BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. AVISTA CORPORATION, D/B/A AVISTA UTILITIES, Respondent.	)	Docket Nos. UE-150204 and UG-150205 (Consolidated) Pages 358 - 623

EVIDENTIARY HEARING, VOLUME V
PAGES 358 - 623
ADMINISTRATIVE LAW JUDGE MARGUERITE E. FRIEDLANDER

9:33 A.M.

OCTOBER 6, 2015

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EVIDENTIARY HEARING
VOLUME V: INDEX

WITNESSES (cont.): PAGE

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EXHIBIT INDEX
VOLUME V

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OLYMPIA, WASHINGTON; OCTOBER 6, 2015

9:33 A.M.

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P R O C E E D I N G S

JUDGE FRIEDLANDER: So we'll go on the record.

My name is Marguerite Friedlander. I'm the Administrative Law Judge presiding over this matter. I'm joined again by Chairman Danner, Commissioner Rendahl, and Commissioner Jones.

Are there any preliminary matters that we need to address before we get into Mr. La Bolle's testimony?

MS. CAMERON-RULKOWSKI: Yes, Your Honor.

Yesterday, Mr. Kensok, in the course of his testimony, referred to a -- to a DR, and I didn't want the Bench to think that Staff was sitting on any evidence that -- that had to do with the Project Compass issue, and I have a copy of that -- of that DR here, and I can -- we can make it part of the record, if there's no objection and if the Bench is interested in seeing that.

JUDGE FRIEDLANDER: What data request was this in regards to?

MS. CAMERON-RULKOWSKI: So this was -- this

is an ICNU -- ICNU Data Request No. 206.

COMMISSIONER RENDAHL: And what was it related to, again?

MS. CAMERON-RULKOWSKI: And it's related to Project Compass. I can ask -- I can read the request if you'd like. It's pretty short.

JUDGE FRIEDLANDER: Yeah. Please.

MS. CAMERON-RULKOWSKI: Okay. The request is, "Please refer to Exhibit No. JMK-1T at 20, 5 to 6. Please provide, A, the date on which the board authorized a $3 million Project Compass spending limit increase, and, B, the board minutes conform -- confirming this authorization."

JUDGE FRIEDLANDER: Okay. And are you -- yeah. Let's go ahead and have that marked as Exhibit JMK-14, I believe we're up to.

Does anyone have objections to admission of the exhibit?

MR. MEYER: No objection.

JUDGE FRIEDLANDER: Okay. Then it'll be admitted. Thank you.

So is there any other matter preliminarily that we need to address before we go into testimony?

MR. MEYER: There are.

JUDGE FRIEDLANDER: Okay. Please.

MR. MEYER: Just a few.

First of all, I understand this may be Melinda's very last hearing, and this may be the very last day of the very last hearing for Melinda, so I want to wish you well in your retirement. It's been a pleasure over the years.

MS. DAVISON: Thank you. I appreciate that.

JUDGE FRIEDLANDER: Yes.

MR. MEYER: Second, I am -- I was asked -- the Company was asked, I believe, by the Commission whether there were 2014 AMI capital additions reflected, and there were not. No AMI capital in 2014. Okay?

JUDGE FRIEDLANDER: Thank you.

COMMISSIONER JONES: So, Mr. Meyer, I think that was my question. So in that number in Mr. Norwood's exhibit, KON-1T, for that -- for the CAPEX -- capital expenditures, nothing --

MR. MEYER: That's correct.

COMMISSIONER JONES: -- nothing capital for AMI? Okay.

MR. MEYER: That's it for me. Thank you.

JUDGE FRIEDLANDER: Okay. Thank you.

And I don't see anybody rushing for the mic, so I think we're probably good with the preliminaries.

So Mr. La Bolle, if you'll stand and raise

your right hand.

LARRY D. LA BOLLE, witness herein, having been first duly sworn on oath, was examined and testified as follows:

JUDGE FRIEDLANDER: Thank you. You can be seated.

And your witness, Mr. Meyer.

*** EXAMINATION BY MR. MEYER ***

BY MR. MEYER:

Q. Mr. La Bolle, for the record, please state your name and your employer.

A. My name is Larry La Bolle. I am employed by Avista Corporation in Spokane, Washington.

Q. And have you prepared and filed what has been marked as your rebuttal testimony, LDL-1T, as well as LDL-2, an accompanying exhibit?

A. Yes, I have.

Q. And are there changes or corrections to make to either?

A. No.

MR. MEYER: Thank you. He is available for cross.

JUDGE FRIEDLANDER: Thank you.

Mr. Shearer or Mr. Oshie?

MR. OSHIE: Oh, thank you, Your Honor.

This is Pat Oshie with Commission Staff, and we have no questions for Mr. La Bolle.

JUDGE FRIEDLANDER: Oh, okay. Thank you.

Ms. Gafken?

MS. GAFKEN: Thank you. We -- we do have questions for Mr. La Bolle.

THE WITNESS: I'm surprised.

*** EXAMINATION BY MS. GAFKEN ***

BY MS. GAFKEN:

Q. Good morning.

A. Good morning. Can -- can you hear me okay?

JUDGE FRIEDLANDER: Is the red dot on? The red light?

THE WITNESS: It is.

JUDGE FRIEDLANDER: Okay.

THE WITNESS: But I'm not sure if I'm close enough.

JUDGE FRIEDLANDER: Okay. Great. Thank you.

THE WITNESS: Thanks.

BY MS. GAFKEN:

Q. Mr. La Bolle, would you please turn to Cross-Exhibit LDL-15?

A. Yes.

Q. Do you recognize the exhibit as Avista's response to Public Counsel and The Energy Project's Data Request No. 100?

A. I do.

Q. Would you please turn to page 2 of Cross-Exhibit LDL-15?

A. I'm there.

Q. Is this and the following pages the material presented by Avista to the Commission in January 2015 in Docket UE-143218?

A. This particular illustration?

Q. Right. So that page and the -- the following pages.

A. Oh. The illustration on the first page was presented. The illustration on the second page reflects the request of Public Counsel/Energy Project.

MR. MEYER: Excuse me. I want to make sure that we're on the same page. Okay? So what exactly -- which -- your LDL- --

MS. GAFKEN: Let me --

MR. MEYER: -- -15?

MS. GAFKEN: Let me ask it a different way.

MR. MEYER: Well, I want to just make sure the documents are the same.

EXAMINATION BY GAFKEN / LA BOLLE

MS. GAFKEN: Okay.

MR. MEYER: So what -- what documents --

MS. GAFKEN: So LDL-15 is Public Counsel and The Energy Project's --

MR. MEYER: Right.

MS. GAFKEN: -- Data Request No. 100, and then --

MR. MEYER: Yep.

MS. GAFKEN: And also the Attachment A --

MR. MEYER: Okay.

MS. GAFKEN: -- that was provided with that --

MR. MEYER: All right.

MS. GAFKEN: -- data request.

MR. MEYER: May I approach the witness?

JUDGE FRIEDLANDER: Yes.

THE WITNESS: I've got it right here.

MR. MEYER: Okay.

BY MS. GAFKEN:

Q. Let's do this a different way. Turn -- turn to the first page --

A. Uh-huh.

Q. -- and Subsection A in the response.

A. I -- I don't have A in the response.

Q. Just on the first page.

EXAMINATION BY GAFKEN / LA BOLLE

MR. MEYER: Could you approach the witness and show him what you're referring to --

MS. GAFKEN: May I --

MR. MEYER: -- so we cut through this?

THE WITNESS: I must be tabbed incorrectly.

JUDGE FRIEDLANDER: That's probably going to be -- I think, essentially, Mr. Meyer, you have the copy right there. I think your witness may be on the wrong exhibit, and I think she's referring to the -- the --

MS. GAFKEN: Yes.

JUDGE FRIEDLANDER: -- first page of that, so one page back.

THE WITNESS: Oh. Oh, oh, oh.

JUDGE FRIEDLANDER: For Mr. Meyer --

THE WITNESS: You know what? I'm sorry. I am on the wrong exhibit.

MR. MEYER: So what are you looking at there?

THE WITNESS: Now I'm looking at the right one.

MR. MEYER: Okay. All right.

JUDGE FRIEDLANDER: Okay.

MR. MEYER: Thanks.

THE WITNESS: Okay.

BY MS. GAFKEN:

Q. So just to make sure I'm -- I'm still not entirely

certain that you're on the right exhibit, but do you see, at the top of the page, there's a header that lists out the -- what DR number it is, who the responder was, who the witness is, those sorts of things --

A. Uh-huh.

Q. -- on the top there?

Under "Request Number," could you read what -- what is on the page that you're looking at?

A. So read the request?

Q. No. Just the request number.

A. Oh. PCEP-100.

Q. Okay. Fantastic. That is --

A. I'm -- I'll learn. I promise.

Q. We'll get through this.

So that is Exhibit LDL-15. It's a cross-exhibit that -- that we submitted?

A. Right.

Q. And so you recognize Exhibit LDL-15 as Avista's response to Public Counsel and The Energy Project's --

A. Yes.

Q. -- Data Request No. 100?

And then in Subsection A of the response, so halfway down the page, there's the response that's cut out. And Subsection A states that Attachment A to Avista's response to Data Request No. 100 was material presented to

the Commission --

A. Correct.

Q. -- in January 2015?

A. That's correct.

Q. And does that material appear starting at page 2 and running through the end of the exhibit?

A. Yes, it does.

Q. Would you please turn to page 36 in Exhibit LDL-15?

A. I'm there.

Q. Avista estimated the net benefits of its AMI proposal to be $12 million; correct?

A. Yes.

Q. Would you please turn to Cross-Exhibit 16?

A. I am there.

Q. Do you recognize the exhibit as Avista's response to Public Counsel and The Energy Project's Data Request No. 79?

A. Yes.

Q. On page 2 of Exhibit LDL-16, it shows that the current estimated net benefit for the AMI project is $3.5 million; correct?

A. Correct.

Q. Were you present during Mr. Kopczynski's testimony yesterday?

A. Yes, I was.

Q. And there were several references made to the estimated net benefit being 7.5 million; correct?

A. Correct.

Q. But that's not the correct number at this point in time; correct?

A. Well, actually, it is the correct number, because what we filed in our case was a $7.5 million benefit, not the 12 that appears in the presentation that was made to the Commission prior to the time we filed our case.

Q. But the current estimate -- estimated net benefits is $3.5 million, isn't it?

A. Yes.

Q. Okay.

A. Yes. From 7.5 to 3.5.

Q. Is the net benefit estimate a net present value?

A. Yes, it is. It's -- it's the difference between two net present values.

Q. Okay. And so any fluctuation in either costs or -- or the benefits would be taken accounted for --

A. Yes.

Q. -- in that net present value --

A. Yes.

Q. -- calculation?

Okay. I'd like you to turn now to your rebuttal

testimony, which is Exhibit LDL-1T, and would you please go to page 9?

A. Okay.

Q. I'd like you to turn your attentions to lines 5 through 8. There, you describe the estimated savings based on additional reduction in voltage expected by using readings from the advanced meter instead of readings from the smart transformer; correct?

A. Yes.

Q. Would you please turn to Cross-Exhibit LDL-4? I'm sorry. I don't think that's the right reference. Give me just a minute. No. I'm sorry. It is LDL-4.

A. Okay.

Q. Do you recognize the exhibit as Avista's response to Public Counsel and The Energy Project's Data Request No. 80?

A. Yes, I do.

Q. Would you read the last sentence of the response, please?

A. "Avista's subject matter experts familiar with the results of the Pullman conservation voltage system have estimated this potential incremental benefit at 0.5 percent or a reduction in line voltage of 0.68 volts on a 120-volt scale."

Q. Thank you.

The estimated benefit that's described in that sentence is not a reflection of any published data associated with the operation of the AMI system in Pullman; is that correct?

A. The benefit that's represented there is in addition to the benefit that was documented in the Navigant report for the Pullman study. Does that make sense?

Q. Maybe.

A. It -- I think it would help if I -- if I explained.

Q. Let me -- let me ask this question.

A. Go ahead.

Q. The estimated benefit that was described in the sentence that you -- you read --

A. Yes.

Q. -- the Pullman demonstration didn't produce those results?

A. Didn't produce this 0.6?

Q. Correct.

A. Correct. 6-8. Yeah. That's correct.

Q. Okay. Would you please turn to your testimony, LDL-1T, and go to page 7, please? At Footnote 6, you say that Avista is already permitted to use AMI for credit disconnections in Washington; correct?

A. That's correct.

EXAMINATION BY GAFKEN / LA BOLLE

Q. Would you please turn to Cross-Exhibit No. 5 -- I'm sorry, LDL-5.

A. Correct. I -- I mean I'm there.

Q. Do you recognize the exhibit as Avista's response to Public Counsel and The Energy Project's Data Request No. 90?

A. I do.

Q. Avista met with Commission Staff regarding its intention to use remote disconnection in connection with the Pullman smart-meter project; correct?

A. That's correct.

Q. Avista did not seek, nor the Commission -- nor did the Commission issue, an order specifically approving Avista's plan to use remote disconnection in connection with the Pullman project, did it?

A. That's correct. It was an interpretation of Avista and Staff that an order was not required.

Q. Would you please turn to page 2 of Cross-Exhibit LDL-5?

A. I'm there.

Q. In the last paragraph that's on that page, the paragraph that starts after the bullet items --

A. Yes.

Q. -- there, Avista details its notice procedures for credit disconnections; correct?

A. Right.

Q. Does Avista believe that its notice procedures as detailed in Cross-Exhibit LDL-5 complies with WAC 480-100-120 on the electric side and WAC 480-90-128 on the natural gas side?

A. Yes, we do.

Q. The reference to the bill in the first sentence is not a notice, but it's -- it's the customer bill?

A. That is correct.

Q. And the past-due notice that's mailed after the grace period has ended on the bill and is dated seven calendar days later, that's the -- that's the notice of disconnection; correct?

A. Correct. That -- that comports with the Commission's first notice.

Q. Okay. Is the disconnection date the date that is seven calendar days later?

A. I actually don't know the answer to that.

Q. Okay. The reason I'm asking the question is that the rule requires that the disconnection date be eight business days, and so it was concerning that it was seven calendar days. So I guess, would -- would Avista review its proc- -- procedures and ensure the compliance with -- with regulations?

A. Yes.

EXAMINATION BY GAFKEN / LA BOLLE

Q. Okay. Would you please turn to Cross-Exhibit LDL-7?

A. I'm there.

Q. Do you recognize the exhibit as Avista's response to Public Counsel and The Energy Project's Data Request No. 82?

A. Is it Exhibit LDL-7?

Q. Yes.

A. I have tabbed Data Response 87.

MR. MEYER: I have 82. You're referring to 82?

MS. GAFKEN: It is supposed to be 82.

MR. MEYER: May I approach the witness?

THE WITNESS: Okay. So -- so I have it.

MR. MEYER: You do have it?

THE WITNESS: I have it tabbed wrong, though.

MR. MEYER: Okay.

THE WITNESS: Okay.

BY MS. GAFKEN:

Q. Okay. So you're looking at Avista's response to Public Counsel and The Energy Project's Data Request No. 82?

A. Yes.

Q. And that is -- you'll have to accept the representation that it's Cross-Exhibit LDL-7?

A. I will accept that.

Q. Thank you.

In Avista's response to Public Counsel and The Energy Project's Data Request No. 82, Avista refers to its response to Staff Data Request 112; correct?

A. Yes, we do.

Q. And that's in response to a question about the body of information regarding the assumptions Avista used to estimate potential benefits from customer-installed energy efficiency measures --

A. Right.

Q. -- correct?

Okay. I -- I gave your counsel, Mr. Meyer, a copy of Staff Data Request No. 112. I'd like to refer you to that data request. Staff -- or the -- Avista's response to Staff Data Request 112 is presented by Barbara Alexander in her testimony as Exhibit 15, BRA-15.

A. Okay.

Q. Do you have Exhibit BRA-15 in front of you?

A. I do.

Q. In Avista's response to Staff Data Request No. 112, you're listed as the responder; correct?

A. That's correct.

Q. Did you also prepare the spreadsheets that are attached to the response?

A. I did not.

Q. Okay. Who did prepare those?

A. Business Analyst Dan Burgess at Avista.

Q. Okay. So I'm going to ask you a series of questions based on page 2 --

A. Okay.

Q. -- of Exhibit BRA-15. There's -- and I apologize --

MR. MEYER: Excuse me.

Q. -- for the tiny print, but that's the way that it came to us.

MR. MEYER: I'm going to ask -- that was my copy I gave you earlier.

THE WITNESS: Okay.

MR. MEYER: Do you have that earlier copy?

THE WITNESS: I don't know if I have it in that form.

MR. MEYER: Yeah. No. I -- I gave it to you just as we started.

THE WITNESS: What's that?

MR. MEYER: Before we started, I gave you a copy of this -- just -- just use this.

THE WITNESS: Oh.

MR. MEYER: I'll look over your shoulder. Just use that.

EXAMINATION BY GAFKEN / LA BOLLE

THE WITNESS: Okay. I --

BY MS. GAFKEN:

Q. Okay.

A. And what I actually need is some more powerful glasses. Not to be -- not to be --

Q. We all do.

A. -- funny. I -- I really can't read it.

JUDGE FRIEDLANDER: Do we need to open the blinds a bit? I mean, I closed them so I wouldn't have a glare, and -- and if you need more light, certainly, open the blinds.

MS. SMITH: Can I provide it to him electronically so he can see it better?

JUDGE FRIEDLANDER: That's fine.

MS. GAFKEN: You can make it bigger on -- on the electronic screen.

THE WITNESS: You know what? I'm going to have a hard time trying to chase pages around on the Excel file.

MS. GAFKEN: We're going to stay on this -- on the one page, so if you want to use the electronic, I think that would be fine, but whatever your preference is.

THE WITNESS: Okay. Go ahead.

BY MS. GAFKEN:

Q. Okay. About a third of the way down the page and

on the right-hand side, do you see a series of asterisks?

A. Yes.

Q. Okay. And the first asterisk states, "Based on an assumption of 3 percent reduction in energy use." Do you see that?

A. At the first bullet?

Q. Yes.

A. Yes.

Q. And the assumption of 3 percent is based on Avista's review of literature to estimate that reduction; is that correct?

A. In part, it is.

Q. Okay. But the -- the parens there, it says, "Review of literature to estimate"; correct?

A. That's what the parens say.

Q. And there's a reference, 1 through 10, that's listed; correct?

A. Yes.

Q. And down below, there's a section called, "References" and Nos. 1 through 10. Do you see those?

A. Yes.

Q. So I'd like you to keep Exhibit BRA-15 handy. We'll go back and -- we'll go back to this.

A. Okay.

Q. But I'd like you to also turn your attention to

Cross-Exhibit LDL-8.

A. Now what is the DR number on that?

Q. It's not a DR number. It's a series of documents.

A. Oh, okay. Oh, that's why I mislabeled. Okay.

Q. Okay. So LDL- -- Cross-Exhibit LDL-8 is a compilation of the documents that are referred to under the references in Exhibit BRA-15, and they're separated by colored pages.

A. Right. Well, I -- mine aren't, but...

Q. Okay. Pages 1 through 4 of Cross-Exhibit 8 is an excerpt from McKinsey's "Unlocking Energy -- Energy Efficiency in the U.S. Economy"; is that correct?

A. I'm sorry. Where are you pointing me, again?

Q. Pages 1 through 4 in Cross-Exhibit LDL-8.

A. Okay.

CHAIRMAN DANNER: Mr. La Bolle, my assistant just brought me my magnifying glass that I use because I also suffer from the same problems you have. If you'd like to borrow it, I have it right here.

THE WITNESS: Okay.

CHAIRMAN DANNER: Would it be helpful?

THE WITNESS: If we go back to that table, it would be.

CHAIRMAN DANNER: All right.

THE WITNESS: Thank -- thank you. I'm --

EXAMINATION BY GAFKEN / LA BOLLE

BY MS. GAFKEN:

Q. Okay. "Unlocking Energy Efficiency in the U.S. Economy" is Reference No. 1 on page 2 of Exhibit BRA-15; is that correct? We're going back to the tiny print.

A. Yes. It appears to be.

Q. Cross-Exhibit 8, pages 3 and 4, on those pages, the article discusses demand-side management; correct?

A. Yes, it does.

Q. Avista does not have a demand-side management proposal in its AMI business case, does it?

A. By "demand-side management," do you mean energy conservation?

Q. Does Avista have a demand-side management proposal in its AMI business case?

A. Well, I don't want to get crossways. We have an estimate of the benefit for customers of customer-installed energy efficiency measures in this business case.

Q. Okay. Would you please turn to page 6 of Cross-Exhibit 8, LDL-8?

A. I'm -- I'm there.

Q. And beginning on page 6 is a paper by Sarah Darby from April 20, 2006; correct?

A. Yes. There is.

Q. And the paper that begins on page 6 of Cross-Exhibit 8 is Reference No. 2 listed on page 2 of

Exhibit BRA-15; correct?

A. I actually can't tell.

MR. MEYER: Subject to check, can you accept that?

THE WITNESS: Yes. Yeah. It's -- it's an URL address.

BY MS. GAFKEN:

Q. Okay. But subject to check, you --

A. Yes.

Q. -- you can accept --

A. Yeah.

Q. -- that?

A. Yes.

Q. Okay. Going back to LDL -- Cross-Exhibit LDL-8 --

A. Uh-huh.

Q. -- page 27.

A. I'm there.

Q. The table on page 27 -- and I believe it might go on to page 28 -- summarized the quantitative findings of that paper; correct?

A. I'm not sure.

Q. Okay. But the paper was written --

A. It is -- it is titled --

Q. Okay.

A. -- as such, yes.

EXAMINATION BY GAFKEN / LA BOLLE

Q. Okay. The article was written in 2006. That was before substantial development of AMI technology was deployed nationwide; correct?

A. I would -- I would agree with that.

Q. And at that time, was AMR more prevalent?

A. I don't know, but I would assume it is. I can only guess it would be.

Q. Please turn to page 31 of Cross-Exhibit 8, LDL-8.

A. I'm there.

Q. The finance and commerce article that begins on this page is Reference No. 3 that's listed on page 2 of Exhibit BRA-15.

A. Okay.

Q. Would you accept that, subject to check?

A. Sure. Yes.

Q. Okay. And would you turn to page 35 of LDL-8?

A. I'm there.

Q. The document that begins on page 35 of Cross-Exhibit LDL-8 is a paper by Opower; is that correct?

A. Yes.

Q. And would you accept, subject to check, that the paper that begins on page 35 of Cross-Exhibit 8 is Reference No. 4?

A. Yes, I would.

Q. Would you please turn to page 36 of

Cross-Exhibit LDL-8?

A. Okay. I'm there.

Q. The Opower article is discussing happy customers as an asset to the utility; is that correct?

A. Yes. It does have a header so titled.

Q. Would you please turn to page 44 of Cross-Exhibit LDL-8?

COMMISSIONER JONES: Find a page number, Counsel? Is it the page number in the upper right or in these -- these various --

MS. GAFKEN: Yes.

COMMISSIONER JONES: -- reports.

MS. GAFKEN: No. I'm referring to the exhibit page numbers, so 44 of 1- -- 112.

COMMISSIONER JONES: So the one in the upper right?

MS. GAFKEN: Yes. The one in the upper right.

COMMISSIONER JONES: Thank you.

BY MS. GAFKEN:

Q. Page 44?

A. Yes, ma'am.

Q. Thank you.

Would you accept, subject to check, that the article that begins on page 44 of Cross-Exhibit LDL-8 is

Reference No. 5 that's listed on page 2 of cro- -- Exhibit BRA-15?

A. Yep -- yes, I do.

Q. Would you turn to page 46 of Cross-Exhibit 8, LDL-8?

A. I -- I'm there.

Q. And would you accept, subject to check, that the document that begins on this page is -- is Reference No. 6 on page 2 of Exhibit BRA-15?

A. Yes.

Q. How did Reference No. 6 inform Avista's 3 percent reduction in use -- usage assumption?

A. Say how did this paper?

Q. Yes. How did Reference No. 6, which starts on page 46 --

A. Yeah.

Q. -- of LDL-8?

A. Yeah. These were papers that were reviewed, in addition to others that aren't listed here, by the analysts who put together an estimate for what we thought customers who took advantage of interval energy data would save in terms of a percent on their bill or percent consumption.

The reason I answered earlier that this literature is a part of how we calculated it is that Avista used this industry data as a backdrop. What are the general kinds of

ranges you see for conservation savings based on -- there's really a whole range of different types of programs, and with that as a backdrop, then Avista looked at its own information in deciding on a 3 percent savings estimate for our customers.

Q. Okay. I --

A. So it was -- it was a reference, but we didn't cite any particular paper.

Q. Okay. I -- I appreciate Avista's overall strategy in -- in developing the 3 percent, but I do have a specific question about the -- the ENERGY STAR paper --

A. Uh-huh.

Q. -- and how did that particular piece factor into the 3 percent consumption?

A. I would have no idea right now.

Q. Okay. Would you please turn to page 64 of Exhibit LDL-8?

A. 6- -- 6-4?

Q. 64. Yes.

A. Okay.

Q. The document that begins on page 64 is also Reference 9 that's listed on page 2 of BRA-15; correct?

A. Correct.

Q. And Reference 9 is BC Hydro's business case for AMI; is that correct?

A. That's correct.

Q. So the business case for BC Hydro would -- would include that company's assumptions on what it could achieve; correct?

A. I -- I can't affirm that immediately, but I assume that's correct.

Q. Okay. Let's go ahead and move on to Cross-Exhibit LDL-9.

A. Okay. I -- I have it, I hope.

Q. Well, let's confirm.

A. PCEP-039?

Q. Yes.

A. Okay.

Q. So do you recognize the exhibit as Avista's response to Public Counsel and The Energy Project's Data Request No. 39?

A. Yes, I do.

Q. And would you also turn to Cross-Exhibit LDL-10?

A. Okay.

Q. And would you recognize the exhibit in LDL-10 as Avista's response to Public Counsel and the data request -- or I'm sorry -- Public Counsel and The Energy Project's Data Request No. 61?

A. Yes, I do.

Q. And I want to bring in one more exhibit to this

discussion, Cross-Exhibit No. 14.

A. Okay.

Q. Do you recognize Cross-Exhibit 14-LDL -- I'm sorry. Cross-Exhibit LDL-14, do you recognize that exhibit as Avista's response to Public Counsel and The Energy Project's Data Request No. 95?

A. Yes, I do.

Q. Avista's web portal was developed and used during the -- Pullman's demonstration; is that correct?

A. That is correct.

Q. And a relatively small number of customers accessed the enhanced content of the web portal?

A. That is correct.

Q. And is it Avista's position that the results from the Pullman demonstration underrepresents customer adoption of potential achievable savings?

A. It is.

Q. Is there more development that's needed with respect to the web portal?

A. The web portal is the main reason that the investigators called the pilot a failed experiment.

Q. Okay. But is there -- is there additional development that --

A. Well, yes.

Q. -- will be required?

A. Yeah. Because the web portal was ineffective.

Q. Okay. But Avista didn't include any costs associated with the additional development of the web portal in its business case, did it?

A. No. It's not part of that -- it's not part -- part of the AMI project. It will be done as part of the web redevelopment project, which is done irrespective of whether AMI moves forward or not.

Q. So regardless of whether the AMI project goes forward, the web portal will still be redeveloped --

A. Yes.

Q. -- and that's part of a different project?

A. Yes. Correct.

Q. Is that referenced in the AMI business case?

A. It's not. It's referenced in Staff DR-087, where we talked about the redevelopment of the web in order to make it more effective for customers' use of interval data.

Q. Okay. Is Avista's response to Staff Data Request 87 an exhibit in this docket?

A. It is not, that I know of.

Q. Okay. Would the web portal have interval data without AMI installed?

A. It would have interval data for the Pullman customers who are advanced meter system customers, and then folks are also at least exploring options to use AMR data

from Idaho, which would not be nearly as good as AMI data, but as a way to try to help them save energy. So the Pullman customers, for certain. Maybe other applications as well, but that's a maybe.

Q. Would you please turn to Cross-Exhibit LDL-11?

A. I'm there.

Q. One of the benefits that Avista identifies with respect to its proposed AMI investment is energy efficiency, including reduced usage of electricity as a result of being exposed to interval data associated with AMI; correct?

A. That's correct.

Q. Avista is not proposing any optional pricing or rate programs that would rely on the interval data, is it?

A. That is correct. Not at this time.

Q. And Avista is not proposing specific energy efficiency programs, other than the web portal and the functionality of creating alerts to customers about their monthly usage or bill amounts; correct?

A. I'm not sure what you mean by "energy efficiency program." You mean are we going to communicate with customers about it, or...

Q. Does Avista, today, know what energy efficiency programs it's going to offer its customers?

A. Through using web portal?

Q. Well, associated with the AMI proposal.

A. Okay. It -- it has an idea how it will use that information. The one that I'm best aware of is we have a behavioral energy reports -- or a behavioral conservation program right now, the home energy reports, that's administered by Opower, and the -- the current thinking is that that reporting would be integrated with the AMI interval data as a way to leverage both the behavioral program capabilities and the AMI data, the information that offers. That's one idea.

Q. Okay. Was that idea included in Avista's business case?

A. That idea doesn't require any additional expenditure beyond what we spend on that program today. One of the things that -- that may be confusing, it's in -- we did respond in Staff DR-087, that -- I said that once.

