties'

13 proposals here, across the board, it -- the indication is

14 they're okay with normalizing this and smoothing this out,

15 and so -- but their proposal is really just for the

16 customer, not the Company. There's reference to Avista

17 using accounting rules --

18 Q. Right.

19 A. -- existing accounting rules, which Puget uses, in

20 order to smooth this out. They do their own deferral

21 without a Commission order.

22 But under -- under the accounting rules currently,

23 we operate where you expense it as incurred. We don't

24 defer it. For us to make that election, that would be a

25 change in accounting, and under those accounting rules, we

0136

 1 would need to have our outside auditor, Deloitte, give us

 2 what's called a preferability letter.

 3 And so that -- they would need to agree that the

 4 preferred method of accounting would be this deferral and

 5 amortization piece outside of a Commission order, and the

 6 indication from them is that is not the preferred

 7 approach for --

 8 Q. Sure.

 9 A. -- accounting purposes. So we're not in a

10 position where we can elect to make this accounting change,

11 and so in order for us to accomplish this normalization or

12 a smoothing for the Company, we need a Commission order

13 which allows us to defer it, set it aside, amortize it over

14 a future period. And we're okay without a return, because

15 then it doesn't increase the cost to the customer.

16 Q. Right.

17 A. So with that kind of order -- and Staff Witness, I

18 believe it's Mr. Ball --

19 Q. Yes.

20 A. -- seemed to indicate that he was okay with that

21 as long as we did them kind of separately. Colstrip is

22 kept separate because it may be -- it's a three-year cycle.

23 CS2 is a four-year cycle.

24 Q. Correct. I was going to ask --

25 A. And we're okay --

0137

 1 Q. -- you about that.

 2 A. -- with that.

 3 Q. Okay.

 4 A. So we're okay with -- but we need a Commission

 5 order, because we don't have the choice to unilaterally

 6 change accounting methods to accomplish the same thing

 7 that's Puget's doing today.

 8 Q. And I think we've -- well, at least I will have

 9 questions for Mr. Ball and -- is -- is the Company witness,

10 Ms. Andrews, on this?

11 A. She also covers this topic --

12 Q. Okay.

13 A. -- yes.

14 Q. So I would -- I don't want to get into the details

15 with you, but just you -- you are including -- we have very

16 different proposals on this, and you are including some

17 2016 forecasts of what the major O&M will be for both

18 units; right? In -- in your proposal?

19 A. Yes. And if you look back at Coyote Springs 2,

20 for example, it was --

21 Q. Right.

22 A. -- last overhauled in 2012 --

23 Q. Yes.

24 A. -- so we know that those numbers are $3.9 million.

25 Q. Right. That's not --

0138

 1 A. So we're --

 2 Q. -- confidential; right?

 3 A. No.

 4 Q. Okay.

 5 A. And we're -- so we're -- we're due. It's going to

 6 happen in '16. So unless we have some kind of accounting

 7 treatment on that, then we will expense that and we'll

 8 absorb it.

 9 Q. Okay. And I'll end here. Just -- just one --

10 since you are asserting, in your rebuttal case, of some

11 forecast for major O&M in 2016, I'm just going to ask you

12 kind of a high-level question. With more variable

13 resources throughout the Western Interconnection and

14 more -- the interconnected nature of the grid, do you

15 expect these units to be ramping up and ramping down more

16 frequently in 2016?

17 A. For Colstrip, no, because the incremental

18 operating cost is so low. I -- I'm not as close in recent

19 years on how much we're ramping CS2 as a combined cycle

20 unit, so it really depends on the market price of gas

21 versus the market price of electricity.

22 But generally speaking, I would expect there to be

23 more ramping up and down, which is more wear and tear on

24 the units, obviously.

25 Q. Yeah. And that was my follow-up ques- --

0139

 1 question. Won't there be more wear and tear on the

 2 machines, and so these -- the four-year cycle for CS2 and

 3 the three-year cycle for Colstrip could -- could -- could

 4 be reduced in the future, perhaps?

 5 A. Right. You know, we talked to Thomas Dempsey,

 6 who's an engineer that really takes care of these units for

 7 Avista; and for Colstrip, they don't do it based on hours.

 8 Every third year, they overhaul it.

 9 Q. I see.

10 A. That's just their practice.

11 For CS2, they do it based on number of hours, and

12 so potentially, you could accelerate it, but I think, for

13 the most part, it's been running pretty strong, so we would

14 expect every four years.

15 And so the -- I think the convenience for -- for

16 all of us, both the customer and the Company, is that if

17 you have a deferred accounting mechanism, you don't have to

18 guess at when this is going to happen. When it happens,

19 you defer it, you amortize it over the period where

20 customers get the benefit.

21 You get the benefit over a four-year period. So

22 by amortizing it over four years, you match the cost and

23 the benefit at no additional cost to the customer.

24 Q. Right. But your approach is still different than

25 Mr. Ball's approach; correct?

0140

 1 A. I think in his response to -- there's a Bench

 2 Request No. 2. I think he indicated that there's --

 3 there's a willingness -- you can talk with him about that,

 4 too --

 5 Q. Yes. We will.

 6 A. -- to use that approach the Company has proposed,

 7 potentially.

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

 9 A. You're welcome.

10 COMMISSIONER JONES: Those are all my

11 questions.

12 JUDGE FRIEDLANDER: Thank you.

13 Did you have another, Commissioner Rendahl?

14 \*\*\* EXAMINATION BY COMMISSIONER RENDAHL \*\*\*

15 BY COMMISSIONER RENDAHL:

16 Q. Mr. Norwood, I have a follow-up on the AMI issue

17 we were talking about.

18 You mentioned that the plan, if the Company goes

19 forward, is to -- and I think it was a -- one of the pages

20 in Mr. La Bolle's exhibit -- said you would plan to do this

21 over a period of years. So why is it necessary for the

22 Company to get a treat- -- accounting treatment for all of

23 the meters at one time rather than spread that out over

24 time as you, in fact, have a chunked plan of replacing

25 meters?

0141

 1 Because you're not going to be replacing all of

 2 them right away, so why should the ratepayers bear the

 3 burden of that right away?

 4 A. Right. I'm so glad you asked the question,

 5 because it's really not related to the timing of replacing

 6 the meters. It really goes back to -- this is FASB

 7 accounting standards, and what the standards say that -- is

 8 once you sign an agreement with a vendor to replace those

 9 meters, you don't write them off as you replace them. You

10 write them off immediately because what you've done is

11 you've made a commitment to replace them.

12 So under the accounting rules, the accounting

13 rules require us, on our income statement, to write that

14 off unless we have an order from the Commission to do that.

15 So our proposal, then, once we sign the agreement with a

16 vendor to replace the meters, is to move them from plant in

17 service to a regulatory asset, and there's no write-off,

18 and then to amortize them over a ten-year period.

19 You could go longer, you could go shorter, but we

20 tried to pick a period that mitigated the overall impact to

21 the customer, but with a return on the unamortized balance

22 during that period. So it's really the accounting rules

23 that trigger that need for an order up front.

24 Q. So what you're saying is that by getting that

25 accounting treatment, you would, in fact, be spreading this

0142

 1 over time to customers, or is the full impact going on

 2 customers right in the 2016 rate year?

 3 A. No. You would -- in fact, customers -- if you

 4 started the amortization in 2016 instead of '17, as we've

 5 proposed on rebuttal, there would be a slight increase.

 6 Because we're amortizing or recovering the existing meters

 7 over a ten-year period instead of over -- I can't remember

 8 what they're depreciated over right now. It's 20, 20-plus

 9 years. So by accelerating the recovery of it, you're --

10 you're increasing rates a little bit to recover that.

11 Q. Thank you.

12 A. You're welcome.

13 CHAIRMAN DANNER: So I don't have a question,

14 necessarily -- well, I guess it is a question.

15 In the earlier conversation, there was

16 reference to RRA studies and to Moody's studies, and I

17 don't think those are in the record, and I don't know if

18 they are particularly salient to our decision-making, but I

19 wonder if it would be helpful for us either to acknowledge

20 that we could take administrative notice of them or to get

21 them in there.

22 JUDGE FRIEDLANDER: Yeah. I think we would

23 need them in the record, so is there a way that Avista can

24 provide the Commission with those, and we'll make them just

25 Exhibit 8 from the Bench?

0143

 1 MR. MEYER: We can do that.

 2 COMMISSIONER JONES: Yeah.

 3 JUDGE FRIEDLANDER: And when do you think

 4 those would be coming in? Within a week?

 5 MR. MEYER: Within a week.

 6 THE WITNESS: Yes.

 7 JUDGE FRIEDLANDER: Okay. Okay. Thank you.

 8 And that's both studies; right? The RRA and

 9 Moody's?

10 CHAIRMAN DANNER: Well --

11 JUDGE FRIEDLANDER: Is there another --

12 CHAIRMAN DANNER: -- there was certain --

13 JUDGE FRIEDLANDER: -- one that we need?

14 CHAIRMAN DANNER: There was one that was read

15 by Commissioner Jones, and --

16 JUDGE FRIEDLANDER: I see.

17 CHAIRMAN DANNER: -- there was one that was

18 mentioned by --

19 JUDGE FRIEDLANDER: Sure.

20 THE WITNESS: Right.

21 CHAIRMAN DANNER: -- Mr. Norwood, so.

22 THE WITNESS: The most recent RRA study would

23 be the most relevant, and then you've got the -- the recent

24 S&P write-ups on Avista and the recent S&P -- Moody's

25 write-ups on Avista.

0144

 1 JUDGE FRIEDLANDER: Okay. So all three of

 2 those will be Exhibit 8.

 3 COMMISSIONER JONES: Are those -- are those

 4 in Mr. Gorman's testimony? Do you know?

 5 THE WITNESS: I don't recall --

 6 COMMISSIONER JONES: I don't recall either.

 7 THE WITNESS: We can look and see if --

 8 COMMISSIONER JONES: So it's probably a good

 9 idea to get --

10 THE WITNESS: I don't recall.

11 COMMISSIONER JONES: -- them in the record.

12 JUDGE FRIEDLANDER: Thank you.

13 And, then, we've been going for a while now.

14 I think it might be a good time to take a break, so maybe

15 10 minutes.

16 MR. MEYER: Is this witness excused?

17 CHAIRMAN DANNER: Are we done with this

18 witness?

19 JUDGE FRIEDLANDER: I believe so. If -- if

20 there's no further clarifying questions, we'll start with

21 Ms. Andrews when we come back.

22 MR. MEYER: Thank you.

23 JUDGE FRIEDLANDER: Thank you so much,

24 Mr. Norwood.

25 THE WITNESS: You're welcome.

0145

 1 (A break was taken from 11:04 a.m. to 11:20 a.m.)

 2 JUDGE FRIEDLANDER: So, Mr. Meyer, if you

 3 want to introduce the witness?

 4 MR. MEYER: Very well.

 5 JUDGE FRIEDLANDER: Oh, actually -- I'm

 6 sorry. Before that, we do need to swear you in.

 7

 8 ELIZABETH M. ANDREWS, witness herein, having been

 9 first duly sworn on oath,

10 was examined and testified

11 as follows:

12

13 \*\*\* EXAMINATION BY MR. MEYER \*\*\*

14 BY MR. MEYER:

15 Q. Ms. Andrews, please state your name and your

16 employer.

17 A. Elizabeth Andrews, and Avista Corp.

18 JUDGE FRIEDLANDER: Is your -- I'm sorry.

19 MR. MEYER: I don't --

20 JUDGE FRIEDLANDER: Is your microphone on?

21 THE WITNESS: I'm sorry. Yeah.

22 MR. MEYER: Move it --

23 JUDGE FRIEDLANDER: That's okay.

24 MR. MEYER: -- a little closer --

25 THE WITNESS: There.

0146

 1 MR. MEYER: -- to you, Liz.

 2 THE WITNESS: It was not on.

 3 JUDGE FRIEDLANDER: Okay.

 4 MR. MEYER: Okay.

 5 THE WITNESS: Is that better?

 6 JUDGE FRIEDLANDER: Yeah.

 7 THE WITNESS: I'll say that again.

 8 A. Elizabeth Andrews, and I work for Avista Corp.

 9 BY MR. MEYER:

10 Q. And what is your position?

11 A. Manager of revenue requirements.

12 Q. And have you filed both direct and rebuttal

13 testimony along with a company of exhibits in this case?

14 A. Yes, I have.

15 Q. Do you have any corrections to make to any of

16 that?

17 A. Yes. I have two corrections, starting on page 3.

18 Q. Of which exhibit?

19 A. EMA-5T.

20 Q. And that's your rebuttal testimony?

21 A. Yes. My rebuttal testimony, page 3, line 22.

22 Q. Okay. Just a moment. Let everybody get there.

23 A. Excuse me.

24 Q. All right.

25 A. Okay. At the beginning of the sentence, it says,

0147

 1 "The difference in the electric"; strike the words, "and

 2 natural gas revenue."

 3 Q. All right. And do you have another set of changes

 4 in one of your tables?

 5 A. Yes. On page 6 -- and I believe Mr. Meyer handed

 6 out the revised attachment, but I will explain the changes

 7 that are being made. It's related to Table No. 2 for

 8 natural gas. If you look at the first section, A --

 9 labeled "A," it shows 11,286,000. If you look down to

10 Section B, you can see that the 1,573,000 reduction was not

11 incorporated, so it didn't foot.

12 That changes the -- so on line -- I guess it looks

13 like it's lined up with line 18, the 11,286,000 would

14 change to 9,713,000. And then it should continue to foot

15 down to our rebuttal-proposed revenue requirement. That

16 says 11,582,000. It should say 10,009,000.

17 Q. So you highlighted two numbers --

18 A. Two numbers.

19 Q. -- that have changed --

20 A. Yes.

21 Q. -- on that revised table. Okay.

22 A. Correct.

23 MR. MEYER: Very well. So with that,

24 Ms. Andrews is available for cross.

25 JUDGE FRIEDLANDER: Thank you.

0148

 1 Staff, are you ready?

 2 MR. SHEARER: Yep. Just -- just putting away

 3 the notebooks here.

 4 JUDGE FRIEDLANDER: Great. Thank you.

 5 \*\*\* EXAMINATION BY MR. SHEARER \*\*\*

 6 BY MR. SHEARER:

 7 Q. Hello, Ms. Andrews.

 8 A. Hi.

 9 Q. Now, you testified to the Company's attrition

10 proposals in this case; is that correct?

11 A. Correct.

12 Q. And you filed attrition-related testimony both in

13 the initial stage and on rebuttal; is that correct?

14 A. Correct.

15 Q. I'd like to focus on -- begin by focusing on a

16 specific portion of that. It was something Mr. Norwood

17 highlighted earlier. It's the electric O&M escalation

18 factor.

19 A. Yes.

20 Q. What was the annual electric O&M escalation factor

21 that Avista proposed in its initial filing?

22 A. 3 percent.

23 Q. And what is that figure on rebuttal?

24 A. That figure on rebuttal is 5.17 percent.

25 Q. Now, did the -- the Company made significant

0149

 1 changes to its business practices to curb the annual growth

 2 rate in O&M expense at the end of 2012; is that correct?

 3 A. It -- it made specific changes, and -- as

 4 referenced in my testimony, mainly focused around our

 5 voluntary severance incentive program and some other

 6 pension and medical changes as well.

 7 Q. And so -- and that was at the end of 2012, so it

 8 would be --

 9 A. Yes, it was.

10 Q. It would appear in the data from 2013 to 2014; is

11 that --

12 A. Correct.

13 Q. -- correct?

14 Now I would like to turn to the specific

15 calculation that was proposed on rebuttal for the O&M, and

16 that -- you -- for reference -- I'm not going to refer to

17 the testimony, but for ref- -- general reference, that's on

18 page 31 of your rebuttal testimony and -- and page 12 of

19 Exhibit EMA-6.

20 A. Correct.

21 Q. So that calculation begins by splitting the O&M

22 expense, the electric-side O&M expense, into two

23 categories; correct?

24 A. By way of splitting -- yes. The Company used both

25 what it had experienced from 2007 to '14 and what the more

0150

 1 recent impact was of changes from '13 to '14.

 2 Q. Excluding the time period, aren't there two

 3 expense categories, one documenting excluding benefits

 4 and --

 5 A. Oh, I'm sorry.

 6 Q. -- then the benefits category's excluded --

 7 A. That's correct.

 8 Q. -- are in a --

 9 A. With --

10 Q. -- separate --

11 A. I have a --

12 Q. -- category?

13 A. Yes.

14 COURT REPORTER: I'm sorry. Let him finish

15 completely please.

16 THE WITNESS: Okay. I'm sorry.

17 BY MR. SHEARER:

18 Q. I'll just start over.

19 A. Sorry.

20 Q. The calculation begins by splitting the electric

21 O&M expenses into two categories; is that correct?

22 A. Yes.

23 Q. And then you establish two time periods, one from

24 2007 to 2014 and a second time period from 2013 to 2014;

25 is --

0151

 1 A. That's correct.

 2 Q. -- that correct?

 3 And then you calculate a regression for one of

 4 those expense categories over each of those time periods;

 5 is that correct?

 6 A. Could you rephrase that? I'm not sure what you

 7 mean.

 8 Q. So then you calculate a regression for each of

 9 those time periods for one of those --

10 A. Yes. I'm sorry.

11 Q. -- expense categories?

12 A. Correct. Yes.

13 Q. And then you average the growth rates that are

14 embedded in that regress- -- in those two regressions;

15 is --

16 A. Yes.

17 Q. -- that correct?

18 A. That's correct.

19 Q. And that's the Company's proposed O&M --

20 A. Yes.

21 Q. -- growth rate?

22 A. It's -- it's similar, I guess you could say -- is

23 taking the approach that Staff had in both electric and

24 gas, had used the prior Company's 3 percent and then a

25 one -- the one-year change.

0152

 1 The Company looked at that methodology and

 2 recognized that it's important to recognize what's happened

 3 historically, but there has been some significant changes

 4 in costs from '13 to '14 that occurred that Mr. McGuire's

 5 methodology was not factoring in a significant reduction in

 6 net benefits that happened over a one-year period.

 7 Q. Now, the adjustment you've proposed on rebuttal --

 8 Mr. Norwood testified to this earlier -- but that's

 9 approximately a $7 million adjustment; is that correct?

10 A. That's correct.

11 Q. And do you recall what Staff's attrition-related

12 revenue requirement was?

13 A. Yes. Their -- their original, I think was 6 -- a

14 reduction of 6.2 million, and the -- I believe their

15 corrected revenue requirement would be about 6.5 reduction.

16 Correct.

17 Q. And on this -- lastly on this item, the attrition

18 proposal on rebuttal does not include an adjustment for

19 that portion of Pro- -- Project Compass that Staff has

20 recommended be disallowed; is that correct?

21 A. That's correct.

22 Q. Did Mr. McGuire's attrition adjustment include --

23 attrition study include such an adjustment?

24 A. I believe that it did, and when I -- if you look

25 at my testimony, I fully recap the difference between

0153

 1 Avista's methodology and Staff's, both on revenue

 2 requirement and where the Company and Staff's methodologies

 3 align.

 4 Q. Thank you.

 5 Let's turn to the accounting treatment of AMI

 6 meters briefly, even though we touched on this pretty

 7 exhaustively this morning. You do discuss this in your

 8 rebuttal testimony; is that correct?

 9 A. I do, yes.

10 Q. Can you tell us what the remaining useful life on

11 the existing meters is?

12 A. I believe -- I believe it's about, I want to say,

13 20, 25 years.

14 CHAIRMAN DANNER: I'm sorry. You said 25

15 years?

16 THE WITNESS: I think that's correct. I -- I

17 can --

18 MR. MEYER: We'll -- we'll --

19 THE WITNESS: Yeah.

20 MR. MEYER: -- check on that and --

21 THE WITNESS: Yeah.

22 MR. MEYER: -- get that information to you.

23 JUDGE FRIEDLANDER: Thank you.

24 BY MR. SHEARER:

25 Q. And the regulatory asset that the Company is

0154

 1 proposing in this case take the place of those existing

 2 meters, what would the depreciable life be of that

 3 regulatory asset?

 4 A. We had proposed a ten-year regulatory life for the

 5 regulatory asset, and part of that is due to the fact that

 6 when we insert the -- or install the new meters, that will

 7 take over a three- to four-year life or four or five years.

 8 Mr. La Bolle would be better speak- -- better able to speak

 9 to that, but those meters themselves, I think, we were

10 proposing to amortize over a 15-year life period.

11 So what we did not want is -- is to have the

12 existing meters continue to be amortized over the remaining

13 life that it had and actually could extend past these new

14 meters that would installed. So we used a 10-year

15 amortization partially for the -- the impact on the new

16 meters and to also reduce the impact to customers of too --

17 of including too short of a time period.

18 Q. And so, just so I understand, the useful life of

19 the new meters is going to be 15 years? Just --

20 A. I think that's --

21 Q. I just want --

22 A. -- correct.

23 Q. -- to confirm that.

24 A. I believe that's correct. Yeah. Right? That's a

25 15-year life. Yeah. So -- so starting from 2017, for

0155

 1 example, that would be approximately 20 years.

 2 Q. So we'd have -- we'd go to a 10-year on the

 3 regulatory asset side and a 15-year on the new meters --

 4 A. I believe --

 5 Q. -- the new AMI infrastructure?

 6 A. -- that's correct. Yes.

 7 Q. So the net result would be an increase to the

 8 capital expense and an accelerated depreciation schedule?

 9 A. Yes, it would. From the -- on a revenue

10 requirement standpoint, though, you're moving the -- you

11 would be moving $20 million from net plant to a regulatory

12 asset, so you wouldn't have an increase in rate base.

13 What you would have is, rather than the

14 depreciable life of the original asset, which is about

15 900,000 a year, I believe, to a 2 million amortization, so

16 you would have a net increase of about 1.1 million over the

17 10-year period than what customers are experiencing today.

18 Q. And that's just the portion of the regulatory

19 asset versus the existing meters?

20 A. Correct. It has nothing to do with an -- any new

21 meters.

