

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,) Docket Nos. UE-150204 and UG-150205 (Consolidated)
Complainant,)
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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3	DMR-3 Summary of Public Counsel Natural Gas Adjustments 72	3	--o0o--
4	DMR-4 Qualifications of Donna Ramas 72	4	
5	DMR-5 Response to Staff Data Request No. 130, and Attachment C 72	5	PROCEEDINGS
6		6	JUDGE FRIEDLANDER: All right. Let's be on
7	DMR-6 Revised Response to Staff Data Request No. 130 and Revised Attachments A and B 72	7	the record. I'm Marguerite Friedlander, the Administrative
8		8	Law Judge assigned to this proceeding.
9	DMR-7 Response to Staff Data Request No. 131, and Attachment C 72	9	This is the time and place set for hearing in
10	DMR-8 Revised Response to Staff Data Request No. 131, and Revised Attachments A and B 72	10	Dockets UE-150204 and UG-150205, tariff revisions filed by
11	DMR-9 Response to Public Counsel Data Request No. 28 72	11	Avista Corporation, doing business as Avista Utilities.
12	DMR-10 Response to ICNU Data Request No. 29, and Attachment A 72	12	When we finish the preliminaries, I'll bring
13		13	the Commissioners in as well, but for the moment, let's
14	DMR-11 Response to Staff Data Request No. 148 72	14	take appearances, starting with Avista.
15	DMR-12 Response to Public Counsel Data Request No. 10 72	15	MR. MEYER: Thank --
16	DMR-13 Response to ICNU Data Request No. 31 (excluding attachment) 72	16	JUDGE FRIEDLANDER: And this is just short
17	DMR-14 Response to Public Counsel Data Request No. 9 72	17	appearances --
18	DMR-15 Response to Public Counsel Data Request No. 23 (excluding attachment) 72	18	MR. MEYER: Thank you --
19		19	JUDGE FRIEDLANDER: -- by the way.
20	DMR-16 Response to Public Counsel Data Request No. 17 and Attachment A (excerpt of pages 1 and 46) 72	20	MR. MEYER: -- Your Honor.
21	DMR-17 Response to ICNU Data Request No. 177 (non-confidential version), (excluding attachments) 72	21	David Meyer for Avista.
22		22	JUDGE FRIEDLANDER: Thank you.
23	DMR-18 Response to Staff Data Request No. 174, with Attachment A 72	23	On behalf of Staff?
24		24	MS. CAMERON-RULKOWSKI: Jennifer
25		25	Cameron-Rulkowski, assistant attorney general, and I am
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1	EXHIBITS FOR IDENTIFICATION (cont.) ADMITTED	1	joined by Patrick Oshie, Brett Shearer, and Christopher
2	DMR-19 Response to Staff Data Request No. 41, with Attachment A 72	2	Casey.
3		3	JUDGE FRIEDLANDER: Thank you.
4	DMR-20 Response to Staff Data Request No. 42, with Attachment A 72	4	And appearing today on behalf of Public
5	DMR-21 Avista Response to Staff Data Request No. 131, and Attachment D 72	5	Counsel?
6	DMR-22 Avista First Revised Response to Staff Data Request No. 143, with Revised Attachments A and B 72	6	MS. GAFKEN: Lisa Gafken, assistant attorney
7		7	general, appearing on behalf of Public Counsel.
8	DMR-23 Response to Public Counsel Data Request No. 32, with Attachment A 72	8	JUDGE FRIEDLANDER: Thank you.
9		9	Appearing today on behalf of The Energy
10	DMR-24 Response to Public Counsel Data Request No. 51 72	10	Project?
11	DMR-25 Response to Public Counsel Data Request No. 49 72	11	MR. ROSEMAN: Thank you, Your Honor. Ronald
12	DMR-26T Prefiled Cross-Answering Testimony of Donna M. Ramas 72	12	Roseman, representing The Energy Project.
13	BGM-1CT ***CONFIDENTIAL***Prefiled Response Testimony of Bradley G. Mullins 72	13	JUDGE FRIEDLANDER: Thank you.
14		14	Appearing today on behalf of the Industrial
15	BGM-2 Qualification Statement of Bradley G. Mullins 72	15	Customers of Northwest Utilities?
16	BGM-3 Revenue Requirement Calculations 72	16	MS. DAVISON: Melinda Davison and Jesse
17	BGM-4C ***CONFIDENTIAL*** Responses to Data Requests 72	17	Cowell.
18	BGM-5T Prefiled Cross-Answering Testimony of Bradley G. Mullins 72	18	JUDGE FRIEDLANDER: Thank you.
19	BGM-6 Updated Revenue Requirement Calculations 72	19	And appearing today on behalf of the
20	MPG-1T Prefiled Response Testimony of Michael P. Gorman 72	20	Northwest Industrial Gas Users?
21		21	MR. BROOKS: Tommy Brooks from Cable Huston.
22	MPG-2 Qualifications of Michael P. Gorman 72	22	JUDGE FRIEDLANDER: Thank you.
23	MPG-3 2016 Natural Gas Attrition Study, Calculation of General Revenue Requirement 72	23	So let's go ahead and deal with admission of
24	* * * * *	24	exhibits. My thought is to admit them en masse unless you
25		25	all have objections to certain exhibits, so I would