Part of the communications budget that's been listed as one of the project costs is to acquaint customers with the new meter system, to inform them of the AMI -- I'm repeating what we provided in the data request -- of the AMI interval data that's now available to them, as well as some initial communications for how they might be able to use that information.

That'll be sustained over the course of the project as part of that communication plan, and then the

use of the AMI system is going to be, as I mentioned with the Opower program, folded into other ongoing communication efforts programmatically that make sense, the way to best utilize and leverage the AMI data.

Q. Okay. I think we're getting a little off where my questions are going.

COMMISSIONER RENDAHL: May I ask a Bench request at this point, given that it's now referenced twice in your responses, that if -- if Avista would provide the response to that DR or provide the reference to where it is referenced in a cross-exhibit somewhere?

JUDGE FRIEDLANDER: It -- it's --

MR. MEYER: We can --

JUDGE FRIEDLANDER: I believe it's LDL -- are you talking about the Data Request 87?

COMMISSIONER RENDAHL: Yes, I am. Staff DR-87.

JUDGE FRIEDLANDER: Okay. So that's LDL-6, I believe. Isn't it? But you're right. I don't think it was ever mentioned that this was an exhibit.

COMMISSIONER RENDAHL: It is. I just --

JUDGE FRIEDLANDER: Okay.

COMMISSIONER RENDAHL: It's -- it's --

MR. MEYER: Yes.

COMMISSIONER RENDAHL: -- LDL-6, so no need

for the Bench request. I withdraw the Bench request.

JUDGE FRIEDLANDER: Okay.

MS. GAFKEN: Well, let me -- let me make sure that -- so LDL-6 is the data request from Public Counsel and The Energy Project?

COMMISSIONER RENDAHL: Oh. Right. It's not a Staff --

MS. GAFKEN: No. 87 and 85.

COMMISSIONER RENDAHL: Right.

JUDGE FRIEDLANDER: You're right. You're right. So --

MR. OSHIE: Your Honor, the -- Staff is -- you know, we can easily run down and get the DR. I know exactly where it's at, and we can provide that.

JUDGE FRIEDLANDER: That'd be great. Okay.

MR. OSHIE: I would have offered it, but I haven't read it, at least by memory, so I didn't want to go that far. But it's been requested by the Bench. We'll provide it, and we'll provide it very quickly.

COMMISSIONER RENDAHL: So --

JUDGE FRIEDLANDER: Okay. Thank you.

We'll have that be Bench Exhibit 10.

MR. MEYER: I think --

COMMISSIONER RENDAHL: Okay. So it's a Bench request --

EXAMINATION BY GAFKEN / LA BOLLE

MR. MEYER: -- we might beat you to the punch. We -- we're looking for it here.

JUDGE FRIEDLANDER: Okay.

COMMISSIONER RENDAHL: So both to --

MR. OSHIE: We'll see who gets there first.

COMMISSIONER RENDAHL: Both to Staff and the Company, whoever provides it is just fine.

COMMISSIONER JONES: Tell them --

JUDGE FRIEDLANDER: Thank you.

BY MS. GAFKEN:

Q. Okay. I'd like to go back to Cross-Exhibit LDL-11.

A. Okay.

Q. And that's Avista's response to Public Counsel and The Energy Project's Data Request No. 81.

A. Yes.

Q. About three quarters of the way down, the first paragraph, do you see the sentence, "Avista will also support in-home display and home-area network devices"?

A. I'm slow, but I'm sure it says that.

Q. Well, it's a fairly easy-to-spot sentence because there's, like, two acronyms, IHD and HAN, that stands out --

A. Okay. Yeah.

Q. -- so it's that sentence.

EXAMINATION BY GAFKEN / LA BOLLE

In-home display and home-area network devices are customer-purchased devices; correct?

A. We anticipate, at this point, that would be the case.

Q. And Avista did not include the costs of the customer-purchased devices in its cost-benefit analysis for the proposed AMI investment, did it?

A. That is correct.

Q. Are you familiar with the total resource cost test used to evaluate energy efficiency programs?

A. I'm not.

Q. Okay. So then you're not aware that, under this total cost resource test, that the cost of customer-purchased energy efficiency measures would be included in the cost-benefit analysis?

A. You know, the reason we don't have a cost-benefit analysis is we're not claiming any benefit for the savings that would accrue to customers who bought those home-area network devices, so didn't even pretend to analyze the costs.

Q. Okay. With respect to the -- I'm switching topics now.

A. Okay.

Q. Still with the AMI, just a different component of it. With respect to the Department of Energy's

Interruption Cost Estimator --

A. Yes.

Q. -- or ICE --

A. Yes.

Q. -- is it fair to say that Avista is not aware of any state regulatory agency that has relied on the ICE model to include a specific dollar amount for benefits for a utility's AMI business case?

A. Yes. That is correct.

Q. Would you please turn to exhibit -- Cross-Exhibit LDL-12?

A. PCEP-077?

Q. No.

A. Oh.

Q. So I want to refer you to --

A. Oh. 084?

Q. That's right. So let me ask the question.

Do you recognize the exhibit, LDL-12, as Avista's response to Public Counsel and The Energy Project's Data Request No. 84?

A. Yes, I do.

Q. The last sentence of the response reads, "But unlike other benefits, such as those derived by energy efficiency or the installation of conservation measures, the benefits of reduced outage duration are not derived

from any reduction in the customers' bills"; correct?

A. That is correct.

MS. GAFKEN: I'm going to stop there. Thank you very much. Those are my questions.

THE WITNESS: Okay.

JUDGE FRIEDLANDER: Thank you.

Mr. Roseman?

MR. ROSEMAN: No questions, Your Honor.

JUDGE FRIEDLANDER: Okay. Thank you. I believe that was all that had signed up for cross.

Redirect?

MR. MEYER: No redirect.

JUDGE FRIEDLANDER: Okay. Do we have any questions from the Bench?

COMMISSIONER JONES: I'll start.

*** EXAMINATION BY COMMISSIONER JONES ***

BY COMMISSIONER JONES:

Q. Good morning --

A. Good morning.

Q. -- Mr. La Bolle.

Go back to the -- the CVR, the conservation voltage reduction. I think that's in exhibit -- Cross-Exhibit LDL-4X. I just want to make sure I understand what you're saying here.

Does this analysis apply to the systemwide system

of Avista, and not just the Pullman project, that would be proposed for the AMI?

A. This conservation voltage savings?

Q. Yes.

A. Yes.

Q. And how many feeders do you have total, systemwide? You have a hundred and -- you have a large number, don't you?

A. We do. I can't remember the total.

Q. Okay. So --

A. Seven- -- 72 feeders were evaluated in the Pullman study, which included feeders in Spokane and Pullman.

Q. So what were the actual results -- so the actual results from the Pullman CVR system were 0.5 percent or reduction in live voltage of 0.68 volts on the 120-volt scale?

A. No. That's not correct.

Q. Not correct?

A. And I'm sorry this is such a confusing topic.

Q. Okay.

A. As part of the Pullman study, our company engineers developed a mathematical model to estimate the savings that would accrue to customers and the Company if we implemented a conservation voltage reduction program.

Of course, what that allows you to do is use

devices out on the line to measure voltage so that you can reduce the amount of the buffer that you have to provide, as Don Kopczynski explained yesterday, and it -- it makes the electricity we deliver cheaper.

Company engineers estimated that we would save 32,000 megawatt hours as part of the CVR program. It ended up being 42,000 hours, and then Navigant was asked to confirm that, which they did, having almost an identical result that Avista's model and WSU's model predicted. That savings was about 2 percent.

So now, with advanced metering, instead of using the voltage readings that are taken from, say, a smart transformer out on the feeder, you use the voltage-level readings taken from every customer meter, so you know now exactly what the end points are, what the end-point voltages are, and it allows you to reduce that voltage just a little bit more.

There's -- there's still a 6-volt buffer after the 2 percent savings CVR program. This AMI CVR-enabled program allows you to reduce that 6-volt buffer, we're staying, by .68 volts, so we're being very conservative in taking just about 9 and a half percent of that buffer. That savings equates to a .5 percent energy savings.

Q. And that's specifically due to the new technology enabled by AMI?

A. Yes. That's correct.

Q. So the baseline savings, as confirmed by the Navigant report, in Pullman was 2 percent?

A. That's correct.

Q. Cybersecurity: No surprise to some of you.

So cybersecurity -- I think this was a response to a DR from somebody, but the budget -- the additional budget for cybersecurity is $292,000 as a line item, or is -- does that include other security-related measures?

Because, as you know, the reliability of an AMI system includes the meters, the mesh network --

A. Right.

Q. -- and then the collection of the interval data, and then the -- and the management of that, and those are all located in different places.

A. Right.

Q. The met- -- the meter is located at the customer premise.

A. Right.

Q. The mesh network is, you know, from the pole to the meter --

A. Right.

Q. -- back to your DMS, your distribution management system, at headquarters; right?

A. Right.

EXAMINATION BY COMMISSIONER JONES / LA BOLLE

Q. So that number seems a little low to me, so could you just describe what's -- you know, and this is a --

A. Yeah.

Q. -- nonconfidential setting, so I don't want you to get into confidential stuff, but is this -- just describe the basis of this number.

A. We alluded in that data response generally to the fact that there is cybersecurity embedded in every one of the meter-system components. There are -- they're embedded. They're part of the software/hardware systems, so there are cybersecurity machines in communications networks, in the meters themselves, in the mesh network, as well as in the headend systems.

In addition to that, we had to -- we have -- we will have to integrate all of these devices, with their cybersecurity systems, into Avista's system. The costs for integrating all of those were included in the headend system as a part of that cost.

The only line item identifiable cost that we could find was the 282,000, because it was related to one staff person who would have some discrete functions, but we tried to explain that cybersecurity today isn't a line item thing. It's embedded throughout.

Q. Okay.

A. And there are incremental costs, but we did not

develop them as a line item.

Q. And I think that's true with -- with other utilities and ad- -- advanced technology and their treatment of -- in a budgeting sense, with cybersecurity.

A. Sure.

Q. And you may not know this right now, but let's say you choose a meter -- once you choose a meter manufacturer in the first quarter of 2016, I would imagine that all the liability issues of a breach -- let's just take the meter. That's hardware and software, primarily hardware.

A. Uh-huh.

Q. But in the event of a breach of its firewall -- well -- well, let me ask you this: Who bears that? Based on your current understanding, who would bear that risk? Would that be the meter manufacturer, or would that be you, Avista, as the utility?

A. I do not know the answer.

Q. Okay.

A. I know that we have protocols in place, you know, as emergency measures in the event something like that would happen, but honestly, I think both fingers would be pointed at each other.

Q. Yeah. Okay. Well that's enough for now. I'm sure Mr. Meyer will be heavily involved in that issue moving into the future, so enough on cybersecurity.

EXAMINATION BY COMMISSIONER JONES / LA BOLLE

Finally, could you turn to BRA-3? I referenced this yesterday in my questions to Mr. Kop. So BRA-3, this is an Alexander -- this is an ICNU-076 supplemental data request. It's on page 2 of BRA-3, if you could find that.

MR. MEYER: I'll show you.

BY COMMISSIONER JONES:

Q. And what it is, it's the revised budget from the initial budget. It's "July 2015 revision" at the top. Are you there?

A. Yes.

Q. Now, have you -- who has been responsible at a senior-management level for the revision of this budget? Is -- is that Mr. Kop, or is that you?

A. It is -- it is Don Kopczynski.

Q. Okay. So let's go over -- I think you heard my exchange with him yesterday, did you not? You were sitting in the room?

A. Yes, I was.

Q. So let's go over some of these changes. Electric meters go up about -- it looks like about 2 million; right? From 33.8 million to 35.8?

A. Yes.

Q. It looks to me that the various labor components -- excuse me, the labor components are all going up fairly substantially, both in-house and contract. Is

there any particular reason that labor -- that there's such -- such substantial -- is it just a more realistic number?

A. I -- I'm looking around for my --

Q. Okay.

A. -- explanation, and I -- sheet, and I don't have it with me.

Q. Okay.

A. Darn.

Q. Okay. Well, it might be useful. Okay.

You do have some narrative below. Okay.

A. Yeah, but that's -- that's not particularly descriptive.

MR. MEYER: You want to just -- can he just have a moment to --

COMMISSIONER JONES: Oh, sure.

MR. MEYER: Do you think you can locate it?

COMMISSIONER JONES: Yes. Certainly, Mr. Meyer.

MR. MEYER: Just take your time.

BY COMMISSIONER JONES:

Q. And if you need Chair Danner's magnifying glass, you can always say yes.

A. Okay. Back to the -- the -- the first part of that change, as you might have -- as you might expect, is a

better estimate of the actual internal labor requirement to get it done, to get that installation done.

The original estimate did not include ancillary costs like management and project team and space and trucks and overheads, and so when that really was made more complete, then you see that huge move. There was also a little bit of a shift between the amount that would be done by contract and internal labor.

Q. So I'm looking at some pretty significant changes, as you said. The headend labor, internal -- and, again, the headend is located at Avista's headquarters, right, with the DSM system?

A. Yes. That's correct.

Q. And then the big move from electric meter labor, that's in your meter shop; right? That's the labor associated in your meter shop? Those are fairly significant increases, but the primary reason there was the initial estimate did not include those --

A. Yes.

Q. -- ancillary costs?

The last line item I -- AFUDC is there. The last item, we've talked and, I think later we'll get into a discussion of outreach and opt-in and communicating with customers, but there's a $1 million drop in the budget for customer communications, and I think Ms. Alexander raised

some -- raised some points in her testimony.

So just at a high level, is -- what's the basis for that $1 million reduction? It seems to me it might be going the other way if you're coming to the Commission for an opt-in tariff or if there's a -- if there's a privacy regulatory proceeding at the Commission, the costs should be going up. Does -- does this include all the costs of regulatory staff who are sitting in the audience or not?

A. I don't know. I don't believe it does.

Q. Okay.

A. You know, our assessment of the costs, candidly, is just based on the effort that it takes us to run -- to do these, to participate in these proceedings.

We just finished a proceeding in Idaho that allows us to use remote disconnect. It was something that mainly Linda did. We completed an opt-out policy in Oregon that was Linda and Shaun, so our business experience is that these processes don't require great, big, expensive, lots-of-people regulatory proceedings.

Now, that said, it could happen, and so that's why we have a 15 percent contingency in the budget. Our -- our best guess, based on our experience and our practice, is those things won't happen, but it could, and so we didn't estimate budgets for things that we don't think will happen.

EXAMINATION BY COMMISSIONER JONES / LA BOLLE

Q. So just so I understand, just to clarify, so the budget labeled "Communicat- -- Customer Communications," this does not include the budget for regulatory staff such as Ms. Gervais and others?

A. That's correct.

Q. Do you have any idea of how much that might cost and bill to the regulatory staff that you could provide for the record?

A. I -- no, I do not.

COMMISSIONER JONES: Okay. Okay. Thank you.

*** EXAMINATION BY COMMISSIONER RENDAHL ***

BY COMMISSIONER RENDAHL:

Q. Mr. La Bolle, good morning.

A. Good morning.

Q. I do have a few questions for you.

Just in general, first, did you participate in developing the business case --

A. Yes --

Q. -- for this project?

A. -- I did.

Q. Okay. Some of my questions have already been answered.

So if you look at your Exhibit LDL-1T, your testimony on rebuttal --

A. Yes.

EXAMINATION BY COMMISSIONER RENDAHL / LA BOLLE

Q. -- page 18, in the section, line Nos. 1 through 11, you're discussing the Pullman project and opt-out.

MR. MEYER: I'm sorry. What page?

COMMISSIONER RENDAHL: Page 18.

MR. MEYER: 18. Thank you.

THE WITNESS: And 1 through 11 --

COMMISSIONER RENDAHL: Lines --

THE WITNESS: -- is that correct?

COMMISSIONER RENDAHL: Lines 1 through 11, yes.

THE WITNESS: Okay.

BY COMMISSIONER RENDAHL:

Q. So that's about Pullman and the opt-out?

A. Correct.

Q. So there wasn't an opt-out offered for Pullman; was there?

A. We did not have an opt-out policy developed for that.

Q. Okay.

A. We -- we did make the decision internally, which is really in keeping with our style, that if somebody did not want a smart meter, they were not going to get one.

Q. Okay.

A. But we didn't have a formalized policy.

Q. And I understand from reading your testimony as

well that part of the reason for that was you had a control group and a project group, and you didn't want to do extensive communication to affect the control group?

A. That is correct.

Q. Okay. So if you'd look at page 15 of your testimony, lines 18 through 20, and at that point, you're -- you're referencing the discussion of other rate options?

A. Yes.

Q. Okay. In particular, the prepay --

A. Yes.

Q. -- option?

Which I understand is not -- it's part of the intangible benefits that Avista discusses in the study; correct?

A. That is correct. It's provided as an example of something you can do with AMI as a platform that you can't do otherwise.

Q. Okay. So you may have already said this, or Mr. Kop may have said this yesterday --

A. Uh-huh.

Q. -- so the current Customer Care and Billing, Project Compass --

A. Yes.

Q. -- that was developed and implemented would allow

the billing -- would the billing system need to be modified to address prepay if the Company chose to put that forward as an option in the future?

A. I believe it would have to be -- there would have to be some configuring done, that's tweaking inside the application to enable tools that are already embedded in there. That's an option that's already embedded in the CC&B system.

Q. But it is not turned on --

A. That's correct.

Q. -- so to speak?

A. And it would take some work to -- to turn it on.

Q. There would need to be some sort of integration --

A. Yes.

Q. -- between the meters installed --

A. No. That's all done. All that integration work is done. It would just have to be -- you would have to configure the part of that tool that sets up Avista's particular program.

Q. Okay. But those estimates, because they're intangible at this point, are not included in your proposal?

A. That's right. We're not proposing those or trying to estimate the value.

Q. Okay. And then is the meter technology,

understanding you haven't signed a contract yet --

A. Yes.

Q. -- is that part of your RFP, to look at meters that are capable of providing a prepay option?

A. To the best of my knowledge, that's not one of the meter capabilities that you purchase, but I don't know that for sure. I think they're all equipped to do that, as long as they have that remote off-and-on switch, which the meters we'll buy will have.

Q. Okay.

A. So that may be the only requirement, the applicable requirement, and our meters will have that switch.

Q. Okay. And one other question for you in terms of remote disconnection.

A. Yes.

Q. Has Avista, or have you in particular, looked at examples in other jurisdictions where utilities that are using remote disconnection are required to take actions that provide customers a means to pay immediately prior to disconnection?

A. No, we have not.

Q. Is that something the Company would look at prior to implementing such a proposal?

A. I -- I know if it was of interest to you, we would

do that.

COMMISSIONER RENDAHL: Thank you. That's all I have.

*** EXAMINATION BY CHAIRMAN DANNER ***

BY CHAIRMAN DANNER:

Q. So I want to come back again to these budget estimates, because whether it's $12 million or 7.5 net benefits --

A. Right.

Q. -- we have both the cone of uncertainty and a number of intangibles --

A. Yes.

Q. -- which suggests that the net benefits could either be higher than 7-point or 12 or they could be lower, they could be negative, they could be zero.

A. Right.

Q. It is your opinion that, if they were to be -- in your final analysis, to be negative or zero, that you would still advocate for going ahead with this project? And why?

A. If -- you know, depending upon -- you know, when we get -- you're saying when we get in more accurate costs?

Depending upon what those costs were -- and I don't know what the breakpoint would be -- the Company would make a decision about its confidence in getting those benefits and -- or -- or a greater level of benefit and

balance that against the cost, as well as our sense of how this Commission might consider the value of intangible benefits, to include the customer experience, as well as those future rate things, as part of the mix. We don't know that, and I'm assuming you don't know that either at this point in time.

One of the things that I kind of sensed yesterday during Don's presentation and one of your questions was -- it was about Avista's approach in being conservative in how we estimated the benefits.

And the -- the team that -- the team that put this together, this analysis together, was of the mind that we want to stay on the low end of what we think the reasonable benefits should be, because we want to make sure that we can demonstrate those, because we expect you're going to hold us accountable to do that. That's our expectation.

And so we were conservative in how we claimed the benefits. I've -- I've provided some examples in my testimony, but you know, in our theft-diversion estimate, we just arbitrarily cut it in half to make it more conservative.

So we left $1,053,000 in reasonable benefits that we believe we'll get, we left those on the table. In outage reduction, we left $728,000 on the table, because we arbitrarily decided to make it more conservative. And

there are a number of others too, in the smaller range.

We also didn't take advantage of the kinds of benefits that we often see in other utility business cases, and that is, you know, we expect outage duration to be reduced and there to be a benefit to customers, which we've estimated, but there's also a capital cost savings, because you're spending less time during the outage, very expensive time.

So an East Coast utility at about our size included $4 million a year in capital savings as a result of their estimate of the capital cost benefits of reduced outage, so those are just some examples.

I did a little tally of the benefits where we arbitrarily decided not to claim the entire benefit as a way to be conservative and tallied those up in the model, and it adds almost $30 million to the net benefit of the model, so it's pretty substantial.

So I know one of the things that we're going to do before we come back to you is look pretty darn carefully at those and -- and ask ourselves, "Are we -- are we really doing ourselves a favor by being so conservative?" And I really don't think we have been.

Q. So, you know, we have to -- unless we're going to start building our own budgets for this, which I don't think we intend to do, we -- we've got to -- to look at

what you're providing to us, and there is some fluidity in the numbers you've given us, just the changes from the initial budget to the July 2015 --

A. Costs, yes.

Q. -- numbers. And when I hear you say, "Well, we've done it conservatively," in some ways, you're asking us to put an add-er on that that you haven't put on yourself. And so, you know, I -- I'm a little squeamish about saying, "Well, you -- you say they're conservative, and you're asking us to -- to accept those benefits as being a little bit higher."

And so I -- I'm trying to figure out where we step in in this process, because even though, at this point, you're only asking for guidance and not for a prudence review --

A. Right.

Q. -- I still see the guidance saying, "Yes. Go ahead," as locking us into the concept, and so the prudence review would really be around -- around the edges, about whether you've paid too much for this item or that item as opposed to the core here.

A. Right.

Q. And so these are my questions. It's -- I feel like the intangibles are very high, the -- the cone of uncertainty is very broad --

A. Uh-huh.

Q. -- and I'm trying to get a handle on whether there are net benefits to the consumers, and -- because that, ultimately, is what we have to figure out if we're going to approve the AMI.

A. Correct. First thing, I -- I'm sorry for giving the impression that I'm asking you to consider this vague additional benefit in your thinking. We know that when we come back to you the next time, we're going to have to re-present everything.

We'll have a much better idea of what the costs are going to be by then, and we will have to even update those costs during the early term of the rate case, because we'll be getting final contracts done then. But the -- the issue of the benefits, there isn't the same kind of uncertainty around the benefits as there are with the costs. People lump uncertainty of costs and benefits in the same bucket, but they're not the same.

60 percent of the benefits that we projected come from the elimination of known activities and the budgets supporting those activities, so that's 60 percent. Another 15 percent comes from reductions in known activities and known costs where we've conservatively estimated the amount of reduction that we'll expect, so estimates using known operations and cost. It's 25 percent of the benefits that

we have to make assumptions around, and -- and that's a substantial chunk of the benefit.

What we fully expect was, you know, for people like -- Ms. Alexander has to reasonably dig into and challenge the basis for our estimate of benefits and that we would have to defend that, and you know, we may end up moving a little bit on -- you know, because of that conversation, and -- and you know, maybe we're okay. Maybe we're found to be okay.

But I realized yesterday one of the real problems with this case is that you never got to see the benefits. Mr. Nightingale, through discovery, asked for all the models for every single benefit, how is it derived, and we provided those, but then we never did hear from him again. I -- I thought that was going to start a conversation in which we would be sitting down with everybody, going through how each one of these was derived.

But -- so as it is, none of those benefit models are in the record for, you know, this part of the case right now, and so I just realized that it's just a huge missing piece that you didn't get to see how all of these things were done and hear from the different parties about whether or not that made sense. And hopefully, we can figure out a way to do that different this next time around.

EXAMINATION BY CHAIRMAN DANNER / LA BOLLE

Q. Well, okay. I will leave it to the Judge and the lawyers to figure out what should and shouldn't be in the record.

The -- the benefits that you mentioned, though, I mean, at the end of the day, there are costs, and the costs are somewhere between 142 and $165 million, and so those benefits have to equal or exceed, at the end of the day, and we have to be comfortable that -- that that is there, or that we are so persuaded that the intangibles or future benefits are -- are going to come our way.

So I'm -- I'm just thinking about what it is that we -- what test we have to apply to these numbers, and so if you think there's something in the -- that should be in the record that would bolster your case, I certainly would ask you to put it there.

A. Okay. Thank you.

CHAIRMAN DANNER: Thank you. And that's all I have.

JUDGE FRIEDLANDER: Okay. Thank you.

So with that, I think that we are concluding your testimony, so thank you so much for your testimony, Mr. La Bolle.

THE WITNESS: Thank you.

JUDGE FRIEDLANDER: Thank you.

How about a break? Yeah. Let's go 10

minutes?

MR. OSHIE: Your Honor, before --

JUDGE FRIEDLANDER: Sure.

MR. OSHIE: -- if I can interrupt just briefly?

JUDGE FRIEDLANDER: Sure.

MR. OSHIE: We do have a number of copies of -- of Staff DR-087 and the response available for the Commission --

JUDGE FRIEDLANDER: Excellent.

MR. OSHIE: -- and -- for Commission. I've given a copy to all counsel, and --

JUDGE FRIEDLANDER: Okay.

MR. OSHIE: -- so it's at your discretion as to what you'd like to do.

JUDGE FRIEDLANDER: Yeah. I would like to have copies for the Bench. This'll be Exhibit 10, and then if we can get that -- I don't know who wants to be the one that -- that files it and goes through the electronic portal and puts it into the record, but we'll need that for the records center as well.

MR. MEYER: We can take care of that.

JUDGE FRIEDLANDER: Okay. Thank you.

All right. And with that, we'll go off the record and be back in 10 minutes. Thank you.

(A break was taken from 10:46 a.m. to 11:06 a.m.)

JUDGE FRIEDLANDER: We'll go back on the record.

If you want to raise your right hand?

CHRIS R. MCGUIRE, witness herein, having been first duly sworn on oath, was examined and testified as follows:

JUDGE FRIEDLANDER: Okay. You can be seated.

Mr. Shearer?

MR. SHEARER: Thank you, Your Honor.

*** EXAMINATION BY MR. SHEARER ***

BY MR. SHEARER:

Q. Good morning, Mr. McGuire. Can you please state your name and spell your last name for the record?

A. Chris McGuire, M-C-G-U-I-R-E.

Q. And who is your employer, Mr. McGuire?

A. I'm employed by the Washington Utilities and Transportation Commission.

Q. And are you the same Mr. Chris McGuire who has filed testimony in this case, Exhibits CRM-1 through CRM-6?

A. I am.

Q. And, Mr. McGuire, do you have any corrections to

that -- that testimony or prior exhibits?

A. I do have some corrections. And so I have corrected errors that were identified by Mr. Norwood in his cross-examination, and those errors were also identified by Ms. Andrews in her rebuttal testimony.

I'll just, for the Bench, cover the -- the corrections very quickly. I have revised exhibits here. Specifically, I have revised exhibits for the pages that have -- have changed. I have ten copies with me right now. I can provide the -- the electronic versions later.

And let me know if you would like me to describe in any more detail the -- the nature of the corrections, but just briefly --

JUDGE FRIEDLANDER: Could we have copies of those right now --

THE WITNESS: Yes. Yes.

JUDGE FRIEDLANDER: -- so that we can kind of go through them as you -- as you read them?

Approximately how many corrections?

THE WITNESS: There are three corrections for the electric attrition study --

JUDGE FRIEDLANDER: Okay.

THE WITNESS: -- which is CRM-2 --

JUDGE FRIEDLANDER: Okay.

THE WITNESS: -- and two corrections for the

natural gas attrition study --

JUDGE FRIEDLANDER: Okay.

THE WITNESS: -- CRM-3.

JUDGE FRIEDLANDER: I was just asking because if they're -- if it's extensive, we might not go into it orally, we might just have you file this and -- and go right into cross. So --

THE WITNESS: Okay.

JUDGE FRIEDLANDER: But it doesn't sound like there -- there are that many, so we can go into them, if you'd like.

THE WITNESS: Okay. Yeah. I will just -- I can provide a brief narrative, and then -- they were already covered, so --

JUDGE FRIEDLANDER: Right. Right.

THE WITNESS: -- there may be no need to discuss them further.

JUDGE FRIEDLANDER: Okay. That sounds fine. Thank you.

THE WITNESS: And, Your Honor, should I wait?

JUDGE FRIEDLANDER: Please do.

THE WITNESS: Okay.

JUDGE FRIEDLANDER: Yeah. Thank you.

And these will be filed electronically, you said, shortly? Maybe within the next day or so?

EXAMINATION BY SHEARER / MCGUIRE

THE WITNESS: Yes.

JUDGE FRIEDLANDER: Okay. Thank you.

COMMISSIONER JONES: Okay.

JUDGE FRIEDLANDER: Okay. I think -- I think we're all ready if you want to go into the corrections.

THE WITNESS: Okay. The corrections are made to, in my -- my direct exhibits, CRM-2 and CRM-3, to page 4 and page 5, and those corrections will roll forward to the -- the front page, page 1 of each exhibit. And so for my --

COMMISSIONER RENDAHL: I'm sorry, Mr. McGuire. You said page 4 and 5, but I only have a three-page exhibit.