22 Q. And then the new meters would --

23 A. Would be separate.

24 Q. Thank you, Ms. Anders- -- Andrews.

25 MR. SHEARER: I have no further questions,

0156

 1 Your Honor.

 2 JUDGE FRIEDLANDER: Thank you.

 3 Ms. Gafken?

 4 MS. GAFKEN: Thank you.

 5 \*\*\* EXAMINATION BY MS. GAFKEN \*\*\*

 6 BY MS. GAFKEN:

 7 Q. Good morning, Ms. Andrews.

 8 A. Good morning.

 9 Q. I'm going to skip the couple of questions that go

10 to confirming the 3 percent and the 5.17 percent, so I'll

11 have you turn to your direct testimony, which is

12 Exhibit EMA-1T, page 28.

13 CHAIRMAN DANNER: I'm sorry, Ms. Gafken. Can

14 I have that again?

15 MS. GAFKEN: Sure. EMA-1T, the direct

16 testimony, page 28, and I'm going to direct the witness to

17 lines 6 through 8.

18 THE WITNESS: I'm sorry. Line what?

19 BY MS. GAFKEN:

20 Q. Lines 6 through 8.

21 A. Oh, 6 through 8. Okay.

22 Q. There, you indicate that Avista's O&M expenses

23 grew at an annual rate of 5.7 percent for the years 2007

24 through 2013; correct?

25 A. That's correct.

0157

 1 Q. And I believe this question was asked, but I want

 2 to just make sure. Avista initially used the 3 percent

 3 escalation factor to reflect the recent cost-cutting

 4 measures and the expectation that Avista will manage the

 5 growth of these expenses at a lower level; is that correct?

 6 A. That's correct, and on an initial analysis, we

 7 used -- we used 3 percent for both electric and for gas.

 8 And just as we -- and as Mr. Norwood mentioned, at the

 9 time, when you looked at the expected forecast at the time

10 of our filing, excluding the thermal maintenance expenses

11 there, it was estimated to be about 3.8 percent from 2014

12 to 2016.

13 So we were definitely being conservative on our

14 direct filing, but on rebuttal, just as we reevaluated what

15 our trending should look like or using historical data for

16 all other categories -- capital, depreciation, other taxes,

17 et cetera -- we also reevaluated the appropriate level for

18 O&M.

19 And what we determined is that, on the gas side,

20 we had -- by use of 3 percent, we'd actually overstated

21 the -- what we were expecting to -- to occur from '14 to

22 the '16 rate year, but on electric, we had significantly

23 understated what the expectation was for 2016.

24 And I believe Mr. Norwood already mentioned that

25 part of that is due to updated information around what --

0158

 1 around pension and medical costs that have increased since

 2 2014, and certainly -- it's certainly above the 2014 level,

 3 and also increased maintenance expenses from 2014 to '16.

 4 Q. You mentioned the thermal maintenance, and I do

 5 want --

 6 A. Correct.

 7 Q. -- to ask you a few questions about that. Would

 8 you please turn to Cross-Exhibit EMA No. 9?

 9 A. Yes. I'm there.

10 Q. Okay. Do you recognize the exhibit as Avista's

11 response to Staff Data Request No. 142?

12 A. I do.

13 Q. In the first sentence of the final paragraph of

14 Cross-Exhibit EMA No. 9, Avista states that it -- it

15 expense -- expects its operating expenses to increase an

16 average of 4.85 percent annually from 2014 to 2016; is that

17 correct?

18 A. I'm sorry. I think I'm on the wrong exhibit. I

19 apologize. EMA-9? I'm sorry.

20 Q. Yes.

21 A. Yes. I'm sorry.

22 Q. EMA-9.

23 A. Repeat that question.

24 Q. Sure. So I'm looking at the last paragraph --

25 A. Yes.

0159

 1 Q. -- and the first sentence in that paragraph states

 2 that Avista expects -- expects its operating expenses to

 3 increase an average of 4.85 percent annually from 2014 to

 4 2016; correct?

 5 A. That's correct.

 6 Q. And this expected increase includes the impacts of

 7 the planned major maintenance on Colstrip and Coyote

 8 Springs 2 plants; correct?

 9 A. Correct.

10 Q. And if the major -- I'm sorry. If the planned

11 major maintenance on Colstrip and Coyote 2 Springs [sic] is

12 removed, the expected average annual increase to operating

13 expenses from 2014 to 2016 is 3.8 percent; correct?

14 A. That's correct. However, on rebuttal, because the

15 Company has only been -- has only included the hours base,

16 what's not excluded here is in my revised -- within my

17 table, I show that the revised forecast, excluding the

18 hours-based maintenance, is approximately 4.45 percent. So

19 that's the difference between the 3.8 and the 4.45 percent.

20 Q. You anticipated my next question.

21 A. Yeah. That's why there's a difference.

22 Q. Would you please turn to Cross-Exhibit EMA-10?

23 A. Okay. I'm there.

24 Q. Do you recognize the exhibit as Avista's response

25 to Public Counsel Data Request No. 85?

0160

 1 A. I do.

 2 Q. And do you still have Table 6 from page 32 of

 3 Exhibit EMA-5T handy?

 4 A. I'm getting --

 5 Q. Staff asked you some questions --

 6 A. Yes.

 7 Q. -- on that table.

 8 A. Mm-hmm. Just a moment.

 9 Q. You should open that one up as well.

10 A. Right. So the one on page 32, and you said which

11 other one as well?

12 Q. EMA-10. Cross-Exhibit EMA-10.

13 A. Oh, EMA-10.

14 Q. Yeah.

15 A. Okay. Yes.

16 Q. Okay. Avista's current 5.16 escalation factor

17 proposal is based on weighing the lines 3 and 5 of Table 6,

18 which excludes benefits; is that correct?

19 A. That is correct.

20 Q. And according to Cross-Exhibit EMA-10, the

21 weighted growth rate for electric O&M escalation would be

22 3.21 percent if based on lines 2 and 4 of Table 6, which

23 includes benefits; is that correct?

24 A. It does. And I would -- I would point you to the

25 Table No. 6, because I think it would be pretty clear why.

0161

 1 Using the 2013 to '14, as Mr. McGuire did, the change is a

 2 1.82 percent.

 3 But you can see the significant change in

 4 excluding those benefits, because what we're talking about

 5 here, of course, in setting O&M is -- is not just pension

 6 and medical costs, which, like -- like Mr. Norwood

 7 mentioned, is a drop of 4.6 million between the time period

 8 of 2013 to '14.

 9 So excluding benefits, which we did, increased

10 that to almost 6 percent. So that's really reflective of

11 what our -- all other expenses have occurred during that

12 time period.

13 Q. If you use Avista's original proposal of a

14 3 percent escalation factor for O&M in its current

15 attrition study, would you accept, subject to check, that

16 the result is a reduction in electric rates of

17 approximately 2.2 million?

18 A. Subject to check.

19 Q. Looking at -- again, at Table 6, on page 32 of

20 Exhibit EMA-5T, the table shows the Staff position being

21 2.41 percent; correct?

22 A. Right. Correct.

23 Q. Would you accept, subject to check, that the

24 results of using a 2.41 percent escalation factor in

25 Avista's current attrition study would result in a

0162

 1 reduction of electric rates of approximately 3.8 million?

 2 A. Yes. And I believe Mr. Norwood mentioned that the

 3 difference between Staff and Avista's approach is

 4 approximately 7.3 million, and you know, there's lots of

 5 different ways to skin this cat, as I've heard the

 6 reference term before.

 7 You know, even if you -- there's lots of ways to

 8 approach this. And the Company -- if you were to use, for

 9 example, the 2007 to 2014 time period that we use

10 consistent -- consistently through our attrition study,

11 like we did the other mechanisms, the table on page 32,

12 Item No. 2 shows that that increase would be approximately

13 4.6 percent. If you were to apply that to our attrition

14 study, you'd have a positive over $2.1 million.

15 If the Commission took the approach that, perhaps,

16 consistency of using 2009 to 2014 as -- as Staff has -- has

17 proposed in their filing, the -- with the O&M escalation

18 increase, you would -- Avista's -- the O&M increase would

19 be approximately 3.7 percent. And then you would be

20 look -- Avista's attrition study would have been

21 approximately a negative 681,000.

22 So there's a lot of different O&M escalation

23 categories that we could -- be used. The Company used the

24 5.16 percent because, on a weighted average, when you look

25 at both what we're asking for on the gas side of

0163

 1 2.1 percent -- 2.2 percent almost -- and the 5.16 on the

 2 electric side, the weighted average across our operations

 3 would be approximately 4.26 percent, and that is below what

 4 we're expecting within our own forecast to go from '14 to

 5 '16.

 6 So we believe that 5.16 percent is more reasonable

 7 than what Mr. McGuire has proposed, which would

 8 significantly understate our operating -- recovery of our

 9 operating costs in 2016 and would not allow us the

10 opportunity to earn what the parties have proposed in the

11 partial settlement of the 9.5 ROE.

12 Q. So the results really do depend on what

13 assumptions are -- are used and which escalation factors --

14 A. Absolutely.

15 Q. -- are used?

16 Changing topics now, if you would turn to

17 Cross-Exhibit EMA-11?

18 A. Yes.

19 Q. Do you recognize the exhibit as Avista's response

20 to Public Counsel's Data Request No. 87?

21 A. I do.

22 Q. And is the answer in Sub C correct, to the best of

23 your knowledge?

24 A. Yes.

25 Q. Changing topics again, I would like to go back to

0164

 1 a topic that's been discussed quite a bit, the AMI proposal

 2 and the amortization --

 3 A. Okay.

 4 Q. -- regulatory asset proposals. Would you please

 5 turn to your rebuttal testimony, EMA-5T, page 11?

 6 A. Yes.

 7 Q. And I'd like you to go to lines 13 through 18.

 8 There, you testify that Avista is requesting amortization

 9 to transfer the net book value of the existing electric

10 meters from electric distribution plant to a regul- --

11 regulatory asset account effective at the signing of the

12 new contract --

13 A. That's correct.

14 Q. -- for AMI meters?

15 A. That's correct.

16 Q. And Mr. Norwood testified earlier that that's

17 expected in -- in the first quarter of 2016?

18 A. I believe that to be true.

19 Q. Okay. Do you have an estimate of what -- what

20 month that is likely to occur in, or is that the best

21 estimate?

22 A. That's the best estimate. I'm...

23 Q. So at the time that the contract is signed, only

24 the undepreciated balance associated with the currently

25 existing meters would be transferred into the regulatory

0165

 1 asset?

 2 A. Correct. Whatever that balance is, and we will

 3 get that to the Commission as of February, I believe, the

 4 Bench request was.

 5 Q. All right. On lines 17 to 18 -- so still on

 6 page 11 of EMA-5T. On lines 17 and 18, you testify that

 7 Avista is requesting a rate of return on the amortized

 8 balance?

 9 A. That's correct.

10 Q. Does this mean that Avista is requesting the

11 unamortized balance of the new regulatory asset be included

12 in rate base in a future rate case, or is Avista requesting

13 authorization to accrue a carrying charge on the proposed

14 new regulatory asset?

15 A. Yes. We are proposing to defer it and request --

16 defer it with a return with recovery effective in the next

17 rate case or expected to be 1/1 of '17.

18 Q. I want to make sure I understand that.

19 A. Okay.

20 Q. So is Avista requesting a carrying charge?

21 A. Of -- of return, yes.

22 Q. Okay. But in -- in the regulatory asset?

23 A. We will set up a 182, and then we will include

24 that in rate base in our next -- in our next case to earn a

25 return on that asset.

0166

 1 But whether you -- what you're asking is if,

 2 during the time period it sits in deferral, whether or not

 3 we include a carrying charge, and I would say yes, that we

 4 should be able to earn a return on that asset over the time

 5 that it is -- that it's not in rate base.

 6 Q. But isn't it in rate base while it's -- before

 7 it's transferred into a regulatory asset?

 8 A. Right. But if we defer that balance and move it

 9 from net plant to a regulatory asset, whenever it occurs,

10 which would actually be -- could be as early as Q1 of 2016,

11 so it would depend on the -- the -- I guess, technically,

12 the rate base that -- because we could either cont- --

13 continue to depreciate it, but I guess, technically, once

14 we move it from the regulatory asset to -- from net plant

15 to regulatory asset, because rates are set on the 2016

16 level of net plant, it technically would still be in rate

17 base.

18 So we would not need to have a carrying charge on

19 it during the 2016 time period as long as, 1/1 of '17 or

20 the next rate case, when it would fully be removed, it

21 would be allowed to earn a return during that time period.

22 Q. Avista's currently collecting depreciation expense

23 in rates associated with the existing meters; correct?

24 A. Correct.

25 Q. And both the historic test year ended

0167

 1 September 30th, 2014, and the Commission-basis report for

 2 the year ended December 31st, 2014, those include the

 3 depreciation expense for the existing meters; correct?

 4 A. That's correct, and also the rate base. So we'd

 5 be -- have -- the return, of course, would be on the rate

 6 base at the time during 2016 with rates being set, so we

 7 would not need a carrying charge during that time period.

 8 Q. Do you know whether Avista's revised electric

 9 cross-check study also removes the depreciation associated

10 with the existing meters?

11 A. The -- the cross-check study, both the -- the

12 cross-check study started with -- started with A- -- AMA

13 two-thousand -- for September 2014, and of course, it had

14 the net plant investment and the depreciation expense

15 within the starting point. And because we removed the

16 adjustment for -- we -- we both took the future AMI out,

17 but we also removed the regulatory asset and the

18 amortization, so yes.

19 They would -- it should have the depreciation

20 expense of the 900,000 and the regulatory -- the

21 20 million, the regulatory asset at the time. I'm sorry.

22 Through the rate year, because we had removed the

23 regulatory asset, asking to defer it and include it in the

24 next case, as far as a return on that regulatory asset.

25 Q. This may be a question for another witness. You

0168

 1 can defer, but can you point to the adjustment that -- that

 2 removes the depreciation expense?

 3 A. It's -- the depreciation -- so because we have

 4 elimin- -- in our direct-filed case, we had proposed AMI,

 5 the new AMI in it, and so, at that time, we had also

 6 removed -- reduced net plant and added a regulatory asset.

 7 On rebuttal, because we have said we will not

 8 include any of the new investment and we are asking that

 9 the regulatory asset, that the -- we be allowed to create a

10 regulatory asset once contracts are signed and that we

11 would ask for recovery of that rate base and the

12 amortization over -- starting in 1/1/17 or a future time

13 period.

14 So what is included in this case is there is still

15 $20 million of investment in that -- in those meters,

16 because it's still existing in the current net plant, and

17 there's still depreciation expense included in the revenue

18 requirement.

19 So the true difference between what we were asking

20 for is really a reduction of about 1.1 million and the

21 additional revenue requirement associated with the increase

22 from depreciation expense to the ten -- the ten-year

23 amortization of the regulatory asset.

24 Q. I have the same question but focusing on the

25 attrition study. Does that explanation apply to the

0169

 1 attrition study too, or is that -- is there a different --

 2 A. Okay. It --

 3 Q. -- discussion point there?

 4 A. It does. And it -- it may be -- some of the

 5 question may be coming from the table. If you look at --

 6 if you look at page 17, Table 5 --

 7 Q. And this is EMA-5?

 8 A. Yes.

 9 Actually, I'm sorry. That's not the right one.

10 It really should be page 6. Is that the right one? I

11 don't want -- yes, it is. Okay. Yes. On page 6, Table

12 No. 1, this is really a sort of -- I think I can get to

13 your answer that's kind of a classification.

14 If you look at Table 1 in Avista's revised

15 attrition adjustments, you can see that we removed the

16 electric meter regulatory asset and the amortization, and

17 the impact on the attrition study was about 4.1 million.

18 So that re- -- that was -- that reduced our revenue

19 requirement about 4.1 million.

20 However, included in Section C, revised attrition

21 model assumptions, in the Item No. 1, changes in trended

22 data and O&M growth, because in our original filing, we had

23 included expectations of -- of future capital out to 2016,

24 because we've eliminated that, you don't have the -- the --

25 that also included the removal of the 20 million within

0170

 1 plant. That gets eliminated here.

 2 So the net difference, really, between eliminating

 3 the regulatory asset and leaving it in plant, there is no

 4 difference between rate base of 20 million, but on the

 5 revenue requirement, there's a difference between

 6 depreciation expense and amortization.

 7 Is that where you were getting at?

 8 Q. Perhaps.

 9 MS. GAFKEN: Could I have just one moment?

10 JUDGE FRIEDLANDER: That's fine.

11 BY MS. GAFKEN:

12 Q. So the $900,000 of depreciation expense, is that

13 still in the cross-check study and the attrition --

14 A. Yes --

15 Q. -- study?

16 A. It would be. Correct.

17 Q. Okay. Okay. If the Commission allows Avista to

18 establish a regulatory asset for the existing meters, would

19 Avista agree to amortize the regulatory asset balance --

20 I'm sorry -- the regulatory asset balance between the time

21 when the account is established and the next rate case at

22 the amount that is included in rates resulting from this

23 rate case for the depreciation expense on the existing

24 meters?

25 A. So if I understand what you're asking is that,

0171

 1 during 2016, because the -- we are -- we have depreciation

 2 expense included in the case, whether or not we should

 3 reduce that -- that rate base by the depreciation expense

 4 being recovered, and I believe the answer's yes.

 5 Q. Okay. Okay. There's been a lot of discussion

 6 about the rate of return on the balance. If the rate of

 7 return on the balance is not granted, then Avista will

 8 incur a write-off.

 9 A. Yes. Correct.

10 Q. I'd like to ask a few questions about that.

11 A. Okay.

12 Q. I'm going to ask you about a series of conditions

13 and whether those conditions would allow Avista to avoid a

14 write-off, and so instead of giving them to you all at

15 once, I want to give them --

16 A. Okay.

17 Q. -- to you one at a time.

18 A. Okay.

19 Q. I think it will make sense when I start asking the

20 questions. So if the Commission determines that Avista can

21 establish a regulatory asset for the net book value of the

22 existing meters coincident with the signing of a new AMI

23 contract, that would help Avista avoid a write-off;

24 correct?

25 A. I believe that's correct. If we can set up a

0172

 1 regulatory asset.

 2 Q. All right. Step 1.

 3 A. Okay.

 4 Q. If the Commission indicates that the resulting new

 5 regulatory asset is to be amortized between when it is

 6 established and the time of the next rate case based on the

 7 amount included in rates for depreciation expense

 8 associated with the existing meters, that would -- that's

 9 another factor that would help avoid the write-off;

10 correct?

11 A. I -- I think that unless -- I don't -- I don't

12 believe so, or at least not in full, because the Company --

13 because, on our books, we would be required to immediately

14 expense those costs. If we continue -- we -- we could

15 continue to depreciate the level at -- at what we were

16 recovering during the rate year, because that is a part of

17 a future case.

18 I still think you would have the full -- you're

19 really only talking about a one-year -- you're really only

20 talking about $900,000, so you still would have -- if it's

21 20 million, you still have 19 million that would be suspect

22 to a write-off or the -- the return on that balance.

23 Q. But that factor doesn't cause Avista to have to

24 write the amount off? The present net book value amount

25 off?

0173

 1 MR. MEYER: Do you understand the question?

 2 THE WITNESS: Not completely.

 3 BY MS. GAFKEN:

 4 Q. Just to make sure that you're understanding my

 5 line of questioning, too, so these are all cumulative. You

 6 still get the first --

 7 A. Yeah.

 8 Q. -- component, so the first component plus the

 9 second component.

10 A. So you're saying the 20 million less the 900,000

11 depreciation, so you'd be talking about a regulatory asset

12 of 19 -- approximately 19 million?

13 Q. Right.

14 A. Okay.

15 Q. And the Commission could indicate that the

16 unamortized balance for the new regulatory asset -- I'm

17 sorry. Let me re- -- restate that.

18 If the Commission indicates that the unamortized

19 balance for the new regulatory asset at the time of the

20 next rate case will be included in the net -- in -- in rate

21 base in the ne- -- next rate case, then that helps avoid

22 the write-off --

23 A. I believe --

24 Q. -- doesn't it?

25 A. -- so.

0174

 1 Q. And the Commission doesn't need to decide, in this

 2 case, what the amortization period is, does it? It can

 3 decide that at a later time?

 4 A. That's correct. It does not need to decide now.

 5 Q. Okay. We got through those.

 6 A. Okay.

 7 Q. Okay. I'd like to talk about ADIT.

 8 A. Okay.

 9 Q. And if we could turn to Cross-Exhibit EMA-13, do

10 you recognize the exhibit as Avista supplemental response

11 to Public Counsel DR No. 49 dated September 16th, 2015?

12 A. I do. And I believe it's the supplemental.

13 Q. Yes.

14 A. Correct?

15 Q. Right.

16 So in the supplemental response, the last line of

17 that -- that portion, Avista indicates that the data

18 provided from Avista's consultant for the repair study does

19 not separate 2014 plant additions by date and that

20 pre-September 30th, 2014, data's not available; correct?

21 A. Right. They provided -- the information, as far

22 as I understand it, that was provided related to the repair

23 study was more on an annual basis. They don't provide it

24 on a monthly basis.

25 COMMISSIONER RENDAHL: Can I ask a clarifying

0175

 1 question?

 2 So the exhibit I have doesn't appear to be a

 3 supplemental response. It's the response.

 4 MS. GAFKEN: Well, what they do is they -- so

 5 the response is set out, and then, underneath, you'll see

 6 an all caps, bolded, "Supplemental response."

 7 COMMISSIONER RENDAHL: I don't have that.

 8 THE WITNESS: Does the request number at the

 9 top -- does it not say, "PC-49 supplemental"?

10 COMMISSIONER RENDAHL: No. It says, "PC-99

11 supplemental."

12 THE WITNESS: Oh.

13 MS. GAFKEN: Well, that's --

14 COMMISSIONER RENDAHL: This is 15?

15 MS. GAFKEN: Yeah. That's a different --

16 THE WITNESS: Different --

17 CHAIRMAN DANNER: No. 13.

18 COMMISSIONER RENDAHL: Oh, 13, we're looking

19 at?

20 THE WITNESS: Yes.

21 MS. GAFKEN: Yes. We're looking at 13.

22 COMMISSIONER RENDAHL: All right. Well,

23 that's -- yep. Got it. Thank you.