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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.

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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

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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

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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 --

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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

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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 --

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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.

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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.

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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

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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?**

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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**

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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 low 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

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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**

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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

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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.

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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**

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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**

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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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EXAMINATION BY GAFKEN / NORWOOD

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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EXAMINATION BY GAFKEN / NORWOOD

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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EXAMINATION BY GAFKEN / NORWOOD

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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EXAMINATION BY GAFKEN / NORWOOD

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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EXAMINATION BY GAFKEN / NORWOOD

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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EXAMINATION BY DAVISON / NORWOOD

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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EXAMINATION BY DAVISON / NORWOOD

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.

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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.**

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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**

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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.

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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?**

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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

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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.

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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**

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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 --

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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?

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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

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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**

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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

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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.

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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**

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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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EXAMINATION BY MEYER / NORWOOD

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

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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?**

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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

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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

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<p>EXAMINATION BY CHAIRMAN DANNER / NORWOOD</p> <p>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.</p>	<p>EXAMINATION BY CHAIRMAN DANNER / NORWOOD</p> <p>1 as working together on this to do the right thing for 2 customers long term. 3 BY CHAIRMAN DANNER: 4 Q. So I'm still struggling, though, with if we -- 5 basically, it sounds like what you're asking for right now 6 is a wink and a nod to go forward. "Hey, good idea." 7 Then, later, we either say, "You've -- you've 8 overspent or underbuilt or selected the wrong technology 9 and so forth," but then the question of -- of whether this 10 is the right project, haven't we, in essence, given you 11 kind of a prudency review by saying, "This is -- this is 12 the right thing to do going forward"? 13 A. No. And -- and so let me be more specific and 14 tell you what I would be looking for, I think, and we would 15 be looking for. 16 If the Commission approves the accounting 17 treatment with the return on the unamortized balance so 18 that there's no write-off, and if the Commission's order 19 doesn't have any kind of "You guys shouldn't be doing 20 this," then even silence on the rest of it, I think, would 21 be sufficient for us to move ahead. 22 And we would interpretate -- interpret the 23 Commission's decision to give us the accounting treatment, 24 to set up the regulatory asset with a return, as some kind 25 of indication that you think it's okay to move ahead with</p>
<p>Page 115</p> <p>EXAMINATION BY CHAIRMAN DANNER / NORWOOD</p> <p>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</p>	<p>Page 117</p> <p>EXAMINATION BY CHAIRMAN DANNER / NORWOOD</p> <p>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</p>

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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.**

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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

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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**

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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?**

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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.**

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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**

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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**

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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**

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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**

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EXAMINATION BY COMMISSIONER JONES / NORWOOD

1 **Moody's have recognized that Washington adjusts rates in a
 2 balanced manner. They both knowledge that Avista's last
 3 rate settlement was constructive for the utility and
 4 clearly was something acceptable to other stakeholders in
 5 the process. S&P rates Avista Corp. as an A minus with a
 6 stable outlook," and then it goes on to Moody's.**