THE WITNESS: In my direct exhibit, the changes were made to page 4 and page 5.

And Staff agrees in principle with the corrections that were identified by Avista, and those corrections, for the electric attrition study, CRM-2, were to remove the regulatory asset and amortization expense for Avista's meter retirement pro- -- proposal.

Staff erroneously had left that adjustment in its attrition model, and it should have been removed per Staff's position in this case.

CHAIRMAN DANNER: So what would be helpful to me, Judge, would be maybe we could go through the direct

testimony and actually edit the --

JUDGE FRIEDLANDER: Sure.

CHAIRMAN DANNER: -- the pages.

JUDGE FRIEDLANDER: Sure.

THE WITNESS: I can do that as well.

JUDGE FRIEDLANDER: Sure.

CHAIRMAN DANNER: Make the changes in the pages.

JUDGE FRIEDLANDER: Sounds good. Thank you.

CHAIRMAN DANNER: So for example, on page 4 --

THE WITNESS: Would you prefer that I just go -- do you want me to do that now, or would you like me to do that afterward?

CHAIRMAN DANNER: Well, is it something that could be done quickly, or is it -- is it extensive?

COMMISSIONER RENDAHL: Is it just replacing the number that's on line 22 on page 4? Right now, it says, "33.2 million."

THE WITNESS: Are you referring to page 2 of CR- -- CRM-1T?

COMMISSIONER RENDAHL: I'm referring to page 4 of CRM-1T.

THE WITNESS: There are numerous references throughout the testimony to these revenue requirement

dollars, so I think it would be quite extensive to go through them one by one here.

I'm happy to submit the revised exhibits and a revised direct testimony that corrects the dollar amounts that are referenced in the direct testimony. I can also provide a narrative of the changes or the corrections to the errors that I've made.

COMMISSIONER RENDAHL: I think it would be helpful to provide that, but I'm just wondering -- I noted in here, at some point, that it was reduced to 10 million, the 33.2 to 10 million, based on Avista's identification.

THE WITNESS: Yes. So that -- that reduction is a -- that is the change between Avista's direct electric attrition case and Avista's revised attrition case. This is -- I'm not making any corrections to either of those two studies. I'm making corrections, to my own analysis, which were provided as Exhibit Nos. CRM-2 and CRM-3.

JUDGE FRIEDLANDER: Actually, I have a question about that, because I think, in the exhibit list, I have CRM-4 and -5 as containing Avista's response to Staff DR-130.

THE WITNESS: Yes.

JUDGE FRIEDLANDER: And that's what these -- these papers are from; is that correct? Would --

THE WITNESS: No.

EXAMINATION BY SHEARER / MCGUIRE

JUDGE FRIEDLANDER: Oh, so these don't revise CRM-4 and -5?

THE WITNESS: Correct.

JUDGE FRIEDLANDER: Okay. So these are separate exhibits?

THE WITNESS: CRM-4 and CRM-5?

JUDGE FRIEDLANDER: No. These ones that we just received.

THE WITNESS: These are revised exhibits for CRM-2 and CRM-3. So for -- for clarification, CRM-2 and CRM-3 are Staff's attrition studies. CRM-4 and CRM-5 are Avista's revised attrition studies as provided in response to Staff Data Request No. 130.

JUDGE FRIEDLANDER: So I -- I think what might be helpful is, when Staff provides the electronic copy, to have the entire -- include the entire exhibit, because I'm looking at CRM-2 and -3, and there's more than three pages, so these are just pieces of those --

THE WITNESS: Correct.

JUDGE FRIEDLANDER: -- exhibits. So we would need -- I -- I would appreciate it if we got the full electronic version.

THE WITNESS: Okay.

JUDGE FRIEDLANDER: That would be great. Thank you.

EXAMINATION BY SHEARER / MCGUIRE

THE WITNESS: Would you still like me to generally describe the changes now, or would you prefer that I supply a narrative of the -- the changes along with the revised exhibits?

JUDGE FRIEDLANDER: Do you want him to go through --

CHAIRMAN DANNER: I think --

COMMISSIONER RENDAHL: If you can provide a general description now, that would be helpful, and we'll have that on the record. At least for my purposes, I don't need an additional narrative with the --

JUDGE FRIEDLANDER: Exhibits.

COMMISSIONER RENDAHL: -- exhib- -- the electronic version. And I agree with Judge Friedlander that, when you submit the electronic, it should be corrected from what it appears now in CRM-2 and -3 so we can see the changes to that exhibit, because this does appear to be smaller than what are -2 and -3.

THE WITNESS: Okay.

COMMISSIONER JONES: Yeah. And -- and for my purposes, Mr. McGuire, I think that would be fine, a high-level summary right now. I notice the attrition allowance for gas, there's a change of about 1.3 million, attrition allowance for electric is only 300,000, so -- so if you could just briefly describe why, I think that would

be useful.

(Discussion off the record at the Bench.)

JUDGE FRIEDLANDER: Okay. I think we're ready.

CHAIRMAN DANNER: All right.

JUDGE FRIEDLANDER: If you wanted to just quickly go through those changes, that would be great.

THE WITNESS: Okay.

JUDGE FRIEDLANDER: Thank you.

THE WITNESS: Very quickly, I removed the regulatory asset and amortization expense for Avista's AMI proposal, and I have reflected the tax benefit of debt interest for Project Compass, and I have corrected two formula errors in the model, and that is for the electric attrition study. And the net impact of these corrections is an approximately $250,000 reduction in revenue requirement.

For the gas attrition study, I have reflected the tax benefit of debt interest for Project Compass, and I have reflected the increase in gas costs related to Staff's upward adjustment to the Company's load-growth forecast. The net impact of these two adjustments is a $1.3 million increase in revenue requirement.

Now, it's important to point out here that there still remains a few notable difference between

EXAMINATION BY SHEARER / MCGUIRE

Staff's electric and natural gas attrition studies in comparison to Avista's electric and natural gas attrition studies, and we can describe those in more detail as the cross proceeds.

COMMISSIONER JONES: Good.

JUDGE FRIEDLANDER: I think that's fine. Thank you.

Okay. So I have Public Counsel up first.

Ms. Gafken? Or --

MR. ROSEMAN: I --

MR. SHEARER: I was just going to say, he's ready for cross.

JUDGE FRIEDLANDER: Okay. Thank you.

So Ms. Gafken?

MS. GAFKEN: I do just have a few questions, just to clarify the -- the updated exhibits that we received.

*** EXAMINATION BY MS. GAFKEN ***

BY MS. GAFKEN:

Q. So, Mr. McGuire, on -- the electric exhibit is CRM-2; correct?

A. Correct.

Q. And so the attrition allowance with -- with the changes that were made is 14,472,000; correct?

A. Correct.

EXAMINATION BY GAFKEN / MCGUIRE

Q. Okay. And then the -- on the natural gas side of things, that's CRM-3, and the attrition allowance that you're advocating for now is 6,704,000?

A. Correct.

Q. Okay. Do the adjustments in --

COMMISSIONER RENDAHL: I'm sorry. Would those be thousands or millions?

MS. GAFKEN: Sorry. Million.

COMMISSIONER RENDAHL: You said thousands.

MS. GAFKEN: Did I say thousands? I meant million.

COMMISSIONER RENDAHL: Okay. Thank you.

BY MS. GAFKEN:

Q. 6 -- 6.7 million for natural gas?

A. Correct.

Q. Okay. And 14.5 million for electric?

A. Correct.

Q. Okay. Now, Staff also, in the cross-check studies, had corresponding adjustments of 14.7 million on the electric side and 5.4 million on the gas side. Did those numbers also change?

A. I don't know which numbers you're referring to.

Q. The adjustment that goes from the Staff cross-check or, you know, the historical -- modified historical test periods to the Staff attrition case. Those

adjustments --

A. The --

Q. -- what happens to those?

A. -- attrition allowances that were provided or that are recommended in addition to the -- the pro forma revenue requirements, yes. Those are the correct number -- or those are the numbers that correspond to the numbers that we've changed on the front page, on page 1 of Exhibits CRM-2 and CRM-3.

Q. So then there will be changes to the numbers in the -- in the cross-checks as well?

A. No.

Q. Or, I guess, the difference between the attrition case, Staff's attrition case and Staff's modified historical test period case?

A. That is reflected in CRM-2 and CRM-3.

MS. GAFKEN: Okay. Thank you.

JUDGE FRIEDLANDER: Thank you.

And I believe Ms. Davison?

MS. DAVISON: Thank you, Your Honor.

I -- I'd like to say, for the record, that these -- in our quick check, these are not minor, you know, corrections, and so some of my cross may be off a little bit, so I'll try to, you know, work through this.

There's a few things we understand and a few

things we don't understand of what we've been given today, so I'm kind of trying to do this on the fly, but I'll do the best I can.

JUDGE FRIEDLANDER: Thank you.

*** EXAMINATION BY MS. DAVISON ***

BY MS. DAVISON:

Q. Good morning, Mr. McGuire.

A. Good morning.

Q. So if I understand -- let me just back up and ask the question to you directly. Are you recommending -- are you, Mr. McGuire, advocating that the Commission -- excuse me, adopt an attrition adjustment for Avista in this rate case?

A. I am advocating that, if the Commission were to calculate a revenue requirement using only a modified historical test period, that the Company would likely experience attrition in the rate year. Therefore, I'm recommending that the Commission provide an attrition allowance for both electric and natural gas service that is an adjustment to the modified historical test year results.

I want to point out here to the Bench that, although Staff is recommending an attrition allowance for electric and gas service, Staff is still recommending a revenue decrease for electric service. That revenue decrease incorporates the effect of the attrition

allowance.

Q. And what is the -- your recommended revenue requirement decrease with the impact of the attrition adjustment now?

A. The -- the revenue reduction for electric service relative to the rates currently in effect for 2015 is $6,463,000.

Q. Thank you.

What is the revenue requirement decrease that Staff would recommend if the Commission were not to implement an attrition adjustment in this case?

A. I don't have the precise numbers in front of me, but my recollection is the revenue decrease would be approximately $20 million, $21 million.

Q. Yes.

If you turn to CRM-1T, page 8, line -- I can't read my handwriting -- 14, we -- we see, if you calculate -- if you add the 6.2 to 14.7, you get 20.9, but that number will change with your revised testimony; correct?

A. No, it will not.

Q. It'll stay 20.9?

A. I am not -- I'm not revising the -- the -- Staff Witness Mr. Hancock's analysis.

Q. Okay. But the 6.2 became 6.4, didn't it?

A. Correct.

Q. So wouldn't that number be bigger?

A. Wouldn't which number be bigger?

Q. The 20.9?

A. No. The pro forma study is an independent analysis of the revenue requirement.

Q. Okay. So let's back up and talk about what factors you consider relevant in evaluating whether Avista needs an attrition adjustment. Can you identify what factors you looked at in order to reach your conclusion?

A. Yes, I can. I think it's important to qualitatively assess whether or not extraordinary circumstances may be present first, and through my assessment, it -- it appeared to me that Avista is experiencing rapid plant growth and Avista is experiencing low load growth, and for a company that's experiencing low -- low load growth, that company is also experiencing low revenue growth.

So it is plausible that a company experiencing low load growth and high plant growth could experience attrition in the rate year. Now, it's important to recognize that a qualitative assessment of whether or not those factors may or may not be present is going to be insufficient for determining whether or not a company does, in fact, need an attrition allowance, which is why I

performed an attrition study.

Without an attrition study, you do not know whether or not those factors are indeed extraordinary. And my understanding is that neither ICNU nor Public Counsel performed an attrition study to determine whether or not those factors that appear to be present were likely to contribute to earnings attrition in the rate year.

Q. But isn't it true in your testimony, Mr. McGuire, that you talk about Avista having a large capital program, but you also mention that Avista hasn't really provided good details supporting why they need to have such high capital expenditures, particularly at a time in which they are experiencing low load growth and perhaps some of these capital projects could be postponed?

A. I believe Staff Witness Mr. Gomez provides the assessment of the documentation for specific plant investments. I did not testify to the appropriateness of specific capital additions.

I did comment that I do not believe the Company provided sufficient documentation for its investments in reliability upgrades, but I did not testify to the balance of the plant additions being discussed in this case.

Q. So is it relevant in your consideration of whether the Commission should adopt an attrition adjustment that Mr. Norwood has admitted that the Commiss- -- the Company

over-earned in 2013, 2014, and will likely over-earn in 2015?

A. That is not at all relevant.

MR. MEYER: And I object to the form of the question. I think it mischaracterizes Mr. Norwood's testimony in that regard, and I would let the record speak for itself.

JUDGE FRIEDLANDER: Well, unfortunately, the objection came after he answered, but I -- I certainly will -- I mean, the record is going to reflect --

MR. MEYER: Sure.

JUDGE FRIEDLANDER: -- you know, your -- your objection, so.

MR. MEYER: That's the point.

JUDGE FRIEDLANDER: Thank you.

BY MS. DAVISON:

Q. So as I understand your answer, whether Avista's over-earning or not is completely irrelevant?

A. That is not what you asked me. You asked me whether or not Avista over-earned in 2013 and 2014. I would argue that they over-earned in 2014. I would argue that you would be splitting hairs to say that they over-earned in 2013. I believe they over-earned by a couple of basis points.

However, we're not calculating rates for 2013

right now. We're not calculating rates for 2014. We're calculating rates to be effective in 2016, so what I'm attempting to do in my analysis is provide revenues sufficient for costs in 2016, not 2014.

Q. So let's -- let's back up a little further. The -- you're aware that the Commission has traditionally used a modified historic test year; correct?

A. Correct.

Q. And do you know why the Commission has, over all these years, used a modified historic test year?

A. I cannot speak to what various Commissions were thinking throughout the history of this Commission, no.

Q. But do you know, from a policy perspective, what the basis is?

A. What the basis is for what?

Q. A modified historic test year.

A. The basis for a modified historic test year is that, in a historic test year, costs are known and measurable, and under normal circumstances, the relationship between revenues, expenses, and rate base would be expected to remain relatively stable between a test year, a historic test year, and a future rate year.

That is under normal circumstances. What I'm arguing here is that there are circumstances present to warrant a different approach to thinking about the revenues

that would be sufficient in the rate year, given that we do not expect the relationship between revenues, expenses, and rate base to -- excuse me, to remain stable between the test year and the rate year.

Q. Would you agree that changing from a modified historic test year to imposing an attrition adjustment is a very major change in rate-making?

A. No. I would -- I would not say that. In fact, I've provided, as Exhibit CRM-6, a number of Commission orders in which the Commission has authorized an attrition allowance, so no. This is something that the Commission has provided and -- on multiple occasions in the past.

Q. Not for a long time, though; correct?

A. I don't know what you mean by "a long time."

Q. Well, when did they last approve an attrition adjustment?

A. I believe the last approved attrition adjustment was in 1986.

Q. I consider that a long time.

A. I consider a hundred years a long time.

Q. Okay. All right. Well, we have a different perspective on that.

So as I understand your attrition -- attrition adjustment, you are basically taking historical cost trends and esc- -- and then providing an escalator factor. Is

that generally correct?

A. Yeah. That's generally correct. And again, I provide, in Exhibit CRM-6, several excerpts of Commission orders on attrition that provide meaningful guidance on how an attrition adjustment should be calculated. And the record of Commission orders indicates that this is how you calculate an attrition adjustment; you use historical data, and you project that data forward.

Now, I can provide specific examples if you'd like me to, but there are several, where this methodology has been well established in the record of the orders of this Commission.

Q. So you're using data from at least two years in which Avista -- and I'm talking about on the electric side only -- has over-earned. Wouldn't you be, in effect -- I guess I don't understand why the fact that you're using data and -- in two years in which the Company has over-earned, why that isn't relevant. It seems like you are, in effect, escalating up their over-earning.

A. I don't see how that's true.

Q. Well, obviously, they were over-collecting, and as you point out, they have a rate increase that went into effect for 2015. We don't have the final numbers for 2015, but we've got 2013, 2014 numbers where, you know, their revenue requirement, what they received, was too high. It

was way above their authorized rate of return or return on equity, and it -- it seems --

MR. MEYER: Object to the form of the question. I think the -- really, the examiner's testifying as to her perception of whether it's "way above" the authorized return or whether we are "over-collecting," so I object to the form of the question.

JUDGE FRIEDLANDER: Can you rephrase the question?

BY MS. DAVISON:

Q. So the Company is over-earning for at least 2013, 2014, so I think we can agree that they received too high a revenue based on where they should have been with their authorized rate of a return on equity; is that correct?

A. I would agree for 2014, yes.

Q. And then those numbers are embedded in your analysis? You didn't make any adjustments out for the fact that they over-earned; correct?

A. I do not use revenues from 2014 to calculate revenues for 2016. I'm escalating expenses, and I'm escalating rate base, or more accurately, I'm escalating net plant. I'm using the historic rates of growth, which contain multiple years of data in those categories to make an assessment of how the business has grown over that time period.

EXAMINATION BY DAVISON / MCGUIRE

Q. So how are you able to determine if a particular cost or a particular capital expenditure meets the Commission's used and useful standard, under your approach?

A. The -- Staff Witness Mr. Gomez testifies, again, to the prudence of specific capital additions in this case. Those are the only capital additions, the only specific capital additions, the Commission is evaluating in this case.

I am not making any assessment of whether or not any investment is prudent or imprudent or will or will not be used and useful, and as your witness, Mr. Mullins, testified to, this is an -- he characterizes an attrition allowance as an undistributed increase in revenue not associated with any specific plant.

This is a revenue increase. We are not making assessments of individual plant in an attrition study. That's not the purpose.

Q. Were you in the hearing room when Mr. Norwood testified that Avista expects to be coming in for annual rate cases for the next five years?

A. I was.

Q. Does that impact the need for whether an attrition adjustment is required or not?

A. In this circumstance, it does not. Avista has been experiencing very low load growth over the last

several years, and if that load growth continues at a slow pace, the Company is not going to be able to generate the revenues necessary to cover the expenses moving forward.

I would expect, if Avista's load starts to pick up, starts to grow more rapidly, that the Company would not need to come in here for annual rate increases and they would not need an attrition allowance.

Q. Are you familiar with the concept of "death spiral"?

A. I am somewhat familiar with that concept, yes.

Q. Well, isn't it true that if you have low load and your customer base is not economically doing particularly well, that rather than continuing to raise rates and put your customer base in a worse situation, that it makes sense to take your capital projects and prioritize those?

A. I would say, conceptually, that that is true. However, what you would be asking of Avista for -- to cut their capital expenditures to an extent that their growth in revenues would be sufficient to cover those capital expenditures would be unreasonable.

And I've done some back-of-the-envelope calculations here for a hypothetical situation for what if Avista only increased its net plant to the level that was appropriate or -- not appropriate, to the level that was -- let me rephrase -- that Avista only invested in plant at a

level consistent with its growth in revenues.

So for electric service, if we were to say that Avista's current expected revenue growth between the test year and the rate year will be sufficient to cover costs, particularly net plant, the growth in net plant between the test year and the rate year would be zero percent. So what you're asking the Company to do is to scale back its capital investments to zero.

Now, I would argue that that's unreasonable, and that's what I'm arguing here is that, without doing any sort of analysis, providing any sort of analysis of what might happen in the rate year, you don't know whether or not the Company can even achieve what you're expecting them to achieve.

Q. Well, Mr. McGuire, I'm personally not asking the Company to do anything. I'm just asking you questions based on various scenarios, but I'd ask you to turn to your testimony, CRM-1T, page 19, lines 10 and 11.

A. Can you tell me the page again, please?

Q. Page 19.

A. And those were lines 10 and 11?

Q. Yes.

A. Okay. I'm there.

Q. In response to that question, you basically state that Mr. Morris does not provide much detail on why net

plant has been growing at a relatively rapid pace; correct?

A. Correct.

Q. And doesn't Mr. Morris or Avista have the burden of proof to demonstrate why their net plant is growing at a relatively rapid pace?

A. Yes, it does. Mr. Morris is testifying, however, on the generalities of this case. It is not Mr. Morris's responsibility in this case, in my opinion, to provide detail on specific plant investments. This is a general narrative, and I'm commenting on a general narrative.

Q. Well, I assume that if you thought that Avista had provided detail on why net plant has grown at a relatively rapid pace, you wouldn't have made the statement.

A. Was that a question?

Q. Well, did -- I'll rephrase it.

Did you find that other Avista witnesses provided the detail that's required to be sufficient to explain why net plant is growing at a relatively rapid pace?

A. I -- again, I did not testify to specific plant investments. I will answer your question, but the question to me sounds as if you're asking me about whether or not specific plant investments and the rate of growth associated with those investments or that level of investments was appropriate.

I think it's important here to point out that the

rate of growth that I'm using for my analysis is the rate of growth embedded in the historical data, not the rate of growth associated with the specific plant additions that the Company has made in 2015 or that it intends to make in 2016.

So as a result, because I'm deriving this rate of growth for net plant from historical data, I'm deriving growth in net plant over the years in which this Company has come before this Commission and has presented its results, and those results were accepted. This rate of growth that I'm using is the rate of growth that has effectively been accepted by this Commission over the past several years.

Q. Are you familiar with the concept of "regulatory lag"?

A. I am.

Q. And if a company is coming in for annual rate cases, is it really suffering from regulatory lag?

A. I don't think those two things are related. Regulatory lag is the situation that occurs when a company asks for a rate increase and will not get that rate increase for another 11 months, or the Commission's decision on whether or not they should even be given that rate increase would not come for another 11 months.

Regulatory lag happens in between the filing of a

case and the decision, not in between rate cases, which you're suggesting.

Q. Well, if you're coming in and you're filing every single year, where's the lag?

A. The lag is the 11 months for a rate case. That's what regulatory lag is. Again, it's the difference between -- or is it the lag between the request and the date that those rates go into effect. It has nothing to do with the length of time between rate cases. Regulatory lag is a term that is associated with the process that underlies regulation of rates.

Q. Well, let's look at it in context of Avista for this year. So is Avista experiencing regulatory lag for 2015?

A. Everyone experiences regulatory lag. Yes.

Q. Even though they have a rate increase that went into effect for 2015?

A. There is a lag between -- I -- the question you're asking me is, "Is there a lag between when the Company filed this case and the date in which rates go into effect?" Yes, there's a lag. There's a lag of approximately 11 months.

Q. But for 2015, they got a rate increase and that was from last year's rate case, which was based on a 2015 rate year; correct?

A. Yes. That's correct.

Q. So where's the lag? They -- they have a rate increase that should have covered them for 2015. They've come back in, filed another rate case that should cover them for 2016. Where's the lag? You come in every single year --

A. I've -- I've already given my definition of what I feel like regulatory lag is, and it sounds like you have some different interpretation that I don't -- I -- that I fundamentally disagree with.

I don't -- I honestly don't know what lag you're referring to. I'm defining regulatory lag for you. Regulatory lag is the period between which a revenue or a rate case is filed and when the Commission authorizes a change in rates.

Q. Are you familiar with the concept of the regulatory compact?

A. I am somewhat familiar with that concept.

Q. And how would you define that?

A. I do not have a definition for that.

Q. Is Avista facing high inflation?

A. It is not.

Q. Currently, Avista is seeking 3.9 million revenue requirement increase on its electric side; correct?

A. I believe that's correct. Yes.

EXAMINATION BY DAVISON / MCGUIRE

Q. Does that seem like a company that's in distress, that is requesting such a low revenue requirement increase?

A. I don't know if that seems like a company in distress.

Q. Let's turn to Exhibit CRM-2, page 5, line 37.

COMMISSIONER RENDAHL: This is the original, not the revised?

MS. DAVISON: I think the numbers are the same, Commissioner Rendahl.

COMMISSIONER RENDAHL: The revised only has three pages. That's why I'm asking.

MS. DAVISON: It's on -- I'm sorry. It's the original. That's -- that's the one. I -- I didn't have any of these new numbers when I was drafting my questions.

COMMISSIONER RENDAHL: Thank you.

THE WITNESS: Did you say CRM-2, page 5, line 37?

MS. DAVISON: Yes.

THE WITNESS: Okay.

BY MS. DAVISON:

Q. And you see the value 176,956 million? Or thousands. Or a hundred and -- let's just say 177 million, just --

A. I see that.

Q. And this value represents the increase to gross

plant in your attrition revenue requirement study; correct?

A. That number corresponds to the growth in gross plant between the test year and the rate year, yes.

Q. And that's relative to plant in service as of December 2014; correct?

A. Yes. Although my attrition study starts with an average-of-monthly-averages for 2014.

For the Bench, I would -- I would like to -- I'd like to provide some information on the reasonableness of that number. So $176 million in gross plant, so this is --

MS. DAVISON: Well --

A. -- this is important --

MS. DAVISON: -- Your Honor, I --

A. -- I think --

MS. DAVISON: -- I -- I mean, I don't have a question that is requesting that response. I'm -- I'm just trying to go through and meet my time limits here. I didn't ask about the reasonableness of that number. I'm just trying to understand that -- make sure I understood the numbers correctly.

MR. SHEARER: Mr. McGuire -- all these numbers have context. I mean, there's a several-page spreadsheet, and as Mr. McGuire noted, the Commission should have the context as well the specific numbers.

JUDGE FRIEDLANDER: I think you'll have a

chance on redirect to address that, so why don't you answer Ms. Davison's question.

THE WITNESS: Can you please rephrase your question?

BY MS. DAVISON:

Q. I'll reask the question.

A. That works.

Q. I don't think there was anything wrong with it. I was just saying that the 177 million is relative to plant in service as of December 2014; correct?

A. On an AMA basis, yes, that's correct.

Q. Sir, would you refer to your Exhibit CRM-1T, Note 2, page 9? Do you --

CHAIRMAN DANNER: I'm sorry, Ms. Davison. What was -- what was that cite again?

MS. DAVISON: CRM-1T, page 9, Footnote 2.

CHAIRMAN DANNER: Thank you.

BY MS. DAVISON:

Q. Are you there, Mr. McGuire?

A. I'm there.

Q. And there you state that Staff Witness Mr. Hancock prepared Staff's pro forma revenue requirement analysis and that this involved holding to the Commission's long-standing practice of using a modified test period with limited pro forma adjustments. Do you see that?

A. I do.

Q. And that is accurate, still?

A. It is.

Let me rephrase. I believe that it is. I believe -- if you're asking me about those numbers, the specific numbers, I believe those specific numbers are still correct.

Q. And then if we look at Christopher Hancock's exhibit, he has the value at page 21, Table 4. I'm not sure if you actually have that with you or not, but --

JUDGE FRIEDLANDER: I'm sorry.

MS. DAVISON: -- would you say --

JUDGE FRIEDLANDER: What was the exhibit number again?

MS. DAVISON: It's CSH-1T, page 21, Table 4.

JUDGE FRIEDLANDER: Thank you.

THE WITNESS: And I do not have that.

MS. DAVISON: Okay. I've got an -- if anybody needs -- does anyone on the Bench need a handy-dandy copy? Okay.

COMMISSIONER JONES: Table 4?

COMMISSIONER RENDAHL: So this is CSH-1T, page 21, and Table 4.

MS. DAVISON: Yes, Commissioner.

EXAMINATION BY DAVISON / MCGUIRE

BY MS. DAVISON:

Q. And do you see the value of 56.7 million at the bottom of the table?

A. I do.

Q. And this value represents the 2015 plant additions that Staff has determined to meet the Commission's long-standing, known and measurable, used and useful standard; is that correct?

A. I believe this is the -- the list of projects that met Staff's definition of "major."

Q. Okay. And then my question to you is, why is it that your analysis proposes to escalate gross plant by 177 million, yet Staff only supports 56.7 million in capital additions as meeting the Commission's standards for inclusion in rates?

A. The reason why those numbers are different is because this dollar value corresponds to specific plant that went into service prior to July 30th of 2015. I am not estimating net or gross plant for July -- end of July of 2015. I'm estimating what will likely be the plant in service as of -- or on an AMA basis for 2016. There's going to be growth beyond July of 2015.

Q. And so then that growth beyond 2015 that you've included in your analysis that represents this 177 million, how do you know that that meets the used and useful

standard?

A. I've already answered that question.

Q. Well, in the context of these numbers, can you answer it again, please?

A. I am not testifying to the used and useful nature of any specific plant beyond July of 2015. And again, I'll point you back to your witness, Mr. Mullins, who agrees that this is an undistributed increase in revenue, that a -- that an attrition allowance is an undistributed increase in revenue. This is not any acceptance of some specific plant addition in the future.

Q. Well, let's look at some specifics here. For instance, Mr. Ball recommends 259,000 revenue requirement adjustment related to pro forma insurance expense. Would you agree that, if the Commission were to accept Mr. Ball's recommendation related to insurance expense, it would have no impact on the overall attrition revenue requirement recommendation that you're making?

A. Yes, I would agree with that.

Q. Thank you.

So I don't mean to be smart about this, but I'm just trying to -- I'm trying to get my hands around this. This is -- you know, I've been doing this a long time, but this is a new concept for me.

So why, then, would it be necessary for Mr. Ball

to go through all the trouble of evaluating the insurance effect if -- if, in fact, the Commission adopts an attrition adjustment, his insurance recommendation doesn't get included in it? Why go through that -- that whole process if it has no impact on the bottom line?

A. So there are two reasons for going through this process. One is that, if Commission Staff finds that -- finds grounds for disallowance, that disallowance must be incorporated into the -- the attrition study.

Now, it's possible that what Ms. Davison refers to currently was a disallowance, and if that is, in fact, true -- I do not know the specifics of it here -- if that is, in fact, true, that is something that should have been captured in the attrition study. Disallowances have to be accounted for regardless.