24 MS. GAFKEN: Okay.

25

0176

 1 BY MS. GAFKEN:

 2 Q. So now we're turning to -- to EMA-14. Do you

 3 recognize the exhibit as Avista's response to Public

 4 Counsel Data Request No. 98?

 5 A. I do.

 6 Q. In Subpart B of the response, Avista states that

 7 its repair adjustment consultant did not provide the amount

 8 of deferred taxes on a Washington electric basis associated

 9 with the current best estimate of repairs -- of the repairs

10 adjustment that pertains to plant placed in service by

11 September 30th, 2014; correct?

12 A. Correct. Not on a September basis. That's

13 correct.

14 Q. Okay. And in Subpart C, Avista indicates that

15 Avista is in the process of finalizing its 2014 federal tax

16 return; correct?

17 A. Yes. And I believe the federal tax return was

18 filed in mid September.

19 Q. Okay. So in -- in the response, Avista

20 anticipated that it would be completed in mid October, but

21 it's -- it's been completed now?

22 A. At least the -- the return itself, I think, has

23 been filed, but there's -- I think the additional analysis

24 that's supposed to be used for specific details is not

25 available.

0177

 1 Q. Okay. That analysis hasn't been completed?

 2 A. Correct. I'm sorry. Yes.

 3 Q. Did Avista apply bonus depreciation to qualifying

 4 plant that was placed in service by September 31st --

 5 September 30th, 2014?

 6 A. No. As of September 30th, we had not. It is

 7 incorporated in our December attrition study, and the

 8 impact of bonus -- because we had not reflected bonus, then

 9 our working capital would have --

10 Q. I think there's another --

11 A. -- reflected --

12 Q. -- component to my question, but I'm --

13 A. Okay. I'm sorry.

14 Q. It's okay. I think I -- I left off a few words.

15 Let's try that again.

16 A. Okay.

17 Q. Avista plans to apply bonus depreciation to

18 qualifying plant that was placed in service by the end of

19 September on its 2014 tax return; correct?

20 A. I believe that's correct. Through -- through,

21 actually, 2014, the IRS approved the bonus depreciation

22 that we're expecting for 2014. It was incorporated in our

23 tax return.

24 Q. Okay.

25 A. Yes.

0178

 1 Q. Okay. If you could turn to EMA-15, do you

 2 recognize the response there as Avista's response to Public

 3 Counsel Data Request No. 99?

 4 A. I do.

 5 Q. And so what we discussed with the prior exhibit,

 6 with Exhibit EMA-14, that applies to the natural gas

 7 operations as well?

 8 A. Yes.

 9 Q. Okay. So now that the tax return is done and

10 in -- in Exhibit EMA-15, Avista also indicated that it

11 wouldn't be done until October, mid October. Has the

12 analysis that was dependent on the tax return being done

13 for natural gas been completed, or is that also still

14 pending?

15 A. No. We have the information we need to determine

16 what -- I think, on a total basis, what the deferred income

17 tax changes should be, and I believe we've provided that

18 in -- in a different data response, different exhibit.

19 I think that was shown on -- we provided it in

20 PC-100, which I believe you have labeled as exhibit for

21 KKS, for Ms. Schuh, and that provided what the -- our

22 preliminary estimate was versus the final repair study. I

23 think it's just some detailed analysis and how it flows

24 through that is not complete at this time.

25 MS. GAFKEN: Okay. Okay. I have no further

0179

 1 questions. Thank you.

 2 JUDGE FRIEDLANDER: Thank you.

 3 Mr. Brooks?

 4 \*\*\* EXAMINATION BY MR. BROOKS \*\*\*

 5 BY MR. BROOKS:

 6 Q. Good morning, Ms. Andrews -- oh. Good morning.

 7 A. Good morning.

 8 Q. I have a few questions about your gas attrition

 9 study, and so I'll probably be working mostly from your

10 Exhibit EMA-7, but also EMA-3.

11 A. Okay.

12 Q. And if I could get you to start by looking at

13 page 4 of EMA-7?

14 A. Yes. I'm there.

15 Q. All right. Just by way of example, I'd like to

16 focus on line 14, which is under the -- it's "Depreciation

17 and Amortization of Distribution."

18 My understanding of how this spreadsheet works is

19 that you're starting with that number in Column A that's

20 the -- from the Commission-basis report for December 2014,

21 and you're essentially multiplying that value by the

22 escalation factor of 25.86; is that correct?

23 A. That's correct.

24 Q. Could you please describe how you calculated the

25 escalation factor for this component in Column F?

0180

 1 A. Yes. On rebuttal, you can actually see that

 2 calculation at page -- depreciation is at page 10 of that

 3 same exhibit, and so what you can see is that the Company

 4 has looked at the regression analysis from 2007 through

 5 2014, so that basically is the escalation factor between

 6 that time period.

 7 Q. And then once you determine one component of it,

 8 the way I understand page 10 is there's a -- there's a sum

 9 from that analysis, but then you multiply it times two to

10 get a two-year rate; is that correct?

11 A. That's correct.

12 Q. So is it fair to say that the -- the intent of --

13 back on page 4, is the period of time that you're

14 escalating the depreciation and amortization expense is for

15 two years beyond that 2014 starting point?

16 A. Correct. The level of expense in the historical

17 test period is 12 months ended 2014, so it's a one-year

18 time period. We did escalate it out to the 2016 rate year,

19 to 12 months of expense expected during the 2016 rate year.

20 Q. Do you recall how that compares -- that same, I

21 guess, methodology, compares to your original analysis in

22 EMA-3?

23 A. Yes. In EMA-3, we looked at the -- both the

24 historical trend, but we -- looking at what the expectation

25 was out in the rate year, the Company had previously

0181

 1 included growth patterns that -- or growth that included

 2 what was expected out in the rate year.

 3 But, again, a similar approach, we had used 2014,

 4 we determined what the two-year growth escalation was, and

 5 we applied it to the '14 expense to get to the '16 rate

 6 year.

 7 Q. Just for clarification, the last thing you

 8 described, was that relating to your original analysis --

 9 A. Oh, I'm sorry.

10 Q. -- or was that your updated one?

11 A. You're -- you're correct. In our direct-filed

12 case, we had started with a September 2014, and because of

13 very expected changes in our net plant, deferred income

14 taxes being one of them, the Company actually went to an

15 end-of-period two thousand and- -- December 2014, we

16 adjusted to that, and then we escalated only a year and a

17 half for both depreciation expense and net plant.

18 Q. Thank you.

19 If you'll indulge me in using some lay terms, I'm

20 trying to understand how depreciation -- how this amount --

21 this expense is calculated. Is it accurate to say that

22 it's calculated by multiplying an approved depreciation

23 rate by the amount of plant that exists during that time

24 period?

25 A. No. The approved rate that you're talking about,

0182

 1 depreciation levels of rate, is -- is -- was done within

 2 the cross-check study performed by Ms. Schuh. What this

 3 calculation does is looks at the trended -- or in our

 4 rebuttal, we've looked at the trended increases in expenses

 5 from 2007 to 2014.

 6 And what that would incorporate, of course, is

 7 changes in depreciation as well as changes in plant itself

 8 and the increased expense associated with that.

 9 Q. So what's the relationship between the

10 depreciation expense, then, and the actual amount of -- of

11 capital that you are forecasting for the same time period?

12 A. Well, on rebuttal, we -- we are -- we're using the

13 same time period from 2007 to 2014 for both depreciation

14 expense and for the net plant after deferred income taxes.

15 Q. So --

16 A. Same plant -- similar plant during that time

17 period has had a level of depreciation expense.

18 Q. What's the -- what is the relationship in general

19 between net plant and depreciation expense? If -- if you

20 were to -- all things being equal, if you were to increase

21 net plant by a certain amount, by a percentage, would the

22 depreciation expense increase or change by the same

23 percentage?

24 A. It could, but it is dependent, of course, on --

25 we've had -- our increased investment over the last few

0183

 1 years has certainly increased the depreciation expense

 2 that's been necessary over this time period.

 3 And one thing in particular that we've experienced

 4 is we've had some significant investment with a shorter

 5 life than in past years. So I know depreciation expense

 6 expected in the future has been higher than it typically

 7 has trended in the past.

 8 Q. What are some -- I'm -- does that hold true even

 9 within the same category? So within distribution -- I

10 mean, within the expenses you have underground storage, you

11 have other distribution. Is there a lot of variation for

12 depreciation within those categories?

13 A. There may not be as much related to distribution,

14 but certainly on your general plant. And when we looked at

15 depreciation, we looked at it in total. We did not

16 separate it into separate categories or separate functional

17 groups. We looked at depreciation over the same time

18 period in total, and that's consistent with the same

19 approach that Staff has applied as well.

20 Q. Can you turn now to page 5 of this same exhibit,

21 EMA-7?

22 A. Yes. I'm there.

23 Q. And I'd like to look at line 42, which is the net

24 plant after deferred income tax.

25 A. Yes.

0184

 1 Q. And just to make sure that the questions make

 2 sense, the methodology here is the same that we just

 3 discussed, that you pulled a number from the 12/2014 CBR

 4 and then multiplied it by an escalation factor?

 5 A. Right. On rebuttal, we used AMA balances on

 6 December 2014 from the Commission-basis reports and used a

 7 same trend period from 2007 to 2014 to determine what

 8 that -- the escalation base should be.

 9 Q. And is it fair to state here too that the intent

10 was to escalate the -- the number that's in Column A for a

11 period of two years beyond the -- the end of 2014?

12 A. Well, on an AMA basis. So on an AMA basis, we

13 went out two years, which takes you to an AMA basis of '16.

14 Q. Are you familiar with the process for how the

15 capital planning group and senior management make

16 recommendations to the board for the budget for capital

17 expenses?

18 A. Somewhat, yes. And Mr. Norwood spoke to that

19 already today.

20 Q. And you were in the room for --

21 A. Yes, I was.

22 Q. -- Mr. Norwood's testimony?

23 A. Yes, I was.

24 Q. Looking at line 42 and the result of the -- of the

25 attrition analysis that you did, how does the resulting

0185

 1 number there comport with what the Company has approved for

 2 capital expenditures during that same time period?

 3 A. Ms. Schuh would probably better be able to speak

 4 to that because what you're talking about is -- is spend,

 5 what there -- the planned spend is for the year, and what

 6 we're talking about here is what transfers to plant.

 7 And, of course, it's also offset by accumulated

 8 depre- -- accumulated depreciation and accumulated for

 9 income taxes. So it's not really an apples-to-apples

10 comparison.

11 Q. Okay. Just one more question. Back to the --

12 back to page 4 of EMA-7, the -- the depreciation escalator

13 is 25.86, and then the escalation factor for net plant is

14 11.24. What is your understanding of why the one -- the

15 depreciation one is almost -- or is more than twice what

16 the net plant is?

17 A. Well, they're kind of separately -- they're

18 separate components, obviously, but depreciation expense is

19 going to be about -- is going to be based on a -- whatever

20 the amor- -- whatever the depreciable life is of all of the

21 assets.

22 So where these balances are the change in net

23 plant after accumulating and accumulated deferred income

24 taxes, this depreciation expense is -- is directly related

25 to the depreciable life, so the depreciation expense

0186

 1 associated with the addition in plant.

 2 MR. BROOKS: Thank you. That's all I have.

 3 JUDGE FRIEDLANDER: Thank you.

 4 Mr. Meyer?

 5 MR. MEYER: Yes. Thank you.

 6 \*\*\* EXAMINATION BY MR. MEYER \*\*\*

 7 BY MR. MEYER:

 8 Q. Ms. Andrews, would you agree that the Company's

 9 proposal regarding existing meters is to continue to earn a

10 return on the existing meters from the time they would be

11 moved from net plant to a regulatory asset?

12 A. Yes, I do.

13 Q. And is -- is there a double counting for existing

14 meters in the attrition analysis related to the

15 depreciation expense and the amortization expense for the

16 regulatory asset?

17 A. No, there's not.

18 Q. Would you explain that?

19 A. Yes. Included in the original -- or included

20 in -- in the Company's attrition study is -- is

21 depreciation expense and return on -- I mean, the

22 20 million rate base of the existing meters. We have not

23 included a separate adjustment to add a return in for the

24 regulatory asset or the 2 million amortization. There's no

25 double counting.

0187

 1 Q. Thank you.

 2 Is it true that the accounting rules and our

 3 outside auditors generally require both a specified

 4 recovery period and a return on the unamortized balance in

 5 order to avoid a write-off?

 6 A. Yes, it does.

 7 Q. Okay. Let's return, just for clarification, back

 8 to page 4 of EMA-7. Do you recall your exchange?

 9 A. Yes.

10 Q. And directing your attention there to Column A,

11 Commission-Basis Restated Totals, do you have that in front

12 of you?

13 A. I do.

14 Q. Is that information on an AMA or an end-of-period

15 basis?

16 A. An AMA basis.

17 Q. Okay. Now, for natural gas, if you compare the

18 2016 rate base in the attrition study with the 2016 rate

19 base in the cross-check study, are they comparable?

20 A. Yes, they are comparable.

21 Q. There were several questions earlier concerning

22 the O&M percentage factor to be used as part of the

23 attrition adjustment. Do you recall that?

24 A. Yes, I do.

25 Q. All right. And would you agree that, in its

0188

 1 rebuttal case, the Company started by using the Staff's

 2 attrition model?

 3 A. Yes. The Company -- and I do have a table which

 4 outlines the differences with us and Staff, but yes. We

 5 started with -- with Staff's attrition study and are

 6 closely aligned but for two specific areas. One of them is

 7 the O&M, as we've already talked about; and one is the --

 8 the years to use, whether it would be 2007 to '14 or 2009

 9 to '14.

10 Q. Again, that table you're referring to appears at

11 page 16 of your testimony. It's more --

12 A. Yes.

13 Q. -- in the nature of a matrix, if you will, that

14 lines up the two proposals and shows where they're the same

15 and where they're different; correct?

16 A. That's correct. It's Table No. 4.

17 Q. And so on the electric side -- I'm sorry. That's

18 Table No. 4 on page 16. And for the electric portion,

19 there are really just two issues, two issues shown in that

20 table that separate Staff from the Company; correct?

21 A. Correct.

22 Q. The first of which you mentioned is the use of

23 years, and is it true that the Company used twenty -- or

24 2007 through 2014 while the Staff used 2009 through 2014?

25 A. Correct.

0189

 1 Q. And later on, you show the impact of that

 2 difference; correct?

 3 A. Yes, I have. On Table No. 5.

 4 Q. But far and away -- far and away, the bigger

 5 factor where you differ has to do with the O&M growth

 6 factor; correct?

 7 A. That's correct.

 8 Q. And that single difference in how you approach the

 9 attrition methodology would cause a swing in revenue

10 requirement of over $7 million?

11 A. Correct.

12 Q. Okay. Other than that, though, the models and the

13 assumptions are fairly well aligned; correct?

14 A. Yes.

15 Q. Okay. So let's turn to that O&M table, and there,

16 I direct you to page 32.

17 A. Yes.

18 Q. Now, you were asked during your cross-examination

19 about several percentages. You were asked about a

20 3 percent as contained within the Company's direct filing,

21 and you were asked about what the rebuttal position is of

22 the Company; correct?

23 A. That's correct.

24 Q. So what you've done in this table is to set forth

25 a number of different ways of looking at or calculating the

0190

 1 O&M percentage growth rate; correct?

 2 A. Correct.

 3 Q. Now, is it true that Staff's position, as you show

 4 at line 5 -- or excuse me, at -- down below at Line S --

 5 actually, it's called "Line S" -- is a weighted average of

 6 1 and 4, so they weighted our direct case --

 7 A. That's correct.

 8 Q. -- of 3 percent --

 9 A. Yes.

10 Q. -- and then they looked at the one-year change in

11 O&M in 2013 and '14; correct?

12 A. That's correct.

13 Q. Did Staff's case make full use of even their data

14 set from 2009 and '14?

15 A. No, they did not.

16 Q. Or the Company's use of an expanded data set of

17 2007 through '14?

18 A. No, they did not.

19 Q. If one were to make this as simple and

20 straightforward as possible, and if one were to -- and if

21 one were to avoid the debate over what weight, if any,

22 should be given to 2013 and '14, given the factors you

23 described, and if one were to be consistent with the way

24 the rest of the attrition study was prepared, using a 2007

25 through 2014 set of data --

0191

 1 A. Yes.

 2 Q. -- what would be the O&M adjustment percentage be?

 3 A. 4.6 percent, as shown on line 2 of that table.

 4 Q. And that, if the Commission were to accept that,

 5 would actually reduce the Company's revenue requirement

 6 from 3.6 million to what?

 7 A. 2 point -- over 2.1 million, positive.

 8 Q. Okay. So -- and if -- even if one were to accept

 9 the Staff's data set, from 2009 through 2014, much as

10 they've used for all of the other attrition elements, would

11 that have an impact on the Company's revenue requirement?

12 A. Yes, it would.

13 Q. And what is that?

14 A. It would lower our revenue requirement to a

15 reduction of 681,000.

16 Q. Okay. So there are various ways to approach this

17 issue. What we've done in our rebuttal case is to try and

18 give not only weighting to the historical period of 2007

19 through '14 but also to take into account the anomalies, if

20 you will, of 2013 and '14; correct?

21 A. That's correct.

22 MR. MEYER: That's all I have. Thank you.

23 JUDGE FRIEDLANDER: Thank you.

24 Are there any clarifying questions from the

25 Bench?

0192

 1 \*\*\* EXAMINATION BY CHAIRMAN DANNER \*\*\*

 2 BY CHAIRMAN DANNER:

 3 Q. Well, thank you. This has been a very interesting

 4 conversation. Basically, what we've got is we've got

 5 different escalation rates in natural gas and electric, and

 6 I'm trying to -- I mean, I see what the results are, and I

 7 appreciate the desire to have good results for -- for

 8 ratepayers.

 9 What I'm looking for is some kind of unifying

10 principles. I didn't see anything in your initial case

11 that talked about, "Okay. What are we -- what are the

12 principles? What are we trying to get out of this

13 attrition study?"

14 And so when we're -- when we're changing these

15 escalation rates and so forth, what are the principles that

16 we're still being true to, even though we're making these

17 adjustments? And I was wondering if you could spend a

18 moment and -- it's been a nice walk through the weeds, but

19 now I'd like to -- to kind of get back on the grass here.

20 A. Well, I would think in any general rate case

21 proceeding, the ultimate outcome is to determine what is

22 going to be fair, just, and reasonable during the rate

23 period, and that's the reason why we have looked at the

24 approaches that we had is that, obviously, in our direct

25 case, we had used future information, because we recognized

0193

 1 that, when you look at plant, for example, that the

 2 historical trend alone was not going to meet the needs that

 3 we -- the attrition needs that we were going to experience

 4 during 2016.

 5 On Staff's approach of taking Project Compass, for

 6 example, and saying, "You know what? They're -- over the

 7 historical time period, Avista's net plant has increased

 8 approximately 50 million a year," and when you look at

 9 Project Compass and 42 million alone going in on its own in

10 February 2015, there obviously was an anomaly there.

11 So I just think it's important that, when you're

12 looking at the rate year, you are looking at, yes, what our

13 historical exp- -- what the historical information shows

14 you, but you need to look in the rate year and say, "Is

15 that going to continue, both up or down?"

16 And, you know, when we filed our -- our direct

17 case, we obviously understated our O&M escalation by not

18 using the history, but kind of looking at -- at -- what --

19 what our forecast was showing, and as we mentioned, it was

20 showing about a 3.8 percent, so we were trying to be

21 conservative given the overall revenue requirement impact.

22 On rebuttal, we took a look at all the components

23 and said -- you know, at 2007 to 2014 time period, we used

24 that time period because, prior to that, the costs had

25 really -- it really upticked after 2007, and we felt it was

0194

 1 important -- you should look at the history.

 2 It provides information on what's been happening,

 3 but you need to look at the future too and see, you know --

 4 that's why we did the average that we did, to say from --

 5 you know, we saw this huge increase in pension and medical

 6 costs from '14, big drop in '14, back up to what we expect

 7 in '15 and '16.

 8 So my point is you just -- you -- you can't put a

 9 real box around the attrition study, but you have to look

10 at historical data, look at what you expect in the -- in

11 the rate year so that you're setting rates on what is

12 expected during that time period.

13 Q. All right. Thank you. I will probably be asking

14 the same question of others as they -- as they come up

15 today.

16 CHAIRMAN DANNER: That's all I have.

17 JUDGE FRIEDLANDER: Okay. Thank you.

18 Commissioner -- okay. Commissioner Jones?

19 COMMISSIONER JONES: Just a couple before

20 lunchtime. We should be out of here by 12:30.

21 \*\*\* EXAMINATION BY COMMISSIONER JONES \*\*\*

22 BY COMMISSIONER JONES:

23 Q. So could you turn to page 31 of your testimony,

24 please? EMA-5T. I want to get at this question of net

25 benefits.

0195

 1 A. Okay.

 2 Q. So up on lines 3 through 5, you talk about -- the

 3 Company noted that employee pension and post-retirement

 4 medical benefits -- is -- is this your definition of net

 5 benefits --

 6 A. It is.

 7 Q. -- now, Ms. Andrews?

 8 A. Yes. It's what I defined it within here, because

 9 that's what I was talking about.

10 Q. Okay. What is the -- you may have to provide this

11 for the record, but I think it would be useful to have some

12 information on the changes. What are these called? This

13 is pension. Is this what is called OPBB?

14 A. Yes.

15 Q. Other retirement -- what's the accounting term for

16 that? Other retirement and post-medical benefits?

17 A. Yes.

18 Q. Okay. Could you provide us with the actual data

19 for '13, '14, and -- and '15 here?

20 A. Yes.

21 Q. What you have?

22 A. And, you know, Mr. Norwood took you to --

23 actually, if you go to page 12 of Exhibit No. 6 --

24 Q. Of Mr. Norwood's?

25 A. Of -- of mine. I'm sorry.

0196

 1 Q. Okay.

 2 A. EMA -- EMA-6 --

 3 Q. All right.

 4 A. -- page 12, what we've provided there -- because

 5 in our O&M escalation, because of the volatility that we've

 6 seen with net benefits, we actually removed the impact in

 7 order to get a more normalized basis during that time

 8 period. So I'll give you a chance to get there, but on --

 9 Q. I'm there.

10 A. -- page 12, if you go up to the top, it says,

11 "Remove volatility of total benefits." You can see that --

12 for electric operations --

13 Q. Right.

14 A. -- the net benefits. Now, we could provide you

15 the separate between pension and medical, if you would

16 prefer, but that is the combination of the two. You can

17 see the history and the volatility that was experienced

18 during the 2007 to '14 time frame.

