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BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,) Docket Nos. UE-150204 and
) UG-150205 (Consolidated)
Complainant,)
) Pages 46 - 357
v.)
))
AVISTA CORPORATION,)
D/B/A AVISTA UTILITIES,)
))
Respondent.)

EVIDENTIARY HEARING, VOLUME IV
PAGES 46 - 357
ADMINISTRATIVE LAW JUDGE MARGUERITE E. FRIEDLANDER

9:30 A.M.

OCTOBER 5, 2015

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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

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

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.

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

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

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 --

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

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 --

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.

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.

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

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?**

EXAMINATION BY MEYER / NORWOOD

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

EXAMINATION BY GAFKEN / NORWOOD

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

EXAMINATION BY GAFKEN / NORWOOD

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**

EXAMINATION BY GAFKEN / NORWOOD

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

EXAMINATION BY GAFKEN / NORWOOD

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.

EXAMINATION BY GAFKEN / NORWOOD

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

EXAMINATION BY GAFKEN / NORWOOD

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

EXAMINATION BY GAFKEN / NORWOOD

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

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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

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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**

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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.

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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

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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.**

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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.

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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.

EXAMINATION BY DAVISON / NORWOOD

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.

EXAMINATION BY DAVISON / NORWOOD

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**

EXAMINATION BY DAVISON / NORWOOD

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.

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?

EXAMINATION BY BROOKS / NORWOOD

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

EXAMINATION BY BROOKS / NORWOOD

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.

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

EXAMINATION BY OSHIE / NORWOOD

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 --

EXAMINATION BY OSHIE / NORWOOD

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?

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

EXAMINATION BY MEYER / NORWOOD

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

EXAMINATION BY MEYER / NORWOOD

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

EXAMINATION BY MEYER / NORWOOD

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.

EXAMINATION BY MEYER / NORWOOD

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**

EXAMINATION BY MEYER / NORWOOD

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

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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

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?

EXAMINATION BY DAVISON / NORWOOD

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

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

EXAMINATION BY CHAIRMAN DANNER / NORWOOD

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.

EXAMINATION BY CHAIRMAN DANNER / NORWOOD

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

EXAMINATION BY CHAIRMAN DANNER / NORWOOD

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 prudence 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

EXAMINATION BY CHAIRMAN DANNER / NORWOOD

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

EXAMINATION BY CHAIRMAN DANNER / NORWOOD

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.

EXAMINATION BY CHAIRMAN DANNER / NORWOOD

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

EXAMINATION BY CHAIRMAN DANNER / NORWOOD

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**

EXAMINATION BY COMMISSIONER RENDAHL / NORWOOD

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?

EXAMINATION BY COMMISSIONER RENDAHL / NORWOOD

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.**

EXAMINATION BY COMMISSIONER JONES / NORWOOD

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**

EXAMINATION BY COMMISSIONER JONES / NORWOOD

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

EXAMINATION BY COMMISSIONER JONES / NORWOOD

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

EXAMINATION BY COMMISSIONER JONES / NORWOOD

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**

EXAMINATION BY COMMISSIONER JONES / NORWOOD

1 **Moody's have recognized that Washington adjusts rates in a**
2 **balanced manner. They both know 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.

EXAMINATION BY COMMISSIONER JONES / NORWOOD

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.

EXAMINATION BY COMMISSIONER JONES / NORWOOD

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

EXAMINATION BY COMMISSIONER JONES / NORWOOD

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.

EXAMINATION BY COMMISSIONER JONES / NORWOOD

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.

EXAMINATION BY COMMISSIONER JONES / NORWOOD

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**

EXAMINATION BY COMMISSIONER JONES / NORWOOD

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,

EXAMINATION BY COMMISSIONER JONES / NORWOOD

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

EXAMINATION BY COMMISSIONER JONES / NORWOOD

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

EXAMINATION BY COMMISSIONER JONES / NORWOOD

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 --

EXAMINATION BY COMMISSIONER JONES / NORWOOD

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 --

EXAMINATION BY COMMISSIONER JONES / NORWOOD

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- --**

EXAMINATION BY COMMISSIONER JONES / NORWOOD

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?**

EXAMINATION BY COMMISSIONER JONES / NORWOOD

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?

EXAMINATION BY COMMISSIONER RENDAHL / NORWOOD

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**

EXAMINATION BY COMMISSIONER RENDAHL / NORWOOD

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?

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.

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.

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.

EXAMINATION BY MEYER / ANDREWS

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,

EXAMINATION BY MEYER / ANDREWS

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.

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

EXAMINATION BY SHEARER / ANDREWS

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

EXAMINATION BY SHEARER / ANDREWS

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 --

EXAMINATION BY SHEARER / ANDREWS

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.