7 **So do you -- do you disagree or does Mr. Thies
 8 disagree with that?**

9 A. No. The -- the reason for my rebuttal testimony
 10 is to -- to address why S&P and Moody's did view the recent
 11 orders from this Commission as being constructive. And the
 12 reason they viewed it as being constructive is that it was
 13 a departure from the prior use of using historical data to
 14 set future rates. And so --

15 **Q. Okay.**

16 A. -- they rightly recognized that the change to
 17 recognize there's attrition was a positive change, and
 18 that's why I mentioned with regard to this report -- this
 19 report was issued in early '14. I think this -- this
 20 report did not reflect the -- this change, this positive
 21 change that's -- that's going on in rate-making. So I
 22 think that's why the Commission --

23 **Q. I see.**

24 A. -- in this report was at 45, and today, I think
 25 they're much -- much improved.

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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.

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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

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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.

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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.

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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**

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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,

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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

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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

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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 --

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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 --**

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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- --**

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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?**

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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?**

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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**

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<p>EXAMINATION BY COMMISSIONER RENDAHL / NORWOOD</p> <p>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?</p>	<p>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.</p>
<p>Page 143</p> <p>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.</p>	<p>Page 145</p> <p>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.</p>

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<p>EXAMINATION BY MEYER / ANDREWS</p> <p>1 MR. MEYER: -- to you, Liz.</p> <p>2 THE WITNESS: It was not on.</p> <p>3 JUDGE FRIEDLANDER: Okay.</p> <p>4 MR. MEYER: Okay.</p> <p>5 THE WITNESS: Is that better?</p> <p>6 JUDGE FRIEDLANDER: Yeah.</p> <p>7 THE WITNESS: I'll say that again.</p> <p>8 A. Elizabeth Andrews, and I work for Avista Corp.</p> <p>9 BY MR. MEYER:</p> <p>10 Q. And what is your position?</p> <p>11 A. Manager of revenue requirements.</p> <p>12 Q. And have you filed both direct and rebuttal</p> <p>13 testimony along with a company of exhibits in this case?</p> <p>14 A. Yes, I have.</p> <p>15 Q. Do you have any corrections to make to any of</p> <p>16 that?</p> <p>17 A. Yes. I have two corrections, starting on page 3.</p> <p>18 Q. Of which exhibit?</p> <p>19 A. EMA-5T.</p> <p>20 Q. And that's your rebuttal testimony?</p> <p>21 A. Yes. My rebuttal testimony, page 3, line 22.</p> <p>22 Q. Okay. Just a moment. Let everybody get there.</p> <p>23 A. Excuse me.</p> <p>24 Q. All right.</p> <p>25 A. Okay. At the beginning of the sentence, it says,</p>	<p>1 Staff, are you ready?</p> <p>2 MR. SHEARER: Yep. Just -- just putting away</p> <p>3 the notebooks here.</p> <p>4 JUDGE FRIEDLANDER: Great. Thank you.</p> <p>5 *** EXAMINATION BY MR. SHEARER ***</p> <p>6 BY MR. SHEARER:</p> <p>7 Q. Hello, Ms. Andrews.</p> <p>8 A. Hi.</p> <p>9 Q. Now, you testified to the Company's attrition</p> <p>10 proposals in this case; is that correct?</p> <p>11 A. Correct.</p> <p>12 Q. And you filed attrition-related testimony both in</p> <p>13 the initial stage and on rebuttal; is that correct?</p> <p>14 A. Correct.</p> <p>15 Q. I'd like to focus on -- begin by focusing on a</p> <p>16 specific portion of that. It was something Mr. Norwood</p> <p>17 highlighted earlier. It's the electric O&M escalation</p> <p>18 factor.</p> <p>19 A. Yes.</p> <p>20 Q. What was the annual electric O&M escalation factor</p> <p>21 that Avista proposed in its initial filing?</p> <p>22 A. 3 percent.</p> <p>23 Q. And what is that figure on rebuttal?</p> <p>24 A. That figure on rebuttal is 5.17 percent.</p> <p>25 Q. Now, did the -- the Company made significant</p>
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<p>EXAMINATION BY MEYER / ANDREWS</p> <p>1 "The difference in the electric"; strike the words, "and</p> <p>2 natural gas revenue."</p> <p>3 Q. All right. And do you have another set of changes</p> <p>4 in one of your tables?</p> <p>5 A. Yes. On page 6 -- and I believe Mr. Meyer handed</p> <p>6 out the revised attachment, but I will explain the changes</p> <p>7 that are being made. It's related to Table No. 2 for</p> <p>8 natural gas. If you look at the first section, A --</p> <p>9 labeled "A," it shows 11,286,000. If you look down to</p> <p>10 Section B, you can see that the 1,573,000 reduction was not</p> <p>11 incorporated, so it didn't foot.</p> <p>12 That changes the -- so on line -- I guess it looks</p> <p>13 like it's lined up with line 18, the 11,286,000 would</p> <p>14 change to 9,713,000. And then it should continue to foot</p> <p>15 down to our rebuttal-proposed revenue requirement. That</p> <p>16 says 11,582,000. It should say 10,009,000.</p> <p>17 Q. So you highlighted two numbers --</p> <p>18 A. Two numbers.</p> <p>19 Q. -- that have changed --</p> <p>20 A. Yes.</p> <p>21 Q. -- on that revised table. Okay.