19 Q. Yes. I'd like to see those separated out --

20 A. Okay.

21 Q. -- between pension, because pension has its own

22 set of separate federal compliance rules.

23 A. Yes.

24 Q. Medical has its own -- post-retirement medical has

25 its own separate rules; right?

0197

 1 A. That's true. And -- and, in fact, they could be

 2 going opposite directions of each other --

 3 Q. Right.

 4 A. -- during these years. Yes.

 5 Q. Is there anything else in the definition of net

 6 benefits that you cite on page 31?

 7 A. No, I did not.

 8 Q. So -- so those are the only --

 9 A. Pension and medical. That's correct.

10 Q. Okay. So those are -- in -- in your measured

11 opinion, those are the only things that are, as you call,

12 volatile at this -- or extremely -- I think you just used

13 the word "huge increase."

14 A. Yeah. What I was mainly referring to -- and this

15 kind of came down to Staff's average methodology that they

16 were using of -- by including the one year change from '13

17 to '14 of 1.8 percent. There was a significant drop in --

18 in net benefit costs from the year '13 to 2014 that has

19 since come back up, and our expense level in '15 will be

20 basically similar or higher than what -- what we

21 experienced in '13.

22 Q. And is that primarily due to the -- to the lower

23 returns in the equity and bond markets that your pension

24 plan is based on, or is that due to increased retirement

25 costs? Medical --

0198

 1 A. No. It was mainly due to the asset -- the pension

 2 asset that -- in 2014 and the higher returns that we had

 3 during that -- during that year.

 4 Q. Okay. Just a question on -- on VS- -- is it VSIP?

 5 A. Yes, it is.

 6 Q. It's the volunteer --

 7 A. The voluntary severance --

 8 Q. Could -- could you just state that for the record

 9 again?

10 A. Yes. VSIP is voluntarily severance incentive

11 program.

12 Q. And I've been briefed separately by the Company on

13 this, but when did this actually become effective and

14 recognized in -- in your profit and loss statement?

15 A. It was expensed in -- mainly in 2012, so the cost

16 of the voluntarily severance incentive program impacted the

17 2012 time period; however, the reduction to expense did

18 occur in 2013 and '14, so after the December 2012 time

19 period, you would have experienced the benefit -- the

20 Company would have experienced the benefit in '13 and '14.

21 And, in fact, our -- given the fact that our base

22 is 2014, then the level of expense included in our base

23 before escalation includes those benefits of reduced

24 expenses.

25 Q. And those should continue going forward into the

0199

 1 rate year and '17 and '18, would they not?

 2 A. Well, as far as the -- the base as the total level

 3 of expense, lowered --

 4 Q. Correct.

 5 A. -- by those bodies, but obviously, there's going

 6 to be similar escalation before and after that is

 7 continuing to occur with all O&M expenses.

 8 Q. But you've also made other changes, right, in the

 9 401(k) program? For all new nonunion hires, there's no

10 defined benefit plan for those people; right?

11 A. That's correct. So the overall expectation for

12 costs related to -- to pension and medical -- or pension

13 and medical will be lower than it otherwise would be in the

14 future, but we're still seeing increased costs there.

15 Q. So I -- I guess I'll leave it with this. Why

16 isn't it fair in the -- in the J and R standard, the just

17 and reasonable standard, to -- to include those reduced

18 costs in customer rates in -- both in '16 and going into

19 the future? What's -- what's unfair to the Company about

20 that?

21 A. Well, we are including them in that the 2014 base

22 that we're starting with -- and -- the 2014 base that we're

23 starting with is lower, and so maybe a good place to go is

24 to -- in my direct testimony, I have that chart that I know

25 you have all --

0200

 1 Q. Wait a minute.

 2 A. -- seen before.

 3 MR. MEYER: You'll have to --

 4 COMMISSIONER JONES: I have to --

 5 MR. MEYER: -- provide a reference --

 6 THE WITNESS: Yes.

 7 MR. MEYER: -- for us.

 8 THE WITNESS: I'm trying to find the -- the

 9 reference to it. It would be in my direct case.

10 COMMISSIONER JONES: Okay. What page?

11 THE WITNESS: Oh, yeah. Thank you.

12 BY COMMISSIONER JONES:

13 Q. What page, Ms. Andrews?

14 A. Page 9 of EMA-1T.

15 Q. Okay.

16 A. And I know you've heard Mr. Norwood speak to this

17 in the past.

18 Q. I have never heard him speak about this.

19 A. Okay. My apologies, then.

20 As you can see -- you can see the trended

21 escalation occurring prior to 2012.

22 Q. Right.

23 A. And then in -- in this, I'm referring to is the

24 green line, and that green line ticks down in 2013, but --

25 so although the trend slope has declined some, it is still

0201

 1 escalating into the future because of our total costs for

 2 O&M across the Company.

 3 Q. But on this graph on page 9, just to be clear, the

 4 2012 -- those little triangles of 2012, '13, and '14, those

 5 are actual numbers; right?

 6 A. Yes, they are.

 7 Q. And to the right of the vertical black bar, those

 8 are all forecasted numbers; right?

 9 A. That is true.

10 Q. Okay.

11 A. And --

12 Q. Thank you. That's all I have.

13 A. Can I quickly add that the --

14 Q. Yes.

15 A. -- the data that was used to escalate includes the

16 whole time period -- the historical time period. There's

17 no future expenses included in our escalation base on

18 rebuttal.

19 Q. So on the historical time period, that goes all

20 the way back to 2007; right?

21 A. It does.

22 Q. Just one final question, because you and --

23 Mr. McGuire mentioned this in his responsive testimony,

24 that you've changed the weather normalization methodology

25 two or three times, he asserts, in 2007, '8, and '9. Is

0202

 1 that an accurate statement? How many times did you change

 2 it?

 3 A. You know, I think the majority of the change

 4 occurred in the -- in 2007.

 5 Q. Okay.

 6 A. But it really is more reflective of -- of revenues

 7 and weather normal -- normalizing revenues and -- and

 8 expectations of -- of power costs and gas costs. That

 9 really has nothing to do with these expenses that we are

10 escalating forward in the O- -- on the O&M escalation.

11 Q. I see.

12 COMMISSIONER JONES: Thank you.

13 JUDGE FRIEDLANDER: Thank you.

14 MR. MEYER: I do have a brief follow-up from

15 Commissioner Jones.

16 JUDGE FRIEDLANDER: Okay. And -- and just to

17 clarify too, I think the exhibit number we're up to now is

18 9 for the breakout between pension and medical benefits.

19 MR. MEYER: And that was -- that's No. 9 --

20 JUDGE FRIEDLANDER: Yeah.

21 MR. MEYER: -- and that was for the period

22 '13, '14, and '15, as I recall.

23 JUDGE FRIEDLANDER: I believe so, yes.

24 MR. MEYER: Okay.

25 COMMISSIONER JONES: Mr. Meyer, do you have

0203

 1 the information for '15 yet?

 2 MR. MEYER: Well --

 3 THE WITNESS: Yes, we do.

 4 COMMISSIONER JONES: You do? Okay.

 5 MR. MEYER: We're good there. Okay. Will

 6 do.

 7 And I do have follow-up, though, before

 8 lunch, if I might, and this relates to a question from

 9 Mr. Jones.

10 \*\*\* EXAMINATION BY MR. MEYER \*\*\*

11 BY MR. MEYER:

12 Q. Commissioner Jones asked you about VSIP, asked you

13 about pension, asked you about post-retirement medical.

14 Would you agree, though, that the trend analysis from the

15 2007 through '14 period and the trend analysis from even a

16 2009 through '14, both of those trend analyses would

17 reflect lower growth relate -- lower growth rate related to

18 VSIP and changes to the pension and post-retirement medical

19 plan?

20 A. Yes, it does.

21 Q. So those are factored into --

22 A. Yes.

23 Q. -- those historical trending?

24 A. Yes.

25 Q. Okay. Now, is it true that the volatility of the

0204

 1 pension and post-retirement medical expense is also driven

 2 by interest rates and the discount rates related to these

 3 plans?

 4 A. Yes, that's true.

 5 Q. Okay. Finally, just as one last reference point

 6 on O&M, what is the Company's current financial forecast

 7 for the annual increase in O&M from 2014 through '16?

 8 A. That's 4.45 percent on a total basis.

 9 Q. Combined electric --

10 A. Combined.

11 Q. -- and gas?

12 A. Yes.

13 MR. MEYER: All right. Thank you. That's

14 all the redirect I have.

15 JUDGE FRIEDLANDER: Thank you. And I think

16 you're excused, Ms. Andrews. Thank you so much for your

17 testimony.

18 THE WITNESS: Thank you.

19 JUDGE FRIEDLANDER: Is there anything we need

20 to address on the record before we discuss lunch?

21 All right. We're off the record. Thank you.

22 (A luncheon recess was taken from 12:35 p.m. to

23 1:51 p.m.)

24 JUDGE FRIEDLANDER: All right. And I see

25 Ms. Smith is already seated, so I'll have you stand up,

0205

 1 raise your right hand.

 2

 3 JENNIFER S. SMITH, witness herein, having been

 4 first duly sworn on oath,

 5 was examined and testified

 6 as follows:

 7

 8 JUDGE FRIEDLANDER: Thank you. You can be

 9 seated.

10 Mr. Meyer?

11 MR. MEYER: Yes. Before we turn to this

12 witness, this morning, there was a question asked about the

13 remaining depreciable life of existing meters, and I have

14 that information, and that number is 24 years. So the

15 remaining depreciable life of existing meters is 24 years.

16 JUDGE FRIEDLANDER: Okay. Thank you.

17 MR. MEYER: Thank you.

18 \*\*\* EXAMINATION BY MR. MEYER \*\*\*

19 BY MR. MEYER:

20 Q. For the record, would you please state your name?

21 A. My name is Jennifer Smith.

22 Q. And by whom are you employed?

23 A. Avista Corporation.

24 Q. What is your title?

25 A. State and federal regulatory analyst, senior.

0206

 1 Q. And would you bring the mic a little closer to

 2 you? Thank you.

 3 And have you prepared and filed direct and

 4 rebuttal testimony?

 5 A. Yes, I have.

 6 Q. And is that what has been marked and admitted as

 7 Exhibit JSS-1T, -2, -3, -4T, -5, -6, and -7?

 8 A. Yes, that's correct.

 9 Q. Do you have any corrections to make to those?

10 A. No, I do not.

11 MR. MEYER: Okay. With that, the witness is

12 available.

13 JUDGE FRIEDLANDER: Thank you. Ms. Gafken?

14 MS. GAFKEN: Yes.

15 \*\*\* EXAMINATION BY MS. GAFKEN \*\*\*

16 BY MS. GAFKEN:

17 Q. Good afternoon.

18 A. Hi. How are you?

19 Q. I'm well.

20 Please turn to your rebuttal testimony,

21 Exhibit JSS-4T, and please turn to page 38.

22 A. All right. I'm there.

23 Q. And I'd like to turn your attention to lines 10

24 through 14. There, you testify that in calculating the pro

25 forma property tax expense adjustment to determine the

0207

 1 future property tax levy rates, a 2 percent escalation

 2 factor was applied to the existing average levy rates;

 3 correct?

 4 A. Yes. That's correct.

 5 Q. Please turn to page 39 of Exhibit JSS-4T, and I'll

 6 ask you about Table 6. Table 6 shows the average levy rate

 7 increase for each year, 2009 through 2013; correct?

 8 A. That's correct. Well, from 2012 to 2013, there

 9 was a slight decrease.

10 Q. Right. And I -- that was what I was going to ask

11 you about next. So on Table 6, that shows that the state

12 average levy for Washington decreased by 0.9 percent

13 between 2012 and 2013; correct?

14 A. Yes. Correct.

15 Q. And then if you could turn to Cross-Exhibit JSS-8.

16 A. I'm there.

17 Q. Do you recognize the exhibit as Avista's response

18 to Public Counsel Data Request No. 94?

19 A. Yes, I do.

20 Q. In the table that appears in Subsection A of the

21 response, it shows that the Washington State average levy

22 declined an additional 0.1 percent between 2013 and 2014;

23 correct?

24 A. Yes. That's correct.

25 MS. GAFKEN: Thank you. I have no further

0208

 1 questions.

 2 JUDGE FRIEDLANDER: Okay. Thank you. I

 3 don't believe that anyone else has cross, so if Mr. Meyer

 4 would like any redirect?

 5 MR. MEYER: Just one quick redirect.

 6 JUDGE FRIEDLANDER: Sure.

 7 \*\*\* EXAMINATION BY MR. MEYER \*\*\*

 8 BY MR. MEYER:

 9 Q. As you turn to Exhibit -- Cross-Exhibit No. 8 --

10 do you have that before you?

11 A. Mm-hmm.

12 Q. That has a number of years' worth of information

13 about the percentage increase or decrease, does it not?

14 A. Yes, it does.

15 Q. And hasn't the Company's approach reflected in

16 your testimony been to use an average over time?

17 A. Yes.

18 Q. And you use that in support of your 2 percent;

19 right?

20 A. Yes.

21 Q. And you'll see that, in years prior to 2013 and

22 '14, that the percentage increases were all above

23 2 percent; correct?

24 A. Yes.

25 MR. MEYER: Thank you. That's all.

0209

 1 JUDGE FRIEDLANDER: Okay. Thank you. Do

 2 you --

 3 COMMISSIONER JONES: No.

 4 JUDGE FRIEDLANDER: Okay.

 5 COMMISSIONER JONES: No questions.

 6 \*\*\* EXAMINATION BY COMMISSIONER RENDAHL \*\*\*

 7 BY COMMISSIONER RENDAHL:

 8 Q. Ms. Smith -- excuse me. Ms. Smith, are there

 9 other witnesses appearing this afternoon who are going to

10 be talking about details related to accounting for Project

11 Compass, or are you the witness to address those questions

12 to?

13 A. There will be other witnesses that will be

14 discussing the Project Compass. The accounting pieces will

15 primarily be Karen Schuh, and then the details of the

16 Project Compass will be Jim Kensok.

17 Q. Okay. I do have one question. If you can't

18 answer this and another witness would be more appropriate,

19 then please --

20 A. Okay.

21 Q. -- let me know.

22 In reviewing the Project Compass information,

23 there's a labor adjustment that Public Counsel and ICNU

24 recommend because the Company didn't demonstrate that there

25 were -- that the increased labor costs due to the project

0210

 1 would persist.

 2 So do you know or are you the right employ- --

 3 right witness to ask about whether Avista added employees

 4 or used existing employees for Project Compass?

 5 A. I could answer that question, the -- you know,

 6 with limited details.

 7 Q. Okay.

 8 A. So -- so --

 9 Q. Then if we need more --

10 A. -- yeah. So we primarily used internal companies.

11 I'm not sure specifically how many external -- or sorry --

12 internal employees. I don't know how many external people

13 were hired specifically for the purposes of the Compass

14 project.

15 Q. So were those employees who were use -- working on

16 Project Compass and are now being redirected to other

17 projects?

18 A. I don't know the exact numbers, but I believe,

19 yes, for the most part, they will all return to other

20 projects within the Company.

21 Q. Okay. And were those employees associated with

22 Project Compass, were they eligible for overtime or were

23 they --

24 A. I would have to say primarily not, they were all

25 salaried employees.

0211

 1 COMMISSIONER RENDAHL: Okay. That's all I

 2 have. Thank you.

 3 JUDGE FRIEDLANDER: Thank you.

 4 CHAIRMAN DANNER: No questions.

 5 JUDGE FRIEDLANDER: Okay. Then I believe

 6 you're excused. Thank you so much --

 7 THE WITNESS: Okay.

 8 JUDGE FRIEDLANDER: -- for your testimony.

 9 MR. MEYER: Thank you. I'll next call to the

10 stand Witness Karen Schuh.

11

12 KAREN K. SCHUH, witness herein, having been

13 first duly sworn on oath,

14 was examined and testified

15 as follows:

16

17 JUDGE FRIEDLANDER: Thank you. You can be

18 seated.

19 And, Mr. Meyer, feel free.

20 \*\*\* EXAMINATION BY MR. MEYER \*\*\*

21 BY MR. MEYER:

22 Q. For the record, please state your name.

23 A. Karen Schuh.

24 Q. And move the mic a little closer, if you would.

25 Thank you.

0212

 1 A. Karen Schuh.

 2 Q. And by whom are you employed, and what is your

 3 position?

 4 A. Avista Corporation, and senior regulatory analyst.

 5 Q. And have you prepared both direct and rebuttal

 6 testimony in this case?

 7 A. Yes.

 8 Q. And has that been marked and admitted as KKS-1T,

 9 -2, -3, -4, -5, -6T, -7, -8, -9, -10, and -11?

10 A. Yes.

11 Q. Do you have any changes or corrections to that?

12 A. No.

13 MR. MEYER: Thank you. With that, I tender

14 the witness.

15 JUDGE FRIEDLANDER: Thank you.

16 Ms. Cameron-Rulkowski?

17 \*\*\* EXAMINATION BY MS. CAMERON-RULKOWSKI \*\*\*

18 BY MS. CAMERON-RULKOWSKI:

19 Q. Good afternoon, Ms. Schuh.

20 A. Hi, there.

21 Q. In your rebuttal testimony, you respond to Staff

22 Witness Mr. Gomez's testimony about the Nine Mile capital

23 addition; correct?

24 A. Correct.

25 Q. I would like you to please refer to your

0213

 1 Exhibit KKS-8.

 2 A. I'm there.

 3 Q. There are no transferred plant amounts in that

 4 discovery response, are there?

 5 A. No, there's not.

 6 Q. Thank you.

 7 In your rebuttal testimony, you discuss the

 8 reductions in plant additions for certain projects;

 9 correct?

10 A. Yes.

11 Q. In its case on rebuttal, though, Avista is not

12 relying at all on its pro forma analysis of capital

13 additions for its revenue requirement, is it?

14 A. No, it's not. We're relying on the attrition

15 study.

16 MS. CAMERON-RULKOWSKI: Thank you. I have no

17 further questions.

18 JUDGE FRIEDLANDER: Thank you.

19 Ms. Gafken?

20 \*\*\* EXAMINATION BY MS. GAFKEN \*\*\*

21 BY MS. GAFKEN:

22 Q. Good afternoon, Ms. Schuh.

23 A. Hi.

24 Q. Would you please turn to your rebuttal testimony,

25 Exhibit KKS-6T, page 11, and once you're there, go to

0214

 1 lines 12 through 16.

 2 A. I'm there.

 3 Q. There, you testify that pro forma adjustments

 4 proposed by various parties do not reflect the level of net

 5 plant that will be in service during the 2016 rate year; is

 6 that correct?

 7 A. Correct.

 8 Q. From Avista's perspective, should rates be set in

 9 this docket or these dockets to be calculated based on the

10 projected amount of net plant in service for 2016?

11 A. Could you restate the question, please?

12 Q. Sure. From Avista's perspective, should the rates

13 that are set in these dockets be calculated based on the

14 projected amount of net plant in service for 2016?

15 A. We've included the net plant analysis from

16 Avista's standpoint as an apples-to-apples comparison to

17 what was provided in the attrition study, and what is

18 reflected in the attrition study is what we're proposing in

19 this case for revenue requirements.

20 Q. Is Avista looking at a future test year?

21 A. No. Avista is looking at a historical trend with

22 attrition and going out, and what I've -- what I've -- what

23 I've included here is a bottoms-up approach looking at a

24 historical test period to compare against the attrition

25 study to make sure that the attrition study is reasonable.

0215

 1 Q. And in doing that bottoms-up approach, you include

 2 plant that's anticipated to be in -- in service in 2016?

 3 A. Yes. We include all and -- expected plant that's

 4 included -- that should be included in the rate year.

 5 Q. Please turn to page 17 of Exhibit KKS-6T.

 6 MR. MEYER: Excuse me. What page reference

 7 was that again?

 8 MS. GAFKEN: 17.

 9 MR. MEYER: Thank you.

10 BY MS. GAFKEN:

11 Q. And looking at Table 1, Table 1 provides a

12 reconciliation of the accumulated deferred federal income

13 taxes that were originally filed on a Washington electric

14 basis to the accumulated deferred federal income taxes in

15 Avista's rebuttal position; is that correct?

16 A. Yes.

17 Q. And the numbers in Table 1 are based on -- on the

18 2016 average-of-monthly-averages rate-based approach

19 contained in Avista's electric cross-check studies;

20 correct?

21 A. Yes.

22 Q. The AFDIT [sic] rebuttal position listed at the

23 bottom of Table 1 is the amount that appears in Avista's

24 rebuttal cross-check study and not Avista's rebuttal

25 attrition study; correct?

0216

 1 A. The balance that's reflected here is included as a

 2 porti- -- in total in the pro forma cross-check study as a

 3 total net plant after ADFIT. The amount that's included in

 4 the attrition study reflects all three components of both

 5 plant, accumulated depreciation, and ADFIT.

 6 It does not reflect -- it reflects the level of

 7 ADFIT that we expect to be in the rate year, which also

 8 includes these adjustments.

 9 Q. Okay. So the approximately 314,000 number is

10 folded into the attrition study?

11 A. It's captured in the attrition study, yes.

12 Q. Table 1 also identifies the amount for bonus

13 depreciation for federal taxes; correct?

14 A. Correct.

15 Q. And this amount reflects Avista's 2014 bonus

16 depreciation; correct?

17 A. Yes.

18 Q. Avista became aware of the 2014 bonus depreciation

19 in December of 2014?

20 A. That is my understanding, yes.

21 Q. And so none of that bonus depreciation for 2014

22 was recorded on Avista's book as of the end of

23 September 2014; correct?

24 A. That's my understanding, yes.

25 Q. Would you please turn to Cross-Exhibit KKS-12?

0217

 1 A. I'm there.

 2 Q. Do you recognize the exhibit as Avista's response

 3 to Public Counsel's Data Request No. 100?

 4 A. Yes.

 5 Q. If you would turn to Attachment A of that

 6 response, which is page 2 of the exhibit, the information

 7 in the attachment is based on information from Avista's

 8 consultant, who was hired to perform the repair studies

 9 used to determine the amount of repairs deduction included

10 in Avista's 2014 federal income tax return; correct?