So I can give you an -- an example. So for Project Compass, we -- Staff Witness Mr. Gomez recommends a disallowance for a certain portion of Project Compass. That disallowance is incorporated into this attrition study. It's important that we take into consideration the disallowances.

Secondarily, it's possible that this Commission rejects outright an attrition allowance. We want to make sure that, if that happens, that the basic underlying case, the modified historical test year case, is as accurate as

possible.

Q. Thank you.

So as I understand Mr. Ball's adjustment on insurance is that it's a pro forma insurance adjustment. How is that accounted for?

A. How is -- I don't know how specific insurance adjustments are accounted for. Are you asking me, how is a pro forma adjustment, in general, accounted for?

Q. How this would be accounted for in your attrition analysis.

A. If -- I just answered that. If it's a disallowance, then it needs to be taken into consideration, and if it is not, then that is -- that is an error that needs to be corrected.

If it is simply a matter of timing -- for example, there are multiple recommendations from Mr. Gomez on the amount of plant that should be recoverable in this case, because certain plant was not in service in time for Staff to be able to -- to audit those dollar values. So if there is a recommendation regarding timing, then my attrition study does not need to take that into consideration.

MS. DAVISON: I have no further questions, Your Honor.

JUDGE FRIEDLANDER: Thank you.

Mr. Meyer?

*** EXAMINATION BY MR. MEYER ***

BY MR. MEYER:

Q. Good morning, Mr. McGuire.

A. It's afternoon now.

Q. And when did that happen?

A. But good afternoon.

Q. Say, we -- we've talked at some length about -- in connection with other witnesses about one aspect of your attrition study, and that had to do with the O&M trending. But this morning -- excuse me, this afternoon, I'd like to talk to you about the choice of the trend of period.

You understand, do you not, that the Company used the period 2007 through 2014?

A. I do understand that. However, I do believe that it calculated the rate of growth over that time period incorrectly.

I advocated in my testimony that an objective analysis should calculate rates of growth using historical data and using a model that best fits that data. The Company's used a linear model here, and those data are not linear. They fit a line to nonlinear data.

If I have -- I ran some numbers in between yesterday and today to actually calculate what the rate of growth would be if you fit the best model to that data, and using a quadratic, you get a higher correlation to the data

than a line, and instead of a 4.6 percent rate of growth, you get a 0.6 percent rate of growth. So I am aware that the Company used that time period, but it used it incorrectly, in my opinion.

Q. I -- I'm focusing on -- on not a review here of -- of the time period for any particular adjustment. I'm referring more so here to the trending of the capital 2007 through 2014. Okay?

A. Okay.

Q. So if we look at that assessment, the starting point for that was 2007, which do you understand the Company used because it believed that it marks the point at which there is a significant shift in the capital expenditure trend?

A. Yes.

Q. And you, on the other hand, chose to use 2009 as your starting point for trending this capital; is that correct?

A. That's correct.

Q. And is it your testimony that you used this as a beginning point to avoid what you termed "statistical complications" caused by changes in the normalization methodology?

A. Yes. I chose that time period because data were normalized in a consistent manner between 2009 and -- and

2014; however, I agree with the Company's assessment that it is irrelevant. The -- the normalization consistency is irrelevant here. You normalize things that are not escalated in the attrition study, and I -- I failed to recognize that in my study.

However, the fact that we ran two different time periods can give you some general sense of what different analyses might lead you to conclude regarding the level of attrition likely to be present in the rate year. And the Company used its historical data from 2007 and 2014. I used 2009 to 2014, and I believe we were roughly $100,000 different for electric service and roughly $500,000 different for natural gas service.

So that -- it's helpful that we ran different time periods, because you can have -- you can then get some sense of how much impact different time periods would have on the outcome here, and I'm -- I'm testifying now that -- that is very little.

MR. MEYER: I -- I have no further cross. Thank you.

JUDGE FRIEDLANDER: Thank you.

Any clarification questions?

CHAIRMAN DANNER: No, I don't.

COMMISSIONER RENDAHL: I have one question.

*** EXAMINATION BY COMMISSIONER RENDAHL ***

BY COMMISSIONER RENDAHL:

Q. This follows along from questions by counsel for ICNU. Can you explain why the need for an attrition adjustment is necessary based on, "Why are the circumstances right now extraordinary?" within the meaning of the cases that the Comm- -- you've attached as an exhibit?

A. Yes. Just give me one moment.

So I would first like to -- to just point out that, in a Commission order in -- in 2010 -- so more recently -- this is in Docket U-100522 -- that the Commission has -- has said that, in the context of a general rate case, inclusion of an appropriate attrition adjustment designed to protect the company from lost margin due to any reason is -- is appropriate.

So I -- even -- even if there were no evidence in the historical record that the Commission has considered extraordinary rate treatment for low load growth, I believe the Commission still is able to justify an attrition allowance, in this case, because load growth is -- is, in fact, low. I --

Q. Can you provide the exact citation for that? What document you're referring to in that docket number?

A. I don't have the final order number, but it is the

final order. It is on page 22, paragraph 34.

Q. Okay. Thank you.

A. In an order in 1977, this is Cause No. U-77-83, the Commission noted declining sales as a reason for considering extraordinary rate relief. Now, that was prior to any mention of the term "attrition" or "attrition allowance" or "attrition adjustment" in my -- in my review.

However, that's -- we are -- we are deciding here whether or not extraordinary rate treatment is appropriate and what might be the circumstances that would cause extraordinary rate treatment to be warranted here. So there is that order, and there is -- in Order UG-920840, Washington Natural Gas Company final order, page 29 -- I believe this is the final order.

I again don't have the -- the precise citation, but this is -- was provided in Exhibit CRM-6, and I believe this is the -- the final order, the last page, I believe, in -- CRM-6. Nevertheless, declining sales, again, was noted as a reason for considering extraordinary rate treatment.

Now, it's important to consider that, in the early '80s when the Commission was providing attrition allowances to companies, they were doing so because of -- of very high capital growth, but there's no mention of the revenues that the company or these companies were -- or the growth in

revenues that these companies were experiencing. When I say no mention, I mean in -- in the context of this discussion. There was mention in the order.

And the rates of growth for these companies for revenues at a time when they were given attrition allowances, 5.6 percent annual growth rate in revenues for one company in 1981, and this was in Cause No. U-81-15.

Q. And what page of your Exhibit CRM-6 are you looking at?

A. Are there page numbers at the foot of your --

Q. No. They're at the top.

CHAIRMAN DANNER: In the upper right.

BY COMMISSIONER RENDAHL:

Q. So U-81-15?

A. Yes. U-81-15. These are in chronological order, so you may be able to thumb through and find 81. My -- mine does not have page numbers for whatever reason, so I don't know --

Q. So this -- is this page 22 of the order?

A. Yes, it is.

Q. Okay. So page 10 of the exhibit.

COMMISSIONER JONES: Mr. McGuire, which company is that? Could you mention the company name as well?

COMMISSIONER RENDAHL: I'm not sure it's

EXAMINATION BY COMMISSIONER RENDAHL / MCGUIRE

referenced.

THE WITNESS: I -- it's not referenced here. I -- I do have it written down, but it's just not -- not here. I can provide that later.

BY COMMISSIONER RENDAHL:

Q. Okay. Well, so we could go through each of these particular cases, but in -- in this -- so -- which I'm not sure is necessary --

A. Okay. Well, I --

Q. -- at this point. But just overall, so you're -- you're saying that the Commission has stated that low load growth with high capital spend is indicative of extraordinary circumstances, and in the docket -- you mentioned the most recent one, U-100522 -- that the Commission said -- a prior Commission said that addressing lost margin through an attrition adjustment is appropriate.

So that would be to summarize your response?

A. Yes. And to summarize just one brief step further, it is -- load growth was -- was high or -- I guess it is all relative. Load growth during that period was -- was between 5 and 8 percent, which means companies were gaining, annually, substantial revenues just from load growth. And comparing those numbers to the numbers Avista's experiencing today, Avista's experiencing less than 1 percent annual load growth.

EXAMINATION BY COMMISSIONER RENDAHL / MCGUIRE

Q. But those -- so you're referring to the U-81-15 load-growth rates of 5 and -- about 5 percent, and that's during a time of extremely high inflation rate at that point, so there were other factors involved?

A. There were other factors, although there was -- there are only two references that I could find in my review of -- of historical orders that gave attrition allowances specifically for inflation. Most attrition allowances were given, during this time period, for extraordinary capital growth.

Q. Okay.

A. But yes, there are many circumstances. And generally, very generally, this Commission has provided attrition allowances when there's evidence of different rates of growth in revenues, expenses, and rate base such that test-year relationships are not likely to hold during the rate-affected period.

COMMISSIONER RENDAHL: Thank you.

*** EXAMINATION BY COMMISSIONER JONES ***

BY COMMISSIONER JONES:

Q. Mr. McGuire, I'm going to start at a higher level and then dig down into some weeds. I'm sorry. It's afternoon and before the lunch hour, but this won't take that long.

The reason I'm doing this is -- 1986, boy. What

was I doing then? It's a long time ago, and it's over 30 years -- almost 30 years ago, as Ms. Davison said.

A. If that's a question for me, I believe playing football was the answer.

Q. What were you doing then?

A. I meant you.

Q. So turn to page 33 of your testimony, please, of CRM-1T.

A. I'm on page 33.

Q. Yeah. Lines -- I want you to explain a little bit more lines 9 through 13 at a high level. You -- you, first of all, define inferential statistics, and then you seem to indicate that an attrition analysis should be "scien- -- scientifically objective and free from bias."

So what do you mean by that? Because we've been -- we've been discussing with Ms. Davison and -- and some others, and I'll have a few questions for you on assumptions or models or post-attrition adjustments or whatever, but what do you mean by "bias"? Is this a statistical term or not?

A. No. I wrote this in response to the Company's direct case, and what I meant was that a statistical analysis is -- is -- is an analysis of data and observations.

Q. Okay.

EXAMINATION BY COMMISSIONER JONES / MCGUIRE

A. The Company had included in its own trend analysis some speculative future numbers, and I -- I testified that I believe that's inappropriate. I believe that the Commission has -- has stated directly that a historical trend analysis is -- is appropriate for calculating rates of growth in specific categories.

I was only pointing out here that the Company, in its direct case, was not being scientifically objective, and there was bias in its analysis, because it was using its own -- its own budgets and its own --

Q. Okay.

A. So I -- that's all I was saying.

Q. So that's primarily what you meant here?

A. Yes.

Q. And I'm -- I've read your testimony, and I totally understand that, and I think you call that speculative --

A. Yes.

Q. -- using speculation to bring in 2016 rate base additions; right?

A. Yeah. Correct.

Q. But my question is more on the analysis, because -- and I'm -- I'm not saying where I'm going to be on this yet. We have two options before us: One is a modified historical test year; and the other is attrition, which you did.

EXAMINATION BY COMMISSIONER JONES / MCGUIRE

The modified historical test year, as you admit in your testimony, by Mr. Hancock, yields a $20.9 million reduction in revenue requirements for electric, which you, yourself, admit is insufficient; correct?

A. Correct.

Q. Then we have your analysis that yields a $3.9 million reduction in electric, I think? Is that the final number? If I do the math correctly?

A. The final number is approximately --

Q. 4.2?

A. -- 6.5 million.

Q. I'm sorry.

A. This is in the revised exhibit.

Q. So your -- excuse me. I misspoke. Your revised decrease is 6.5 million -- and I'll get to this in a minute. The Company's revised attrition analysis is 3.9 million positive; right?

So -- but my point is, if the Commission does not -- does not -- if, for whatever reason, we -- we do not adopt an attrition analysis of yours, then we're left with a modified historical test year with pro forma adjustments; right?

A. Correct.

Q. Which yields an insufficient number for the Company?

EXAMINATION BY COMMISSIONER JONES / MCGUIRE

A. It yields an insufficient number based on my attrition study. So if you were to eje- -- if you were to reject my attrition study and my recommendation for an attrition allowance, you would, in essence, be saying that negative $20 million is sufficient.

Q. Okay. But you see what I'm driving at?

This is the first time we've done this in over 30 years. The attrition analysis that you did, I think, and both the Company did are well founded, and they make -- but they come up with very different results, and that's why I'm saying, what do you -- this idea of -- of inferential statistics, free from bias, and we just kind of run the numbers and it's going to produce a perfect or an -- or a scientifically valid result. It doesn't appear to be doing that.

A. I think that -- I think that it -- that it is, and I think that because I don't believe that the $3-point million that the Company has -- I'm sorry, the $3.9 million increase in revenues that the Company has -- has asked for in its rebuttal is -- was -- was derived objectively and scientifically.

I -- I think that there should be a basic framework around an attrition study, and I think that it's extraordinarily important to be scientifically objective. Look at the data, and ask what the data are telling you,

and that's what I've done here. I'm only providing an analysis of historical data, and I'm, to the -- to the best of my ability, being objective about it.

Q. Okay. Let's turn to page 10 of your testimony, lines 3 through 6. And my next line of questioning is, why is there still a difference in result of the two attrition studies, between the Company's attrition study and your attrition study?

And again, I think on -- after many changes by the Company, I think we're now at 3.9 million positive electric and you're at 9 to 6.5 million negative. Okay?

A. Okay.

Q. So there in the lines, you -- you -- I think you're speculating or you're positing three possible reasons: The Company over-earned in the test year, which ended September 30, 2014; the Company received an additional rate increase in '15, and that became effective January 1; right? The latest rate -- rate increase?

A. Correct.

Q. And then the third one that you posit is the Company's pro forma net power costs decreased substantially relative to the test-year levels.

So on -- on the first point -- we've had some discussion of this at hearing -- what specific number are you referring to on the over-earning? Is it the

9.9 percent, which you -- you, I think, characterize as minimal, just a few basis points, or is it the 10.6 percent?

A. When I say, "The Company over-earned," I'm referring to its overall rate of return.

Q. Okay.

A. And I don't know the precise number, but I am referring to 2014. And in 2014, the Company did over-earn. I was arguing earlier that the Company only marginally over-earned in 2013. So -- but these -- these are not differences between Staff's case and the Company's case.

Q. Okay.

A. These are -- I'm just trying to provide -- provide some context of, why is that number so low? Why is the revenue requirement recommendation negative for Staff?

Q. Okay.

A. And why is it negative 20 million on a -- on a modified historical test period basis, and it's that --

Q. Okay.

A. -- people are getting that low of a number because of these things.

Q. So -- so those three factors apply both to Mr. Hancock's modified historical test year analysis and your attrition analysis?

A. It only applies to my attrition analysis, because

my attrition adjustment is an adjustment to the pro forma analysis, so this is --

Q. Okay. I understand.

A. Okay.

Q. So let me get back to my question. What is -- what are the -- if you had to list two or three reasons for the major differences between Avista's, on rebuttal, their attrition analysis, and yours, your final, what are they?

A. The -- there are three, and far and away the biggest is the escalator for O&M.

Q. Okay.

A. And as I have mentioned here today, that -- I believe that my analysis is objective, and I believe that had they -- had the Company used the historical data appropriately, it would have gotten a much smaller number for an escalator for O&M.

Secondly, the Company has added back into its revenue requirement the disallowance for Project Compass. Staff Witness Mr. Gomez --

Q. Okay.

A. -- makes a recommendation for that. We've added that -- added that -- or sorry. They've added that back in, Avista has --

Q. And you took it out?

A. And I took it out.

EXAMINATION BY COMMISSIONER JONES / MCGUIRE

Q. Okay.

A. And third, the Company has an alternative recommendation for Mr. Ball's treatment of Colstrip/Coyote Springs --

Q. Okay.

A. -- major maintenance, and that contributes to a revenue requirement differential between Avista and Staff.

Q. Yeah.

And I think that latter one is about 3 million, isn't it? 3 -- 3-plus something?

A. That sounds right.

Q. So if you add all those three up, you get pretty close to the delta, the difference between the two --

A. Yes.

Q. -- of about 10; right?

A. Yes.

Q. Okay. I've got a couple more, and then we will go -- then we'll -- we'll adjourn.

In response to Commissioner Rendahl's question, you -- you cited to many historical antecedents going back to 1981 and '86 where you think we have sufficient legal authority to proceed with an attrition adjustment, but do you think we have sufficient policy authority?

Meaning that we have no policy statement on attrition. We had a workshop about a year ago, but no

policy statement came out of that; right?

A. That -- that's correct. I -- my attorney is probably going to start glaring at me here pretty soon --

Q. He's right here.

A. -- because this is -- this is --

Q. He's smiling right now --

A. We're talking about --

Q. -- for the record.

A. -- legal interpretation.

I would argue that the historical orders are a better indicator of a policy perspective and that the Commission's obligation to provide rates that are fair, just, reasonable, and sufficient would be the legal framework within which the Commission could entertain an attrition allowance.

And I believe the Commission could entertain an attrition allowance, because there's evidence on this record that rates calculated using only a modified historical test period would be insufficient.

Q. Okay. Last question relates to Project Compass, but it's more specifically on disallowances as well.

As you stated on page 33, you believe this to be empirically valid and scientifically objective, but as we're seeing on the rebuttal case, we have certain things in and out: Project Compass, major O&M on Coyote Springs 2

and Colstrip, kind of -- there are others.

And so you -- in your analysis, you do what is called a post-attrition adjustment; right?

A. Correct.

Q. So why is that scientifically valid, and why is that -- I'm just thinking ahead in the future.

Hypothetically, if we accept attrition adjustments in the future, I'm kind of thinking that we might -- instead of modif- -- instead of arguing over modified historical test years and pro formas and bright lines, we'll be having different arguments, but we'll still be having arguments about these adjustments over a methodology that's supposed to be pretty machine-like; right?

A. Yeah. Correct.

Yesterday, Chairman Danner asked a question -- I don't -- I don't recall of which witness, but asked the question, "What are some basic underlying principles that we should consider when we're considering an attrition allowance?" And I jotted a few down, and objectivity was the first thing I jotted down.

The second thing I jotted down, however, was -- was reasonableness. I think that an analysis can be done in a scientifically objective manner, but we are still able to assess whether or not that scientifically, objectively derived answer makes sense.

EXAMINATION BY COMMISSIONER JONES / MCGUIRE

And so this is in -- in response to your question, I've -- I've calculated a rate of growth for plant, and then that rate of growth, keeping -- keep in mind, was calculated using data through 2014. We're in -- in 2015 now, so we're able to look at what's happening in 2015 to see how well it tracks to the trends that were calculate in -- in the attrition study.

And I have the analysis here. Just give me one second.

Q. Sure.

A. I can --

JUDGE FRIEDLANDER: While we're waiting, I'll just mention that I did forget that you need to do redirect, Mr. Shearer, or at least be offered the opportunity for redirect, so we'll get to that as soon as we get clarification questions from the Bench. Thank you.

MR. SHEARER: That's fine.

A. So if you do not remove Project Compass from the gross transfers to plant in 2015, the growth rate in -- the actual growth rate in gross plant is much higher than what would have been -- than what it would have been under the trended expectation.

Once you remove Project Compass from the data through the first eight months of 2015, my trend analysis would have predicted approximately $70 million in transfers

to plant. The Company has transferred $75 million to plant. This is for electric.

BY COMMISSIONER JONES:

Q. Okay.

A. And for natural gas, my trend analysis would have projected about $15.4 million through the first eight months of 2015. The actual was 15.5.

So what that tells me is that the -- that trend analysis is pretty good at representing what the Company is doing in -- in actuality, and it also tells me that Project Compass appears to be an anomaly with respect to the historical data.

And I say it appears to be an anomaly because, once you remove Project Compass, the growth rates are nearly identical between the -- the attrition analysis and the reality.

Q. Right. And is that due to the lumpiness of the inclusion of Project Compass in plant in service? It was, like, four- -- $45 million in February of --

A. Exactly.

Q. -- '14; right?

A. Yes.

Q. So if the Commission were to reject Mr. Gomez's adjustment and leave Project Compass in plant in service, is -- is the Company's methodology sound, in terms of the

escalation factor for plant in service?

A. Yes. They have the same basic methodology that -- that I've used. Yes. And I -- I believe that it is sound.

Q. So if the Commission were to reject Mr. Gomez's adjustment, we would go back or --

A. We have the same escalator.

Q. Okay.

A. Sorry. I didn't wait.

Q. You have the same escalator on that?

A. I believe -- I believe that's -- or very -- very close, because they used 2007 to 2014 to calculate the growth rate, and I used 2009 to 2014, but the growth rates for plant are very similar between my analysis and the Company's, and the Company has included an after-attrition adjustment for Project Compass, just as I have.

Q. Okay. Finally, in regards to the question of net benefits, were you in the room yesterday when I think I asked Ms. -- Ms. Andrews about the pension and post-retirement medical benefits?

A. Yes. I believe so.

Q. Okay. So they're asserting it's volatile, and so the volatility leads to -- it's kind of like your Project Compass. I guess the logic would be the same. It's kind of lumpy and volatile, and we should smooth it out.

And so they're recommending an adjustment to your

escalation factor, as you know, in their latest testimony, that brings it up to 4.9 percent or -- what is it? Let me see what their final number is. No. I'm sorry. For the record, it's 5.16 percent.

And your number, just for the rec- -- just so the record is clear on this, what is your final number? The arithmetic average of A and B, is it 2.41 or 2.42 percent? I have two numbers in our Staff memo here, and I know you're a very precise person.

A. It is, on an annual basis, 2.41 percent.

Q. It's 4-1. Okay.

So is that the basic difference between the two, 2.41 percent versus 5.16 percent, the Company and you?

A. Yes. That's -- that's the basic difference.

Q. And isn't that a very important difference for an atti- -- that -- that -- that produces large differences, as you said before, in the revenue requirement?

A. Yeah. It -- it does, but as I mentioned before, I don't think that the -- the analysis that they performed on operating expenses was -- was done accurately. I would have -- have used a different formula for the trend analysis, but you had asked about pensions --

Q. Yes.

A. -- and post-retirement, and so the Company had removed that data from its operating expenses and then

trend the remaining operating expenses, so operating expenses less benefits.

Q. Right.

A. They've trended those non-benefit expenses to get an escalation factor, but then they apply that escalation factor to operating expenses that include benefits. So the --

Q. I see.

A. -- the underlying assumption is -- on their part, is that benefits will grow at the same rate as non-benefits, and I don't believe that they're -- the Company has provided any evidence that that's true. In fact, it appears that they're growing at -- at different rates, the benefits expenses and the non-benefits expenses.

Q. So if we were to adopt an attrition analysis, you would recommend that we reject that -- that adjustment for this, quote, "volatile," in the Company's words, factor of pension and post-retirement medical and just adopt your arithmetic -- your escalation factor of 2.41 percent; right?

A. Yes.

COMMISSIONER JONES: Okay. That's all I have.

JUDGE FRIEDLANDER: Thank you.

Mr. Shearer, did you have any redirect?

COMMISSIONER RENDAHL: I actually have just one follow-up.

JUDGE FRIEDLANDER: Oh, okay. Okay.

COMMISSIONER RENDAHL: Sorry to delay your lunch, Mr. McGuire, and all of ours.

THE WITNESS: It's okay.

*** EXAMINATION BY COMMISSIONER RENDAHL ***

BY COMMISSIONER RENDAHL:

Q. So staying on that point of the electric O&M escalation rate, so you are -- you do an average of 3 percent for 2007 to 2014, taking the Company's original proposed escalation rate, and then using that period of time where there's a change, 2013 to 2014.

But in your testimony, on page 40, starting at line 8, you raise questions about the support for the 3 percent growth rate that Avista uses. And since that time, Avista, in the rebuttal, has -- has changed that.

So what is your support now based on the questions you raised in your testimony about the reasonableness of that 3 percent escalator for the 2007 to 2014 period? Have you done independent analysis of that to justify the 3 percent? That's a question that I have remaining on this escalation rate question.

A. Yes. It's a good question. And no, I did not provide independent analysis. I reviewed the Company's

support for the initial 3.0 percent growth rate in operating expenses and found very little support for any rate of growth.

So I -- I, to be honest, used some amount of judgment. I found a rate of growth between 2013 and 2014, recognized that it's problematic to use a single year's rate of growth -- it's much better to have more years -- so I just -- and looking at the historical data, I noted that there's likely to be upward pressure on operating expenses, just the -- the shape of the data, historically, seemed to be quite a bit steeper than the rate of growth annually.

However, having -- having said that, if you were to reject that averaging methodology and instead just go with the annual growth rate as I have calculated it, the change in revenue requirement is about a half million dollars for electric and gas, so it's not a large change to revenue requirement using one methodology or another in this case.

COMMISSIONER RENDAHL: Okay. Thank you.

JUDGE FRIEDLANDER: Thank you.

Mr. Shearer, did you have any redirect?

MR. SHEARER: No redirect, Your Honor.

JUDGE FRIEDLANDER: Okay. Thank you. I figured if you had, you'd have stood up and shouted, so.

MR. SHEARER: We covered a lot of ground.

I'm not sure there's much left to ask.

JUDGE FRIEDLANDER: Okay. Thank you.

So it's a little after noon and about time to go off the record. Do we have anything preliminary before we go off the record and discuss lunch?

Okay. Then let's go ahead and go off the record. Thank you.

(A luncheon recess was taken from 12:46 p.m. to 2:03 p.m.)

(Ms. Davison left the proceedings.)

JUDGE FRIEDLANDER: All right.

CHAIRMAN DANNER: So is Mr. McGuire excused?

JUDGE FRIEDLANDER: I don't know. Maybe we should take a vote? But we do thank you for your testimony. Thank you.

And I should say, we're back on the record, and I'm joined by Chairman Danner, Commissioner Rendahl, and Commissioner Jones, and we have Mr. Hancock ready to testify.

So if you'll stand and raise your right hand.

CHRISTOPHER S. HANCOCK, witness herein, having been first duly sworn on oath, was examined and testified as follows:

JUDGE FRIEDLANDER: Thank you. You can be seated. And --

*** EXAMINATION BY MS. CAMERON-RULKOWSKI ***

BY MS. CAMERON-RULKOWSKI:

Q. Good afternoon, Mr. Hancock.

A. Good afternoon.

Q. Could you please state your full name?

A. My name is Christopher Scott Hancock.

Q. And where are you employed?

A. I am employed by the Washington Utilities and Transportation Commission.

Q. And what is your position with the Commission?

A. I am a regulatory analyst in the energy division.

Q. And are you the same Mr. Hancock who prepared testimony and exhibits on behalf of Staff?

A. Yes.

Q. And if you could please turn your attention to Exhibits CSH-1T, -2, -3, -4, -5, -6, -7, -8, and -9T, do these comprise your testimony and exhibits?

A. Yes, they do.

Q. Do you have any corrections to these exhibits?

A. It should be noted that the revisions to Mr. McGuire's exhibits should also be reflected in my Exhibits CSH-2, page 2, and CSH-3, page 2.

Q. Do we need to make any corrections manually to

those exhibits?

A. Yes. I didn't quite capture the exact figures that Mr. McGuire noted, but they should be reflected on page 2 of both of those exhibits.

MS. CAMERON-RULKOWSKI: Your Honor and Mr. Chairman and Commissioners, we will refile anything that we need to make sure that Mr. Hancock's exhibits are clear.

JUDGE FRIEDLANDER: Thank you.

MS. CAMERON-RULKOWSKI: Mr. Hancock is now available for examination.

JUDGE FRIEDLANDER: Thank you.

I believe we have questioning from Ms. Gafken.

MS. GAFKEN: Yes, and they should be relatively quick.

JUDGE FRIEDLANDER: Okay. Thank you.

MS. GAFKEN: I don't think I'll use the full 15 minutes that I originally estimated.

JUDGE FRIEDLANDER: Okay. Thank you.

*** EXAMINATION BY MS. GAFKEN ***

BY MS. GAFKEN:

Q. Good afternoon, Mr. Hancock.

A. Good afternoon.

Q. I have just a very quick clarifying question or

maybe two, because there's two exhibits on the changes, based on Mr. McGuire's changes. So looking at your Exhibit CSH-2, the changes that you will be making just apply to lines 11 through 13; correct?

A. Lines 11 through 14 on --

Q. I'm sorry. 14.

A. -- page 2 of CSH-2 should be updated, and the same lines on page 2 of CSH-3.

Q. Okay. Thank you.

If you could turn to your testimony, your direct testimony, which is Exhibit CSH-1T, and go to page 16?

A. Okay.

Q. There, you state, "Historically, the Commission has preferred AMA rate calculations adhering to the matching principle. However, as noted above, using an EOP approach has been identified as a tool for addressing regulatory lag and, more importantly, attrition"; correct?

A. It does say that.

Q. In your revenue calculations, the historic test period you use is based on the 12-month -- 12 months ended September 30th, 2014; correct?

A. Yes.

Q. And in your analysis, you roll the rate base forward to end-of-period balance as of December 31st, 2014; correct?

A. That is correct.

Q. December 31st of 2014 is three months past the test-year period; correct?

A. That is correct.

Q. And you didn't roll forward expenses and revenues to the end of December 31st of 2014; is that correct?

A. That is correct.

Q. Is it your position that the matching principle is maintained when plant is extended three months beyond the test period but other components such as expenses and revenue are not?

A. The matching principle is not as -- as adhered to as well as it is with AMA and A- -- in the 12-month rate year -- or I'm sorry, the 12-month test year.

Q. Shifting gears a little bit, and this is a question that's -- that was similarly posed to Mr. McGuire, but if the Commission sets rates based on the attrition adjustment, is there a role for looking at individual adjustments for a company, and if so, what is that role?