</p> <p>22 A. Correct.</p> <p>23 MR. MEYER: Very well. So with that,</p> <p>24 Ms. Andrews is available for cross.</p> <p>25 JUDGE FRIEDLANDER: Thank you.</p>	<p>EXAMINATION BY SHEARER / ANDREWS</p> <p>1 changes to its business practices to curb the annual growth</p> <p>2 rate in O&M expense at the end of 2012; is that correct?</p> <p>3 A. It -- it made specific changes, and -- as</p> <p>4 referenced in my testimony, mainly focused around our</p> <p>5 voluntary severance incentive program and some other</p> <p>6 pension and medical changes as well.</p> <p>7 Q. And so -- and that was at the end of 2012, so it</p> <p>8 would be --</p> <p>9 A. Yes, it was.</p> <p>10 Q. It would appear in the data from 2013 to 2014; is</p> <p>11 that --</p> <p>12 A. Correct.</p> <p>13 Q. -- correct?</p> <p>14 Now I would like to turn to the specific</p> <p>15 calculation that was proposed on rebuttal for the O&M, and</p> <p>16 that -- you -- for reference -- I'm not going to refer to</p> <p>17 the testimony, but for ref- -- general reference, that's on</p> <p>18 page 31 of your rebuttal testimony and -- and page 12 of</p> <p>19 Exhibit EMA-6.</p> <p>20 A. Correct.</p> <p>21 Q. So that calculation begins by splitting the O&M</p> <p>22 expense, the electric-side O&M expense, into two</p> <p>23 categories; correct?</p> <p>24 A. By way of splitting -- yes. The Company used both</p> <p>25 what it had experienced from 2007 to '14 and what the more</p>

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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 --**

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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.

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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

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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**

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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

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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,

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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.

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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 --

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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.

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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?**

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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.

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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**

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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

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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**

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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**

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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.**

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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**

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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**

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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**

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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

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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,

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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

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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?**

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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.

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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

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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

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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.

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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.

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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

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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?**

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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

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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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EXAMINATION BY BROOKS / ANDREWS

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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EXAMINATION BY BROOKS / ANDREWS

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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EXAMINATION BY BROOKS / ANDREWS

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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EXAMINATION BY BROOKS / ANDREWS

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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EXAMINATION BY BROOKS / ANDREWS

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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EXAMINATION BY MEYER / ANDREWS

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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EXAMINATION BY MEYER / ANDREWS

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.

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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**

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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 --**

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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?