11 A. Yes.

12 Q. The bottom half of the chart is labeled, "Final

13 Repair Study for 2014 Federal Tax Return." Do you see

14 that, that portion?

15 A. Yes.

16 Q. This shows the -- the final study results on a

17 system basis and also on a Washington-allocated basis;

18 correct?

19 A. Yes.

20 Q. I'm sorry. Was there --

21 A. Yep. I said yes.

22 Q. Oh, okay.

23 A. Yeah. Sorry.

24 COURT REPORTER: If you could speak up --

25 THE WITNESS: Oh, okay.

0218

 1 COURT REPORTER: -- that would be good.

 2 THE WITNESS: Yeah. Sorry.

 3 COURT REPORTER: Thank you.

 4 BY MS. GAFKEN:

 5 Q. Focusing on the Washington-allocated amount, the

 6 amount of repairs deduction associated with plant in

 7 service before 2014 is $29,491,464; correct?

 8 A. Where -- where are you showing that? I'm sorry.

 9 Q. So focusing on the Washington-allocated amount --

10 A. Mm-hmm.

11 Q. -- and I want you to look at the amount of

12 repairs --

13 A. Oh.

14 Q. -- deduction associated with plant in service

15 before 2014.

16 A. Oh, yes. I'm -- yeah.

17 Q. Could you -- could you read that amount?

18 A. The 29,491,464?

19 Q. Yes.

20 MR. MEYER: And could you keep your voice up

21 too, please?

22 THE WITNESS: Yes.

23 MR. MEYER: Thank you.

24 BY MS. GAFKEN:

25 Q. And the amount of repairs deduction associated

0219

 1 with -- associated with plant in service in 2014 is roughly

 2 7.7 million?

 3 A. Yes.

 4 MS. GAFKEN: Thank you. Those are my

 5 questions.

 6 JUDGE FRIEDLANDER: Thank you.

 7 Ms. Davison, did you have any questions?

 8 MS. DAVISON: No, Your Honor.

 9 JUDGE FRIEDLANDER: Okay. All right, then.

10 I believe that's all for cross, so do you have any

11 redirect?

12 MR. MEYER: Just one or two.

13 JUDGE FRIEDLANDER: Okay.

14 \*\*\* EXAMINATION BY MR. MEYER \*\*\*

15 BY MR. MEYER:

16 Q. Ms. Schuh, why did you include plant for 2016 in

17 the cross-check study?

18 A. This is all the plant that we inspect -- expect to

19 be in service during the rate year. We did this as a

20 comparable approach to the attri- -- attrition study, as

21 kind of an apples-to-apples comparison, to show the level

22 of plant that will be in service during the 2016 rate year.

23 Q. And conversely, if you had not used plant for the

24 2016 rate year, what purpose would have been served by the

25 cross-check study?

0220

 1 A. Can you -- can you restate that?

 2 Q. Yes. If you hadn't done it that way, would the

 3 cross-check study have had any usefulness for comparison

 4 purposes?

 5 A. No. In fact, if you turn to my Exhibit KKS-6T, on

 6 page 10 --

 7 Q. I'm sorry. A little louder, please.

 8 A. Oh. KKS-6T on page 10 --

 9 Q. Okay.

10 A. -- shows the net plant adjustments by Avista,

11 Staff, Public Counsel, ICNU --

12 Q. I'm sorry. Let's -- let's all get --

13 A. Yeah.

14 Q. -- to those pages. So it's page 10 of your

15 Exhibit KKS-6T?

16 A. Yeah. You can see there that -- is everybody

17 there?

18 COMMISSIONER JONES: I'm there.

19 A. Okay. You can see there that the -- the net plant

20 that Avista is showing in comparison to the parties, the

21 parties fall well below the level that Avista is showing it

22 will need to recover its costs in '16.

23 BY MR. MEYER:

24 Q. So in your estimate -- estimation, based on those

25 charts, if one were to use the sort of pro forma plant

0221

 1 adjustments used by others, would that have accurately

 2 depicted the 2016 rate year?

 3 A. No. In fact, Staff also recognized this and used

 4 an attrition allowance also, the same as we did.

 5 Q. And lastly, is it your understanding that -- that

 6 bonus depreciation is fully reflected in the Company's

 7 cross-check study and Avista's attrition study during the

 8 2016 rate year?

 9 A. Yes, that's my understanding.

10 MR. MEYER: Okay. Thank you. That's all I

11 had.

12 JUDGE FRIEDLANDER: Thank you. Any questions

13 from the Bench?

14 COMMISSIONER JONES: Just one. This is

15 Commissioner Jones.

16 \*\*\* EXAMINATION BY COMMISSIONER JONES \*\*\*

17 BY COMMISSIONER JONES:

18 Q. If you go back to page 10, Ms. Schuh, I just want

19 to make sure I understand page 10, these wonderfully

20 colored graphs. This is just for the 2- -- 2016 rate year?

21 It doesn't include any trending data; it's just 2016, what

22 you estimate will be in service, EOP, end-of-period, 2016?

23 A. No. This is on a 2016 AMA basis.

24 Q. So it's an AMA basis --

25 A. Yes.

0222

 1 Q. -- but it's just 2016 net plant additions?

 2 A. It is -- no. It takes us from the 2014 rate year

 3 or test period to the 2016 AMA rate year.

 4 Q. Okay.

 5 A. So this is that whole time period.

 6 Q. And 2014 is EOP, end-of-period, or AMA as well?

 7 A. In 2014, our test period was September AMA, and

 8 then we went to EOP December, and then walked it forward

 9 to --

10 Q. So both --

11 A. -- '15 --

12 Q. -- periods are AMA, but one ends in September,

13 ones -- one ends in December; correct?

14 A. Ye- -- yes. Correct.

15 COMMISSIONER JONES: Okay. Thank you.

16 JUDGE FRIEDLANDER: Thank you.

17 And I believe that's it, so thank you,

18 Ms. Schuh.

19 THE WITNESS: Thanks.

20 MR. MEYER: Thank you.

21 Finally, something other than accounting for

22 a little while.

23 Patrick Ehrbar, please?

24 JUDGE FRIEDLANDER: Thank you.

25 And if you could go ahead and stand, too.

0223

 1 MR. EHRBAR: Oh, I'm sorry.

 2 JUDGE FRIEDLANDER: I know. I -- you just

 3 sat, so.

 4 MR. EHRBAR: Yep. Yep.

 5

 6 PATRICK D. EHRBAR, witness herein, having been

 7 first duly sworn on oath,

 8 was examined and testified

 9 as follows:

10

11 JUDGE FRIEDLANDER: Thank you. You can be

12 seated.

13 \*\*\* EXAMINATION BY MR. MEYER \*\*\*

14 BY MR. MEYER:

15 Q. All set?

16 A. All set.

17 Q. Okay. Thank you.

18 For the record, please state your name.

19 A. Sure. It's Patrick Ehrbar.

20 Q. And by whom are you employed, and what is your

21 title?

22 A. I'm employed by Avista Corporation, and I'm the

23 manager of rates and tariffs.

24 Q. All right. And have you prepared both direct and

25 rebuttal testimony?

0224

 1 A. Yes, I have.

 2 Q. And have you sponsored exhibits as well?

 3 A. Yes, I have.

 4 Q. Do you have any changes or corrections to make to

 5 any of those?

 6 A. No, I do not.

 7 Q. And then are your exhibits marked as PDE-1T all

 8 the way through PDE-10?

 9 A. That's correct.

10 MR. MEYER: Thanks.

11 The witness is available.

12 JUDGE FRIEDLANDER: Great. Thank you.

13 Mr. Roseman?

14 MR. ROSEMAN: Thank you, Your Honor.

15 \*\*\* EXAMINATION BY MR. ROSEMAN \*\*\*

16 BY MR. ROSEMAN:

17 Q. Thank you. Good afternoon.

18 A. Good afternoon.

19 Q. My -- my questions are go -- will be regarding

20 LIRAP, and I want to start with, did you participate in the

21 LIRAP work group ordered by the Commission in the last

22 general rate case?

23 A. Yes, I did.

24 Q. And are you familiar with the petition and the

25 exhibits that were presented to the Commission?

0225

 1 A. Yes, I am.

 2 Q. Okay. Are you also -- as one of the exhibits that

 3 was prepared by the Institute for Public Policy and

 4 Economic Analysis at Eastern Washington University, which

 5 provided an estimate of the number of households in poverty

 6 served by Avista, which was submitted with that petition?

 7 A. Yes.

 8 Q. Thank you.

 9 Did that report show that Avista's -- in Avista's

10 service territory, there were -- 51,130 households were

11 living at or below 125 percent of the federal poverty

12 level?

13 A. That is correct.

14 Q. And are you familiar with Ms. Juliana Williams'

15 testimony?

16 A. Yes, I am.

17 Q. Okay. And I will be referencing -- it's -- it's a

18 simple question, but I want to tell you where I'm go- --

19 her Exhibit JMW-2, page 2, which looked at the program

20 years 2011 to 2013 for the LIRAP program, where she says

21 that approximately 12,000 grants were made to eligible

22 customers; is that correct?

23 A. Yes. I don't have that in front of me, but I -- I

24 do know that, for 2014, it was roughly 12,483.

25 Q. Okay. And a simple mathematical calculation would

0226

 1 be that serves -- that 12,000 grants serves approximately a

 2 quarter of the low-income households living at 125 percent

 3 of poverty?

 4 A. That's correct.

 5 Q. Thank you.

 6 In your rebuttal testimony, PDE-8 -- -8T, you --

 7 you said that Avista chose an overall increase in -- in

 8 LIRAP funding, assuming that there was no rate case, of

 9 7 percent annually because it was -- it was a reasonable

10 level and similar to Staff's; is that correct?

11 A. That is correct.

12 Q. Staff -- Staff said in their testimony that their

13 proposed increase in LIRAP funds of $476,000 annually would

14 take approximately ten years to serve half of the 51,000

15 low-income customers; is that correct?

16 A. That was their analysis, yes.

17 Q. Okay. And how long would it take Avista to meet

18 this goal of serving half the low-income households with

19 Avista's proposed annual 7 percent increase?

20 A. What I would direct you to is Exhibit PDE-13,

21 which is a response to -- a revised response to a data

22 request from The Energy Project, and on that data

23 request -- or on that exhibit, what it shows is, between

24 2022 and 2023, which is kind of bolded and boxed on that

25 exhibit, is kind of the crossover point of serving

0227

 1 approximately half of the population.

 2 Q. Okay.

 3 A. This is predicated as the starting point for this

 4 analysis isn't the 7 percent; it's based on the Company's

 5 rebuttal revenue requirements in this case, so there was

 6 slightly higher funding on the natural gas side because our

 7 request was greater than two times the residential

 8 increase, so it's slightly higher than the 7 percent. But

 9 approximately in that 2022 time frame.

10 Q. Okay. If -- if there was no increase in LIRAP

11 funding as proposed by The Energy Project, Staff, or

12 Avista, but LIRAP funding continued to grow at an average

13 rate of $332,716, which is the rate it grew from 2001, the

14 beginning of the program, to 2014, would it take, subject

15 to check, approximately 14 years to meet that goal, the

16 goal of serving 25,565 households?

17 A. That seems correct, subject to check.

18 Q. Thank you.

19 If LIRAP funding increased at a -- at least

20 10 percent a year, as proposed by Public Counsel and The

21 Energy Project, with no further increase in poverty

22 population or any rate cases, would you accept, subject to

23 check, that the goal to serve 25,500 customers would be

24 reached sooner than either Staff's or Avista's proposal?

25 A. Yes, I would.

0228

 1 Q. And I have just two clarifying issues on the

 2 exhibits. I just want to -- I think it's -- it's your --

 3 it's PDE-12, and I want to ask you whether this answer to

 4 Data Request, Energy Project, No. 10 would -- would portray

 5 how much money -- how much increase in LIRAP funding would

 6 be available, assuming that there was a 5 percent increase

 7 in base rates in Year 2 of Avista's five-year funding plan.

 8 Is the example of how much money there would --

 9 additional money there would be shown in your -- in this

10 Exhibit PDE-12?

11 A. It -- it is, starting with the assumption that the

12 rebuttal revenue requirement's approved as filed, so the

13 starting point, January 1 of '16. So assuming that that is

14 the starting point, then yes, it is correct. I then show a

15 5 percent -- the effects of a 5 percent base rate increase,

16 as well as the automatic adjustments that would happen

17 October 1st of each subsequent year.

18 MR. ROSEMAN: With that, I have no further

19 questions.

20 JUDGE FRIEDLANDER: Thank you.

21 Ms. Davison?

22 MS. DAVISON: We have no questions of this

23 witness.

24 JUDGE FRIEDLANDER: Okay.

25 MS. DAVISON: Thank you, Your Honor.

0229

 1 JUDGE FRIEDLANDER: I think that's it as far

 2 as cross-exam for Mr. Ehrbar.

 3 Mr. Meyer, do you have any redirect?

 4 MR. MEYER: No redirect.

 5 JUDGE FRIEDLANDER: Okay. Thank you.

 6 Is there any questions from the Bench?

 7 CHAIRMAN DANNER: No questions.

 8 JUDGE FRIEDLANDER: No questions?

 9 COMMISSIONER JONES: No.

10 JUDGE FRIEDLANDER: Okay. Well, thank you so

11 much --

12 THE WITNESS: Thank you.

13 JUDGE FRIEDLANDER: -- Mr. Ehrbar. Thank

14 you.

15 And I believe we're up to Mr. --

16 MR. MEYER: Kensok.

17 JUDGE FRIEDLANDER: -- Kensok.

18

19 JAMES M. KENSOK, witness herein, having been

20 first duly sworn on oath,

21 was examined and testified

22 as follows:

23

24 JUDGE FRIEDLANDER: Thank you. You can be

25 seated.

0230

 1 \*\*\* EXAMINATION BY MR. MEYER \*\*\*

 2 BY MR. MEYER:

 3 Q. For the record, please state your name and your

 4 employer.

 5 A. James Kensok, Avista Corporation.

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

 7 A. Vice president, chief information and chief

 8 security officer.

 9 Q. And as such, have you prepared and filed what have

10 been marked and admitted as Exhibits JMK-1T through

11 JMK-12C?

12 A. Yes.

13 Q. Do you have any changes or corrections to make to

14 those?

15 A. No.

16 MR. MEYER: With that, Mr. Kensok is

17 available.

18 JUDGE FRIEDLANDER: Thank you.

19 Ms. Cameron-Rulkowski?

20 MS. CAMERON-RULKOWSKI: Thank you, Your

21 Honor.

22 \*\*\* EXAMINATION BY MS. CAMERON-RULKOWSKI \*\*\*

23 BY MS. CAMERON-RULKOWSKI:

24 Q. Good afternoon, Mr. Kensok.

25 A. Hi.

0231

 1 Q. First, I have just a few time line questions for

 2 you.

 3 A. Okay.

 4 Q. You testified that the acquisition of EP2M by

 5 Five Point was announced in January 2013; correct?

 6 A. That's when we were informed, yes.

 7 Q. Well, that was my question. When did you

 8 personally learn about the acquisition? And, specifically,

 9 I'm interested in whether you learned about it before it

10 actually occurred.

11 A. We did not learn about it before it occurred, and

12 they told us -- I can't tell you the date, but it was in

13 January of 2013.

14 Q. And when you said "we," do you mean you

15 personally?

16 A. I personally was there, yes.

17 Q. And Avista knew in May of 2014 that Five Point was

18 being acquired by Ernst & Young; correct?

19 A. Yes.

20 Q. And did you learn about that acquisition before it

21 occurred?

22 A. No.

23 MS. CAMERON-RULKOWSKI: All right. And now I

24 have some questions about Project Compass, and most of

25 these derive from confidential materials, so we may need --

0232

 1 JUDGE FRIEDLANDER: We will. We'll need

 2 to --

 3 MS. CAMERON-RULKOWSKI: -- to clear out the

 4 room.

 5 JUDGE FRIEDLANDER: First of all, we'll need

 6 to segregate the confidential aspect of the transcript, and

 7 the rest will be excusing --

 8 MR. ROSEMAN: Your mic must not be on.

 9 JUDGE FRIEDLANDER: Sorry. I'm used to you

10 guys doing that.

11 So the -- as I was saying to the court

12 reporter, the area of the transcript containing the

13 confidential information will need to be segregated from

14 the rest of the transcript, and we need to excuse all

15 parties or people that have not signed a confidentiality

16 agreement, and we'll need to shut off the bridge line.

17 So let's go ahead and do that now. Is there

18 anyone in the -- the hearing room that needs to --

19 CHAIRMAN DANNER: Why don't we take a minute,

20 two minutes --

21 JUDGE FRIEDLANDER: All right. Yeah.

22 CHAIRMAN DANNER: -- or a few minutes off the

23 record to --

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

25 Let's -- let's go off of the record.

0233

 1 (A break was taken from 2:25 p.m. to 2:34 p.m.)

 2 [CONFIDENTIAL EXCERPT PAGES 233-289]

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 7 [CONFIDENTIAL TRANSCRIPT]

 8 (Pause in the proceedings.)

 9 JUDGE FRIEDLANDER: All right. We'll be back

10 on the record.

11 Ms. Gafken?

12 THE WITNESS: And I'll slow down.

13 \*\*\* EXAMINATION BY MS. GAFKEN \*\*\*

14 BY MS. GAFKEN:

15 Q. Good afternoon, Mr. Kensok.

16 A. Hi.

17 Q. Has Avista retired the legacy customer service and

18 work management system?

19 A. Yes, ma'am. 30 days after we went live, we turned

20 it off.

21 Q. And by turn off, you mean retired?

22 A. Yes. It was outsourced to Hewlett-Packard, and it

23 ran at a data center in Sacramento, California. So

24 "retired" means that we put it on -- basically backed it up

25 for archival purposes for the future, if we ever had to go

0290

 1 back to it, and basically turned it all off, technically

 2 turned it off and retired it.

 3 Q. As of today, have the annual expenses for contract

 4 services associated with Avista's legacy customer service

 5 and work management system declined?

 6 A. Yes. They actually are gone.

 7 Q. So now there are zero?

 8 A. Zero related to -- if you were looking at details,

 9 you'd look for Hewlett-Packard, and all the costs

10 associated with Hewlett-Packard were -- were done.

11 Q. Are there any Hewlett-Packard costs that are not

12 associated with the legacy system?

13 A. No. Well --

14 Q. This may also be a --

15 A. I'm sorry. We're using -- I'm sorry. We're using

16 Hewlett-Packard for other reasons with other systems now,

17 but related to the legacy systems, there will be none.

18 Q. As of today, have the annual expenses for the

19 mainframe computer costs associated with the legacy system,

20 have they declined?

21 A. They are zero.

22 Q. And with respect to the contract services and

23 the -- the mainframe computer services, did those costs go

24 to zero contemporaneously with the go-live date?

25 A. 30 days --

0291

 1 Q. Or 30 days --

 2 A. -- later.

 3 Q. -- after?

 4 A. Yes.

 5 Q. Okay. If you could please turn to your direct

 6 testimony -- that's Exhibit JMK-1T -- and go to page 15.

 7 And this'll be the only exhibit that we'll go to.

 8 A. Yeah. Okay. Sorry. The electronic ones threw

 9 me.

10 Q. I'd like you to look at lines 4 through 28, so

11 essentially the whole page there --

12 JUDGE FRIEDLANDER: I'm sorry. Which page is

13 that?

14 COMMISSIONER JONES: Which page?

15 MS. GAFKEN: Page 15.

16 COMMISSIONER JONES: 15?

17 MS. GAFKEN: 15.

18 JUDGE FRIEDLANDER: Thank you.

19 MR. MEYER: And again, is it of his 6T?

20 MS. GAFKEN: No. It's his direct testimony,

21 1T.

22 MR. MEYER: Direct testimony. Okay. Thanks.

23 MS. GAFKEN: So it's Exhibit JMK-1T --

24 MR. MEYER: Yeah.

25 MS. GAFKEN: -- page 15, essentially the

0292

 1 whole page, lines 4 through 28.

 2 THE WITNESS: Okay.

 3 BY MS. GAFKEN:

 4 Q. There, you discuss the technology refresh to

 5 sustain business process; correct?

 6 A. Yes.

 7 Q. On lines 4 to 5, that shows that Avista planned

 8 18.6 million for these projects in 2015 and 16.1 million

 9 for these projects in 2016; correct?

10 A. Yes.

11 Q. On line 21, you state that the business case

12 program generally has over 100 active projects for each

13 year; is that correct?

14 A. Yes.

15 Q. How many individual projects were planned for

16 2015?

17 A. I don't know. They're significant, but I can't

18 tell you exactly, in '15, how many were planned. I can get

19 that if it's...

20 Q. Okay. Well, on line 21, you said that it was over

21 100 active projects. Ballparking, I think is fine for --

22 for these purposes.

23 A. Okay.

24 Q. Is it much over 100 or kind of around 100?

25 A. It's probably within 10 or 15 percent of 100.

0293

 1 Q. Okay.

 2 A. The definition of a project, for us, it varies,

 3 but it can be small in duration or small in cost but high

 4 in complexity, so we have to put a formal plan together, or

 5 they can be as large as something like AMI.

 6 Q. Now, just focusing on 2015 --

 7 A. Mm-hmm.

 8 Q. -- do the costs included in the technology refresh

 9 project include items such as computer replacements?

10 A. Yes.

11 Q. Monitor replacements?

12 A. Yes.

13 Q. Printer replacements?

14 A. Yes.

15 Q. Cell phone replacements or upgrades?

16 A. Yes.

17 Q. Software upgrades?

18 A. Yes.

19 Q. Again, focusing on 2015, are there -- are any of

20 the assets included in the technology refresh project

21 replacing assets that already exist?

22 A. Yes.

23 MS. GAFKEN: Okay. Thank you. Those are my

24 questions.

25 JUDGE FRIEDLANDER: Thank you. Any redirect?

0294

 1 MR. MEYER: Just one.

 2 \*\*\* EXAMINATION BY MR. MEYER \*\*\*

 3 BY MR. MEYER:

 4 Q. I believe you testified that the old costs --

 5 well, that the costs associated with retiring the legacy

 6 system are gone?

 7 A. Yes.

 8 Q. Okay. But would you agree that there are

 9 increased costs associated with the new system?