A. Your question is why do we bother looking at individual adjustments when we're using an attrition allowance?

Q. Putting a very fine point on it, yes.

A. The modified historical test year approach that I've presented in my testimony allows the Commission to see

what a more traditional rate-making approach would look like for this Company in this rate case.

It also allows Mr. Gomez to do his prudency review so that any rates set based on Mr. Gomez's recommendations in this case -- or sorry, any rate-based additions made dependent on Mr. Gomez's testimony would be carried forward in future rate cases. So there still is a role for reviewing the individual adjustments in a modified historical test year approach.

Q. And I understand that that's -- that's the role in this particular case, but going forward, if the Commission decides that attrition and attrition adjustments is -- is an ordinary way of setting rates, would that same individual adjustment analysis have a role under that landscape?

A. I believe so, because the attrition analysis done by Mr. McGuire is a check of the sufficiency of the revenues produced through the modified historical test year approach, so I would imagine that any future rate cases in which an attrition adjustment is considered would also be accompanied with a more traditional modified historical test year approach with limited pro forma adjustments.

MS. GAFKEN: Okay. Thank you. Those are my questions.

THE WITNESS: Thank you.

JUDGE FRIEDLANDER: Thank you.

Mr. Cowell, do you have some cross?

MR. COWELL: None from ICNU, Your Honor.

JUDGE FRIEDLANDER: Okay. Thank you.

That's all I had for cross-examination, so do we have redirect?

MS. CAMERON-RULKOWSKI: No, Your Honor.

JUDGE FRIEDLANDER: Okay. And do we have any Commissioner questions from --

COMMISSIONER JONES: Just -- just one.

*** EXAMINATION BY COMMISSIONER JONES ***

BY COMMISSIONER JONES:

Q. So on that last question, Mr. Hancock, I think the -- the Company asserts that modified historical test year and attrition analysis are totally separate; right?

A. I believe that that is their presentation of the matter.

Q. But your testimony in this case is that they are -- I'll use an analogy -- joined at the hip; you need to have a comparator, your analysis, and for the arithmetic to work the way Staff wants it to work, you need to do both?

A. The manner in which I would frame things is that, with the Company's case, their, quote, "pro forma cross-check study" was a tool to assess the reasonableness

of their attrition study, whereas in Staff's case, the attrition study done by Mr. McGuire tests the sufficiency of the revenues produced through the modified historical test year approach that I've used. So perhaps this is what you're getting at.

Q. So let me get this right. So in Staff's case, the attrition analysis is derivative of your testimony, the modified historical test year?

A. We -- we conducted our two analyses independently of one another and then, upon finding that the attrition analysis produced different revenue requirement results than the modified historical test year, that told Mr. McGuire that the revenues produced through the modified historical test year were insufficient for this Company in this case.

Q. Right. And I questioned -- were you in the room when I questioned Mr. McGuire about that this morning -- or this afternoon?

A. Yes, sir.

Q. Yes.

So Mr. McGuire asserted that the end result of your analysis, modified historical test year, with Project Compass and other adjustments, produced an insufficient return for the Company?

A. That was his determination, yes.

COMMISSIONER JONES: Yeah. Thank you.

*** EXAMINATION BY CHAIRMAN DANNER ***

BY CHAIRMAN DANNER:

Q. So I have one question. Is this -- we were -- one of the questions was about adopting attrition going forward. Your analysis is really just looking at this case; right? You're not putting together a template that you're seeing that would be used going forward; is -- is that correct? For all utilities in all cases.

A. Yes. I haven't spoken more broadly on attrition. I presented a modified historical test year with limited pro forma adjustments as the Commission would expect to see in other rate cases as well.

CHAIRMAN DANNER: All right. Thank you.

*** EXAMINATION BY COMMISSIONER RENDAHL ***

BY COMMISSIONER RENDAHL:

Q. I just have one question, Mr. Hancock, and that has to do with the definition of major plant additions.

A. Yes, ma'am.

Q. So you recommended, based on the Commission's rule, a basis for Avista based on that rule; but in Mr. Gomez's testimony, he includes some pro forma plant additions, net booked amounts that are lower than the threshold. So is there an inconsistency?

Can you explain whether that is consistent with

your -- your definition of a major plant addition and whether we should be looking at recorded net booked amounts following the definition of a major plant addition or not?

A. Yes. I believe this confusion comes from the somewhat Byzantine way that I interpreted the -- the WAC, but -- I may need a moment to turn to that section of my testimony.

Q. Go ahead. I'm sorry. I don't have a page number for you.

A. Oh, I'll find it.

Q. I think it starts on page 19.

A. I identified WAC 480-140-040 on page 12 of CSH-12, and I'll direct you to lines 5 through 12, which quotes the WAC.

Here, I'll have to use some emphasis on certain sections, but it notes that "Major construction projects will be determined for companies as all projects where the Washington-allocated share of the total project is greater than five tenths of 1 percent of the Company's latest year-end Washington-allocated net utility plant in service, but does not include any project of less than $3 million on a total project basis."

So the first step in identifying which projects may be considered major is to look at the cost of the project on the total project basis. First, that must

exceed $3 million. Then, we identify at which level -- or the dollar amount that reflects five tenths of 1 percent of the Company's latest year-end Washington-allocated net utility plant in service.

So this is a different standard. That is a simple arithmetic process, and that might be where some of the confusion is coming through. So first, a project must be greater than $3 million on a total project basis, so across all jurisdictions, across all industries; and then we look at the Washington-allocated portion of that project for the specific industry, and that is what the half of 1 percent standard applies to.

COMMISSIONER RENDAHL: Okay. Thank you.

THE WITNESS: Thank you.

COMMISSIONER RENDAHL: That's all I have.

JUDGE FRIEDLANDER: Okay. Thank you. So if there's nothing further, then you're dismissed, and thank you so much for your testimony.

And next, I believe we have Mr. Gomez.

Okay. If you'll raise your right hand.

DAVID C. GOMEZ, witness herein, having been first duly sworn on oath, was examined and testified as follows:

JUDGE FRIEDLANDER: Thank you. You can be seated.

So I will remind -- I believe Avista is the only party that will be cross-examining the witness, but just to remind people, there's a lot of confidential information in Mr. Gomez's testimony and exhibits, so if we can avoid that, it would be great. If not, I'm going to need a heads up, so thank you.

*** EXAMINATION BY MS. CAMERON-RULKOWSKI ***

BY MS. CAMERON-RULKOWSKI:

Q. Good afternoon, Mr. Gomez.

A. Good afternoon.

Q. Please state your name.

A. David Carlos Gomez.

Q. And who is your employer?

A. My employer is the Washington Utilities and Transportation Commission.

Q. And what is your position with the Commission?

A. I'm the assistant power supply manager, and I work for the regulatory services division.

Q. And are you the same Mr. Gomez who prepared testimony and exhibits on behalf of Staff?

A. I am.

Q. And does this testimony and these exhibits comprise DCG-1T, -2, -3, -4, -5C, DCG-6 though -14,

EXAMINATION BY CAMERON-RULKOWSKI / GOMEZ

DCG-15C, DCG-16C, -17C, -18C, -19, -20 through -30, -31C, -32 and -33?

A. It does.

Q. Do you have any corrections to -- that need to be made to your testimony or to the exhibits?

A. No, I do not.

MS. CAMERON-RULKOWSKI: Mr. Gomez is available for questions from the Bench and from counsel.

JUDGE FRIEDLANDER: Thank you.

Mr. Meyer?

MR. MEYER: Thank you.

*** EXAMINATION BY MR. MEYER ***

BY MR. MEYER:

Q. You and other Staff members have raised questions about why the Company invested as it did in distribution plant; correct?

A. Yes.

MR. MEYER: Could the witness be provided a copy of LDL Exhibit 2, please? I just have my one working copy. It's Larry La Bolle's Exhibit No. 2.

THE WITNESS: I have it.

BY MR. MEYER:

Q. Mr. Gomez, have you reviewed in detail this document?

A. I -- when I looked at it -- I believe I looked at

it in the course of my examination, yes.

Q. Did you review this prior to drafting and submitting your testimony?

A. Yes, I did.

Q. All right. And give or take, would you agree that this document summarizes approximately 24 different asset management programs?

A. Yes. I mean, yes, I -- I think it -- it does, and I'll take your word for it that it does.

Q. All right.

COMMISSIONER RENDAHL: Mr. Meyer, before you go further, so I just have a cover page, because I think this was information provided on a disk.

MR. MEYER: Oh, do you? Okay.

COMMISSIONER RENDAHL: Is that -- is that correct?

MR. MEYER: Is that true of everyone on the Bench?

JUDGE FRIEDLANDER: No.

CHAIRMAN DANNER: No. This is the asset management distribution program?

MR. MEYER: Yes.

COMMISSIONER RENDAHL: All right. I'll look for it.

CHAIRMAN DANNER: We will share.

EXAMINATION BY MEYER / GOMEZ

BY MR. MEYER:

Q. Mr. Gomez, irrespective of which of the 24 programs we're talking about, what is the purpose of the asset management program?

A. Are you asking me to refer to my testimony? I think I --

Q. No. I'm asking you about this particular exhibit and your understanding of this exhibit. What is an asset management program designed to do?

A. My understanding of an asset management program is it's where the Company examines its assets, looks at them both in terms of what their requirements are of -- for doing its business and ascertaining what level of investment it will need to make in order to maintain those assets in a relatively good working order.

Q. Would you agree that these programs, of which there are 24 summarized here, serve to address the issues, needs, cost-effectiveness, and other analyses meant to support the prudence of the Company's distribution plant investment?

A. I believe in my examination I find -- I found it difficult to make -- connect those dots and to make that -- to make a connection between what the actual investment the Company was talking about relative to its business cases and this document here.

I think that's what -- the point that I was making in my testimony is that it's not evident and apparent in -- in the documentation provided in this case and in the testimony provided in this case by Ms. Schuh that makes the connection to this document.

Q. Okay. But I'm asking you specifically about this, I'm going to call it, a discipline, if you will, this discipline of asset program management. Have you looked at each of these programs to determine whether they identify a need that must be addressed in a cost-effective manner?

A. Again, I'm going to ask you to kind of look at the scope of my examination, which I describe in my testimony, which it didn't include examining every single one of these transmission and distribution cases, at least from the perspective of the testimony provided in Ms. Schuh, which she had over a hundred different ERs to examine.

As Mr. Hancock had explained, we used the -- our process to, if you will, filter out what we consider the major capital additions, of which case, some of them are, I believe -- I'd have to look exactly -- but I know for wood pole management, for instance, was one of them, it was one of the ones included in "major."

To the extent I examined every single one, we just simply didn't have enough time within this case to examine all of the different projects that you include here in this

document.

Q. How would you characterize your understanding of the actual asset management process of Avista? Would you say you are particularly well informed?

A. Again, I wasn't asked to examine Avista's asset management program. I was asked to examine the capital projects, their amounts, and whether or not they should be included in rates. That was the scope of my examination, not whether or not I understood and some kind of a description of the asset management program that Avista has.

And I think that -- my reporting recommendations, I think, acknowledge the fact that there's a great deal that Staff needs to know about this in order to determine what is the right level and the right prioritization of the -- of expenditures on capital that need to happen.

Q. Now, Mr. Gomez, we're not -- I'm not asking you about what you did do, I'm asking you about what you didn't do; and my questions are focused on the asset management program as a driver of distribution investment.

So do you dispute that asset management, that focus on asset management, has been largely responsible for the growth in the Company's distribution plant investment?

A. I can't make that assessment. Again, that wasn't part of the scope of my examination.

EXAMINATION BY MEYER / GOMEZ

Q. Therefore, if -- would you agree that, if one is to understand the answer to the "why" question that has been posed throughout Staff's testimony, why distribution plant is invested in, wouldn't it be important to have at least a working understanding of the Company's asset management program?

A. Yes. And that's why I recommend reporting and taking that process outside of the adjudicative process so that we can all have an open discussion and come to an understanding of what that asset management program is and what does that mean in term of investment, both in capital spending and the transfers to plant.

Q. But before presenting testimony in this case and before reaching the conclusion that you were or other Staff members were at loss as to explain why the Company was doing this, it might have been helpful to have reviewed the asset management programs already in place; correct?

A. Again, I think that you have to understand what the task was to Staff to do. Considering the fact that we've got back-to-back rate cases, our period of time to be able to examine what the Company is bringing forth before us, we look at the exhibits that are presented in the Company's direct case, and in that, we -- we look for it to make a demonstration in terms of what it's asking for in rates.

And to that extent, we -- we then fan out to try to find context and information that helps support or that helps rebut the Company's case, and in terms of developing my own testimony and my own opinion, with regards to what the level of capital additions for the 2015 period should be included.

So to the extent that the asset management distribution program update that you have provided for me, I used it to be able to help me understand not only the context but the greater variability between -- just in simple -- two rate cases. We're talking about Mr. DeFelice's exhibits and then, now, Ms. Schuh's.

A significant change and variation in expenditures and capital transfers amount, and trying to find some explanation for that in the context of what the Company is trying to do in its asset management program in terms of prioritization.

Q. Mr. Gomez, during the Staff's preparation of this case, isn't it true that Staff participated in two -- two different on-site visits to review capital projects at the Company's headquarters, one in May and one in July?

A. Yes. And my colleagues Mr. Hancock and Mr. McGuire participated there, and we conferred afterwards with regards to the results of what they found.

Q. But you -- you chose, for whatever reason, not to

participate?

A. Well, I think that, given the workload and we had, in order -- and considering all the things that we had to do, you know, it -- we don't need three people there when two people can get it done.

And we communicate fairly well with Staff on issues, and so all of that information was downloaded by Mr. Hancock and Mr. McGuire. So the results of what they discovered, I -- I learned, and so I didn't, in any way -- the -- in not knowing that information, I mean, it's -- how can I say it? There was nothing that they did not uncover that wasn't communicated to me.

Q. You discuss capital reporting, and I believe you recommend an expanded use of capital reporting in between rate cases; correct?

A. Yes.

Q. Thank you.

And let's just very quickly recount where we've been in the last two years in that regard. Isn't it true that Avista began a few years ago with quarterly capital recording really as a result of a previous rate case in which, in between rate cases, the Company would provide information on actual capital spend? That sort of thing?

A. That's correct.

Q. And that process involved, until it was changed,

five different quarterly reports?

A. Yes.

Q. And then weren't you quite active in then expanding the scope of that quarterly report, turning it into a semiannual report and adding some additional features?

A. Yes. And that was in anticipation of the fact that the Company would be filing annual rate cases, and given the fact that I've seen both the evidence that was provided and testimony that was provided in exhibits by Ms. Schuh and Mr. DeFelice in two separate rate cases, I really found that the material that was presented in their direct case, those exhibits were deficient.

We needed more information to be able to understand what was going on with capital spending. More importantly, that the Company was spending money, but how quickly could it transfer and actually put these into service? Which is, I think, the real main issue.

Not expenditures, as Mr. Norwood points in his rebuttal testimony, but what was the transfers to plant? What is used and useful plant that we should establish rates from?

Q. So in working with Staff and augmenting, if you will, those semiannual reports to be responsive to Staff's concerns, the Company supplied information on capital

projects in February of this year and then again, more recently, in September; correct?

A. Yes. And I point to that in my testimony, that it yielded good results as far as being in -- the usability of that reporting in this case.

Q. Just by and by, does any other regulated utility in this jurisdiction provide that level of capital reporting in between rate cases?

A. Not to my knowledge.

Q. So the Company, with the cooperation of Staff, has developed a way of providing for capital reporting, and according to your testimony, it's just within the last few years that we've developed this process, for better or worse; correct?

A. Well, I think that there's the obligation for capital reporting, and at least construction budgets is already included as an obligation for the Company.

Expanding from that, I think that you have to take into context what the Company's already said it's doing: this -- large capital expenditures on a -- on a -- on an annual basis; on -- every year, coming in for rate cases; every year, the information that's provided on direct case is, in my opinion, deficient, and we are unable to be able to use it to ascertain exactly what the level of capital -- or excuse me, what the level of net plant is in order to

accurately set rates.

So the point of this -- the point of my recommendation is so we can take a step back, outside of the adjudicative process, and have a -- have a conversation with regards to what the Company is spending money on and what the Company -- what the context is behind this prioritization and try to get ahead of this before we have a rate case and we're already locked into the ex parte wall, essentially, as we've -- the communication between Staff and the Commission is limited.

Q. But, Mr. Gomez, wasn't that precisely the purpose of these most recent two iterations of this extensive capital reporting?

A. The expectation was that the Company would take what -- what -- would take the information that I provided in my last testimony in the 2014 case and apply it to improve the quality of the data it presented in testimony and exhibits in its direct case, and it didn't.

Q. Thank you.

MR. MEYER: That's all I have.

JUDGE FRIEDLANDER: Thank you.

Any redirect?

MS. CAMERON-RULKOWSKI: Yes, Your Honor. Just one moment.

JUDGE FRIEDLANDER: Okay.

*** EXAMINATION BY MS. CAMERON-RULKOWSKI ***

BY MS. CAMERON-RULKOWSKI:

Q. Mr. Gomez, do you recall reviewing Exhibit KKS-5? And if you need a copy, I'd be happy to bring you one.

A. Yes. If you could bring me a copy, it'd be great. And thank you. I have it.

Q. Mr. Gomez, could you give a brief description of your understanding of the purpose of KKS-5?

A. KKS-5 has a cover sheet for a business case which includes a number of different pieces of information. It includes what the spend amount was for -- for a particular period, and then it includes transfer-to-plant amounts for the -- for whatever period that's presented here.

For instance, in the case of KKS-5 and the one that I'm looking at -- and I'll give the Commission time to find it. If you can go to Exhibit No. KKS-5, Attachment Number GP-1, which is the very first business case.

Q. And while they're looking for that, could you give just a ballpark description of about how many pages are in this exhibit?

MR. MEYER: Your Honor, I object. I object to this line of questions. If this -- if this is redirect, a redirect of what? My questioning was just focused on his familiarity with the asset management reports as a tool. And if she wants to redirect, by all means, do so, but

we're far afield of my examination.

MS. CAMERON-RULKOWSKI: This discussion has to do with Mr. Gomez's evaluation of the Company's case for its capital additions, and the asset management questions were directed to exactly that testimony. And my questions are going to look at what Mr. Gomez did look at when he evaluated the capital additions of the Company.

MR. MEYER: And Your -- Your Honor, my --

JUDGE FRIEDLANDER: Yes.

MR. MEYER: My very question was, with the witness, "I'm not asking what you did look at; I'm asking what you didn't look at," and that was the whole point of my examination.

MS. CAMERON-RULKOWSKI: Well, I -- I think, in this case, we need to -- the -- the question "what you didn't look at" also includes "what you did look at," and it -- the -- the question here is, it's about capital additions, generally, and it's about what the Company provided in support of their asset management program and their capital expenditures program.

JUDGE FRIEDLANDER: I think that the questioning was fairly limited to the scope of the asset management or the asset management program. If you have some questions about that, certainly, please -- please feel free to redirect. I think that we have adequate

information in Mr. Gomez's testimony about what he did look at.

MS. CAMERON-RULKOWSKI: No further questions, Your Honor.

JUDGE FRIEDLANDER: Okay. Thank you.

Are there any questions from the Bench?

*** EXAMINATION BY COMMISSIONER JONES ***

BY COMMISSIONER JONES:

Q. Mr. Gomez, could you refer to DCG-20 in your testimony? It's the -- as Mr. Meyer referenced, it's one of the semiannual reports that the Company is obliged to file with the Commission.

A. I'm having problems with the electronics, here.

Q. Are your electronics working?

A. I'm generally familiar with it, so let's try to work with that. I can't get it open, Commissioner.

Q. Would you like a copy? Well, I'm -- my questions are going to be fairly general. I'm not going --

A. All right.

Q. -- to ask about specific capital projects.

A. I'm -- I'm a bit challenged here with -- I have big carrot fingers, and they're hard to work on the surface. I think I'm doomed when I transition to the --

Q. Ms. Cameron-Rulkowski can help out with narrower fingers.

EXAMINATION BY COMMISSIONER JONES / GOMEZ

A. Dexterity, yes. My mom always wanted a surgeon, and I was doomed. I couldn't -- there it is. All righty. Okay. We have it, Commissioner.

Q. Are you there?

Well, I'm just going to refer to the title page and the -- and the -- pages 1 through 4, but -- and by way of background, this -- this compliance filing does come to me as well. It comes to my desk. I have looked at it.

So I guess my question is, I have never heard anything from Staff, at least to this Commissioner, saying, "This is a compliance filing. I would like to update you or I'd like to bring you up to speed. This was a compliance order."

So what was -- what was your intent when you -- you know, the order came out, these compliance filings came in, and these updates are coming in. What was your intention on briefing the Commission -- the Commission, and specifically, the three Commissioners on this?

A. Well, when we look at the -- the information that's been provided, I think that the -- you have to take into consideration the fact that the Company's filing, you know, rate cases right behind these reports.

So to the extent that we had a window of time to be able to do actual conferring with the Commissioners about what we were finding, what you have to understand is

that the time that passed before we could have a relevant conversation with the commissioners, we already had the ex parte walls up on the next case.

Q. You just stated that there -- the information in these reports are deficient. So could you point out to me -- these -- these appear to be fairly comprehensive. I mean, they -- how many pages do we have? 40 or 50 pages? So do you have a summary? You have a 4-page summary. You have --

A. Well --

Q. -- breakdown -- excuse me?

A. If I may add, Commissioner -- sorry.

Q. You know, just business case, capital budget report. You have budgeted spend, actual spend, broken down by line item category. So what's deficient in here? Can you give me a few examples?

A. The term "deficiency" that I was applying to the Commissioner -- to the exhibits that were provided in the direct case by the Company, when I'm saying deficient, I'm not saying that the Company -- that there wasn't effort or that -- that -- you know, that the Company -- I mean, I have to be -- I'm in -- in this case, I have to be honest, because I spent a large amount of time using these exhibits and trying to conscientiously arrive at a position, understand the Company's position, and arrive at the task

that I had, which was to determine what the capital plant additions would be for the 2015 period, and in the previous case, to do really the same thing.

When I looked at the information that's provided, it's deficient because, first of all, you have very general information with regards to the transfer-to-plant amounts and the expenditure amounts. What the Company puts on that cover sheet is almost guaranteed to change for a number of reasons.

And I think Mr. Norwood and other witnesses for the Company have talked about how the directors of the Company, the capital planning group, on a routine basis, on a monthly basis and yearly basis, change the numbers all the time for different reasons. So that's part of the problem with these exhibits.

The second thing is, is if you look at the back of the exhibit itself, there's a -- and I'm going to -- excuse me for a second -- open them.

Q. I have it open right now. Are you talking about the transfers-to-plant actual section? That's at the back of this report.

A. Well, I'm actually -- I'm back out on to the exhibit, so I guess maybe we can't talk about the exhibits.

Q. Okay.

A. But what I was referring to in the deficiency in

there is not -- the deficiency part, I'm not saying that -- that the compliance filing that the Company's provided is deficient.

What I'm saying is is that there's a broader conversation that would be helpful for Staff to be able to understand what's going on, both from an expenditure and a transfer-to-plant amount that's not present in the -- in the direct cases that the Company has filed.

And what's been frustrating about this is that, when we get the direct case, which is Ms. Schuh's exhibits, and you look at the capital program business case, which is a -- essentially, I believe it's an Excel -- a printout of an Excel spreadsheet, the information that's provided in there -- and the Company in a data request to me had indicated that, "We don't update these. We do them once, and the project's done, and then this is the information you have."

Well, a lot of the details associated with -- went into -- into creation of this exhibit have changed and they're no longer relevant. So what's happened in every single case that I was trying to do my examination is I had to go in and ask very specific data requests on all 14 projects that I examined, and that was --

Q. Okay.

A. -- very strenuous and tedious, whereas if the

Company had provided better information, in the case of the reporting that I recommend, I think we could make the process much easier for everybody.

Q. But are the 14 projects included in this compliance report? This update? I assume that they are. The 14 projects that Staff agreed to put in and do a pro forma addition are in here; right?

A. Yes.

Q. So what you're saying is that you needed further information beyond what Ms. Schuh provided in these reports to -- to -- to make your case?

A. Well, remember that the -- the report contains a retrospective and a prospective number. Okay? So to the extent that we have a retrospective number, it's good to come back and then compare what the Company said in the last case it was going to do -- remember, it's asking for rates based on what it -- what it had said it was going to do -- and to look at that and make some kind of judgment in terms of, what does the prospective, this report, and the testimony that the Company had make sense with regards to determining what capital addition amount we should use at all?

I mean, and the sense is that the recommendation that I believe that my team is looking from me is to determine a known and measurable, used and useful amount

that I can recommend for them or recommend for Mr. Hancock so that he can complete his portion of the study.

And to do that, I have to ascertain actual numbers, and I have -- I have to make a factual determination, and that -- that in itself, with the exhibits that Ms. Schuh provided, I could not do that.

Q. Didn't this compliance obligation come out of a two-year rate plan? I think it was the 2012 rate plan. It was a two-year rate plan with a -- with an estimated adjustment in 2014?

A. I believe so, Commissioner.

Q. And as I recall that case -- I don't know if you were testifying on this portion of the case at the time -- I think this was a close call by the Commission, at least for me, in the 2- -- 2014 adjustment factor.

And so the Commission -- I think in our order, we stated that -- I don't have it in front of me -- we wanted to be sure that the -- that the adjustment factor -- I think it was 3 percent -- was being reflected in the same sort of analysis that Mr. McGuire's doing.

You know, you look at plant in service, expenses, and try to cross-check that with the actual thing, the actual number in a two-year rate plan. Was that your understanding of that two-year rate plan?

A. Well, I did -- I did read Ms. Breada's testimony.

EXAMINATION BY COMMISSIONER JONES / GOMEZ

It was the Staff person that had analyzed this particular area of Avista, I believe, in the 2012 case. And I believe that Ms. Breada was as equally challenged by the quality of the information presented by the Company in terms of being able to arrive at this -- arrive at a number of capital additions that met the Commission's statute -- statutory requirements for known and measurable and used and useful.

Q. Well, I guess what I'm trying to get at is, is -- so you're -- again, this is not a two-year rate plan. This is a one-year rate period, and I take your point on filing annually. The Company basically has said that they're going to file annually.

But it seems to me if there is a two-year rate plan and there's an adjustment factor, especially for that second year, it behooves the Commission Staff to come up with a better way of trying to engage the Commission, the Commissioners, and to keep us abreast, to keep us updated as to, you know, how the actual spend, the plant transfer to service, how that is actually going on.

Because these -- I'm just telling you, these reports come in, they sit on -- at least on my desk. We're kind of busy. So it -- that's not a question. It's more of a comment, but I guess my question is, your best solution to this challenge, if you will, is this updated reporting requirement on T and D, on transmission and

distribution, investments in some sort of a collaborative role, a new study?

That is in Mr. -- I think it's in Mr. McGuire's testimony. It's in Mr. Ball's testimony. That's your best solution to this challenge?

A. Well, Mr. McGuire supports a separate study on transmission and distribution. My -- my push covers all of -- all of the different areas of the Company's capital spending.

And I think that you brought up a very good point, Commissioner Jones, is that, indeed, we would like to engage the Commissioners, and I think my recommendation establishes that process, and to do so, again, in a very open way which allows for the kind of dialogue and conversation that's required to get to an understanding of what the Company's capital planning asset management plan is.

Unfortunately, when we're in this adjudicative process year after year and then analyzing a compliance report just for us to be able to get a handle on what the trending is and get better information, I think that we are continuously going to be in this situation.

Q. But I think, for the record, in 2013 and '14, we were not always in adjudicative process; right? It was two years.

EXAMINATION BY COMMISSIONER JONES / GOMEZ

A. Well, I -- I -- I -- I acknowledge that your -- your memory's probably better than mine. Again, I'm just thinking from last year at this time, we were just going through the same iteration, and now hearing Mr. Norwood and other folks from the Company say that for February, we've got another one coming, so it's going to be a routine now.

So, you know, and I think that what we can do to improve what the Commission knows and what Staff knows is going to -- you know, is going to, I think, think outside the box and make -- and simplify the dialogue between the Company and Staff with this regard. And to do so in a focused way and the way that we need to have other parties present, too, that can ask the hard questions and -- that Staff doesn't always get to see.

And this goes beyond just doing a PowerPoint presentation and talking to us about it. I think it has to be a little bit more involved. And my recommendation, too, includes to just stay focused on -- on some of the major highlighted items to better inform both the Commission Staff and the Commissioners.

COMMISSIONER JONES: Thank you.

*** EXAMINATION BY CHAIRMAN DANNER ***

BY CHAIRMAN DANNER:

Q. Mr. Gomez, you noted that the asset management distribution program update was not provided on direct, it

was provided on rebuttal, but you said after you received the direct case, you started doing DRs. What was the first time that you saw this update? Was it on rebuttal?

A. Oh. I think in my testimony, when I talk about it -- can I refer back to my testimony?

Q. Yes, you may.

A. Okay. I examined, in the last case -- and I have the DRs listed in my Footnote 107 to my testimony.

COMMISSIONER JONES: What page?

THE WITNESS: And I think it's on page 61.

CHAIRMAN DANNER: 61.