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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 I**
 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

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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

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<p style="text-align: center;">EXAMINATION BY CHAIRMAN DANNER / ANDREWS</p> <p>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.</p>	<p style="text-align: center;">EXAMINATION BY COMMISSIONER JONES / ANDREWS</p> <p>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?</p>
<p style="text-align: center;">Page 195</p> <p style="text-align: center;">EXAMINATION BY COMMISSIONER JONES / ANDREWS</p> <p>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.</p>	<p style="text-align: center;">Page 197</p> <p style="text-align: center;">EXAMINATION BY COMMISSIONER JONES / ANDREWS</p> <p>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 --</p>

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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**

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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 --

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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

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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**

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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

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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**

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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,

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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.

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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**

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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

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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.

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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**

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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.

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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.**

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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**

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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**

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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.

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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?**

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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?**

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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.

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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**

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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?**

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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**

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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.

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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.

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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?**

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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?**

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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**

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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

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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.

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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.

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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.

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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.

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1 EXAMINATION BY CAMERON-RULKOWSKI / KENSOK

2 Q. First, I have just a few time line questions for

3 you.

4 A. Okay.

5 **Q. You testified that the acquisition of EP2M by**

6 **Five Point was announced in January 2013; correct?**

7 A. That's when we were informed, yes.

8 **Q. Well, that was my question. When did you**

9 **personally learn about the acquisition? And, specifically,**

10 **I'm interested in whether you learned about it before it**

11 **actually occurred.**

12 A. We did not learn about it before it occurred, and

13 they told us -- I can't tell you the date, but it was in

14 January of 2013.

15 **Q. And when you said "we," do you mean you**

16 **personally?**

17 A. I personally was there, yes.

18 **Q. And Avista knew in May of 2014 that Five Point was**

19 **being acquired by Ernst & Young; correct?**

20 A. Yes.

21 **Q. And did you learn about that acquisition before it**

22 **occurred?**

23 A. No.

24 MS. CAMERON-RULKOWSKI: All right. And now I

25 have some questions about Project Compass, and most of

these derive from confidential materials, so we may need --

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1 EXAMINATION BY CAMERON-RULKOWSKI / KENSOK

2 JUDGE FRIEDLANDER: We will. We'll need

3 to --

4 MS. CAMERON-RULKOWSKI: -- to clear out the

5 room.

6 JUDGE FRIEDLANDER: First of all, we'll need

7 to segregate the confidential aspect of the transcript, and

8 the rest will be excusing --

9 MR. ROSEMAN: Your mic must not be on.

10 JUDGE FRIEDLANDER: Sorry. I'm used to you

11 guys doing that.

12 So the -- as I was saying to the court

13 reporter, the area of the transcript containing the

14 confidential information will need to be segregated from

15 the rest of the transcript, and we need to excuse all

16 parties or people that have not signed a confidentiality

17 agreement, and we'll need to shut off the bridge line.

18 So let's go ahead and do that now. Is there

19 anyone in the -- the hearing room that needs to --

20 CHAIRMAN DANNER: Why don't we take a minute,

21 two minutes --

22 JUDGE FRIEDLANDER: All right. Yeah.

23 CHAIRMAN DANNER: -- or a few minutes off the

24 record to --

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

Let's -- let's go off of the record.

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

2 [CONFIDENTIAL EXCERPT PAGES 233-289]

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7 [CONFIDENTIAL TRANSCRIPT]
8 (Pause in the proceedings.)
9 JUDGE FRIEDLANDER: All right. We'll be back
10 on the record.
11 Ms. Gafken?
12 THE WITNESS: And I'll slow down.
13 *** EXAMINATION BY MS. GAFKEN ***
14 BY MS. GAFKEN:
15 **Q. Good afternoon, Mr. Kensok.**
16 A. Hi.
17 **Q. Has Avista retired the legacy customer service and**
18 **work management system?**
19 A. Yes, ma'am. 30 days after we went live, we turned
20 it off.
21 **Q. And by turn off, you mean retired?**
22 A. Yes. It was outsourced to Hewlett-Packard, and it
23 ran at a data center in Sacramento, California. So
24 "retired" means that we put it on -- basically backed it up
25 for archival purposes for the future, if we ever had to go

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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 --

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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

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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.

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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?

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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

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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**

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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.

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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**

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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**

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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**

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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

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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,

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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 --**

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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

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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?**

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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.