EXAMINATION BY SHEARER / ANDREWS

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

EXAMINATION BY SHEARER / ANDREWS

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

EXAMINATION BY SHEARER / ANDREWS

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

EXAMINATION BY SHEARER / ANDREWS

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,

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.

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 --

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.

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?**

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.

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**

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

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**

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

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.

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**

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**

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**

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

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,

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

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?

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.

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

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

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.

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.

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

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?

EXAMINATION BY BROOKS / ANDREWS

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

EXAMINATION BY BROOKS / ANDREWS

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,

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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

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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.

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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

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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

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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.

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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

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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.

EXAMINATION BY MEYER / ANDREWS

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

EXAMINATION BY MEYER / ANDREWS

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 --

EXAMINATION BY MEYER / ANDREWS

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?

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

EXAMINATION BY CHAIRMAN DANNER / ANDREWS

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

EXAMINATION BY CHAIRMAN DANNER / ANDREWS

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.

EXAMINATION BY COMMISSIONER JONES / ANDREWS

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.

EXAMINATION BY COMMISSIONER JONES / ANDREWS

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?**

EXAMINATION BY COMMISSIONER JONES / ANDREWS

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 --**

EXAMINATION BY COMMISSIONER JONES / ANDREWS

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**

EXAMINATION BY COMMISSIONER JONES / ANDREWS

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 --

EXAMINATION BY COMMISSIONER JONES / ANDREWS

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

EXAMINATION BY COMMISSIONER JONES / ANDREWS

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

EXAMINATION BY COMMISSIONER JONES / ANDREWS

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

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

EXAMINATION BY MEYER / ANDREWS

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,

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.

EXAMINATION BY MEYER / SMITH

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

EXAMINATION BY GAFKEN / SMITH

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

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.

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

EXAMINATION BY COMMISSIONER RENDAHL / SMITH

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.

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.**

EXAMINATION BY MEYER / SCHUH

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

EXAMINATION BY CAMERON-RULKOWSKI / SCHUH

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**

EXAMINATION BY GAFKEN / SCHUH

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.

EXAMINATION BY GAFKEN / SCHUH

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?

EXAMINATION BY GAFKEN / SCHUH

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?**

EXAMINATION BY GAFKEN / SCHUH

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.

EXAMINATION BY GAFKEN / SCHUH

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

EXAMINATION BY GAFKEN / SCHUH

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?

EXAMINATION BY MEYER / SCHUH

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

EXAMINATION BY MEYER / SCHUH

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.

EXAMINATION BY COMMISSIONER JONES / SCHUH

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.

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?

EXAMINATION BY MEYER / EHRBAR

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?

EXAMINATION BY ROSEMAN / EHRBAR

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

EXAMINATION BY ROSEMAN / EHRBAR

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

EXAMINATION BY ROSEMAN / EHRBAR

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.

EXAMINATION BY ROSEMAN / EHRBAR

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.

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.

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.

EXAMINATION BY CAMERON-RULKOWSKI / KENSOK

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 --

EXAMINATION BY CAMERON-RULKOWSKI / KENSOK

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.

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(A break was taken from 2:25 p.m. to 2:34 p.m.)

[CONFIDENTIAL EXCERPT PAGES 233-289]

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[CONFIDENTIAL TRANSCRIPT]

(Pause in the proceedings.)

JUDGE FRIEDLANDER: All right. We'll be back on the record.

Ms. Gafken?

THE WITNESS: And I'll slow down.

*** EXAMINATION BY MS. GAFKEN ***

BY MS. GAFKEN:

Q. Good afternoon, Mr. Kensok.

A. Hi.

Q. Has Avista retired the legacy customer service and work management system?

A. Yes, ma'am. 30 days after we went live, we turned it off.

Q. And by turn off, you mean retired?

A. Yes. It was outsourced to Hewlett-Packard, and it ran at a data center in Sacramento, California. So "retired" means that we put it on -- basically backed it up for archival purposes for the future, if we ever had to go

EXAMINATION BY GAFKEN / KENSOK

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 --

EXAMINATION BY GAFKEN / KENSOK

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

EXAMINATION BY GAFKEN / KENSOK

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.

EXAMINATION BY GAFKEN / KENSOK

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?

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

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

EXAMINATION BY MEYER / KOPCZYNSKI

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.

EXAMINATION BY CASEY / KOPCZYNSKI

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

EXAMINATION BY CASEY / KOPCZYNSKI

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**

EXAMINATION BY CASEY / KOPCZYNSKI

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

EXAMINATION BY CASEY / KOPCZYNSKI

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

EXAMINATION BY CASEY / KOPCZYNSKI

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,

EXAMINATION BY CASEY / KOPCZYNSKI

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 --

EXAMINATION BY CASEY / KOPCZYNSKI

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

EXAMINATION BY CASEY / KOPCZYNSKI

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?**

EXAMINATION BY CASEY / KOPCZYNSKI

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.