A. Yes. 61, lines 10 through 17. Okay. So I'm sorry. So match the -- the Avista system planning assessment? Is that --

BY CHAIRMAN DANNER:

Q. Well, it's where I --

A. Is that what you're calling it?

Q. -- reference Mr. Thies's -- it's where I reference Mr. Thies's. I may be incorrect on that -- on that reference.

MR. MEYER: I -- I don't know if this is helpful, but I'll offer it. In response to an ICNU data request that was served on all parties -- and it was prepared March 9th -- we provided a copy of information pertaining to asset management, including specifically the

2013 asset management distribution program update that I was referencing earlier.

CHAIRMAN DANNER: So that was March --

MR. MEYER: March 9th --

CHAIRMAN DANNER: Give me the date again?

MR. MEYER: -- of this year.

THE WITNESS: If I could ask Mr. Meyer a question? Mr. Meyer, is my -- my -- I'm not --

JUDGE FRIEDLANDER: He's not under oath.

CHAIRMAN DANNER: Judge, are you --

THE WITNESS: No. It's to help -- it's to help the process along. If my -- is -- is the -- the --

MR. MEYER: If I can answer subject to check.

THE WITNESS: No. I'm asking because, if you look at the LDL -- which is the one you showed me, LDL-3? Is that --

MR. MEYER: I don't have that.

THE WITNESS: -- 2013 asset management distribution program, is that Mr. Thies's Exhibit No. MTT-1T? I'm going to have you -- no, that's not it.

MR. MEYER: Okay.

THE WITNESS: I'm sorry. I think I'm lost, Commissioner.

CHAIRMAN DANNER: All right. Let's --

MR. MEYER: In any event --

EXAMINATION BY CHAIRMAN DANNER / GOMEZ

BY CHAIRMAN DANNER:

Q. So thank you. I'm going to -- all I wanted to know is when -- when you were provided with a copy of the -- of the asset management distribution program update, and it sounds like March 9th, 2015?

A. Yes. Yes.

CHAIRMAN DANNER: Okay. Thank you.

COMMISSIONER JONES: Just to clarify, is there an asset management program update or is -- is it a CAPEX update for the compliance filing? Which is which?

MR. MEYER: This -- this is a compilation of different things, so it --

COMMISSIONER JONES: Could you just --

MR. MEYER: -- in the response.

COMMISSIONER JONES: Okay.

MR. MEYER: For example, in response, it has an electrical substation 2012 system review, which is, oh, 50, 60 pages. It has a 2013 asset management distribution program update, which has I'm guessing, 60, 70, pages. It has a 2013 underground equipment inspection asset management plan of maybe 5 pages. It has an asset management program for Alderley pipe replacement, maybe 60 pages.

It has maintenance cost modeling for the Nine Mile hydro plant, and I mean, I can go on. There are

probably half a dozen other types of things included within this package.

COMMISSIONER JONES: Thank you.

JUDGE FRIEDLANDER: Thank you. Okay. So with no further questions, thank you very much for your testimony.

And I believe Mr. Jason Ball is next.

JASON L. BALL, witness herein, having been first duly sworn on oath, was examined and testified as follows:

JUDGE FRIEDLANDER: Thank you. You can be seated.

Ms. Cameron-Rulkowski or Mr. Oshie?

MR. OSHIE: Thank you, Your Honor. I'm Patrick Oshie, representing Commission Staff.

*** EXAMINATION BY MR. OSHIE ***

BY MR. OSHIE:

Q. So, Mr. Ball, this is not the first time you've been up on the witness stand, and you probably know the preliminary details that we have to go through. So let me start first with your name. Could you please state your name, spell your last name?

EXAMINATION BY OSHIE / BALL

A. Jason Ball, B-A-L-L.

Q. Are you the same Jason Ball that offered prefiled testimony in this case on behalf of Staff?

A. Yes.

Q. And if I can direct your attention to what I believe are six exhibits that are a part of your testimony, beginning with JLB-1T and that progresses down through JLB-2C, -3, -4C, -5C, and -6C; is that correct?

A. Correct.

Q. Now, are there any corrections to this -- to the testimony that you have prefiled? And if so, please state them.

A. Yes. On page 28 of JLB-1T.

Q. Go on.

A. On lines -- on line 1, it reads, "This adjustment increases NOI by $41,000." That number should be $41. And --

JUDGE FRIEDLANDER: I'm sorry. What page are you on?

THE WITNESS: Page 28 of JLB-1T. On line 1, it should be $41 instead of $41,000.

JUDGE FRIEDLANDER: I see. Thank you.

THE WITNESS: And the same with line 9, it should be $41 instead of $41,000.

EXAMINATION BY OSHIE / BALL

BY MR. OSHIE:

Q. Mr. Ball, is this correction affecting of your exhibits that -- that have been filed, as well as your direct testimony?

A. Yes. It affects Exhibit JLB-3, page 1.

Q. Go on.

A. On lines -- on line 3 in the "Staff" column, that should read .063, still negative, and all the numbers continuing on should have a ".0" in front of them, so the next one would be .063 and so forth.

Q. All right. Thank you, Mr. Ball.

Is that the extent of the corrections that you would like to make at this point?

A. Yes.

MR. OSHIE: Thank you.

Your Honor, Mr. Ball is tendered for cross-examination. Thank you.

JUDGE FRIEDLANDER: Thank you. Thank you.

Mr. Meyer?

MR. MEYER: Thank you. May I approach the witness?

JUDGE FRIEDLANDER: Yes.

MR. MEYER: And the record should reflect that I am providing the witness with a copy of his response to Bench Request No. 2.

JUDGE FRIEDLANDER: Thank you.
MR. MEYER: Do you have it?
THE WITNESS: Yeah.
MR. MEYER: Okay.
MR. OSHIE: Do you have a copy of that, Mr. Ball?
THE WITNESS: Yes, I do.
MR. MEYER: And I have some extra copies if people are looking for them right now. May I?
COMMISSIONER RENDAHL: It would be --
COMMISSIONER JONES: Yes.
COMMISSIONER RENDAHL: It would be helpful.
CHAIRMAN DANNER: Please.
COMMISSIONER RENDAHL: To speed things up.
MR. MEYER: Here is one, but I've got two more.
JUDGE FRIEDLANDER: Are you also going to get into Attachment A?
MR. MEYER: No.
JUDGE FRIEDLANDER: Okay. So it's just the Bench request response?
MR. MEYER: That's right.
JUDGE FRIEDLANDER: Okay. Thank you.
MR. MEYER: That's right.
JUDGE FRIEDLANDER: And this is confidential.

THE WITNESS: I believe just Attachment A is confidential.

JUDGE FRIEDLANDER: Okay. So we won't be delving into any confidential material, Mr. Meyer? Is that correct?

MR. MEYER: Correct.

JUDGE FRIEDLANDER: Okay.

MR. MEYER: That is correct.

JUDGE FRIEDLANDER: Thank you.

MR. MEYER: Well, can you share?

CHAIRMAN DANNER: We can share. We can share.

JUDGE FRIEDLANDER: I have it up here too, so.

MR. MEYER: This is marked up.

MS. ANDREWS: I'm sorry. I'm sorry. I thought you just meant for you to look at. I'm sorry.

MR. MEYER: The fact it says, "Wow. Good point," probably --

MR. OSHIE: Well, that's better than other things.

*** EXAMINATION BY MR. MEYER ***

BY MR. MEYER:

Q. Okay. Referring you to this, this is a response that you authored in response to Bench Request No. 2;

correct?

A. Correct.

Q. Now, were you present yesterday when Mr. Norwood was asked about the accounting surrounding the thermal maintenance deferral issue?

A. Yes.

Q. And you recall his reference to the need for a preferability letter?

A. Yes.

Q. And his general description of the difficulty of going to this sort of accounting absent a deferral order from this Commission?

A. Yes.

Q. So I'll direct your attention, then, to the very last paragraph -- I want to make sure we're all following along -- it begins, "If the Commission is concerned." Are you there?

A. I'm there.

Q. So I'll read at least a part of it aloud. "If the Commission is concerned about the Company's ability to use this type of FASB accounting, then Staff can accept the creation of a regulatory asset similar to the approach Avista recommends in its rebuttal case.

"However, Staff advocates a separate regulatory asset for each overhaul with an amortization schedule

matching the expected cycle of the maintenance for each plant." Do you -- was that the essence of what you said there?

A. Yes.

Q. Okay. So with reference, then, to the thermal plants, whether it's Colstrip, CS2, Boulder, or Rathdrum, would you then agree that it would be appropriate to establish a separate regular- -- regulatory asset account for each of these thermal plants?

A. Only if the Commission wants to do it that way. If you refer to my direct testimony on JLB-1T, page 10, on line 4 and 5, the question begins, "Does Staff have any alternative recommendations on planned maintenance activities?"

And my answer is yes. If the Commission wishes to include Rathdrum and Boulder Park maintenance in -- in the revenue requirement going forward, then Staff recommends that we treat them the same way as we're recommending treatment for Colstrip and CS2, which is normalize the overhauls.

If the Commission chooses not to normalize the overhauls and instead wants to go with a regulatory asset treatment, then I -- and they also want to include Rathdrum and Boulder Park, then that would be an appropriate -- appropriate way of handling it.

EXAMINATION BY MEYER / BALL

I would like to add just a clarification on Bench Request No. 2. I'm an economist. I -- I think in terms of opportunity cost, so the reason I put that in there was just to make it clear that this is the next best option. The first option, the one Staff is advocating for, is normalization. We think that's the best approach for Colstrip and CS2.

If the Commission disagrees, if they think there's a better reason or a reason to do something different, the next best option is to use regulatory assets.

MR. MEYER: All right. That's all I have. Thank you.

JUDGE FRIEDLANDER: Thank you. Are there other -- I guess is there any redirect?

MR. OSHIE: No redirect, Your Honor.

JUDGE FRIEDLANDER: Thank you.

Any questions from the Bench?

*** EXAMINATION BY CHAIRMAN DANNER ***

BY CHAIRMAN DANNER:

Q. So I just want to make sure, your pref- -- your preferred position is, basically, normalize expenses on Colstrip and Coyote Springs 2 group for major maintenance; right?

A. Correct.

Q. And then you basically use test-year actuals for

non-basic and all the other facilities?

A. Correct, with the added caveat that any overhauls that did occur in the test year would be removed since we would then be taking them out of the test year, amortizing them effectively under the regulatory asset method or just normalizing them, and then putting them back in.

Q. Okay. And so, basically, your flexibility is in response to any concerns that we might raise with this approach?

A. Correct. I -- I do not believe that there's a problem with the Company using FASB accounting methods. I'm also not one of their auditors, so if one of their auditors, you know, really has a big problem with them changing and they are able to impress upon the Commission that that's a really big problem, then I say that the next -- the next best way to handle it is through regulatory assets.

I was here yesterday, and the way I understood Mr. Norwood's testimony was that they wouldn't issue that letter saying that it's necessary, which implies to me that it's not that big of an issue. And if it's not that big of an issue, then I don't understand what the necessity for extraordinary treatment, which is what regulatory assets is, I don't understand why that's needed.

CHAIRMAN DANNER: All right. Thank you.

MR. MEYER: Just -- just for the -- just for the record, to make sure there's no misunderstanding, I don't believe that's what Mr. Norwood said with reference to the position of the accountants on this issue, so I -- I think his testimony was pretty clear yesterday.

JUDGE FRIEDLANDER: Thank you.

CHAIRMAN DANNER: All right. Thank you.

*** EXAMINATION BY COMMISSIONER JONES ***

BY COMMISSIONER JONES:

Q. Just one question, Mr. Ball. So -- and Colstrip major maintenance is scheduled every three years; correct?

A. Correct.

Q. So would you propose your primary recommendation is to normalize these major maintenance expenses over how many years? Three years? Four years? Three?

A. Three. Three years.

Q. So you would just take it three years for Colstrip?

A. Correct. I would normalize them for each maintenance cycle.

Q. And you haven't seen anything in this record or otherwise that would indicate that those major maintenance cycles are changing based on the operation, the ramping up, down, whatever of the plants?

A. No. Not -- I have not seen anything, and Talen

Energy is the one who manages Colstrip. I -- I believe they've -- forgive the hyperbole, but they've got it down to an art. They -- they really know what they're doing when it comes to those major maintenance cycles.

And when those engineers take those things apart, they know where every seal goes, they know where every gasket goes, they know where every rod goes. So every three years, the way -- the cycle they've got it down to is -- is very precise, and it seems to work really well.

Q. Same question for Coyote Springs. Four years, that's based on hours-based maintenance of what? 40,000 hours?

A. I believe that's the number, yes.

Q. Okay. So have you seen anything in this record that would change that?

A. Not to my knowledge, no.

Q. And who manages that plant? Avista?

A. I believe it's Avista, yes.

Q. Do they have it down to an art as well?

A. They pre- -- Avista's pretty good, yes.

COMMISSIONER JONES: Thank you.

CHAIRMAN DANNER: So insofar as we've kind of gotten beyond clarifying questions, it might be appropriate to let Avista speak for itself on whether they've got it down to an art or not.

*** EXAMINATION BY COMMISSIONER RENDAHL ***

BY COMMISSIONER RENDAHL:

Q. I have one other question, Mr. Ball. So if -- if the Commission elects to normalize the major maintenance -- maintenance expenses, should the normalization be based on forecasted 2016 expenses or the cost of the last round of major maintenance at the plant? So historical or forecasted?

A. My recommendation was to use the expected major maintenance amount for the next cycle, and that's based upon, as I've just said, the fact that they've got it down pretty well. They seem to know what they're doing. They -- the budget doesn't really change. It's performed by a third party, which doesn't give Avista a whole lot of wiggle room on, you know, making major changes to what is -- or does not go into it.

And what they do every -- perhaps a metaphor would help. With an overhaul, it's not like you take your car into a mechanic and get, you know, an estimate for how much it's going to cost. It's more like you take your car into the mechanic and ask for an inspection and the price is listed up at the top. It's really pretty standard.

So there isn't a lot of variation that goes into it, so using the amount that's -- we're expecting to occur is not that different than using the historical amount, and

you can see the historical amounts in my confidential Exhibit JLB-4.

Q. Okay. So if we -- are you -- you're saying use the amount that's expected, which would change based on just increases in labor cost, et cetera, but not -- not -- the nature of that overhaul's not going to change?

A. It -- if you normalize it, we use the cost that's expected, and whatever expense is incurred is the one that's incurred.

COMMISSIONER RENDAHL: Okay. Thank you.

JUDGE FRIEDLANDER: Thank you. Okay. Thank you for your testimony. Much appreciated.

So -- okay. Then I guess we have Ms. Reynolds next, adopting the testimony of Juliana Williams.

(Mr. Meyer left the proceedings.)

DEBORAH REYNOLDS, witness herein, having been first duly sworn on oath, was examined and testified as follows:

JUDGE FRIEDLANDER: Thank you.

Ms. Cameron-Rulkowski or Mr. Oshie? Great.

MR. OSHIE: Thank you, Your Honor. And

again, this is Patrick Oshie, representing Commission Staff.

*** EXAMINATION BY MR. OSHIE ***

BY MR. OSHIE:

Q. Welcome, Ms. Reynolds. This too is not your first time testifying before the Commission, and if I'm not mistaken, you may have adopted testimony sometime in the past, so.

But I think we'll start off with, of course, if you could state your name and you could spell your last name for the record, please.

A. I am Deborah Reynolds, R-E-Y-N-O-L-D-S.

Q. And what's your position at the Commission, Ms. Reynolds?

A. I'm the assistant director of conservation and energy planning.

(Mr. Meyer rejoined the proceedings.)

BY MR. OSHIE:

Q. Did Juli- -- did Juliana Williams, the original witness, did she work under you?

A. Yes.

Q. Was her testimony produced under your supervision and direction?

A. Yes.

Q. Are you familiar with her testimony?

A. Yes, I am.

Q. And do you adopt her testimony as it stands right now, which is JLB- -- excuse me, JMW-1T and JMW-2T?

A. Yes, with two corrections.

Q. Okay. I was going to get to that, but we can -- we can jump right to it. So Ms. Reynolds, do you have corrections to Ms. Williams' testimony? And if so, can you please tell the Commission what that might be?

A. Yes. These are very simple.

On page 6, Footnote 9, at the very end, it says, "At 16," and it should say, "Page 3."

Q. Thank you.

A. And on page 13, Footnote 18, there are three references to WAC 480-80-120, and those should have been changed to 480-80-102.

Q. So it looks like the 1-2-0 should be changed to 1-0-2, and in all other respects, they --

A. Yes, in all three places.

Q. -- are accurate?

MR. OSHIE: Okay. Thank you.

Your Honor, the Staff tenders Ms. Reynolds for cross-examination.

JUDGE FRIEDLANDER: Thank you.

Mr. Roseman?

*** EXAMINATION BY MR. ROSEMAN ***

BY MR. ROSEMAN:

Q. Good afternoon, Ms. Reynolds.

A. Good afternoon.

Q. I think this will be quick.

In the testimony, does Staff agree -- in Ms. Williams' testimony, does Staff agree that there is insufficient LIRAP funding to assist all eligible customers?

A. Yes, we do.

Q. Does this lack of funding introduce the question of fairness of the program?

A. Yes. Staff does believe that, for the standard of fairness to be met, eventually, all customers who are eligible and who request assistance should be able to receive it.

Q. Okay. Thank you.

And in -- in this case, does Staff have any recommend- -- is Staff's intent to recommend that LIRAP heat eligibility be changed at this time?

A. No.

MR. ROSEMAN: That's all I have. Thank you.

JUDGE FRIEDLANDER: Thank you. Any redirect?

MR. OSHIE: No redirect, Your Honor.

JUDGE FRIEDLANDER: Thank you.

Any Commission questions?

CHAIRMAN DANNER: No questions.

JUDGE FRIEDLANDER: Okay.

COMMISSIONER RENDAHL: I have one.

*** EXAMINATION BY COMMISSIONER RENDAHL ***

BY COMMISSIONER RENDAHL:

Q. Ms. Reynolds --

A. Commissioner.

Q. -- so between the Staff and Intervenor filing and the Company's filing, there's been a significant change regarding LIRAP funding from the Company's initial filing; correct?

A. Yes.

Q. So given the changes since you filed -- well, since Ms. Williams filed her testimony for Staff, which you are now adopting, does Staff have a change in position based on LIRAP funding, either concerning Public Counsel and The Energy Project's proposal or the Company's proposal, and if so, can you explain what Staff would recommend?

A. Yes. Staff does find that the 7 percent approach is a little simpler to calculate than the approach that we originally proposed, and it allows -- it also clarifies how much money should go to electric and how much money should go to gas, which we also found helpful, and so this is the

Company's proposal.

We also note that it does get us to serving at least half of the need that we've identified so far within about six years, which is faster than our original proposal, and we think that that's appropriate.

Q. So you would support the Company's proposal at this time?

A. Yes.

COMMISSIONER RENDAHL: All right. That's all I have.

JUDGE FRIEDLANDER: Thank you.

MR. ROSEMAN: Your -- go ahead.

COMMISSIONER JONES: No.

JUDGE FRIEDLANDER: Mr. Roseman?

MR. ROSEMAN: I do have one follow-up, based upon Commissioner Rendahl's.

JUDGE FRIEDLANDER: If Staff doesn't mind, I don't.

MR. OSHIE: Well, I'd like to hear the question, Your Honor.

MR. ROSEMAN: Would you like me to --

THE WITNESS: I'll wait to answer.

MR. ROSEMAN: -- whisper it in your ear?

THE WITNESS: I won't answer until you do.

MR. ROSEMAN: What's your preference?

MR. OSHIE: No. Would you like -- well, just -- I'd just offer your question.

MR. ROSEMAN: Okay.

MR. OSHIE: Maybe I missed it.

MR. ROSEMAN: Okay. And I will.

*** EXAMINATION BY MR. ROSEMAN ***

BY MR. ROSEMAN:

Q. You -- the question you just answered said that the Company's proposal would address this -- this goal of approximately half -- I think, 25,000, approximately -- at a quicker pace than -- than what Staff's proposal would be. Are you familiar with the Public Counsel and Energy Project's proposal in this issue?

A. Yes, I am.

Q. And would you say that their proposal would address -- provide LIRAP funding, assuming that there's no rate case, at an even quicker rate than Avista's proposal?

A. Yes.

MR. ROSEMAN: Thank you.

JUDGE FRIEDLANDER: Thank you.

COMMISSIONER RENDAHL: And just so the record can show, I will be asking the same question to the witnesses for Energy Project and the Public Counsel so that they can weigh in on this same issue.

MR. ROSEMAN: Thank you very much.

JUDGE FRIEDLANDER: And with that, I believe you're dismissed. Thank you so much for your testimony.

And Mr. Cebulko?

BRADLEY T. CEBULKO, witness herein, having been first duly sworn on oath, was examined and testified as follows:

JUDGE FRIEDLANDER: Thank you. You can be seated.

THE WITNESS: Thank you.

MR. OSHIE: Thank you, Your Honor.

*** EXAMINATION BY MR. OSHIE ***

BY MR. OSHIE:

Q. Mr. Cebulko, you have one exhibit that you filed in response to the Company's case, so let's start with your name. Would you please state your name for the record and spell your last name?

A. My name is Bradley Cebulko, C-E-B-U-L-K-O.

Q. And you are the same Bradley Cebulko that filed testimony, and it's marked as Exhibit BTC-1T?

A. Yes.

Q. Do you have any changes or corrections to your testimony?

EXAMINATION BY OSHIE / CEBULKO

A. No, I do not.

MR. OSHIE: The witness is tendered for cross-examination, Your Honor.

JUDGE FRIEDLANDER: Thank you.

Mr. Meyer?

MR. MEYER: Thank you.

*** EXAMINATION BY MR. MEYER ***

BY MR. MEYER:

Q. You are recommending an econometric model that would take into account specific service territory attributes. For what purpose? What is the purpose of this econometric model?

A. Yes. I feel that Staff does not have an objective evaluation tool to measure reliability, and we're seeking this econometric model because it will give us company-specific scores for SAIDI and SAIFI.

Q. All right. So I'm going to try to accurately characterize your testimony, and correct me if I don't. You would need to identify, in your words, as many relevant variables as possible and collect data from as many regulated utilities as possible?

A. I believe those were my words.

Q. And do you, yourself, characterize this as a laborious task, and participation from the regulated utilities in the industry and key data sources in

developing a model will be critical? I kind of butchered that, but did you get the essence of that?

A. Yes. I -- I believe you captured the essence --

Q. Okay.

A. -- of what I wrote.

Q. They -- I couldn't read my writing.

A. I have my testimony if you want to read it.

Q. Okay. So, just on the face of this, it -- it sounds like, would you agree that this is a rather ambitious undertaking?

A. Not in a pejorative sense, no. I think it -- it is ambitious. It's a -- it's a new tool for the Staff, but it's certainly one that can be achieved.

Q. Okay. So -- but the ultimate objective is to get at measures of reliability and do comparisons; correct?

A. The -- the objective is to achieve company-specific scores so we can determine sufficient levels of reliability.

Q. Okay. Well, but at -- at present, let's -- let's examine what information is already being provided on a -- on a utility-specific basis for --

A. Mm-hmm.

Q. -- Avista, and some of this, we've covered earlier this afternoon. I'm not going to belabor these points. But you're familiar, of course, with the asset management

reports that are developed and assess reliability and needs for each project?

A. I became aware of it when it showed up in the rebuttal testimony of Mr. La Bolle.

Q. Okay. And are you also familiar with yet another level of reporting that we've discussed in the form of quarterly and semiannual capital reports?

A. I'm aware of its existence.

Q. All right. And thirdly -- and I think you were active in developing this -- the Company has filed service quality measures with this Commission recently; correct?

A. Yes. And I participated in negotiations of that, and those -- the difference there is that those largely concerned customer guarantees and customer service metrics. It did include two reliability metrics in which the Company would report against its historic five-year average, but that's a -- that's a baseline measure.

Q. Sure. But those service quality measures were only very recently implemented; correct?

A. In reference to customer service metrics, yes. That's not necessarily reliability.

Q. Okay. But I believe it was -- and I may have my date wrong, but it was either in June or July of this year that those were put into place?

A. That the service quality index --

Q. Yeah.

A. -- yes.

Q. So what I've described in the -- in the past minute or so are really three levels of information, three types of reporting, if you will, that are -- are there to be analyzed. My question to you is, would it make sense, before we do yet another iteration of econometric modeling, to digest all of this reporting that I've just described and make use of that first?

A. I cannot speak to the capital reports that you're speaking of or the asset management plan. That's just been made aware recently. I can say those are not objective measures on which Commission has helped -- Commission Staff has helped define the methodology. In the study, what we are seeking is an objective measure that takes in company-specific variables. It's -- it's a different -- it's a different test.

Q. But one that would require yet an additional layer of extensive effort, data gathering, and comparisons with other utilities would be required? Quite an ambitious project; correct?

A. Yeah. Company -- Staff is pursuing this as it is. Right now, we are -- this is a tool that we think we need, and so we are developing it, and we would like your assistance.

MR. MEYER: Thank you. That's -- that's all I have. Thank you.

JUDGE FRIEDLANDER: Thank you.

Any redirect?

MR. OSHIE: No redirect.

JUDGE FRIEDLANDER: Thank you.

Any questions from the Bench?

*** EXAMINATION BY CHAIRMAN DANNER ***

BY CHAIRMAN DANNER:

Q. So the only question I have is, Mr. Cebulko, is there currently a high level of concern about reliability with this utility?

A. I just -- I don't know. I -- I don't know their level of reliability. I don't have the information to determine a sufficient level of reliability. What we see right now is a baseline, 2005, and then we see the scores each subsequent year, and that shows us a trend.

And that's important for determining how it's changed over the years. But there is a spectrum between sufficient and insufficient reliability, and we don't know where we are on that trend. That's -- we just don't have the tools for that -- or excuse me, in that spectrum, we don't know where we are.

Are they consistently providing very reliable service, or are they consistently providing insufficient

reliability? I just -- I don't know.

Q. Yeah. Are you seeing -- are you seeing consistency when you overlay the voice of the consumer with the J.D. Power with the SAIDI and SAIFI? Are you -- I mean, are you able to see trends when you superimpose those?

A. So the J.D. Power is a new one to me. Again, it just appeared in the rebuttal testimony, and I -- it's the black box. I don't understand how it's developed. It's private information.

The voice of the customer survey is a Company-administered, with a third party, survey in which they designed the questions. And it's certainly important to understand what your customers are saying, but I'm not sure that's the best -- customer perception of reliability does not necessarily indicate sufficient reliability.

Q. Okay. And Staff had no input on that survey?

A. We did not design that, to the best of my knowledge.

Q. Okay. Thank you.

A. Yes.

*** EXAMINATION BY COMMISSIONER JONES ***

BY COMMISSIONER JONES:

Q. Mr. Cebulko, just a quick one. You are an economist, and so you like ec- -- econometric studies. I

understand that. But is the -- how does this relate to SAIDI and SAIFI reports? Because I've reviewed quite a bit of those, and that's focused on reliability metrics; right? Outage, duration --

A. Mm-hmm.

Q. -- that's not econometric, is it?

A. No, not necessarily. So the real purpose of this is to try and gauge what is the correct level of reliability using a SAIDI and SAIFI score, which are the two best metrics that we have. How do you determine what the right score is? It's 100 minutes, SAIDI minutes. What's that mean?

It means different things to different utilities. It might not be fair for Avista to be compared to Seattle City Light or Puget Sound Energy. It's -- they're different service territories. And so this econometric model, it really -- it takes as many variables as we can, relevant variables that we can see their -- their relevant impact on a SAIDI score and we can input the company-specific characteristics into that model and come out with a score.

So we would expect Avista to have a different score, benchmark, ideal score, if you will, of sufficient reliability than the other investor-owned utilities because their service territories are very different.

EXAMINATION BY COMMISSIONER JONES / CEBULKO

Q. So you're looking at things like population density --

A. Absolutely.

Q. -- per feeder line in a neighborhood, transformer, and you're looking at kind of demographic --

A. Mm-hmm.

Q. -- population information?

A. Capi- -- per capita, forestry --

Q. Okay.

A. -- number of lines on the ground, yes. Weather.

Q. So it sounds like you're already doing this; you're doing this on your own. Are there any other institutes out there that are of help? Do any other states do this? NRRI? RAP? EPRI?

A. NR- --

Q. EPRI? Are there other institutes that are of assistance to you in this?

A. Yes. There have been a handful of utilities that have pursued this. This is the cutting edge of where we're going. Most recently, Lawrence Berkeley National Laboratories put out a study in August 2015 in which they did this same type of econometric study. We have that available, should it be necessary.

COMMISSIONER JONES: Thank you. That's all I have.

JUDGE FRIEDLANDER: Thank you.

Any questions?

COMMISSIONER RENDAHL: No.

JUDGE FRIEDLANDER: All right, then. Thank you for your testimony. You're excused.

THE WITNESS: Thank you.

JUDGE FRIEDLANDER: Why don't we go ahead and take a very quick break? And I believe we are done with cross-examination of Staff's case and Staff's witnesses.

MR. OSHIE: Yes. Thank you, Your Honor. That's -- Mr. Nightingale would be Staff's last witness to appear this afternoon.

JUDGE FRIEDLANDER: Okay.

MR. OSHIE: And if he's not going to -- if there's no need to call him up, I think it was -- his testimony and exhibits were admitted --

JUDGE FRIEDLANDER: Yes.

MR. OSHIE: -- at the beginning of this proceeding.

JUDGE FRIEDLANDER: Yes, they were. And I just conferred with the Bench, and we don't have any clarification questions after all, so thank you.

MR. OSHIE: All right. Thank you, Your Honor.