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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

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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?**

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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**

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<p>EXAMINATION BY CASEY / KOPCZYNSKI</p> <p>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.</p>	<p>EXAMINATION BY CASEY / KOPCZYNSKI</p> <p>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?</p>
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<p>EXAMINATION BY CASEY / KOPCZYNSKI</p> <p>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</p>	<p>EXAMINATION BY CASEY / KOPCZYNSKI</p> <p>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</p>

EXAMINATION BY CASEY / KOPCZYNSKI

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?**

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.

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.

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?**

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.

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."

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.

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.

23 **Q. Okay. I -- I understand that based on my cell**
24 **phone.**

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?**

25 **With the AMI project, do the benefits accrue at**

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

EXAMINATION BY CASEY / KOPCZYNSKI

1 **the -- at the same time -- at the -- and in the same**
2 **proportion as the costs?**

1 **strategy to engage customers to make sure that they --**

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.

2 A. Yeah.

8 And then it's fairly linear: Pull one meter out;
9 put a new one in; it talks to the system and works.

3 **Q. -- that -- I guess, the -- the potential of**
4 **benefits from this project is -- are realized?**

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?**

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.

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?**

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.

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.

17 But it -- it's a little bit hard to say, "Okay.

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.

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

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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?**

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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

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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**

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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

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

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

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**

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.**

Page 325	Page 327
<p style="text-align: center;">EXAMINATION BY COMMISSIONER RENDAHL / KOPCZYNSKI</p> <p>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.</p>	<p style="text-align: center;">EXAMINATION BY COMMISSIONER RENDAHL / KOPCZYNSKI</p> <p>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.</p>
<p style="text-align: center;">Page 326</p> <p style="text-align: center;">EXAMINATION BY COMMISSIONER RENDAHL / KOPCZYNSKI</p> <p>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</p>	<p style="text-align: center;">Page 328</p> <p style="text-align: center;">EXAMINATION BY COMMISSIONER RENDAHL / KOPCZYNSKI</p> <p>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?</p>