10 A. Yes.

11 MR. MEYER: Okay. Thanks. That's all.

12 JUDGE FRIEDLANDER: Thank you.

13 Any questions from the Bench?

14 COMMISSIONER RENDAHL: No.

15 JUDGE FRIEDLANDER: No?

16 COMMISSIONER JONES: No.

17 JUDGE FRIEDLANDER: No? Okay. All right,

18 then. I think, this time, you really are done.

19 THE WITNESS: Thank you.

20 JUDGE FRIEDLANDER: Thank you for your

21 testimony.

22 THE WITNESS: Thanks.

23 MR. MEYER: Thank you.

24 JUDGE FRIEDLANDER: How about we take a

25 short, ten-minute break, and we'll be off the record until

0295

 1 4:00. Thank you.

 2 (A break was taken from 3:49 p.m. to 4:04 p.m.)

 3 JUDGE FRIEDLANDER: So I guess we're all set?

 4 If you'll stand and raise your right hand.

 5

 6 DON F. KOPCZYNSKI, witness herein, having been

 7 first duly sworn on oath,

 8 was examined and testified

 9 as follows:

10

11 JUDGE FRIEDLANDER: Thank you.

12 \*\*\* EXAMINATION BY MR. MEYER \*\*\*

13 BY MR. MEYER:

14 Q. For the record -- for the record, please state

15 your name.

16 A. Don Kopczynski.

17 Q. And are you employed by Avista?

18 A. Yes.

19 Q. And in what capacity?

20 A. Vice president of energy delivery and customer

21 service.

22 Q. And have you prepared direct testimony and

23 exhibits?

24 A. Yes.

25 Q. Are those marked and admitted as Exhibits DFK-1T

0296

 1 through DFK-6?

 2 A. Yes.

 3 Q. Any changes to those?

 4 A. No.

 5 MR. MEYER: With that, he's available for

 6 cross.

 7 JUDGE FRIEDLANDER: Thank you.

 8 And Staff, who will be crossing

 9 Mr. Kopczynski?

10 MR. CASEY: I will.

11 JUDGE FRIEDLANDER: Mr. Casey?

12 MR. CASEY: Yes.

13 JUDGE FRIEDLANDER: Thank you.

14 MR. CASEY: Thank you.

15 \*\*\* EXAMINATION BY MR. CASEY \*\*\*

16 BY MR. CASEY:

17 Q. Good afternoon.

18 A. Good afternoon.

19 Q. So in its direct case, Avista asked the Commission

20 to approve over $32 million -- an over $32 million addition

21 to its rate base for the AMI project; is that correct?

22 A. Yes.

23 Q. And this was in the form of transfers to plant; is

24 that correct?

25 A. Yes.

0297

 1 Q. And the Company also requested an accounting order

 2 to move the old meters out of distribution plant and to

 3 create a 20-plus million dollar regulatory asset for the

 4 existing undepreciated meters; is that correct?

 5 A. Yes.

 6 Q. And these requests by the Company were based on

 7 the AMI business case that you sponsored; is that correct?

 8 A. That's correct.

 9 Q. And you still stand by that business case?

10 A. Yes.

11 Q. Thanks.

12 And in that business case, you characterized the

13 estimates of costs for the AMI project as conservative and

14 also as preliminary?

15 A. Yes. They are.

16 Q. And you characterized the benefits as

17 conservative?

18 A. Yes.

19 Q. And Staff and Public Counsel, for that matter, did

20 not support either of these requests; correct?

21 A. I don't know that.

22 Q. You're not sure. Okay.

23 Well, but Avista believes that the business case

24 sufficiently demonstrates that the benefits of the AMI

25 project will equal or outweigh the costs and, thus, it

0298

 1 adequately justifies the Commission's approval for the

 2 Company to move forward with the AMI business case?

 3 A. We are -- we're not looking for, again, a prudence

 4 decision at this time from the Commission, but we are

 5 looking for affirmation from this Commission to move

 6 forward with the project. And if -- the affirmation we're

 7 looking for is really embedded in our request for the

 8 accounting treatment of the book value of the meters.

 9 Q. Okay. So -- so the Company is no longer asking

10 the Commission for approval of the over $32 million

11 transfer to plant for AMI, and this is -- the Company is

12 willing to defer a prudence determination on those costs to

13 its next rate case?

14 A. I can't talk specifically about the transfers to

15 plant because I'm not familiar with what -- what you're

16 speaking about there, but I -- I -- I do know that we are

17 looking for the accounting order so we can deal with the --

18 again, the net book value of the electric meters.

19 Q. Okay. And so the Company is willing to defer

20 the -- a prudence determination on the costs of the AMI

21 project to a later -- a later case?

22 A. That's correct.

23 Q. Thank you.

24 And so the Company, to reiterate, is asking the

25 Commission to approve, in principle, the Company's decision

0299

 1 to move forward with this AMI project?

 2 A. Yes.

 3 Q. And -- and this is not a request for pre-approval

 4 because a prudence determination is going to come later?

 5 A. Yes, that's correct.

 6 Q. So was the Company's initial request a request for

 7 pre-approval?

 8 A. No. We -- we know that pre-approval isn't

 9 possible. In fact, for me, I'm not aware of any time that

10 this Commission has ever authorized anything at

11 pre-approval, so that's not what we were looking for.

12 We've been -- we've been -- we believe there are

13 strong benefits. We know that our customers expect us to

14 have these -- this type of service. Many of the other

15 customers in the State of Washington already enjoy this.

16 By the time we project to be finished, by 2020, it seems

17 like 50 percent of the customers in America will have AMI,

18 so we're just try -- basically trying to catch up with

19 everyone else.

20 You know, we started an automation project in

21 Oregon in 1991. We've automated all our meters in Oregon.

22 We've automated all of our meters in Idaho. We think it's

23 time to automate our meters in Washington.

24 Q. So the Company -- the -- the business -- the

25 Company is still relying on the business case to support

0300

 1 it -- to support going forward with this project, and --

 2 and there is, really, even though they're looking for the

 3 Commission's approval in principle, there's still real

 4 dollars on the line because this accounting order would

 5 create a $20 million regulatory asset?

 6 A. That's correct.

 7 Q. And the Company believes it's important for the

 8 Commission to understand that, if it does not get that

 9 accounting order, it will not move forward with the AMI

10 project at this time and that the project might be

11 dramatically delayed or -- or might not occur?

12 A. That's correct.

13 Q. And that is despite the fact that the Company has

14 confidence that the AMI project provides net benefits for

15 the utility and its customers?

16 A. Yeah. I think our business case demonstrates what

17 we were asked -- basically what was set up in 2007, the

18 Commission order, "These are the kinds of things you should

19 look at when you're considering AMI." We attempted to do

20 that with our business case. The business case was put

21 together for -- as an internal way to -- to position the

22 costs of this for our purposes of capital spending.

23 So it is something we're committed to internally,

24 but we, for lots of reasons, can't afford a $20 million

25 write-off by starting the project without -- without the

0301

 1 correct approvals for how to deal with the -- the net book

 2 value of the electric meters.

 3 Q. Okay. And were the costs of the old meters that

 4 would need to -- that would move to the regulatory asset,

 5 were they accounted for in your business case?

 6 A. I'm not sure.

 7 Q. Can I point you to your direct testimony DFK-1T,

 8 page 16, line 12?

 9 A. Okay.

10 Q. Quote -- let me -- let me have you read the

11 question at line 9 and then your response.

12 A. Yes. "Does the 145.3 million present value of

13 costs shown in Illustration No. 6 includes the costs

14 associated with retiring the Company's existing

15 undepreciated electric meters?"

16 "Yes, it does."

17 Q. Yes, it does.

18 So this business case does incorporate the cost of

19 retiring those meters?

20 A. Yes, it does.

21 Q. And do you know where in the costs that those

22 undepreciated meters are count -- accounted for? Where in

23 the business case?

24 A. Not specifically, no.

25 MR. MEYER: We do have another witness,

0302

 1 Mr. La Bolle, who could speak to that as well.

 2 BY MR. CASEY:

 3 Q. So since the time that Avista first started

 4 exploring AMI technology, has -- has Avista seen the -- the

 5 price of AMI technology decrease over the years?

 6 A. Some aspects of AMI have decreased. Hardware

 7 costs, for instance, have decreased over the years. Other

 8 aspects have increased.

 9 Q. What about overall?

10 A. I don't -- I'm not sure.

11 Q. So --

12 MR. MEYER: Excuse me. "AMI" covers a lot of

13 turf. It covers a lot of different aspects, so if -- if

14 you could rephrase the question, ask about a specific

15 component of the AMI program, that might allow the witness

16 to answer.

17 BY MR. CASEY:

18 Q. Would -- on a comparative basis, would this AMI

19 project be cheaper than the Pullman project? Now, we know

20 they're not on the same scale, but taking that into

21 account.

22 A. The technologies are different, so I would say

23 they would be comparable.

24 Q. Okay. What about the cost of installing these

25 technologies onto the grid? Is that -- are -- in your --

0303

 1 in your experience and in the industry surveys that you

 2 have done, have you -- is it easier and less expensive to

 3 install these -- these types of projects --

 4 MR. MEYER: Easier --

 5 Q. -- due to the -- due to the experience that has

 6 been gained?

 7 MR. MEYER: Do you understand the question?

 8 THE WITNESS: I believe so.

 9 A. The -- let's start with some of the costs. The

10 costs of the meter itself, again, I said has gone down.

11 The installation costs were, for a residential meter, you

12 pull one out, you put another one in. We contract that.

13 It generally hasn't changed very much.

14 Certainly, those costs have escalated as labor

15 costs have gone up. Probably not significant differences

16 there. We -- we need software and hardware to bring the

17 meters into our company. Those costs, I would say, have

18 increased.

19 We're also seeing one of the -- one of the newer

20 pieces that's part of this technology is the network to

21 bring the readings back from the individual meters, and

22 then you collect them in different areas, and then you

23 bring those reads back to the headend system.

24 Those costs, I think, have probably increased over

25 time, because now you're looking for a more -- a more

0304

 1 robust network. Initially, these devices were designed to

 2 take, like, a cellular network, so you'd bring those reads

 3 back over a cellular network.

 4 Now, because of those requirements, because some

 5 of the new technologies that you might be wanting -- you're

 6 going to bring more data back at the same time. We might

 7 integrate this with our smart-grid projects where you're

 8 now going to control distribution circuits, you're going to

 9 control different devices on your electric system using the

10 same network.

11 So the network costs would have increased in order

12 to make it more robust so you could bring higher bandwidth

13 information back at the same time in addition to your meter

14 reads. Not specifically associated with AMI, but certainly

15 associated with the -- what we think of as AMI.

16 BY MR. CASEY:

17 Q. Okay. What about the costs of the undepreciated

18 meters? If we waited a year, two, three years, there would

19 be less to -- there would be less money that would need to

20 be shifted to a regulatory asset; is that correct?

21 A. The meters will continue to be depreciated, yes.

22 Q. So overall, will this business case improve as

23 meter costs, AMI meters, continue to go down and those --

24 the meters currently in use continue to depreciate? If we

25 waited a year or two, would your business case improve?

0305

 1 A. I don't believe it would improve significantly,

 2 no. I think it would stay relatively the same.

 3 Q. Okay.

 4 A. Because the -- the meter cost you're seeing

 5 prob- -- you know, it -- it may have hit a plateau for

 6 where the costs -- costs are. You're seeing a lot of

 7 deployments, which drive the costs down, so if we were the

 8 only company in America buying meters, you know, we -- it

 9 would be one price, but when there's lots of customers

10 buying these, and not only in this country, but worldwide,

11 I think then the costs become lower, and I think we're

12 probably already there.

13 Q. And getting back to your business case, the net

14 benefit to the utility and its customers over the life of

15 the -- the 21-year life of the AMI project was

16 $7.5 million; is that correct?

17 A. There are net benefits over the -- over the

18 20-year life, yes.

19 Q. And those that were quantified in your business

20 case were $7.5 million --

21 A. Yes.

22 Q. -- correct?

23 And -- and that's -- and that's a 21-year life of

24 the project; correct?

25 A. Yes.

0306

 1 Q. Is this business case essentially the same

 2 business case the Commission will see next year when we are

 3 doing a prudence review for AMI meters?

 4 A. We've -- we've already adapted, we've adjusted

 5 through data response, some of the cost figures, because

 6 now we've got a project team working on fine-tuning our

 7 estimates. We're working towards what I -- what I would

 8 say is kind of a project-level estimate, where we put

 9 together a budget that, again, the team would be

10 accountable to deliver, so those estimates are being

11 refined all the time.

12 They're -- they're generally -- once you have done

13 an RFP and you're picking vendors and software and

14 hardware, you have agreements with them, so those numbers

15 will become known, rather than estimates. So the figures

16 will be certainly tuned over time, but the general

17 components are certainly embedded in the business case. So

18 I don't -- I don't believe that the general components will

19 change, but the costs will -- will change.

20 Q. The -- maybe another way to ask that question, how

21 precise are your cost estimates?

22 A. Well, at this stage, again, what you heard from

23 the previous witness, Mr. Kensok, talking about this cone

24 of uncertainty, that's one of the ways to think about this

25 type of a project too, that early in the stage, as we put

0307

 1 together the business case earlier this year, it was, I'm

 2 going to say, plus-or-minus-50-percent type of uncertainty.

 3 Q. 50 percent?

 4 A. The components are there, and they have been --

 5 they've been tuned over time, so if you'll see in -- even

 6 in the response to questions, we've increased what -- we

 7 went from 142 now to 165, but then 165's a much better

 8 number.

 9 Q. So this -- with these preliminary cost estimates,

10 we're still in the thick part of the cone?

11 A. Yes.

12 Q. And that thick part of the cone likely eclipses

13 $7.5 million; is that correct?

14 A. I'm not sure I understand the question.

15 Q. Is --

16 A. For the benefits?

17 Q. Is the level of cost uncertainty at this point in

18 the project greater than $7.5 million?

19 A. Yes.

20 Q. Would you say -- which is -- in terms of this AMI

21 business case, which is more precise, your estimate of

22 costs or your estimate of benefits?

23 A. I would say the benefits are more precise.

24 Q. So you have more confidence in the benefits than

25 the costs at this stage?

0308

 1 A. We -- well, we -- some of them are -- are easier

 2 to estimate. Labor costs, for instance -- one of the

 3 biggest costs -- when you have 40 -- 42 meter readers and

 4 outside servicemen out doing this job every day and the

 5 electronics now allow you to do it without them, the costs

 6 go away. They don't change; they go away. So those are

 7 easy to estimate. So there's a lot of precision based on

 8 that.

 9 Q. Are there, I'm going to say, smart-grid

10 technologies or other complementary technologies that are

11 not included in your current business case that you plan on

12 adding at a later time?

13 A. We've -- we have not quantified all the benefits.

14 We've talked about those. There could be benefits for

15 things like energy efficiency, when you can send people

16 signals. There could be efficiencies gained by time-of-use

17 rates, when you -- when you can send customers pricing

18 signals based on what's happening in the region.

19 We have not quantified those. We've -- we've

20 speculated, particularly in areas like Spokane, about

21 things like Smart City, where you -- you'll be using this

22 network to bring back information and data points from

23 other sources. We haven't quantified those types of

24 benefits either.

25 Q. But in terms of costs, I mean, things like -- your

0309

 1 business case did not include smart thermostats, in-home

 2 displays, smart -- smart appliances; is that correct?

 3 A. That's correct.

 4 Q. And do you plan to eventually ask for approval for

 5 those types of technologies?

 6 A. It wouldn't be in our case as we look for recovery

 7 over the next couple of years. But beyond that, I mean,

 8 I'm not sure.

 9 Q. So it's possible that, at a later date, the

10 Company will ask for additional -- additional revenue for

11 additional infrastructure to --

12 A. Yes.

13 Q. -- to complement this?

14 A. Certainly it's possible. We -- you know, we don't

15 have a need to offer that to our customers today, but the

16 technology that we're planning on deploying would allow

17 that. So certainly as our customer demands grow and we see

18 a need for that, it could be something in the future we

19 come back and ask this Commission to allow us to recover.

20 Q. And is it also possible that some things, such as

21 smart thermostats or appliances, will be left for

22 individual customers to bear those costs if those customers

23 want to utilize --

24 A. Certainly.

25 Q. -- those types of -- okay.

0310

 1 Does Avista expect pushback from customers with

 2 regard to the installation of smart meters?

 3 A. We've installed these in Oregon and Idaho, and you

 4 might be talking specifically about things like opt-out,

 5 which is one of the things -- customers generally have two

 6 primary concerns. One is about privacy, and one would be

 7 about electric and magnetic radiation from the radio

 8 embedded in the meter.

 9 We have ways to handle those things. We -- we

10 have an opt-out program in Oregon that no customers have

11 taken advantage of. We have not received any concern about

12 that from all the customers who have been automated in

13 Idaho, nor did we get any complaints from the 16,000

14 customers we did in Pullman.

15 Q. There was no customers from Pullman who requested

16 an opt-out?

17 A. Correct.

18 Q. Did the -- did the Pullman project have an

19 opt-out?

20 A. It -- we did not formally introduce one, because

21 that's something that we talked with this Commission about

22 and said, "We -- we really need to prepare a workshop

23 and -- with all stakeholders, trying to prepare one for the

24 bigger rollout here."

25 We know we're going to need one. We would like to

0311

 1 have one, but again, it's one we want to involve all

 2 stakeholders in designing, because lots of people have

 3 opinions about how it should work and what should be

 4 included. So we're anxious to do that. It'll be part

 5 of -- certainly part of our filings in the future.

 6 Q. In Oreg- -- does Oregon have AMI or, I guess,

 7 smart meters that can -- are capable of two-way

 8 communications or is it just radio-read meters?

 9 A. It's just one-way.

10 Q. One-way. Okay.

11 How long will it take to install all of the smart

12 meters?

13 A. We're planning it over a five-year period.

14 Q. Does your business case build on what the Company

15 learned from the Pullman AMI demonstration project?

16 A. Yes.

17 Q. And are -- were the participants in the Pullman

18 project representative of Avista's customer base?

19 A. No. They have very unique demographics in

20 Pullman. That's part of the reason why we picked it.

21 Q. When did the smart meters get installed in

22 Pullman?

23 A. 2011, I'm going to guess.

24 Q. And is the Company planning on replacing these

25 meters?

0312

 1 A. Yes.

 2 Q. And so how long will the Pullman meters have

 3 lasted, have been useful and in service to customer --

 4 customers, if they're replaced?

 5 A. I'm going to say they've been in service five

 6 years. They could be in service five more, so ten years on

 7 a 15-year amortization. The other thing that's interesting

 8 to note there, I think we had approximately $192,000

 9 invested in those meters.

10 The meters -- that technology was part of a

11 demonstration project. Itron, in essence, that was part of

12 their contribution to the demon- -- to the regional

13 demonstration project for providing meters. So we, in

14 essence, got a screaming deal on the -- the meters that are

15 installed there, so that the undepreciated amount's

16 probably not going to be very much.

17 Q. And those -- the meters in Pullman, those are a

18 very early technology; is that correct?

19 A. The ones there are actually very good technology.

20 It's an OpenWay technology; that's Itron's trade name for

21 that. It's a technology that now they've ob- -- they've

22 obsoleted, so they've -- they've created something new and

23 better.

24 Q. And -- and is that the direction of smart meters?

25 Are -- is -- after ten years, are -- is it likely that the

0313

 1 next generation of smart meters, the -- the meters that you

 2 would -- that you would install as part of this AMI

 3 project, will they become obsolete?

 4 A. It's hard for me to predict the future, but I can

 5 tell you that the meters that we've -- the -- some of the

 6 automation that we did in Oregon -- again, starting in

 7 1991 -- is still functional. The same thing is true with

 8 all of our meters in Idaho, which was done -- nearly 15

 9 years old now. Those are still very functional.

10 So I can't predict when the meters we would

11 install in Washington would reach their end of life, but

12 they are -- they're a different technology than the

13 electromechanical ones. Electromechanical devices, we've

14 got them -- they've been in existence for 50 years, some

15 longer than that. They -- they tend to still register

16 electricity quite nicely.

17 These new devices are a computer, so it's hard for

18 many of us to imagine we're going to have an electronic

19 gadget that's going to be a 50-year device, so I suspect

20 that the 15-year amortization period is probably

21 appropriate there, that during that period of time, you

22 find something newer and better.

23 Q. Okay. I -- I understand that based on my cell

24 phone.

25 With the AMI project, do the benefits accrue at

0314

 1 the -- at the same time -- at the -- and in the same

 2 proportion as the costs?

 3 A. A good question. There are a lot of things that

 4 have to be up-front loaded. You need a network, which is

 5 expensive. You be a meter data management system, which is

 6 expensive, in order for -- to get the first read-in. So we

 7 have -- there's a lot of costs that go up front.

 8 And then it's fairly linear: Pull one meter out;

 9 put a new one in; it talks to the system and works.

10 Q. So then there's a lot of up-front costs for the

11 AMI project, and then the benefits start to roll in?

12 A. Yes.

13 Q. And is the Company promising to deliver the

14 benefits, the -- the minimum level of benefits that are

15 articulated in its business case?

16 A. Again, we're not asking for prudence at this time,

17 so it's hard to promise. I -- I think what we -- what

18 certainly we're going to do is track these, so we'll know

19 that we've delivered them.

20 But like I said, some of them are fairly easy, so

21 the biggest ones being meter readers. That labor costs go

22 away, that's easy to track. The same thing is true for

23 costs that might be associated with remote disconnect or

24 what we like to think of as rapid reconnect. Those costs

25 are going to be easily identified and easily tracked.

0315

 1 So those -- those things, I think, would, you

 2 know -- it -- if you're going to ask me if we -- if we're

 3 sure we're going to get those, I'll tell you, absolutely.

 4 I mean, there's no question we're going to derive those

 5 benefits.

 6 Q. And so is the Company willing to bear the risk of

 7 those benefits not being realized, the benefits that it

 8 articulates in its business case?

 9 A. Well, I articulated the ones that are the most

10 easily defined, but you've also got some soft ones there

11 that, I think, even in testimony, we've had people saying,

12 "Hey, we're not sure these are real."

13 So it -- it'd be really hard for us to agree to

14 things when we can't even agree conceptually how we

15 calculate them. So, you know, I'm not sure whether -- what

16 you're asking is -- can -- can be true.