JUDGE FRIEDLANDER: Let's go ahead and take a

ten-minute break. We'll come back at 2:45 -- I'm sorry, 3:45. Thank you.

(A break was taken from 3:34 p.m. to 3:49 p.m.)

JUDGE FRIEDLANDER: So let's go back on the record. I have that the next witness is Ms. Ramas, but I understand that there was revised testimony.

MS. GAFKEN: That's correct, and I can go through that -- go through that with the witness. There's -- there are three numbers -- well, two numbers and a date that changed.

JUDGE FRIEDLANDER: Okay.

MS. GAFKEN: So it's very minor, but the replacement exhibits have been distributed.

JUDGE FRIEDLANDER: And have they been filed with the records center?

MS. GAFKEN: They have. They were filed on Friday.

JUDGE FRIEDLANDER: Okay. And that's what I -- that was my next question. This is the testimony and -- that has been revised for October 2nd?

MS. GAFKEN: Yes.

JUDGE FRIEDLANDER: Okay. Thank you.

MS. GAFKEN: So you've probably received copies through the records center as well.

JUDGE FRIEDLANDER: We did. We got two

copies. I just wanted to make sure we had the right one.

And this does contain confidential information, I understand, so --

MS. GAFKEN: Yes.

JUDGE FRIEDLANDER: All right. So I'll swear you in.

DONNA M. RAMAS, witness herein, having been first duly sworn on oath, was examined and testified as follows:

JUDGE FRIEDLANDER: Thank you. You can be seated.

MS. GAFKEN: Although with respect to the confidential, I don't think that the numbers that were changed were confidential.

JUDGE FRIEDLANDER: Okay. Let's make sure before we --

MS. GAFKEN: Before we do them out loud?

JUDGE FRIEDLANDER: -- say anything. Yeah. Yeah. Thank you.

*** EXAMINATION BY MS. GAFKEN ***

BY MS. GAFKEN:

Q. Good afternoon.

EXAMINATION BY GAFKEN / RAMAS

A. Good afternoon.

Q. Would you please state your name and spell your last name for the record?

A. Donna Ramas, R-A-M-A-S.

Q. And who is your employer, and in what capacity are you employed?

A. I'm principal of Ramas Regulatory Consulting, LLC.

Q. On whose behalf are you testifying for today?

A. The Public Counsel division of the Attorney General's office.

Q. And did you prepare direct and rebuttal -- or cross-answering testimony and exhibits DMR-1CT through DMR-26T?

A. Yes, I did.

Q. Do you have any changes or corrections to any of your exhibits?

A. Yes. I believe these were handed out previously, and they're very minor changes that don't in any way impact the -- the revenue requirements I'm recommending in this case. Would you like me to walk through them?

Q. I'm not sure that it's necessary. If the Bench would like you to, I think we can, but...

JUDGE FRIEDLANDER: If they're just brief corrections, why don't we go ahead and walk through them?

MS. GAFKEN: Okay.

EXAMINATION BY GAFKEN / RAMAS

JUDGE FRIEDLANDER: Thanks.

BY MS. GAFKEN:

Q. Go ahead.

A. Okay. The first correction was Exhibit DMR-1CT at page 70, on lines 5 -- well, first on line 5. Okay? The number $3,013,000 was replaced with $3,907,000, and on the line below that, line 6, the number $3,013,000 was replaced with $2,683,000. And again, that didn't in any way impact the adjustment I recommended on -- in that area.

And then also, if you go to Exhibit DMR-3, page 8 of 9, on line 2, the date 11/31/14 should be replaced with 9/30/14. And again, it doesn't affect any of the revenue requirement calculations. I just put in an incorrect title on that line. And that completes all the revisions I have.

Q. Okay. Thank you.

MS. GAFKEN: The witness is available for cross-examination questions and questions from the Bench.

JUDGE FRIEDLANDER: Thank you.

Mr. Shearer?

MR. SHEARER: Thank you, Your Honor.

*** EXAMINATION BY MR. SHEARER ***

BY MR. SHEARER:

Q. Good afternoon, Ms. Ramas.

A. Good afternoon.

Q. I'm just going to spend our time together talking

about attrition.

A. I had anticipated as such.

Q. Yeah.

Okay. And I really want to spend the time highlighting where exactly the parties disagree.

A. Okay.

Q. So we'll give that overall road map.

Now, your initial and cross-answering testimony both oppose the use of any attrition adjustment in this case; is that correct?

A. Yes, absolutely.

Q. And your rebuttal testimony specifically rejects Staff's analysis, attrition analysis -- excuse me --

A. Ah --

Q. -- because it --

A. I'm sorry. I thought you were done.

Q. Oh. Because it includes estimates and projections. Is that an accurate statement?

A. That's -- that's part of the summarization I give in my testimony. In addition to the reasons cited in my initial testimony with regards to why I would reject the Company's attrition analysis as well, you would be basing rates not on cost-based rates anymore but rather on a trending forecast, which wouldn't necessarily result in known, measurable amounts and rates set based on known and

measurable amounts, as well as all the other reasons incorporated in my direct and cross-rebuttal testimony -- or cross-answering testimony.

Q. So you have a lot of reasons you disagree with the use of an attrition analysis in this case? Is that accurate?

A. Yes, that is accurate.

Q. But your rebuttal testimony does state briefly that Staff's approach is more complete than the Company's? Is that accurate?

A. Maybe if you could cite me to somewhere, I'm not --

Q. Yeah. I can point you.

A. Okay.

Q. In D- -- DRM [sic], I think it's -26, the rebuttal --

A. Yeah.

Q. -- -26T, on page 5, lines 17 and 18.

A. Yeah. I don't know if I would call it more complete, but it does incorporate -- I acknowledge that it incorporated more historical trends than the approach used by the Company. I don't know if that means it's more complete. It's just a different approach that incorporates more historical information than the Company's had.

Q. Well, then let me ask you point-blank, is Staff's

attrition study better than the Company's?

A. I'd hate to have to pick one or the other because, again, I -- for the reasons said in my testimony and cross-reply testimony, I -- I -- it's my very strong opinion that that's not the reasonable or appropriate way to set rates going forward.

But if you were to say, "Pick between the two, A or B," and I had to pick between the two, then Staff's would be preferable in my opinion than the Company's.

Q. So we understand that you disfavor the use of an attrition study and some of the qualitative discussion to support the use of an attrition study. Do you take issue with the quantitative methodologies used in Mr. McGuire's testimony?

A. The quantitative as far as the trending he used and --

Q. Yes.

A. -- the methodology?

Q. So --

A. Yeah. I do not think that's the appropriate way to go about setting rates. I mean, I've been doing this for 23 or 24 years now. In my experience with the numerous utilities I've reviewed and over 100 rate cases I've participated in is that, from year to year, there are so many changes in utility operations and what they're

doing -- you have changes made in generation plants, customer levels, loads -- that it's my opinion you can't just take a historic trending line, based on different methods of trending, even, and say, "Using this trending, this is what's going to happen two years and three months after the historic period being looked at."

It's just too simplistic, and determining the needs of a utility in the future aren't that simplistic as just simply looking at historic trends and curves applied to those trends to see what may or may not happen. It still results in including rate base, expenses, taxes other than income, and depreciation on forecasts. It's just a different way of getting at that forecasted or future-period amounts.

Hopefully, that answered your question. If not, please feel free to ask --

Q. I'll be a --

A. -- ask it differently.

Q. -- little more specific.

A. Mm-hmm.

Q. Are regression analyses and correlation calculations generally well-recognized statistical tools to measure historical data and issue projections?

A. Yeah. It's my understanding that that's what Staff's goal was, and Mr. McGuire's in preparing his

attrition study.

Q. Are any of the regressions Mr. McGuire put forward and the correlation figures that show they were the best fit, are any of those mathematically incorrect?

A. Not that I'm aware of.

Q. Thank you.

Ms. Ramas, I'd like to move on to talk about the attrition versus the future test year, and you've broached on this a little bit already. Now, your cross-answering testimony argues that an attrition study is essentially a future test year. Is that a fair summary?

A. Yeah. I would agree that using the attrition study approach results in a future test period.

Q. Are attrition and a future test year conceptually distinct?

A. They can be different because they're a different -- it's -- the attrition study would be an approach that is being utilized to get to a future test year, but there are many other methods and approaches I've seen in rate cases in which future test periods are used.

And in fact, I've done quite a few rate cases involving future test periods, and this is the first time I've come across an attrition-type approach being used to determine future test-year amounts.

Q. So is your testimony that they are conceptually

distinct but the results in this case are the same?

A. I don't know if I'd say conceptually distinct, because I think under both -- in the attrition study, you're projecting numbers into a future test period, so it's not conceptually different, it's just they're different ways to get to a future test period if that's the desire to go to a future test period.

Q. Are they calculated differently?

A. Yeah. Again, all -- all the jurisdictions and cases I've done involving a future test year, this is the first time I've -- I've seen the attrition-study-type approach used to get to that future test period.

Q. Does -- does this Commission employ a future test year?

A. Not that I -- I've seen.

Q. But has this Commission ever employed an attrition adjustment?

A. I think the last time it was done -- I reviewed a lot of the past attrition orders before preparing my testimony, and I think back in the '80s, there were several cases in which an attrition adjustment was made.

Q. Now I want to turn to the -- the existence or the impact of disallowances on Staff's attrition study. Your testimony points out that the modified historical test year results would not inform the attrition-related revenue

requirement; is that correct?

A. I'm sorry. Could you repeat that?

Q. So your cross-es- -- cross-answering testimony stated that changes to the modified historical test year approach, the traditional rate-making approach, that any -- those changes would not impact the attrition-related revenue requirement. Does that accurately summarize your testimony?

A. Yeah. I think -- I think what I -- I said is that if the Com- -- if Commission Staff had made other adjustments to the historic test period with known and measurable adjustments, that approach, that say they had added more or less plant additions for major pro forma plant items, with the exception of the one-off adjustment in the attrition study for Project Compass, those wouldn't have mattered, because you're -- Staff would still be going to the same attrition-adjusted revenue requirements.

Q. I was just going to --

A. So say, for --

Q. -- ask that.

A. -- example, that more major plant additions had been added or less had been added by Staff, that wouldn't have really mattered, because you're calculating the difference between Staff's attrition approach and the cross-text -- -check study approach to get to that

attrition number.

Q. That was my next question, to turn to Compass. Staff did make an attrition adjust -- adjustment to its attrition-related revenue requirement to include the effects of disallowing a portion of Project Compass; is that correct?

A. Yeah. My -- my understanding of what Staff did with Project Compass is that they felt that that historical trend that they applied to the net plant -- to the net plant in service, net of ADIT, that Project Compass was something that was beyond that trending level that they saw.

So they did make an additional adjustment, above and beyond the -- the attrition trending to add Project Compass, but they added it at a lower amount than what the Company had proposed for Project Compass to -- to reflect some disallowances for that project.

Q. And that -- and that lower amount was to reflect the disallowance; is that correct?

A. That's correct.

MR. SHEARER: No further questions, Your Honor.

JUDGE FRIEDLANDER: Thank you.

Is there any redirect?

MS. GAFKEN: One, maybe two questions, so

very brief.

*** EXAMINATION BY MS. GAFKEN ***

BY MS. GAFKEN:

Q. Ms. Ramas, you were asked questions about whether Staff's attrition approach was better than Avista's attrition approach. Is Staff's attrition approach a reasonable way to set rates in this case?

A. No. In my opinion, it's not, for the reasons presented in my cross-reply testimony -- or cross-answering testimony.

Q. For the reasons stated in your cross-answering testimony and your direct testimony?

A. Yes, as well. It's the same principles in setting rates in my opinion and why you shouldn't go an attrition approach in -- in determining rates being charged to ratepayers.

Q. So the critiques of -- of the attrition adjustment offered by the Company that you present in your direct testimony also would apply to the Staff's attrition --

A. For the --

Q. -- study?

A. -- most part. Not 100 percent of them, because one of the concerns pointed out in my direct testimony with the Company's approach was that they were -- the percentage escalations they were applying to net plant in service, net

of accumulated deferred federal income taxes, was based entirely on some of their budgets for two thousand and -- through 2016, whereas Staff's approach isn't using the budgeted amounts. They're using the historical amounts.

MS. GAFKEN: That's all I have. Thank you.

MR. MEYER: May I just do a quick follow-up on that last answer?

JUDGE FRIEDLANDER: Okay.

MR. MEYER: Okay.

JUDGE FRIEDLANDER: I -- I will allow it --

MR. MEYER: Okay.

JUDGE FRIEDLANDER: -- with the opportunity for redirect again. It'll be considered cross.

MR. MEYER: It -- I just wanted to clarify one thing I thought I heard the witness say, that she had some concerns about use of projections in the -- in the Company's attrition analysis.

*** EXAMINATION BY MR. MEYER ***

BY MR. MEYER:

Q. The question is, now, you understand that on re- -- that the Company's attrition adjustment on rebuttal was modified to conform with Staff's --

A. Yes.

Q. -- correct?

A. But I was asked about concerns in my direct

testimony, and I didn't get an opportunity to reply to the Company's new study it presented --

Q. Okay.

A. -- in its rebuttal position.

MR. MEYER: Thank you. I wanted to be clear about that.

JUDGE FRIEDLANDER: Sure. Thank you.

And do you have any questions on that clarification?

MS. GAFKEN: No, I do not. Thank you.

JUDGE FRIEDLANDER: Okay. Thank you.

Any Bench questions?

*** EXAMINATION BY CHAIRMAN DANNER ***

BY CHAIRMAN DANNER:

Q. Thank you. Ms. Ramas, so is there ever a time when attrition -- when doing attrition analysis might be warranted? Are there any conditions that you would want to see that justify that approach?

A. In my opinion, I -- I don't see a situation using an attrition study, in which you're forecasting out from a historic period into a future test period, that that would be a correct or reasonable co- -- way to set rates, because you're no longer basing it on cost-based rates; you're assuming that historical trending or curving is going to continue in the future.

And that's just too simplistic in my opinion, because so many things change as -- change -- so many things change for utilities over time, and to just -- I just don't see how that is -- I do know, though, that the Commission, in addressing attrition in past cases, has made some other adjustments as a result of attrition, beyond going to a -- setting rates based on an attrition study.

For example, the end of test period, using end-of-period rate base, or allowing certain adjustments that are known and measurable to go beyond the test year itself as a way -- in the Commission orders I read -- as a way to address attrition that may be occurring.

So I think there's other ways to address potential attrition or regulatory lag without having to go to using forecast -- setting rates based on forecasted amounts that are based on trends.

Q. So -- but wouldn't you say that, in going back into the past history, though, I mean, the Commission has, while it favors using the historic test year with pro forma adjustments, it has, basically, stretched that to deal with the circumstances at hand.

And so when you're using end-of-period, for example, I mean, that's -- that's because you're trying to address regulatory lag. Here, we're in a situation where, not only regulatory lag, but a concern about whether the

Company can ever meet its -- its ROR, you know.

We -- and this Commission has used attrition in the past. I mean, back in -- in the '80s, you know, Duran Duran and The Bangles, and those groups are actually making a comeback this year, so --

A. I hope not.

Q. -- you know that the -- so -- so basically, the question has been, what flexibility should the Commission have to use tools to address particular circumstances?

And so if the Commission finds that the inability to -- to earn an authorized rate of return, if the Commission finds that a company simply doesn't have that and -- you know, should it adjust its tools to address that. And -- and so I'm just looking at what kind of flexibility you see us having?

A. Yeah. And again, I -- I'm not sure of all the statutes that may put limitations on your tools, but it's my understanding that the Commission has addressed that some by going to end-of-period and allowing more major pro forma plant additions that are used and useful and known and measurable, so you're still setting rates based on use and useful plant in service and based on known and measurable amounts.

Q. Well, and we've --

A. So I do think --

EXAMINATION BY CHAIRMAN DANNER / RAMAS

Q. We've had --

A. -- there are more tools in there.

Q. But haven't we had arguments that even -- even those adjustments violated the principles of used and useful and known and measurable? I mean, I -- I seem to recall that we did have those arguments in those rate cases.

A. I don't know, if you're using actual amounts, that they're necessarily not used and useful or known and measurable, but there are -- is the concern that you're going to start no longer having a match in the revenues and investment and expenses.

So that's why when you do go past an historic test period, you've got to be careful that you pick up not only those plant additions but the incumbent impacts on other components of revenue requirements of those impacts.

And, again, I'm not saying that -- that you need to go to a future test year, because I do think you can get fair and reasonable rates that will allow a utility an opportunity to earn a rate of return -- fair and reasonable rate of return under the historical test year with known and measurable adjustments.

And I -- I still don't -- I don't agree that it's necessarily been demonstrated in this case that the Company cannot earn a fair and reasonable rate of return without an

attrition adjustment. I mean, again, that attrition --

Q. Yeah.

A. -- study that shows the under-earnings --

Q. I understand that.

A. Oh, I'm sorry.

Q. I'm just asking at the -- at the theoretical level --

A. Okay.

Q. -- what -- what tools do we have in our holster and is attrition analysis one of them? And so what I'm hearing you say is --

A. That --

Q. -- is that's kind of --

A. -- may -- I -- legislature --

COURT REPORTER: I'm sorry. Please let him finish.

THE WITNESS: I'm sorry.

A. Under the Commission rules, I'm not sure what additional tools you may have, but I do know you have some flexibility as far as going beyond the end of historic test years that you can take into consideration, but I'm not sure of all the tools you may have available to you.

BY CHAIRMAN DANNER:

Q. Okay. But again, it's your position that an attrition analysis is just a bridge too far?

EXAMINATION BY CHAIRMAN DANNER / RAMAS

A. Yeah. I don't think that that would result in cost-based rates, that you -- you can't just simplistically assume that these historic trends will be reflective of what's going to happen in the future.

Q. But isn't there kind of a sliding scale? I mean, there's known and measurable, and then there's less known and measurable, and less known and measurable. The more you get out of the things like end-of-period, you're -- you're getting further away from those things. I mean, how far can you go before you've gone too far? And, I mean, how do you -- how do you draw that line?

A. Well, end-of-period is still, in my opinion, known and measurable, because you're basing on actual amounts that have been booked and placed into service, so you're not using forecasts and projections. You're based -- basing them on amounts that are based on the Company's books, so they're actual known and measurable costs.

CHAIRMAN DANNER: Okay. All right. Thank you.

JUDGE FRIEDLANDER: Thank you.

*** EXAMINATION BY COMMISSIONER RENDAHL ***

BY COMMISSIONER RENDAHL:

Q. Afternoon, Ms. Ramas.

A. Good afternoon.

Q. Ramas or Ramas?

EXAMINATION BY COMMISSIONER RENDAHL / RAMAS

A. Ramas.

Q. Good. We'll do that. Okay.

So Ms. Ramas, if you would turn to your testimony in DMR-1T, page 20.

A. I'm there.

Q. Okay. So in the Q and A that starts on line 11 and goes on to page 21, you're talking about the time period used in evaluating in -- in the electric attrition study that the Company used; correct?

A. Correct.

Q. Okay. So you did some analysis based on a time period of 2011 through 2014; correct?

A. Yes, I did.

Q. Okay. So do you -- did you just do a calculation, or did you do some sort of an attrition study that's comparable to Staff's method for this 2011 to 2014 time period?

A. No. It -- in doing this, I used the Company -- the actual attrition model that had been provided by the Company, the updated one that -- that factored in the impacts of the settlement agreement, and that was provided in response to Staff Data Request 130, Attachment B, the revised attachment.

And all's I did was -- was change -- change the factors that were put up in the escalation lines, so I

still used all -- all the numbers and amounts that were in the Company's model. I just -- instead of escalating it based on the Company's forecasted plant additions, I used it based on the three prior years, the 2011 through 2014, so that's all based on the Company's attrition model.

Q. So since that time, and since Staff filed its -- its testimony and its attrition study, did you do a similar evaluation of that time period using Staff's?

A. No, I -- I did not.

Q. Okay. I have one other question, and this is related to the O&M expenses.

A. Okay.

Q. So on rebuttal, the Company revised its test-year expenses for Colstrip to reflect a one-time refund?

A. Yes. That's my understanding.

Q. Okay. Do you agree that this is an appropriate adjustment to their test-year expenses?

A. I'm not sure. That came in so late in the record that I really didn't have a lot of time to think it through and evaluate it and ask more follow-up discovery on it. It's my understanding that it relates to -- it's a refund of costs that it -- that were initially occurred -- hopefully, my recollection was right, but around 2013, and it's a refund of those amounts.

So just given how late it was presented by the

Company at the rebuttal phase, I -- I haven't formed an opinion if it's reasonable or not. I -- I do know that the amount of adjustment to make for it would be different if you're using the cross-check study approach or the historic test year approach in setting rates versus the attrition approach because of the different periods used, because in the Sept- -- in the historic test year ended September 31st [sic], 2014, the amount is lower -- that was booked in that 12-month period than what was booked on the 12-month period ending December 31st, 2014, which was used in the attrition studies.

And I believe one of the cross-exhibits that was introduced clarifies that, that -- what the adjustment would be, depending on which time period you're using.

Q. Okay. Thank you.

A. You're welcome.

*** EXAMINATION BY COMMISSIONER JONES ***

BY COMMISSIONER JONES:

Q. Ms. Ramas, just one question. We haven't talked about decoupling that much. We've all been talking about attrition. Decoupling used to be a big thing around here, around this Commission. But could you turn to page 22? I think you mentioned decoupling.

A. Yes, I'm there.

Q. So I guess my question is, a full decoupling

mechanism for Avista, both on the electric and natural gas system, is relatively new; right? It just implemented January 1st?

A. Yeah. That's my understanding.

Q. So how, in your view, will a decoupling mechanism interact with -- let's say we adopt a full attrition analysis along the lines of either Mr. McGuire or the Company's? What should we be aware of?

Because what decoupling does, as I understand it, it allows the utility to recover their fixed costs, which included CAPEX and O&M, I would think, and it separates the basic charge from the volumetric charge, and it's on a revenue-per-customer basis.

A. Yeah.

Q. So can you talk a little bit about that, please?

A. Yeah. I mean, it's my -- my understanding that decoupling should offset the pressures that the Company contends is causing the attrition situation, so now if you're having plant growth in the future, and if you have -- you may have lower load growth and lower -- if you do have declining usage per customer, that's kind of corrected for with the -- at least my understanding of how the decoupling mechanism works, that -- that impacts of lower load growth or lower per-customer usage aren't as great now as they were in the past because now you're going

EXAMINATION BY COMMISSIONER JONES / RAMAS

to have that decoupling true-up in rates.

Q. Does it affect rate -- what we think of as rate base additions directly or does it do so indirectly? I think Mr. Norwood --

A. I guess it would indirectly, because it -- it's going to result in the Company being more -- I hate to say "guaranteed," but a larger probability of collecting the amount of revenues that was determined based on the plant in service for which the rates were set based on.

Q. Okay. Thank you.

A. You're welcome.

JUDGE FRIEDLANDER: Thank you. Thank you for your testimony. You're excused.

So I believe next up is Ms. Alexander.

BARBARA R. ALEXANDER, witness herein, having been first duly sworn on oath, was examined and testified as follows:

JUDGE FRIEDLANDER: Thank you.

*** EXAMINATION BY MS. GAFKEN ***

BY MS. GAFKEN:

Q. Good afternoon.

A. Good afternoon.

EXAMINATION BY GAFKEN / ALEXANDER

Q. Would you please state your name and spell your last name for the record?

A. Barbara R. Alexander, A-L-E-X-A-N-D-E-R.

Q. And who are you employed by?

A. I'm a self-employed consultant.

Q. On whose behalf are you testifying for in these dockets?

A. The Public Counsel and The Energy Project.

Q. And did you prepare direct testimony and exhibits BRA-1T through BRA-20?

A. Yes.

Q. And do you have any changes or corrections to your testimony or exhibits?

A. I do not have a formal correction, but I acknowledge that on page 29 of my direct testimony, that I -- and I'll give you the line number -- picked up the -- line 4, I picked up the wrong number from the Company's data request about the amount of savings they projected from detecting energy theft due to the AMI system.

And Mr. La Bolle corrected that misstatement in his rebuttal testimony, and I agree with his correction; however, this change does not impact my analysis or my concerns about the validity of the number they are including in their business case.

MS. GAFKEN: Thank you.

Ms. Alexander is -- is ready for cross.

CHAIRMAN DANNER: So I'm sorry. Could I get clarification? So you're changing the number that is currently 2.24 million, and you're changing it to something else?

THE WITNESS: Well, I'm letting Mr. La Bolle's testimony on the record stand as --

CHAIRMAN DANNER: Okay. So you're not --

THE WITNESS: -- as a proper correction.

CHAIRMAN DANNER: So you're not making amendments to your own testimony?

THE WITNESS: Well, I didn't bring it in that respect, but I'm happy to acknowledge --

CHAIRMAN DANNER: Thank you.

THE WITNESS: -- the error. Yes.

JUDGE FRIEDLANDER: Thank you.

Mr. Shearer?

MR. SHEARER: Staff has no cross for Ms. Alexander.

JUDGE FRIEDLANDER: You're right. My bad.

Mr. Meyer?

MR. MEYER: Yes, I do.

*** EXAMINATION BY MR. MEYER ***

BY MR. MEYER:

Q. Good afternoon.

EXAMINATION BY MEYER / ALEXANDER

A. Good afternoon. Evening for me, but afternoon to you.

Q. You state at page 11 of your testimony -- and you don't need to turn to it if -- you can, obviously, but it's your BRA-1T -- that you have no inherent disagreement with AMI deployment. I think your words were that this does not "reflect opposition to AMI in particular or smart-grid investments generally." Have I characterized that portion of your testimony accurately?

A. You've quoted it correctly, yes.

Q. Thank you.

Do you have in front of you Cross-Exhibit BRA-21?

A. Am I supposed to have something here?

Q. You should, and I can give you a copy of that if that speeds things up.

JUDGE FRIEDLANDER: That's fine.

A. Yes. I'm familiar with this response to your data request to me, yes.

BY MR. MEYER:

Q. Yes. Okay.

A. Okay. Very good.

MR. MEYER: So I have an extra copy if anyone needs it.

JUDGE FRIEDLANDER: I have it.

COMMISSIONER JONES: I'm fine.

EXAMINATION BY MEYER / ALEXANDER

MR. MEYER: We're good?

BY MR. MEYER:

Q. Now, in that request, you were asked to identify each docket or case in which you've presented testimony addressing AMI; correct?

A. Addressed utility proposals with business cases for AMI deployment, yes.

Q. All right. And as I counted up the sheer number of entries there, I -- I came up with 27 entries?

A. You may be correct. I haven't --

Q. Okay.

A. -- double- --

Q. Subject to check?

A. Yes.

Q. Okay. All right. Now, you were also asked as part of that same request, Subpart B, concerning those dockets, those 27 different entries, "Please identify each case in which you have submitted testimony or comments recommending the implementation of AMI -- AMI as a part of that proceeding," and I'll ask you to read the last paragraph of this data response, beginning with, "Ms. Alexander's engagements." Would you read that aloud?

A. Certainly. "Ms. Alexander's engagements in each of these proceedings was to evaluate the costs and benefits of AMI, as well as the customer bill impacts associated

with that investment, or to respond to specific policy issues associated with AMI deployment.

"Ms. Alexander's testimony on behalf of consumer advocates did not endorse or recommend the approval of AMI deployment or, where such deployment was already approved, she recommended performance metrics, consumer protections, cost recovery and rate design, time-varying rate programs, and other conditions of deployment."

Q. So -- thank you.

So you have not presented testimony in all of these identified dockets in -- in not one instance did you recommend adoption of AMI for that particular utility; correct?

A. That is correct. I have not been asked to endorse AMI. I've been asked to evaluate costs and benefits being imposed on residential customers, primarily, to support this investment, and that is my -- the subject of my testimony in all those proceedings.

Q. Thank you.

So am I to infer from that that you were never retained to independently evaluate, but rather you were retained to oppose the adoption of AMI?

A. No. I was retained to evaluate the utility's presentation of its facts about costs and benefits and the associated programs that the utility included in its filing

to justify its AMI deployment, so I looked at that from the bottom up.

As a ratepayer advocate, I was critical and intended to be critical of attempting to find whether the assumptions were reasonable, whether the bill impacts were affordable, and whether the technology would, in fact, result in the benefits that the utility claimed.

Q. So, Ms. Alexander, in your testimony at -- I think it's at page 2, but irrespective of that, this -- this is your -- your direct testimony, you test- -- you say you testified in Oklahoma, Maryland, Michigan, California, and Maine. Do -- have all five of those jurisdictions adopted, in one form or another, AMI?

A. The commissions in those juris- -- well, I'll have to hold out Michigan. I've lost track of their situation. It was appealed to court as being insufficiently supported on the record.

But in Maine, AMI has been adopted. In Oklahoma, the commissions have adopted AMI. In Maryland, they did. In most of those jurisdictions, they had half the cost of the program paid with the federal government's American Reinvestment and -- I'm sorry, the ARRA funding that was adopted in the late 2000s.

Q. Okay. Well, let's complete this list of five. Michigan --

A. Sure.

Q. -- has adopted it; correct?

A. Well, as I said, the commission did approve some initial costs. It was not a full deployment case, and it was appealed, and the court rejected the commission's decision as not being within the confines of the record evidence. I do not know the current status of that situation.

Q. All right. Fair enough. And --

A. Okay.

Q. -- California has very much adopted and embraced AMI?

A. Oh, absolutely, and they did so before any federal money was available. The total costs in California is $5 billion and growing. The one case that I participated in was the gas company's AMI deployment, and it happened after the commission had approved AMI for all other combined gas and electric utilities in California.