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EXAMINATION BY COMMISSIONER RENDAHL / KOPCZYNSKI	EXAMINATION BY COMMISSIONER RENDAHL / KOPCZYNSKI
<p>1 A. We do.</p> <p>2 Q. So -- and I don't think I'm asking confidential</p> <p>3 information, but I'm sure you'll tell me if I am. How</p> <p>4 many -- I'm assuming this technology, at least the meters,</p> <p>5 is fairly mature. This is not what I would call an</p> <p>6 emerging technology?</p> <p>7 A. We -- we -- well --</p> <p>8 Q. It might be changing, but is it really absolutely</p> <p>9 new and different?</p> <p>10 A. Let me answer it this way: No, it's not. It's</p> <p>11 really not new and different. It continues to evolve.</p> <p>12 We've -- we've sent RFPs out to six different meter</p> <p>13 manufacturers. Two of them, we felt like, conformed to</p> <p>14 what we're actually looking for. We've done a lot of</p> <p>15 diligence with both of those manufacturers.</p> <p>16 I can tell you one of those has a technology</p> <p>17 that's very mature, and I would tell you, in the -- our</p> <p>18 team's opinion, it's probably at the end of its life, so</p> <p>19 it's due to be upgraded. The other meter manufacturer is</p> <p>20 at the very front end of their technology life cycle.</p> <p>21 They've come up with something that they think -- in fact,</p> <p>22 they've never delivered one in the United States, but they</p> <p>23 think they have something that probably aligns better with</p> <p>24 us, and gives us a little more future-proof- -- -proofing.</p> <p>25 So that -- that's a dilemma. Do you buy an</p>	<p>1 Q. How much integration is involved in that software</p> <p>2 project with your existing systems?</p> <p>3 A. The software -- the biggest software project we</p> <p>4 have associated with this project is with what we call</p> <p>5 meter data management, so it's a software that takes --</p> <p>6 we're going to take five-minute interval reads from every</p> <p>7 gas and electric meter, and we have to take all those reads</p> <p>8 in and be able to generate a bill, but also be able to do</p> <p>9 analysis with that; and that software package is meter data</p> <p>10 management software.</p> <p>11 We looked at several vendors. We selected Oracle.</p> <p>12 Oracle's the system that we picked for our Customer Care</p> <p>13 and Billing. In fact, this module is part of Customer Care</p> <p>14 and Billing. It's already embedded in the Oracle software,</p> <p>15 so it's already interlinked with all these other things</p> <p>16 that we want to do. So it already knows how to generate a</p> <p>17 bill based on getting the meter data in.</p> <p>18 So we think the integration costs will be less</p> <p>19 because we've picked a vendor that aligns with things we</p> <p>20 already have.</p> <p>21 Q. So in terms of your cone of -- what did we call</p> <p>22 it?</p> <p>23 A. Uncertainty.</p> <p>24 Q. Cone of uncertainty, so where is the cone of</p> <p>25 uncertainty for the Company, then? Is it in the software?</p>
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EXAMINATION BY COMMISSIONER RENDAHL / KOPCZYNSKI	EXAMINATION BY COMMISSIONER RENDAHL / KOPCZYNSKI
<p>1 existing, very mature technology, or do you buy one that</p> <p>2 you think gives you some headroom for things you haven't</p> <p>3 even envisioned you might need in the future? So those are</p> <p>4 the kind of choices that we're up against.</p> <p>5 Even when it comes down to meters, which have been</p> <p>6 around -- you know, AMI, AMR, call it whatever you want --</p> <p>7 automated meters have been around for a long time.</p> <p>8 Q. Okay. And the other parts of this are the network</p> <p>9 software, the integration of the meter with the</p> <p>10 communications --</p> <p>11 A. Yes.</p> <p>12 Q. -- and then there's the communications. And</p> <p>13 communications is a -- very changing, as Mr. Casey noted,</p> <p>14 especially with our cell phone technology.</p> <p>15 A. Yep.</p> <p>16 Q. It's constantly changing, but it's pretty mature.</p> <p>17 A. Yes.</p> <p>18 Q. Would you agree?</p> <p>19 A. I -- yes, it is. The technology to communicate,</p> <p>20 to bring those meter reads back is a pretty mature</p> <p>21 technology.</p> <p>22 Q. And so -- and having just experienced a very</p> <p>23 interesting software project, so you'd be dealing with</p> <p>24 another software project?</p> <p>25 A. Yes.</p>	<p>1 Is it in the technology? Is it in the communications? Or</p> <p>2 is it integrating the three elements?</p> <p>3 A. There -- there's not near -- it's not like a</p> <p>4 software project. The only real software program is meter</p> <p>5 data management, and again, we picked a software that's</p> <p>6 already embedded in what we have, so I view that as being,</p> <p>7 you know, in a narrow part of the cone. Jim may disagree</p> <p>8 with me because it's his expertise, but that's the way I</p> <p>9 viewed that. It's -- it's the right decision. I think it</p> <p>10 will help us move forward quicker.</p> <p>11 The other technologies -- the meters themselves,</p> <p>12 the deployment of the network -- most of those things</p> <p>13 are a -- they're a lot more known than -- so we won't have</p> <p>14 the same con- -- the uncertainty part of it. What you will</p> <p>15 have -- even, let's say the technology to bring the reads</p> <p>16 back. So what the meter manufacturers will tell you,</p> <p>17 "Well, I need -- I need a repeater here, and I need a</p> <p>18 receiver here, and I need these three components."</p> <p>19 And then when you put it out there in the field,</p> <p>20 they didn't realize there was a big concrete structure in</p> <p>21 between your meter and that, so now you've got to put in</p> <p>22 another one, or there could be a mountain in the way, or</p> <p>23 there could be any number of other things.</p> <p>24 So those -- that's the uncertainty that we face in</p> <p>25 this type of deployment. I can tell you when we did the</p>

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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

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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**

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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

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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.

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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?**

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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 --

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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.**

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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

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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

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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**

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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 intangible, 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

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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 --**

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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

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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?**

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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 --**

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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

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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**

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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 --**

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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

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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.

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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 comfy -- 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.

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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.

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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

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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.)
 25 * * * * *

CERTIFICATE

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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