17 Q. What tools does the Commission have, once a

18 prudence determination has been made, to ensure that these

19 benefits are actually delivered to customers, benefits

20 that, as you say, are -- some of them are intangible?

21 For instance, if the -- the Company's messaging

22 was not -- was not reaching customers and customers were

23 not looking at their personal energy information --

24 A. Mm-hmm.

25 Q. -- who would bear the cost of shifting that

0316

 1 strategy to engage customers to make sure that they --

 2 A. Yeah.

 3 Q. -- that -- I guess, the -- the potential of

 4 benefits from this project is -- are realized?

 5 A. Yeah. That -- the costs you're talking about

 6 there would be energy efficiency by people making decisions

 7 now based on information that they have. We've -- we've

 8 calculated them out to be $491,000 out of $15 million of

 9 benefit.

10 It seems reasonable that we -- we can find ways to

11 make that happen, but with a lot of energy efficiency,

12 it's -- it's difficult to quantify. So I think we could

13 talk about the programs that we've implemented, trying to

14 give customers information. We could point you to websites

15 that enable customers to gain the -- the types of

16 information for them to make these choices.

17 But it -- it's a little bit hard to say, "Okay.

18 This -- your particular residence now, you know, using

19 10 percent less energy based on information that we've

20 provided." It could be because your eldest son just went

21 off to college, you know.

22 So those -- those things are really squishy, and I

23 think it -- all we can do is say, "Here's the programs

24 we've put in place. We're confident they've made a

25 difference." We could measure on aggregate, but down to

0317

 1 the specifics, I think it's really, really problematic.

 2 Q. Has Avista notified its customers that they will

 3 be receiving smart meters --

 4 A. No.

 5 Q. -- yet?

 6 A. No.

 7 MR. CASEY: I have no further questions.

 8 JUDGE FRIEDLANDER: Thank you.

 9 MR. CASEY: Thank you.

10 JUDGE FRIEDLANDER: Ms. Gafken?

11 MS. GAFKEN: Thank you.

12 \*\*\* EXAMINATION BY MS. GAFKEN \*\*\*

13 BY MS. GAFKEN:

14 Q. Good afternoon, Mr. Kopczynski.

15 A. Good afternoon.

16 Q. Could I have you please turn to

17 Cross-Exhibit KF- -- or I'm sorry, DFK-8?

18 COMMISSIONER JONES: DFK what?

19 CHAIRMAN DANNER: 8.

20 MS. GAFKEN: 8.

21 COMMISSIONER JONES: 8.

22 THE WITNESS: Okay.

23 BY MS. GAFKEN:

24 Q. Do you recognize the exhibit as Avista's response

25 to Public Counsel Data Request No. 67?

0318

 1 A. Yes.

 2 Q. Avista's business case for advance metering was

 3 discussed with the finance committee of the board of

 4 directors; correct?

 5 A. Pardon me? I didn't hear the question.

 6 Q. Avista's business case for advanced metering was

 7 discussed with the finance committee of the board of

 8 directors; correct?

 9 A. Yes.

10 Q. In -- in Subsection D of the response in

11 Exhibit DFK-8, it states that the business case was not

12 approved by a committee or group, but was reviewed by a

13 range of technical staff and management; is that correct?

14 A. That's correct.

15 Q. Was the project approved by the full board of

16 directors?

17 A. What -- the way the approval works, and I think

18 that what Subsection D there is meant to describe, is what

19 Mr. Norwood described in his testimony and how was -- our

20 cap- -- capital budget prioritization process works.

21 We've got a committee of director-level employees

22 in our company that look at all the requests for capital

23 spend. They prioritize those every year and, in fact,

24 every month during the year and agree on that. Those are

25 presented as a package to our board of directors on an

0319

 1 annual basis and approved as a total dollar amount.

 2 Q. Do you know if the AMI proposal has been part of

 3 that package of capital improvements or capital investments

 4 that's presented to the board of directors?

 5 A. Yes.

 6 Q. Has that been --

 7 A. It has been.

 8 Q. It has been presented?

 9 A. Yes.

10 Q. Do you know when it was presented?

11 A. It would have been presented as part of the

12 package even for -- over the last couple of years, with it

13 being a future expenditure. So they -- they approve not

14 only the current year's expenditures, but they also review

15 things that would happen in future years.

16 Projects like AMI, particularly, are a part of

17 that because they're multiple-year projects. It's hard to

18 approve it for one year without recognizing there's future

19 years in -- beyond that. So they look at three- or

20 five-year proposals for our capital spend, and they

21 typically do this in November every year.

22 Q. Would you please turn to Cross-Exhibit DFK-9?

23 A. Okay.

24 Q. Do you recognize the exhibit as Avista's response

25 to Public Counsel and The Energy Project's Data Request

0320

 1 No. 53?

 2 A. Yes, I do.

 3 Q. And please turn to Cross-Exhibit 10 at -- I'm

 4 sorry, DFK-10.

 5 A. Pardon me?

 6 Q. Would you please turn to Cross-Exhibit DFK-10,

 7 please?

 8 A. Okay.

 9 Q. Do you recognize the exhibit as Avista's response

10 to Public Counsel and The Energy Project's Data Request

11 No. 10?

12 A. Yes.

13 Q. Avista did not evaluate implementing AMI for just

14 natural gas or just electric service in -- in Washington;

15 correct?

16 A. That's correct.

17 Q. Now turning to Cross-Exhibits DFK-11 and -12 --

18 let's start with 11 --

19 A. Okay.

20 Q. -- do you recognize Cross-Exhibit DFK-11 as

21 Avista's response to Public Counsel and The Energy

22 Project's Data Request No. 57?

23 A. Yes.

24 Q. And Cross-Exhibit DFK-12, do you recognize that

25 exhibit as Avista's response to Public Counsel and The

0321

 1 Energy Project's Data Request No. 58?

 2 A. Yes.

 3 Q. At this time, Avista is not looking to deploy AMI

 4 for electric service in Idaho contemporaneously with

 5 deployment of AMI in Washington; correct?

 6 A. That's correct.

 7 Q. Has Avista made a decision whether it will

 8 implement AMI for electric meters in Idaho?

 9 A. Our intent is, after Washington is done, is then

10 go back to Idaho and implement AMI.

11 Q. So the Company has decided to implement AMI in

12 Idaho?

13 A. Well, it -- again, at this point, you're talking

14 about that decision's six years away. You've got six

15 more -- at least six more annual times to revisit that, but

16 our intent is to standardize our offering to customers.

17 It's hard between our states to offer what I'd say

18 is enhanced service to one and then not to another, so our

19 intent is to implement in Washington and then go back and

20 change out the meters in Idaho. Again, we haven't

21 approached the Idaho Commission with that, we haven't

22 talked with them about that. Lots -- lots of boxes to

23 check before we could say, "Yeah. That's our -- that's our

24 plan."

25 Q. And the meters in -- in Idaho, those are AMR

0322

 1 meters?

 2 A. Yes.

 3 Q. And the meters in Oregon, those are also AMR;

 4 correct?

 5 A. Yes, they are.

 6 Q. In response to questioning from Staff, you -- you

 7 indicated that you have an opt-out tariff in Oregon --

 8 A. Right.

 9 Q. -- and that you are also anticipating engaging

10 stakeholders to develop an opt-out program here in

11 Washington if the Company does go forward with AMI;

12 correct?

13 A. That's correct.

14 Q. But you haven't included any costs associated

15 with -- with engaging stakeholders and developing the

16 opt-out tariff here in Washington; correct?

17 A. The opt-out program really for customers is part

18 of our communication plan. What we have embedded in our

19 costs in our original business case was $5.5 million for

20 that customer outreach. It certainly would be included in

21 that.

22 Q. Do you know what portion -- and I'm sorry. Was it

23 5 point -- how much?

24 A. 5.5 million.

25 Q. 5.5. Do you know how much of the $5.5 million

0323

 1 communication plan Avista is estimating for the -- for

 2 developing the opt-out tariff?

 3 A. Actually, I don't think it'll be very much. We've

 4 done a lot of research. You know, when you look at every

 5 other state that has one, and -- you lay them out all --

 6 out on the table, and you start to pick and choose the

 7 things you think will make sense to our customers here in

 8 Washington, and you design your communication around that.

 9 I don't anticipate that being too complicated,

10 only -- but we haven't -- obviously haven't engaged all of

11 our stakeholders in that process to determine what

12 everyone's needs are so we can incorporate all that into

13 our final proposal.

14 Q. You also discussed the price of the meters

15 plateauing, and that prices -- you're not anticipating the

16 cost going down. Has Avista done any particular analysis

17 along those lines, and if so, where in the record is that

18 analysis?

19 A. Have not done any analysis, no.

20 Q. Okay. Could you please turn to

21 Cross-Exhibit DFK-14?

22 A. Okay.

23 Q. Do you recognize the exhibit as Avista's response

24 to Public Counsel Data Request No. 62?

25 A. Yes.

0324

 1 Q. Avista states that, due to the length of the

 2 deployment, the energy efficiency landscape may be

 3 different in four years when the meter installation is

 4 complete; correct?

 5 A. Yes.

 6 Q. At this point in time, Avista does not know what

 7 energy efficiency programs it may offer or what the cost of

 8 those programs are; correct?

 9 A. That's correct.

10 MS. GAFKEN: Thank you. Those are my

11 questions.

12 JUDGE FRIEDLANDER: Thank you.

13 Is there any redirect, Mr. Meyer?

14 MR. MEYER: There is no redirect. Thank you.

15 JUDGE FRIEDLANDER: Okay. Thank you.

16 And how about questions from the Bench?

17 \*\*\* EXAMINATION BY COMMISSIONER RENDAHL \*\*\*

18 BY COMMISSIONER RENDAHL:

19 Q. Good afternoon, Mr. Kopczynski. Did I say that

20 right?

21 A. Correct.

22 Q. I was tempted to call you Mr. K., just to shorten

23 this.

24 A. You can call me Kop.

25 Q. All right. Kop.

0325

 1 So in response to questions from Staff's counsel,

 2 you said you haven't notified customers of the rollout?

 3 A. No, we have not.

 4 Q. But then you also said initially that -- that you

 5 believe your customers want this, so what is the basis, if

 6 you haven't talked to them about it, that you know your

 7 customers want this?

 8 A. Well, you know, we -- we monitor our customers in

 9 terms of satisfaction surveys, which you're aware of. We

10 share those informa- -- that information with you, and

11 complaints.

12 We have lots of customers who move here from other

13 service territories, so -- and even -- even in our state,

14 they could move across town, where they use to be served by

15 Inland Power & Light, now they're served by us. So they're

16 questioning, you know, "Why don't we know when our power's

17 out?" And the same thing can happen from Kootenai Electric

18 Co-op right across the other side of our service area in

19 Spokane.

20 So we hear those complaints from customers about,

21 you know, services they now enjoy from their service

22 providers or used to enjoy from their service providers in

23 different parts of the state or different parts of the

24 United States, and then when they move to take service from

25 Avista, they don't have those same benefits.

0326

 1 Q. Is that mostly in the Spokane area, or is it in

 2 your entire service territory?

 3 A. I think -- I think our Spokane area probably has

 4 the highest volume of turnover, so people that might move

 5 in and out, so those are the ones I'm most aware of, but

 6 could happen anywhere.

 7 Q. So have you done a -- you don't -- in terms of

 8 those customer responses, have you mapped where those are

 9 from?

10 A. No.

11 Q. So in terms of the questions that were asked about

12 the opt-out and then I think Staff counsel also asked about

13 privacy issues, are you familiar with the issues in

14 litigation that other states and other utilities in other

15 states have experienced on that issue?

16 A. Yes, I am.

17 Q. So you haven't booked -- you haven't projected any

18 costs for that in this state. You think you're going to

19 get it perfect?

20 A. I think that customers in Washington state are

21 pretty agreeable. You know, I think for us, we -- we'll

22 end up with a program that makes it easy for customers to

23 opt out.

24 Most of the litigation that I'm aware of,

25 particularly in places like California, customers rebelled

0327

 1 because they have an opt-out eventually, but their

 2 customers complained that, "Hey, I never opted in. How can

 3 you charge me now to opt out? I never opted in."

 4 So that's one of the dilemmas, I think, we have to

 5 face up front. So, "I don't -- I don't want to be charged

 6 $250 to come to have you take out the -- the new meter you

 7 put in and put an old one back in, because I never wanted

 8 it in in the first place."

 9 So those kinds of charges, I think, as we go

10 through this planning period, we have to decide. And I --

11 I don't like the idea about allowing customers to say,

12 "Hey, I'll take one of those meters," because it's just

13 going to get too complicated. I mean, you open it up.

14 Frankly, what we'd like to do is similar to what

15 we did in Pullman. We were -- we gave them a lot of

16 notice. We gave all kinds of opportunities for them to

17 talk with us about what we were doing and how we were doing

18 it, when we were doing it, lots of notification. And

19 again, what we got is zero com- -- zero complaints.

20 We got three letters from people in Colville

21 saying they didn't want the meters, but we didn't get any

22 from Pullman, where we were actually installing them. You

23 know, it -- I do think it's -- you know, it's probably

24 going to be a very personal choice from people, but my

25 sense is we can make it very easy.

0328

 1 If they choose that they don't want to have --

 2 again, whether it's electromagnetics they're worried about

 3 or privacy, we have ways to handle those things and make it

 4 easier for customers to understand what we're doing and

 5 give them some -- some choice in that.

 6 Q. So --

 7 A. I think it'd be --

 8 Q. But you haven't budgeted any costs for how to go

 9 through that process?

10 A. I think it -- to us, it's really in the

11 communication costs.

12 Q. So you're not exper- -- you're not expecting any

13 costs of appearing before the Commission and having time to

14 discuss a tariff proposal here at the Commission related --

15 A. Oh, certainly.

16 Q. -- to something like that?

17 A. These guys work for free.

18 Q. I'll make a note of that. And --

19 CHAIRMAN DANNER: That's going to change the

20 cost of calculations.

21 BY COMMISSIONER RENDAHL:

22 Q. In terms of the technology questions that

23 Mr. Casey was asking you, you said some -- somebody already

24 has said you're going out -- you've got RFPs out and you've

25 got potentially some bids in already for this project?

0329

 1 A. We do.

 2 Q. So -- and I don't think I'm asking confidential

 3 information, but I'm sure you'll tell me if I am. How

 4 many -- I'm assuming this technology, at least the meters,

 5 is fairly mature. This is not what I would call an

 6 emerging technology?

 7 A. We -- we -- well --

 8 Q. It might be changing, but is it really absolutely

 9 new and different?

10 A. Let me answer it this way: No, it's not. It's

11 really not new and different. It continues to evolve.

12 We've -- we've sent RFPs out to six different meter

13 manufacturers. Two of them, we felt like, conformed to

14 what we're actually looking for. We've done a lot of

15 diligence with both of those manufacturers.

16 I can tell you one of those has a technology

17 that's very mature, and I would tell you, in the -- our

18 team's opinion, it's probably at the end of its life, so

19 it's due to be upgraded. The other meter manufacturer is

20 at the very front end of their technology life cycle.

21 They've come up with something that they think -- in fact,

22 they've never delivered one in the United States, but they

23 think they have something that probably aligns better with

24 us, and gives us a little more future-proof- -- -proofing.

25 So that -- that's a dilemma. Do you buy an

0330

 1 existing, very mature technology, or do you buy one that

 2 you think gives you some headroom for things you haven't

 3 even envisioned you might need in the future? So those are

 4 the kind of choices that we're up against.

 5 Even when it comes down to meters, which have been

 6 around -- you know, AMI, AMR, call it whatever you want --

 7 automated meters have been around for a long time.

 8 Q. Okay. And the other parts of this are the network

 9 software, the integration of the meter with the

10 communications --

11 A. Yes.

12 Q. -- and then there's the communications. And

13 communications is a -- very changing, as Mr. Casey noted,

14 especially with our cell phone technology.

15 A. Yep.

16 Q. It's constantly changing, but it's pretty mature.

17 A. Yes.

18 Q. Would you agree?

19 A. I -- yes, it is. The technology to communicate,

20 to bring those meter reads back is a pretty mature

21 technology.

22 Q. And so -- and having just experienced a very

23 interesting software project, so you'd be dealing with

24 another software project?

25 A. Yes.

0331

 1 Q. How much integration is involved in that software

 2 project with your existing systems?

 3 A. The software -- the biggest software project we

 4 have associated with this project is with what we call

 5 meter data management, so it's a software that takes --

 6 we're going to take five-minute interval reads from every

 7 gas and electric meter, and we have to take all those reads

 8 in and be able to generate a bill, but also be able to do

 9 analysis with that; and that software package is meter data

10 management software.

11 We looked at several vendors. We selected Oracle.

12 Oracle's the system that we picked for our Customer Care

13 and Billing. In fact, this module is part of Customer Care

14 and Billing. It's already embedded in the Oracle software,

15 so it's already interlinked with all these other things

16 that we want to do. So it already knows how to generate a

17 bill based on getting the meter data in.

18 So we think the integration costs will be less

19 because we've picked a vendor that aligns with things we

20 already have.

21 Q. So in terms of your cone of -- what did we call

22 it?

23 A. Uncertainty.

24 Q. Cone of uncertainty, so where is the cone of

25 uncertainty for the Company, then? Is it in the software?

0332

 1 Is it in the technology? Is it in the communications? Or

 2 is it integrating the three elements?

 3 A. There -- there's not near -- it's not like a

 4 software project. The only real software program is meter

 5 data management, and again, we picked a software that's

 6 already embedded in what we have, so I view that as being,

 7 you know, in a narrow part of the cone. Jim may disagree

 8 with me because it's his expertise, but that's the way I

 9 viewed that. It's -- it's the right decision. I think it

10 will help us move forward quicker.

11 The other technologies -- the meters themselves,

12 the deployment of the network -- most of those things

13 are a -- they're a lot more known than -- so we won't have

14 the same con- -- the uncertainty part of it. What you will

15 have -- even, let's say the technology to bring the reads

16 back. So what the meter manufacturers will tell you,

17 "Well, I need -- I need a repeater here, and I need a

18 receiver here, and I need these three components."

19 And then when you put it out there in the field,

20 they didn't realize there was a big concrete structure in

21 between your meter and that, so now you've got to put in

22 another one, or there could be a mountain in the way, or

23 there could be any number of other things.

24 So those -- that's the uncertainty that we face in

25 this type of deployment. I can tell you when we did the

0333

 1 AMR, which wasn't as complex as this, in Idaho, that it was

 2 a seven-year project, and we came in right exactly where we

 3 started.

 4 One of the big variables there that we didn't see

 5 coming was AFUDC, because we got a special deal with the

 6 Commission in -- in Idaho for treatment of that, and that

 7 made the cost more than we had anticipated. But from start

 8 to finish, for a seven-year project, flawlessly delivered.

 9 Q. Okay. I have one last question, and I'll let my

10 colleagues have some time here. In terms of the questions,

11 Ms. Gafken was asking you about your communications with

12 the board of directors. So they haven't had a specific

13 briefing on this particular project. It was a part of a

14 single package of --

15 A. Well, the --

16 Q. -- capital spending?

17 A. The -- they're asking specifically about approval

18 of the costs, and that's part of a budget update.

19 I personally have done a couple of updates with

20 them about this project as part of a package of projects

21 that I -- we've talked with them about.

22 Q. But no specific approval to this specific project

23 other than in the package of -- of capital spend as a

24 whole?

25 A. The -- from -- again, in my experience, the board

0334

 1 may disagree with this, but they don't typically approve

 2 specific projects. They approve a level of capital

 3 spending, and then we -- we approve the projects internally

 4 about how we're going to divvy those up.

 5 We give them the whole list, but during the year,

 6 you might imagine that they change. Some of the ones we

 7 thought we were going to get done, something got in the way

 8 and we didn't. Something else really needs to get done and

 9 takes its place. So we -- we sit with a cap of capital

10 spend that they authorize, and they authorize an approved

11 list, but those -- the list changes during the year. So --

12 Q. Okay.

13 A. -- I would say they haven't specifically signed

14 off on this project or any of the other ones that I'm

15 responsible for.

16 COMMISSIONER RENDAHL: Okay. Thanks. That's

17 all I have.

18 CHAIRMAN DANNER: So it's kind of like giving

19 guidance but without a prudence review?

20 THE WITNESS: Well, they don't try to --

21 that's a good way to look at it.

22 \*\*\* EXAMINATION BY COMMISSIONER JONES \*\*\*

23 BY COMMISSIONER JONES:

24 Q. So following up on Commissioner Rendahl's

25 question, this may already be in the record, but in

0335

 1 Mr. Norwood's rebuttal testimony, he included funded

 2 requests for 2011 through 2014. The number for 2014 was

 3 331 million, and it would be useful to know how much of the

 4 AMI-related CAPEX, capital expenditures, is in there.

 5 Could you provide that for the record?

 6 A. In what year?

 7 Q. 2014.

 8 THE WITNESS: Do we have that?

 9 JUDGE FRIEDLANDER: Can you -- can you

10 provide that now, or are -- is this going to need to be a

11 Bench request?

12 MR. MEYER: We can't provide it on the spot.

13 JUDGE FRIEDLANDER: Okay.

14 MR. MEYER: Not --

15 COMMISSIONER JONES: Okay.

16 MR. MEYER: But we could probably provide it

17 overnight.

18 JUDGE FRIEDLANDER: Okay.

19 COMMISSIONER JONES: Yeah.

20 JUDGE FRIEDLANDER: That's fine. Thank you.

21 MR. MEYER: So just in the morning?

22 JUDGE FRIEDLANDER: Sounds good.

23 MR. MEYER: Okay. Let's do it.

24 THE WITNESS: Thank you.

25

0336

 1 BY COMMISSIONER JONES:

 2 Q. Mr. Kop, would you define -- define "smart grid"?

 3 A. Define "smart grid"?

 4 Q. We're -- we're throwing around a lot of terms

 5 today. I just want to make sure people are clear on the

 6 record. What is an advanced meter? What does smart grid

 7 mean to you? And what does advance metering infrastructure

 8 mean to you? If you could define those in one or two

 9 sentences.

10 A. Sure. Smart grid is something that's been used

11 in -- in the industry to describe what I was always call

12 grid modernization. It takes us from really an analogue

13 into the digital age, so there's a lot more devices out

14 there that have intelligence built into them. Smart grid

15 would be the end point of that, so it would get you -- or

16 AMI would be the end point of that, so now you have

17 intelligence built into every meter at the end of every --

18 every circuit.