EXAMINATION BY CASEY / KOPCZYNSKI

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

EXAMINATION BY CASEY / KOPCZYNSKI

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?**

EXAMINATION BY CASEY / KOPCZYNSKI

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**

EXAMINATION BY CASEY / KOPCZYNSKI

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.**

EXAMINATION BY CASEY / KOPCZYNSKI

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

EXAMINATION BY CASEY / KOPCZYNSKI

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?

EXAMINATION BY CASEY / KOPCZYNSKI

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

EXAMINATION BY CASEY / KOPCZYNSKI

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

EXAMINATION BY CASEY / KOPCZYNSKI

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.

EXAMINATION BY CASEY / KOPCZYNSKI

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**

EXAMINATION BY CASEY / KOPCZYNSKI

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

EXAMINATION BY CASEY / KOPCZYNSKI

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?**

EXAMINATION BY GAFKEN / KOPCZYNSKI

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

EXAMINATION BY GAFKEN / KOPCZYNSKI

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**

EXAMINATION BY GAFKEN / KOPCZYNSKI

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**

EXAMINATION BY GAFKEN / KOPCZYNSKI

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**

EXAMINATION BY GAFKEN / KOPCZYNSKI

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

EXAMINATION BY GAFKEN / KOPCZYNSKI

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.

EXAMINATION BY GAFKEN / KOPCZYNSKI

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.**

EXAMINATION BY COMMISSIONER RENDAHL / KOPCZYNSKI

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.

EXAMINATION BY COMMISSIONER RENDAHL / KOPCZYNSKI

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

EXAMINATION BY COMMISSIONER RENDAHL / KOPCZYNSKI

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.

EXAMINATION BY COMMISSIONER RENDAHL / KOPCZYNSKI

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?**

EXAMINATION BY COMMISSIONER RENDAHL / KOPCZYNSKI

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

EXAMINATION BY COMMISSIONER RENDAHL / KOPCZYNSKI

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.

EXAMINATION BY COMMISSIONER RENDAHL / KOPCZYNSKI

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?**

EXAMINATION BY COMMISSIONER RENDAHL / KOPCZYNSKI

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

EXAMINATION BY COMMISSIONER RENDAHL / KOPCZYNSKI

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

EXAMINATION BY COMMISSIONER RENDAHL / KOPCZYNSKI

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**

EXAMINATION BY COMMISSIONER JONES / KOPCZYNSKI

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

EXAMINATION BY COMMISSIONER JONES / KOPCZYNSKI

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.

EXAMINATION BY COMMISSIONER JONES / KOPCZYNSKI

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?**

EXAMINATION BY COMMISSIONER JONES / KOPCZYNSKI

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 --

EXAMINATION BY COMMISSIONER JONES / KOPCZYNSKI

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.

EXAMINATION BY COMMISSIONER JONES / KOPCZYNSKI

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

EXAMINATION BY COMMISSIONER JONES / KOPCZYNSKI

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

EXAMINATION BY COMMISSIONER JONES / KOPCZYNSKI

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

EXAMINATION BY COMMISSIONER JONES / KOPCZYNSKI

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

EXAMINATION BY COMMISSIONER JONES / KOPCZYNSKI

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 --

EXAMINATION BY COMMISSIONER JONES / KOPCZYNSKI

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

EXAMINATION BY COMMISSIONER JONES / KOPCZYNSKI

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 quantify 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?**

EXAMINATION BY COMMISSIONER JONES / KOPCZYNSKI

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 --**

EXAMINATION BY COMMISSIONER JONES / KOPCZYNSKI

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

EXAMINATION BY COMMISSIONER JONES / KOPCZYNSKI

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**

EXAMINATION BY CHAIRMAN DANNER / KOPCZYNSKI

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 --

EXAMINATION BY CHAIRMAN DANNER / KOPCZYNSKI

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

EXAMINATION BY CHAIRMAN DANNER / KOPCZYNSKI

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.

EXAMINATION BY CHAIRMAN DANNER / KOPCZYNSKI

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.

EXAMINATION BY CHAIRMAN DANNER / KOPCZYNSKI

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.

EXAMINATION BY CHAIRMAN DANNER / KOPCZYNSKI

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

EXAMINATION BY CHAIRMAN DANNER / KOPCZYNSKI

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.)

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C E R T I F I C A T E

STATE OF WASHINGTON
COUNTY OF KING

I, Ryan Ziegler, a Certified Shorthand Reporter in and for the State of Washington, do hereby certify that the foregoing transcript of the proceedings held October 5, 2015, is true and accurate to the best of my knowledge, skill, and ability.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this October 13, 2015.

RYAN ZIEGLER, RPR, CCR