19 With -- with -- what we consider advanced metering

20 infrastructure is the components. As I mentioned, it

21 takes -- at the front end of this, it's a software package

22 that deals with interval data, and then associated with

23 that is a network that goes out into, really, regions or

24 neighborhoods to bring those signals back from every

25 individual meter.

0337

 1 So it's the -- it's the meters. The meters talk

 2 to each other. The meters talk to some collectors. The

 3 collectors then bring the signal over a -- either a

 4 wireless or a wired technology back to the corporation to

 5 use for billing and analysis.

 6 Does that help?

 7 Q. A little bit.

 8 Would it be safe to say that AMI is kind of a

 9 comprehensive system of managing supply, delivery, and

10 demand of electricity that allows two-way interactive

11 communication between end users --

12 A. Yeah.

13 Q. -- and the providers of -- of that service?

14 A. Yeah. You could call it -- we're not sure we're

15 going to use it to manage demand --

16 Q. Okay.

17 A. -- as we've already described, but --

18 Q. Right.

19 A. -- it certainly allows you to know more about your

20 supply.

21 Q. So in your business case that was done in February

22 of 2015, the total cost -- that's DFK-5 -- the total cost

23 expenditures as you responded to Mr. Casey was 142 million?

24 A. Yes.

25 Q. And now you say it's 165 million?

0338

 1 A. Yes.

 2 Q. Have you submitted that revised budget estimate to

 3 us? Is it in any of your exhibits? Because I haven't

 4 found it.

 5 A. The revised budget estimate is part of --

 6 Q. Where is it?

 7 A. It's ICNU 76 supplemental.

 8 COMMISSIONER JONES: Somebody have a number

 9 on that?

10 THE WITNESS: ICNU 76 supplemental is what I

11 have.

12 COMMISSIONER JONES: Okay.

13 THE WITNESS: It's on page 2 of 4.

14 COMMISSIONER JONES: Okay. I'll -- I'll get

15 a number later.

16 JUDGE FRIEDLANDER: Yeah. So is that an

17 exhibit that has been filed in the case, or is that just a

18 data request? Because we don't typically get those.

19 THE WITNESS: Oh.

20 MS. DAVISON: It's not.

21 JUDGE FRIEDLANDER: It's not. It's not in

22 the case?

23 THE WITNESS: I'd be happy to hand it to you.

24 COMMISSIONER JONES: No. Well --

25 MR. MEYER: Well --

0339

 1 THE WITNESS: We purchased --

 2 MS. GAFKEN: It may be an exhibit to

 3 Barbara --

 4 MR. MEYER: And I think it's La Bolle's --

 5 CHAIRMAN DANNER: I think we should --

 6 COURT REPORTER: I'm sorry. I need everyone

 7 to speak one at a time.

 8 CHAIRMAN DANNER: Everyone's talking at once,

 9 here.

10 MS. GAFKEN: It may be an exhibit to Barbara

11 Alexander's exhibit -- we're hunting that down now.

12 JUDGE FRIEDLANDER: Okay. Thank you.

13 MS. GAFKEN: It's BRA No. 3.

14 JUDGE FRIEDLANDER: Okay. Thank you.

15 BY COMMISSIONER JONES:

16 Q. So that is an increase of about $23 million

17 from --

18 A. Correct.

19 Q. Okay. What were the major components that went

20 up? In response to, I think, Commissioner Rendahl, you

21 mentioned there are four major components of an AMI

22 project; right? There are the meters?

23 A. Yep.

24 Q. There's all this communication infrastructure,

25 probably a mesh network with wide-area field networks.

0340

 1 There's the software you -- you described of meter data

 2 management systems.

 3 A. Mm-hmm.

 4 Q. So which -- of those four components, which went

 5 up the most?

 6 A. Which one went up the most? Tough question. I'm

 7 just glancing through these here. Some of them went up;

 8 some of them went down. One of the ones that went up the

 9 most would be -- we're listing as network communication

10 hardware.

11 Q. Okay.

12 A. Headend in- -- internal labor went up, so these

13 are part of that integration process. The specifics are

14 included in this document, so I think you'll --

15 Q. Okay.

16 A. -- be able to read through it and get all the

17 differences that -- the ones that went up and the ones that

18 went down.

19 Q. Okay. Well, I'll do a -- I don't have time to do

20 that right now, but I'll do a -- I'll do a comparison of

21 those two --

22 MR. MEYER: And --

23 Q. -- but in terms of the zone of uncertainty --

24 MR. MEYER: Excuse me. And we'll -- to be

25 helpful, we will have Mr. La Bolle tomorrow to respond to

0341

 1 that as well. He's more familiar --

 2 COMMISSIONER JONES: Okay.

 3 MR. MEYER: -- with those numbers.

 4 COMMISSIONER JONES: That -- that would be

 5 helpful. Thank you.

 6 BY COMMISSIONER JONES:

 7 Q. You're asking for some sort of guidance from the

 8 Commission in this docket, recognizing you're not asking

 9 for prudence on the costs. So do you think it's possible

10 for the Commission to give you some sort of guidance

11 without understanding the specific benefits and costs of

12 AMI?

13 A. Well, I think the -- I think the Commission does

14 understand the specific costs and benefits. Now, we

15 have -- you -- we would -- we would argue that we can't

16 quantify all of those, but I think you certainly have a

17 handle on what the costs and the benefit categories are and

18 why it makes sense to -- to have these.

19 Now, it's incumbent on us to de- -- to prove to

20 you in a prudence review that the costs were correct and

21 they should be recovered, and also, we've had lots of

22 indication about reporting we may be required to do to you

23 to validate our assumptions of the savings.

24 Q. Okay.

25 A. So I think, with that, it seems likely that you

0342

 1 have the information that you need in order to, again, be

 2 there with us saying, "Yeah. We think this is -- this is

 3 directionally the right thing for our customers in

 4 Washington state."

 5 Q. Well, for me, I'm not sure if the Commission has

 6 that confidence yet to understand the detailed benefits.

 7 We -- you're right. We've had workshops. We've been

 8 participating. We listened to a lot of things, but in

 9 terms of a detailed cost-benefit analysis of advanced

10 metering infrastructure in its entirety --

11 A. Sure.

12 Q. -- I'm not sure if we're there yet.

13 A. Yeah.

14 Q. And I'll just finish up. I'd just like to go over

15 the benefits now. Could you turn to page 19? And I'm just

16 going to go over these one by one of DFK-5. If you could

17 go there, I just want to -- so are you there at page 19

18 yet?

19 A. Yes, I am.

20 Q. Okay. So let's -- we're -- we're going to start

21 up at the top, customer experience, access interval usage

22 data. Have you done work with, for example, utilities in

23 Texas or California that have millions and millions of

24 smart meters and AMI deployed? Have you looked at survey

25 data that said -- that indicates how many customers are

0343

 1 actually using that five-minute interval data, for example?

 2 Have you done that?

 3 A. We've -- our team has reviewed several different

 4 business cases --

 5 Q. Right.

 6 A. -- but not specifically, no.

 7 Q. Okay.

 8 A. Our interval data is five minutes. There aren't

 9 any other utilities in America that I'm aware of that are

10 collecting that granular of data. Most of them are

11 15-minute or 30-minute interval data.

12 Q. I thought Oncor was 5 minutes. It's 15 minutes in

13 Texas?

14 A. I believe they are, yes.

15 Q. All right. And I won't go through these: customer

16 home network interface, energy alerts, customer privacy.

17 And then in the second category, future opportu- --

18 opportunity for benefits. You've already talked -- most of

19 these are -- are non- -- are untangible, they're difficult

20 to quantify; right? Rate options? Dynamic pricing?

21 Micro-grids?

22 A. We haven't quantified them for purposes of this

23 because we don't intend to do them now. I think some of

24 them could be quantified. If there was something we were

25 planning on delivering, then we would spend more time

0344

 1 trying to quantify the benefits.

 2 Q. Okay. So you are not planning on quantifying any

 3 of these, even distributed generation, which the Commission

 4 has had workshops on? We have an ongoing collaborative on

 5 this. You're not going to try to provide any parameters

 6 for quantifying those benefits --

 7 A. Well --

 8 Q. -- for DG?

 9 A. -- I would say by the time we implement this, we

10 probably will. As you know --

11 Q. Yeah.

12 A. -- distributed generation is relatively new. Even

13 during this year, it's changed quite a bit. So as we

14 fine-tune these numbers, some of these things we may --

15 Q. Right.

16 A. -- choose to put benefits to.

17 Q. Okay. And then I'm going to go through these and

18 just, let's say, could you say if there's -- if -- if it's

19 primarily a benefit to the utility or the customer? So the

20 third one down is meter reading. You've address this.

21 4.8 million. That's a precise number. Is that a benefit

22 to the utility or the customer, primarily?

23 A. These cost -- these costs get passed right back to

24 the customer.

25 Q. But at a lower --

0345

 1 A. Is that what you're talking about? Who gets the

 2 benefit?

 3 Q. I'm -- I'm talking about who benefits primarily

 4 from this feature of advanced metering, the utility or the

 5 customer.

 6 A. Well, those are -- would be harder for me, because

 7 I see benefits on both sides.

 8 Q. Okay. Remote rapid reconnect -- and then you had,

 9 like, various elements of that -- is that primarily a

10 benefit to the utility or the customer?

11 A. Well, a couple of things it does. For us, it

12 allows us not to walk into people's yards. It allows us

13 not to go to their door and embarrass them when we're

14 trying to collect a bill. And it also gives the customer

15 the benefit of being reconnected quickly. We've done 7200

16 of these in Pullman since --

17 Q. Right.

18 A. -- we had those -- that capability. I can tell

19 you there that customers appreciate it, so I would say this

20 benefit is one that the dollars flow to customers and it is

21 clearly a benefit to them.

22 Q. Again, based on your staff's analysis of other

23 AMI-installed systems around the country, is it primarily

24 used for disconnection or reconnection?

25 A. Well, it's used for both, because once you

0346

 1 disconnect, somebody's going to -- you get turned back on,

 2 typically. So I would say it's both.

 3 Q. The next one is outage management. How can you

 4 quantify this more precisely? And tell me about the

 5 benefits to the customers here. Are you finding -- this

 6 is, for example, a person who works at home, if their

 7 electricity is out for 8 hours --

 8 A. Certainly that's part of it.

 9 Q. -- are you trying to quantity that?

10 A. Yes. Yeah. And there's a calculation that we

11 did -- well, Mr. La Bolle will be able to describe that --

12 Q. Okay.

13 A. -- further if you'd like information about that

14 one.

15 Q. Well, I'll --

16 A. It's a benefit to customers. The other benefit

17 that customers get is we know they're out, so they don't

18 have to call us. We can provide them --

19 Q. Right.

20 A. -- information if they want it as far as when we

21 might have a truck in their neighborhood, when their power

22 would be reconnected. We know that's a very important

23 benefit that customers would like to have from us.

24 Q. And that saves the utility money on truck rolls,

25 reduced truck rolls, to repair the outage; correct?

0347

 1 A. One of the things -- one of our biggest issues we

 2 have with outages is what we classify as "not our problem,"

 3 so a customer's going to say, "Something in my house

 4 doesn't work," or, "This doesn't work," or, "That doesn't

 5 work." We go out there and it turns out to be, you know,

 6 somebody else's problem. It could be their problem. We

 7 don't have a way to test that.

 8 Typically, what you want -- when you call Comcast

 9 or your Internet provider and you say, "Hey, my Internet

10 doesn't work," they send a signal out to see if your box is

11 on. They say, "Well, your box is on, so it's your

12 problem."

13 We don't have a way to do that today. This

14 technology would enable that, so now we can have

15 intelligent conversation with the customer about, if it's

16 not -- if it's not something that we've created and it's

17 inside their home, they need to take a different course of

18 action, it saves us a truck roll.

19 Q. So in a one-way AMR system, you would have to send

20 a truck out?

21 A. That's exactly what we do today.

22 Q. Yeah. And that's what you do, so there would

23 be --

24 A. We do that --

25 Q. -- savings --

0348

 1 A. -- thousands of times a year.

 2 Q. Got it.

 3 A. Once a day, probably.

 4 Q. On energy efficiency on CVR, the next one down,

 5 isn't this already factored in? Haven't you already done a

 6 lot of this in Spokane and Pullman?

 7 A. We've done about 70 of our 350 circuits --

 8 Q. Yes.

 9 A. -- but we can't tune it as well as we will be able

10 to once we have all these new data points at the end of the

11 feeders. Right now, we have some reference for voltage

12 at -- in difference points of our feeder. Once we have

13 this, we'll have those reference points for every meter

14 along our circuits --

15 Q. Okay.

16 A. -- so we can save even more.

17 Q. So you're saying that, beyond what you've already

18 done in volt/VAR, this conservation voltage reduction, that

19 you can squeeze more efficiency out of the system with AMI?

20 A. That's what we're saying.

21 Q. And that's primarily a benefit to -- to the

22 utility or -- or to customers? How does the customer

23 benefit from that?

24 A. When -- it's interesting, but when we are able to

25 match the voltage to what it's really required by

0349

 1 Commission to be, around 120 volts -- so typically, if we

 2 measured it here, you're probably at 127 volts, so you're

 3 paying for 7 extra volts that you don't need to run your

 4 lights and these nice microphones. If you could get to

 5 120 volts, you save that difference as a customer.

 6 Q. Okay.

 7 A. So those -- those cust- -- those benefits flow to

 8 us as a utility, but they also flow directly to the

 9 customer in a lower bill.

10 COMMISSIONER JONES: Okay. I think I'll stop

11 there. It's ten after 5. Chairman Danner has some

12 questions. Thank you.

13 THE WITNESS: Mr. La Bolle will be up

14 tomorrow. He -- he knows the answers to all your

15 questions.

16 COMMISSIONER JONES: I tried.

17 CHAIRMAN DANNER: Thank you. I'll ask mine

18 now, because I'll probably forget them if I try and do them

19 in the morning.

20 \*\*\* EXAMINATION BY CHAIRMAN DANNER \*\*\*

21 BY CHAIRMAN DANNER:

22 Q. So the -- basically, what I want to make --

23 understand is -- is we're talking about net benefits over a

24 20-year life of around 7.5 million. That's based on a cost

25 projection that could go up or down, and so if your cost

0350

 1 projection is currently low by 7.5 or more, then the net

 2 benefits would actually zero out or be negative.

 3 And if that's the case, it is -- it is still your

 4 position that you should go ahead with this project? That

 5 it would be in the public interest for you to go ahead with

 6 the project, even though the net benefits might be zero or

 7 negative?

 8 A. My opinion of that would be yes, but I'd also

 9 quantify that. Let's say, one of the things we've talked

10 about a couple of times are labor associated with reading

11 meters. So we -- we -- in our business case, we assume

12 this, in January of 2015, probably based on 2014 labor

13 costs.

14 So we know that our meter readers have gotten a

15 3 percent wage increase in 2015. They'll get a 3 percent

16 wage increase in 2016, so those -- those benefits that

17 we've quantified will be more.

18 Q. Well --

19 A. You're assuming that only -- the only thing that

20 changes is our cost, but our benefits will also go up.

21 Q. Okay. But those -- and so those aren't -- so

22 would it seem to me, though, that those would be things

23 that you would have put into your net benefits calculation,

24 because all of this basically is trying to add things that

25 exceed --

0351

 1 A. It is.

 2 Q. -- the costs of the project.

 3 A. Yes. But you're talking about a future period, so

 4 now we've created uncertainty. So if I ask for this

 5 prudence review a year from now, our costs have gone up.

 6 What I'm telling you is our benefits will have also

 7 increased.

 8 Q. Okay. So you -- so when you're doing your -- your

 9 benefit analysis, you're kind of holding back on certain

10 benefits or certain cost projections because they're

11 uncertain at this time?

12 A. No. No. We're -- they're projected --

13 Q. Well, help me --

14 A. -- exactly for --

15 Q. -- understand this.

16 A. -- for the time. When we looked at this, I'm --

17 I'm going to guess it was based on 2014 labor rates. When

18 we actually turn these meters off, it will be 2017. Now,

19 we're going to have 3 percent wage increases every year for

20 these meter readers, so how do I project the benefits? Do

21 I project a future benefit, or do I project it based on our

22 known costs today?

23 Again, all I'm saying is you need to bookend what

24 you're suggesting, is our costs are unknown, and we will

25 firm those up, but I would tell you our benefits are

0352

 1 also -- may change over time, and they may increase.

 2 Q. Okay.

 3 A. In fact, some of them, like labor, will increase.

 4 Q. And others will -- will not decrease?

 5 A. I would -- I would say that they will stay the

 6 same. Our -- our calculations for benefits are

 7 conservative, and -- and many of them, 75 percent of those,

 8 are known numbers. I mean, you -- we should be able to

 9 quantify at any period of time you want us to look at that.

10 So I have a -- I have a high degree of confidence

11 in -- in our savings. The ones that we -- we have

12 25 percent of them that are more speculative and some that

13 we didn't even try -- try to quantify.

14 Q. All right. So the ones that you call intangibles

15 in your testimony, those are the ones that you didn't try

16 to -- to -- and didn't even want to try and throw a

17 ballpark figure out?

18 A. It's speculating at this point. We can.

19 Q. Well, I mean, it's -- it's a question of getting

20 some confidence around what you're currently giving us,

21 which is benefits --

22 A. Yeah.

23 Q. -- around $7 million with a whole bunch of

24 asterisks next to that, and yet it's a 20-year project --

25 A. Yeah.

0353

 1 Q. -- costs go up. You know, I'm -- I'm trying to

 2 get a handle on --

 3 A. Sure.

 4 Q. -- how do I be comf- -- how can I be --

 5 A. Yeah.

 6 Q. -- comfortable --

 7 A. Very fair.

 8 Q. -- with all the intangibility of what we have here

 9 and the fact that we have a cone of uncertainty as well,

10 so.

11 A. I think what you'll see -- certainly, when we come

12 back for prudence, we'll have actual data. Even in the

13 next six months, we will have actual agreements. Again,

14 I'm assuming we will have a way to handle the -- the --

15 what we need to handle the meters, the undepreciated amount

16 of our electric meters.

17 So if we get that order from this Commission and

18 can sign agreements with vendors for the meters themselves,

19 for the software, for some of the network costs, many of

20 the things that now we're speculating about in terms of

21 costs will be known, so it will take away a lot of the

22 uncertainty that is embedded in our business case that we

23 did a year ago.

24 Q. Okay. So we'll have tangibility and certainty?

25 A. Yeah.

0354

 1 Q. So -- so to follow up on a question from

 2 Mr. Casey, and he said -- you know, he asked, if you were

 3 to delay this a year or two, would the costs go down? One

 4 of the questions I have is, right now, you're talking about

 5 meters, the current meters. You said some of them have

 6 been in place for 50 years or more, but I -- I assume that

 7 they're undepreciated meters, and that's what the

 8 20 million is about.

 9 A. Yeah.

10 Q. How much more of that would be depreciated if we

11 were to wait a year or two?

12 A. Yeah. You'll have to ask one of our depreciation

13 experts.

14 At the same time, you have to realize that we're

15 still adding new meters, we're replacing some of those,

16 some that we test and they fail, are -- based on your

17 Commission requirements, we -- we have a, you know,

18 1 percent customer growth, so we're adding those new meters

19 out there, so at the same time you're -- you've got these

20 that are sitting there depreciating, you're also putting

21 new ones in.

22 Q. Yeah.

23 A. So I would -- I would be willing to bet, without

24 looking at that, it could -- the number may not change over

25 time.

0355

 1 Q. Okay. That was my question.

 2 And then with regard to the opt-out, you're aware

 3 of our recent order on the PacifiCorp rate case that we

 4 dealt with the opt-out, and one of the concerns that I

 5 raised there was that the opt-out not be punitive, even

 6 though one can take issue about whether electromagnetic

 7 radiation is, in fact, an issue or whether privacy --

 8 A. Sure.

 9 Q. -- is compromised. This seems to be an article of

10 faith with some customers out there. And so you might look

11 at the -- the testimony and the order in that case, because

12 we -- we did have some -- or I personally had some

13 questions about whether those costs were -- were high and

14 they could be lower or --

15 A. Right.

16 Q. -- whether, in fact, there was some way to

17 accommodate these people. I don't think there's a lot of

18 them out there, but -- but nonetheless, I am concerned

19 about whether that would be a --

20 A. Yeah. We will --

21 Q. -- punitive tariff?

22 A. -- certainly look at that.

23 I know Puget Sound Energy's on about the same path

24 that we are. They intend to put in a network in '16 and

25 change out their meters in '17. They've already picked a

0356

 1 vendor for that, so I'm assuming they'll be looking at an

 2 opt-out program also, so we -- we may be able to do this

 3 across the state.

 4 Q. All right. Well, we've looked at -- you know,

 5 we've asked -- we -- we approved the PacifiCorp tariff with

 6 the caveat that they come in and discuss it with us fur- --

 7 with it -- with us further because we felt like our only

 8 choice was that tariff or no tariff. But we're also

 9 looking, and we ask you to look at other states that have

10 dealt with this, and there are several around the country,

11 including --

12 A. Yep.

13 Q. -- California and New Hampshire and some others.

14 A. We -- yeah. We have some of that in our

15 testimony.

16 CHAIRMAN DANNER: Okay. And actually, those

17 are my questions and comments, so thank you.

18 THE WITNESS: Okay.

19 JUDGE FRIEDLANDER: Thank you. I believe

20 that's it, Mr. Kopczynski, so thank you for your testimony.

21 So I think we will adjourn for the day and

22 come back at 9:30 if that's all right. All right. Thank

23 you so much.

24 (Proceedings adjourned at 5:21 p.m.)

25 \* \* \* \* \*

0357

 1 C E R T I F I C A T E

 2

 3 STATE OF WASHINGTON

 4 COUNTY OF KING

 5

 6 I, Ryan Ziegler, a Certified Shorthand Reporter in

 7 and for the State of Washington, do hereby certify that the

 8 foregoing transcript of the proceedings held October 5,

 9 2015, is true and accurate to the best of my knowledge,

10 skill, and ability.

11 IN WITNESS WHEREOF, I have hereunto set my hand

12 and seal this October 13, 2015.

13

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16 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 RYAN ZIEGLER, RPR, CCR

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