Q. All right. Now, did this Commission hold, I'm going to call it, a workshop or a conference on AMI with reference to Avista's plans that was open to all interested parties earlier this year, and I believe it was in February?

A. I would have no personal knowledge of that.

Q. Have you since been made aware of that workshop?

EXAMINATION BY MEYER / ALEXANDER

A. I have seen a data response with a presentation that Avista made at that workshop, yes.

Q. Do you understand that that was publicly noticed and any interested party could appear?

A. If you say so. I would have no knowledge of that.

Q. And was it open for representatives of Public Counsel to attend and participate --

A. I have --

Q. -- if you know?

A. I have no knowledge of that.

Q. Do you know whether Public Counsel representatives appeared and participated in that process?

A. I do not know.

MR. MEYER: Okay. That's all I have. Thank you.

JUDGE FRIEDLANDER: Thank you.

Any redirect?

MS. GAFKEN: Yes. This should be fairly -- fairly quick.

*** EXAMINATION BY MS. GAFKEN ***

BY MS. GAFKEN:

Q. I want to first start with the line of questioning that Mr. Meyer ended with. Were you retained by Public Counsel to address the workshop docket that Mr. Meyer inquired about?

EXAMINATION BY GAFKEN / ALEXANDER

A. No. I was only retained after Avista filed the AMI deployment business case in this proceeding.

Q. Mr. Meyer asked you a series of questions about other states that you have worked in and other AMI proposals that you have addressed.

A. Mm-hmm.

Q. He specifically asked you about Michigan and California, and Maryland was in the first question, but not in the -- when he started listing out the states.

A. Mm-hmm.

Q. Let's focus first on California. What was the reason for your recommendation in that case, on a very high level?

A. I was retained by the UWUA to review a gas company's, a standalone gas company's, proposal to replace and install AMI for its gas metering system. I reviewed the company's costs and benefits and provided testimony that pointed out the risks that the benefits are unlikely to be appearing as they projected, and the commission approved the proposal in any case.

But as I said, California had long ago decided that AMI -- ubiquitous AMI deployment in that state was something that they were going to do, and the combination gas and electric utilities had already had approval for doing AMI for their gas portion of their business. So this

utility was the only utility left in California without an AMI deployment approval, and they obtained it after this proceeding that I've just described.

Q. With respect to your work in Maryland --

A. Mm-hmm.

Q. -- did the commission in that state initially approve the AMI proposal?

A. No. In fact, they rejected it. Even with the hundreds of millions of dollars that the utility had already received in a commitment from the Department of Energy to fund half the cost of the deployment in that -- Baltimore Gas and Electric and Potomac Edison electric companies.

And the commission's rejection was specifically discussing the lack of documentation for benefits in that case. The company came back with revised proposals, and they changed the nature of the customer programs that they were making a commitment to implement quite dramatically.

And their proposal relied in great part on funding a demand response program called "peak-time rebate" through revenues from the PJM wholesale market, which dramatically impacted their cost-benefit analysis.

And the commission did approve it, but did not roll the costs into rates, but said, "You may come back and seek recovery of these costs if you, at the same time,

document that all of the benefits, and in the amount that you have projected, have actually occurred as you've rec- -- estimated that they will."

And they set in motion a very elaborate tracking mechanism for each one of the cost categories and the benefit categories, and to my knowledge, the utility has yet to come in to seek full rate base inclusion of those AMI costs. I have no doubt that they will, but they have not yet done so.

Q. Mr. Meyer asked you a series of questions about whether you have been retained by various consumers' advocates to oppose AMI generally, and I think you fairly clearly said that you were retained to evaluate the business cases for each one of the utility cases that you've worked on; is that correct?

A. Yes.

Q. In this case, did either Public Counsel or The Energy Project ask you to come to a foregone conclusion or did we ask you to evaluate the case that was presented by the Company?

A. You did not suggest a foregone conclusion. You asked me to evaluate the business case in this situation, from the perspective of the ratepayers, who will be asked to pay for this investment. Obviously, in the beginning of the case, the Company wanted to include costs in rates, and

only later did they change their mind with respect to how they wanted to proceed.

But in this case, we have not one bill impact analysis done by the Company, no indication of how people's bills will be impacted by this proposal, and as a result, I doubt, with exactly the information that they were willing to provide with regard to their projected benefits, of which I, obviously, had serious concerns about their validity.

MS. GAFKEN: Okay. Thank you. I have no further questions. Thank you.

JUDGE FRIEDLANDER: Thank you.

Any questions from the Bench?

*** EXAMINATION BY COMMISSIONER JONES ***

BY COMMISSIONER JONES:

Q. Ms. Alexander, could you turn to page -- I have a few questions on customer privacy and opt-out.

A. Yes.

Q. Page 17 and 18 is where you describe --

A. 17 and 18?

Q. 18 of your Exhibit BRA-1T.

A. Yes.

Q. So I guess the bottom line here is, you describe a number of concerns based on your national -- your -- your testimony and review of literature nationwide on customer

privacy issues and especially sharing of the interval data with third parties; correct?

A. Yes.

Q. My question is timing and your recommendation. Did you hear my exchange earlier today with Mr. La Bolle on the corporate communications budget and whether or not regulatory proceedings are part of that?

A. Yes, I did.

Q. Does that give you any concern? Because as I read your testimony, it is in that last sentence on line 19 where you state, "Avista has not budgeted for any customer privacy issues in this project."

A. That's right. I asked that question specifically. Where are the costs for addressing the desire or the obvious need to develop policies with how you're going to handle the release of this data and the availability of this data to third parties who would find it very valuable, either in the combined nonspecific customer sense and in the specific customer sense of the personal interval data?

And the answer was that there were no expectations of additional costs, that they already had a privacy policy, and that they would guard all this information and not release anything without the customer's permission. But that's very naive, because it doesn't address what other states have had to deal with with these policy

issues.

Q. I have read part of the California PUC rule on privacy and smart grid. It is very voluminous, very --

A. Yes, sir. And it took two years to get that far. Now, I will admit to you that California kind of overdid it with regard to its complexity and length of time. I'm not suggesting that Avista would need two years to get this resolved here. However, I do think it's important to recognize that the -- the actual implementation of this has not been thought through as carefully as I think they should have.

Q. Okay. And timing of this, would you recommend that if we -- I'm still not sure what the Company is asking us, some sort of guidance and then deferred accounting on the -- on the existing meters in this order, through a separating accounting petition.

But in any case, let's say it's either in this order or Decem- -- let's say we issue it in December or they file first quarter of 2016, when do you -- when would you recommend that we initiate -- I -- do you recommend that we proceed with a rule-making on smart-grid privacy issues?

A. That would be a perfectly acceptable way to proceed --

Q. Okay.

EXAMINATION BY COMMISSIONER JONES / ALEXANDER

A. -- at some point, if deployment is actually going to be undertaken.

Q. Okay.

A. I, of course, hope you do not give the --

Q. Yes.

A. -- request that the Company's asking you to give, but if --

Q. Hypothetically.

A. Yes.

Q. Hypothetically. If we did.

A. Hypothetically, a rule-making would be an entirely appropriate way to proceed. Yes, sir.

Q. And California -- the way I understand your testimony, California's too complex, two years; we might be able to get it done in a lesser period of time?

A. I would think that you could. Yes, sir.

And it depends who intervenes and seeks to get your attention on this matter. If you look at the parties and the national and -- and regional privacy customer rights organizations that proceeded to get involved in the California proceeding, that was why it became a huge and very complex investigation.

Q. Right.

A. Yes.

Q. On page 19, you describe your concerns over an

opt-out policy, do you not?

A. Yes.

Q. Okay. So what is your primary recommendation to us here on opt-out? That we, again, make sure that the Company budgets for this properly?

A. The fact that the Company thought that it could handle this matter by having a collaborative meeting with who it thought or you thought might be the interested stakeholders and get a policy resolved promptly, again, was very nai- -- is very naive in my opinion and not in keeping with the intense amount of concern that is likely to bubble up from what I will acknowledge is a -- probably a minority, small group of customers who have made this a very big deal in most states that have implemented smart meter.

They have budgeted, as they said, over 5 million for customer education. I don't know what they intend to do with that money because they didn't break it down, but one would assume that that money would include the announcement to its customers that they're going to come into the house -- not in the home, but onto the home, remove the meter that's there, and put a new one in.

And they're going to explain to them if they have to be there or not, that there might be a momentary power outage as a result, they may want to do it neighborhood by

neighborhood. I mean, there is an elaborate process to go through here to let people know what's happening.

And the last thing that I hope they think they're going to do here is to just sort of do it without really telling people what they're doing, and that is going to result in the most advers- -- adversarial kind of grass-roots suspicion and reaction and controversy.

So once you announce properly that you are going to replace every meter and what the meter does and why they're doing it, you're going to bubble up people who will be opposed to this. And it would behoove the Company and the Commission to have this policy in place before deployment begins.

And there's a variety of ways to do it, and I don't say I know the correct way, but I can give you examples of wide varieties of ways to do this. But nonetheless, a publicly noticed and -- dialogue needs to occur.

Q. So would you recommend that they do that through a tariff filing, which is sometimes not very well publicly noticed -- few people understand how commissions adopt tariffs -- or are you recommending something broader?

A. The ultimate result will be a tariff, but that is not the process that I would recommend --

Q. Okay.

A. -- to get there.

Q. Thank you.

A. That is correct.

Q. My last question to resolve is about outage reduction savings or outage management. Could you turn to page 33?

A. Yes.

Q. This is where you -- now, do you agree in principle that outage reduction savings through an AMI could -- could provide significant benefits to customers for an outage of eight hours, ten hours, six hours, whether that -- that customer -- let's -- let's just take the residential class -- whether it's -- it's just a residential user or a person working at home in a home business --

A. Mm-hmm.

Q. -- does that provide, if -- if AMI can provide greater reduction savings, is that not a tangible benefit?

A. What's tangible might be a systemwide reduction in the amount of time it takes to respond and -- to outages that occur. AMI will not prevent the tree from falling down or the pow- -- or the storm from occurring.

All it does is help the utility understand who's out, who isn't. They might avoid some truck rolls. They very well could repair some things faster because they're

more efficient at finding out where the outages are and what they need to do to fix them.

So I acknowledge there will be some improvement, the volume of which I do not believe will be experienced by all customers. You cannot promise anyone that, somehow, they will experience fewer outages as a result of AMI. There will be some operational improvements. There will be some operational efficiencies, and there will be, generically, the potential to measure in that SAIFI and SAIDI, there might be some basis for finding some modest improvement there.

But when you go to customers and you say, "How much would you be willing to pay to avoid an hour -- an outage?" and, in fact, they still have an outage and it's 7 hours and 50 minutes as opposed to 8 hours and 20 minutes, I mean, that -- that's the kind of analysis that I find absolutely useless for this purpose, and to impute money as a customer benefit in this analysis was my main --

Q. Right.

A. -- opposition and concern.

Q. So in your testimony, you criticize and critique the Lawrence Berkeley. We've talked a lot about Lawrence Berkeley today, haven't we?

A. Evidently.

Q. So -- and I'm -- I'm quite familiar with this in

my work nationally with NARUC, but Berkeley did this study, DOE adopted. It's called the ICE Calculator, the -- the Interruption --

A. Yes. Actually, Berkeley didn't do the study. The Berkeley report summarized what some utilities did to survey their customers. And the Berkeley report, all it did was say, "Here's what the utilities" --

Q. Right.

A. -- "found," and then they give you the range, the customer class, low income versus not, and so forth. Yes.

Q. So are you saying that the ICE Calculator -- and I understand its deficiencies and infirmities. It doesn't go beyond 8 hours and other factors -- but are you alleging in your testimony that the ICE Calculator does not calculate any benefit to customers, let's say, in the summer peak?

I think on page 37, it says -- you say the models show a 1-hour summer interruption cost for residential customers in the 2 to $5 range.

A. Mm-hmm.

Q. So are you saying those numbers are not real? Under -- under some value -- I understand your concerns about valuation. It's --

A. Right.

Q. -- hard, but are -- are you saying there's no value? There's no interruption cost of an outage to a

customer?

A. As an econ- -- I am not an economist. An economist would certainly agree that there is value, as that term is used, in the economy world.

I am saying that does not translate into using those values in a business case to offset costs and pretend that there is some benefit on the customer side of the ledger that would offset those costs, because they aren't real. They don't appear on the bill. They aren't delivered to customers. There's no linkage.

The ICE was done by the DOE as an internal determination as to how they were going to evaluate those billions of dollars they handed out for the smart-grid projects.

Q. Yes.

A. They made use of that for their own internal analysis --

Q. Okay.

A. -- but they aren't involved in rate-making. It has nothing to do with rate-making, and that's what --

Q. Okay.

A. -- I would urge this Commission to pay attention to.

Q. Okay. I understand your concerns --

A. Yes. Okay. Thank you.

Q. -- a little bit more precisely, but is there any other method -- on page 38, you critique the, quote, "Contingent Valuation Method." You cite to Footnote 61, which I find rather amusing, by an MIT economist. It says, "Contingent valuation from dubious to hopeless." I mean, that should make all the --

A. Well, this --

Q. -- economists in the room cheer up.

A. Well, yeah. You can ask anything you want on a survey. That doesn't mean the data you get has any validity. And what people say they're willing to pay is not what they actually do pay when they have to spend their paycheck, and that's the point of the MIT article.

Q. So I understand you're concerned about no bill savings or no bill analysis, but --

A. Right.

Q. -- is there any guidance you can give the Commission on, if it's not the ICE, if it's not the contingent valuation method, are there other methods that you think we should consider to get at this question?

A. I think that if you -- first of all, it needs to be excluded from the business case, as many of the things that I have recommended be excluded, thereby failing totally the notion that this investment has benefits that exceed costs. 3.5 million over 21 years is not an

acceptable range of concern.

If you want to suggest -- and I understand why you would want to -- that there may be reliability benefits from AMI, I would recommend that they be tracked in a way that allows you to determine the incremental impact of the AMI investment as a condition of cost recovery.

But let's not pretend it's a customer benefit that is included in the business case. That's what my main concern is here.

Q. Okay.

A. Yes.

COMMISSIONER JONES: Okay. Thank you. Those are all my questions.

THE WITNESS: Mm-hmm.

CHAIRMAN DANNER: No questions.

JUDGE FRIEDLANDER: No questions? All right. Thank you. I believe that's all the questions --

THE WITNESS: Oh, that's it.

JUDGE FRIEDLANDER: -- that we have.

THE WITNESS: Okay.

JUDGE FRIEDLANDER: Yeah. Thank you so much for your testimony.

THE WITNESS: Sure. Thank you very much.

JUDGE FRIEDLANDER: All right. I believe at this time we have Shawn Collins and Stefanie Johnson.

SHAWN M. COLLINS and STEFANIE A. JOHNSON, witnesses herein, having been first duly sworn on oath, were examined and testified as follows:

JUDGE FRIEDLANDER: Thank you. You can be seated.

Who wants to introduce the witnesses? All right. Mr. Roseman?

MR. ROSEMAN: Well, it's almost good evening. I'm go- -- you've heard the litany of these introductory questions. I think the best way to do is ask one person, let them go through and get the answer, and I think I'll start with Stefanie.

*** EXAMINATION OF WITNESS JOHNSON BY MR. ROSEMAN ***

BY MR. ROSEMAN:

Q. Will you state your name, please?

A. (BY MS. JOHNSON) My name is Stefanie Ann Johnson.

Q. And who's your employer?

A. I work for the Washington State Attorney General's Office, Public Counsel unit.

Q. And what is your position in that office?

A. I'm a regulatory analyst.

Q. Okay. And have you filed testimony in this case?

A. I have this testimony, and I was also a witness in

the joint testimony in support of the settlement.

Q. Okay. And this is filed jointly with Shawn Collins?

A. Correct.

Q. Okay. And did -- did you and Mr. Collins prepare the testimony in this case?

A. Yes, we did.

Q. Okay. And is the -- the testimony exhibits, are -- do they include SMC-1T through SMC-5?

A. Yes.

Q. Okay. And do you have any corrections in this testimony?

A. I do. I have two corrections to SMC-2, if you're there. So the first correction is just a typo. It's the estimated households served between 2014 and 2015, not the estimated households served between 2014 and 2105, which would be a much longer period.

And my second correction is in Footnote 3. At the end of the footnote, it says -- it's divided by the total households served by program year, and it's -- the reference is "Column B," but it should read "Column C."

Q. Thank you. Okay.

***** EXAMINATION OF WITNESS COLLINS BY MR. ROSEMAN *****

BY MR. ROSEMAN:

Q. Okay. Mr. Collins, will you state and spell your

name, please?

A. (BY MR. COLLINS) Shawn Michael Collins, C-O-L-L-I-N-S.

Q. And who are you employed with?

A. I'm employed by the Opportunity Council and The Energy Project.

Q. And what is your position?

A. I am the director of The Energy Project.

Q. And you joined Ms. Johnson in filing this joint testimony?

A. Correct.

Q. The -- and the -- and that includes the exhibits that I read, S- -- SMC-1T through SMC-5?

A. Yes.

MR. ROSEMAN: The witnesses are ready for any questions.

JUDGE FRIEDLANDER: Thank you.

COMMISSIONER RENDAHL: Thank you for making yourselves available. I think my questions may take less time than the introduction, but --

WITNESS JOHNSON: Maybe we'll have a really good answer.

COMMISSIONER RENDAHL: Okay. Since you know the question already.

*** EXAMINATION BY COMMISSIONER RENDAHL ***

BY COMMISSIONER RENDAHL:

Q. So you asked -- you heard the question I asked to Ms. Reynolds about the response to the Company's testimony and to your testimony jointly, so to the two of you, in your testimony in responding to what Staff filed simultaneously with you and the Company filing the rebuttal, do you support either the LIRAP funding plan proposed by Avista on rebuttal or Staff, or do you still maintain that yours is the best proposal, and why?

A. (BY MS. JOHNSON) So thank you for asking us the question a couple hours in advance. That was helpful when there's two of us.

We -- we continue to support our proposal for the 10 percent increase. I think that there are components of Mr. Ehrbar's testimony, particularly the -- the detailed description of how the true-up works between the -- the fall filing in advance of the heating season and then how it would be updated after -- if a rate increase was to go into effect and so when that would be done. I think that was a component that we -- we agreed that we didn't address in our testimony that we -- we are fine with.

But overall, we continue to support our position of the -- the 10 percent increase. I think that number -- you know, we didn't -- that number wasn't arrived at

arbitrarily for us. We consulted relationship CAP agencies and -- well, with Shawn and The Energy Project in particular, you know, had worked with them, and that -- they had indicated that was something they could do.

And I think that, based on the Eastern Washington University study, you know, indicating that 22.5 percent of households in the Avista service territory are eligible for these programs, we felt like it was appropriate to try and ramp this program up faster at this point in time.

A. (BY MR. COLLINS) And I'd say, additionally, in Staff's recommendation of proposing to meet 50 percent of the eligible population, we're certainly in support of that, and I think they were getting there a few years after our -- our recommendation of the 10 percent, so there's elements of -- of that proposal, too, that we also support.

A. (BY MS. JOHNSON) And just for clarification's sake, when you look at the numbers provided in Mr. Ehrbar -- well, in response to discovery, where they kind of -- they showed what it -- the numbers looked like after a number of years, so like in Mr. Ehrbar's Cross-Exhibit PDE-13CX, the budget numbers there, those in -- when I first looked at them, I was confused, because I thought, "Those look a lot like my numbers," but --

COMMISSIONER RENDAHL: Now, is this a confidential exhibit, so you're not going to be mentioning

numbers?

WITNESS JOHNSON: It is not, no. CX is "Cross-Exhibit."

COMMISSIONER RENDAHL: Oh, okay. Sorry.

WITNESS JOHNSON: Sorry. No. That's okay.

A. (BY MS. JOHNSON) So in that number, the budget numbers look similar to what we have in our exhibit, kind of within the same scope, but part of that has to do with the fact that their budget numbers, as proposed by Avista, incorporate their proposed rate increase at this time, and so it -- it's different than what -- what ours is.

BY COMMISSIONER RENDAHL:

Q. Okay. Okay. So one -- one last question, and I understand, in the Company's proposal, they separate out gas and electric and analyze it separately. Is that a concept that you would support or not? Does it make a difference?

A. (BY MS. JOHNSON) Well, so my understanding, based on -- I didn't take part in all of the workshops that happened with the stakeholder -- the low-income workshops, but there is an element of flexibility that's helpful for the CAP agencies in administering the programs.

So, I mean, I think Shawn could -- can maybe speak to this more. It's not something I -- I guess as Public Counsel, you know, I would -- would want to be careful

about how it's done, but I do think that there's benefits to -- to allowing the agencies to distribute the funds as needed to the customers.

Q. Okay. So the -- so providing that specific number between electric and gas would, in your belief -- and maybe, Mr. Collins, you'll address that -- is -- would limit the flexibility of the agencies in -- in administering the funds?

A. (BY MS. JOHNSON) That's my understanding, in that some of what was -- what happened in that work group was that they tried to come up with additional ways to -- to -- to make it easier for the CAP agencies, so.

A. (BY MR. COLLINS) Yeah. And I would add that, in terms of the need among the population in the Avista territory, the electric customers tend to have higher bills than the gas side, and so we see a more -- more meaningful benefit to them would be a higher dollar amount of LIRAP.

And so we would ask to retain some flexibility in the use of those funds, so if -- while -- while there'll be funds coming from both gas and electric customers, that there be allowed some flexibility in how those are determined to be provided to a -- as a benefit to customers based on -- based on the need.

Q. So in -- in terms of that issue, I seem to recall -- and I don't remember now whether it was in this

case or whether in the petition filed by and following the work group -- ensuring that there are funds available for gas customers who do need this for heating and ensuring that, if there are such customers, that those funds aren't, for lack of a word, diverted to electric customer?

So is -- what would be your response to that in ensuring that there are adequate funds for those gas customers who might use it for heating purposes?

A. (BY MR. COLLINS) Well, I would say that we provide benefits to both gas and electric customers, and I'm not familiar enough with -- with how, currently, those -- those funds are split and made available, but certainly, we would, at -- at your request, ensure that there are funds available for gas customers at an appropriate level.

COMMISSIONER RENDAHL: Okay. Thank you. I don't have any further questions for the witness.

JUDGE FRIEDLANDER: I think that's it. Thank you both for your testimony. So I believe we're on to the last witness, Mr. Mullins.

BRADLEY G. MULLINS, witness herein, having been first duly sworn on oath, was examined and testified as follows:

JUDGE FRIEDLANDER: Thank you. Please be seated.

*** EXAMINATION BY MR. COWELL ***

BY MR. COWELL:

Q. Mr. Mullins, could you state your name for the record and please spell your last name?

A. Yeah. It's Bradley G. Mullins. Mullins is spelled M-U-L-L-I-N-S.

Q. And by whom are you employed?

A. I am an independent consultant.

Q. And who are you testifying on behalf of in this proceeding?

A. On behalf of the Industrial Customers of Northwest Utilities.

Q. And, Mr. Mullins, did you submit testimony and exhibits designated BGM-1CT through BGM-6?

A. Yes.

MR. COWELL: Okay. The witness is available for cross-examination.

JUDGE FRIEDLANDER: So no corrections, then?

MR. COWELL: Oh, excuse me. Sorry, Your Honor.

JUDGE FRIEDLANDER: No worries.

BY MR. COWELL:

Q. Mr. Mullins, do you have any corrections to make

to your --

A. I do not.

Q. Okay.

JUDGE FRIEDLANDER: Thank you.

MR. COWELL: Witness is --

JUDGE FRIEDLANDER: Mr. Shearer?

MR. SHEARER: Thank you, Your Honor.

*** EXAMINATION BY MR. SHEARER ***

BY MR. SHEARER:

Q. And good evening, Mr. Mullins.

A. Good evening.

Q. 5:04. We'll try to be efficient.

Now, your testimony rejects the use of an attrition adjustment; is that correct?

A. Correct.

Q. And you argue in your testimony that the -- this Company's not facing the type of extraordinary circumstances that would merit the extraordinary rate treatment in attrition; is that accurate?

A. So, among other reasons --

Q. You can qualify --

A. -- yes.

Q. -- it that way. Yes.

A. Yes.

Q. Now, your testimony clearly disputes the rationale

for the attrition adjustment. Do you take issue with Mr. McGuire's quantitative analysis?

A. I do, because I don't think that revenue requirements should be quanti- -- quantified using trends. I think it should be based on actual accounting data and the use of -- of known and measurable costs and the application of the used and useful standard.

Q. Well, let me ask it this way: Are the regression figures and the correlation figures Mr. McGuire provides accurate? Mathematically accurate?

A. So -- so I agree that he used a regression. I -- I didn't review every data point in his analysis to say whether -- whether it's accurate or not.

Q. Would you accept that, subject to check?

A. Sure.

Q. Thank you.

Now, are regression analyses and correlation statistics generally well-understood and well-recognized statistical methodologies?

A. Not for rate-making, no.

Q. For statistics?

A. Well, for purposes of this case, the answer's no, because this is a rate-making case. It's not a statistics class.

Q. Yes. Thank you, Mr. Mullins.

My question, though, is, is it a sound mathematical approach? I'm not talking about --

A. Well, but for what --

Q. -- applied to rate-making.

A. But for what purpose; right? I mean, so this is -- this is rate-making.

Q. Well, for -- let's go back one step. Is the use of regression analyses and a correlation calculation a common statistical tool to evaluate historical data and issue future projections?

A. In -- it's used that way in --

Q. Thank you.

A. -- some cases, yeah.

Q. And I'll ask you, similar to Ms. Ramas, is Staff's attrition study better than the Company's?

A. So, you know, we don't agree with attrition in this case, so we think that both of the studies are inconsistent with the Commission's traditional approach, so neither is -- is appropriate to be used in this case.

Q. They're equally bad?

A. I think that's a fair -- fair assessment, and they're equally bad for -- for ratepayers, correct.

Q. I'd like to shift to the discussion about the modified historical test year in your testimony. You're cross-answering testimony states attrition does not meet

the traditional rate-making standards of used and useful and known and measurable; is that correct?

A. Right. So -- so among other reasons or among other topics discussed, I point out that an attrition allowance would require the Commission to approve capital that has not been demonstrated to be used and useful pursuant to the State's standard. And in addition to that, reliance on a trend is -- does not comport to the Commission's past definition of -- of known and measurable.

Q. And those are the traditional rate-making concepts this Commission typically employs; is that correct? Or is that your understanding?

A. They are -- they are components of -- of that -- of the rate-making methodology employed by this Commission; correct.

Q. Now, attrition is an extraordinary mechanism. Is that your testimony as well?

A. My testimony is that attrition should be limited to extraordinary circumstances, when the -- the financial integrity of the utility is at stake.

Q. Has the Commission ever allowed an attrition adjustment?

A. I think Mr. McGuire identified some circumstances where they have in response to extraordinary circumstances.

Q. Okay. Thank you, Mr. Mullins.

EXAMINATION BY SHEARER / MULLINS

Let's move on to the last area I'd like to discuss about the attrition study. Is it your understanding that Mr. McGuire, his attrition study removed that portion of Project Compass that Staff Witnesses Mr. Gomez and Mr. Hancock recommend be disallowed?

A. So, no, and I had some confusion about this, because -- and maybe it makes sense to go to his exhibit to try to figure this out. So I guess we go to CRM-2, and I'm looking -- I only have the original version here, so if we go to page 5 of CRM-2, and we'll go to -- go to line -- I guess it's just line 32, which is "Intangible Plant in Service," and I'll wait for a minute until everyone's there.

So in -- so I don't really understand the logic of -- of how Project Compass is or is not included in Staff's ultimate rate base projection, and if -- if you look here -- so -- so Staff, in Column E, they start with -- and on the intangible line, they start with $102 million of intangible plant in service. They escalate that in Column H to $110.6 million.

And so the question is, first, whether that escalation did or did not already include rate base associated with Project Compass, and -- and we don't know whether it did or not, because we don't know what that rate base was related to.

And then you go over to -- I guess the foot- -- footing column on the far right, it's Column N, and I'm just looking at his -- his original work paper, and there's a number right before that that says, "After attrition adjustment to Project Compass," that's $39 million; however, the number doesn't change from -- from the $110 million.

So to me, it's very confusing about what -- whether or not Project Compass is in or out, you know, what the impact of a prudence disallowance would or would not have on that -- on that project.

Q. So you don't understand where or whether Mr. McGuire did, in fact, take that out of his attrition model; is that --

A. Well, I think --

Q. -- accurate?

A. I think, conceptually, it's impossible to know how it -- how it -- whether or not it's included, because we have this -- this trend factor, the 7.83 percent, and so we don't know how much of this -- of the increase was Project Compass or not.

Q. Could it be removed? Is there any reason it couldn't be --

A. Well, so the --

Q. -- broke down --

A. -- the usual way --

Q. -- or removed?

A. -- that we do this is we do pro forma adjustments, and we look at --

Q. Yeah. That's -- that's not what I --

COURT REPORTER: I'm sorry. I need you to speak one at a time.

BY MR. SHEARER:

Q. I just want to clarify that that's not my question. My question is, is there any reason it could not be removed?

A. So I -- I guess it depends on what you're removing it from. I mean, you could -- you could remove anything from -- from the trended rate base calculations. In fact, you could go to the extent of removing everything that hasn't been determined to be used and useful and known and measurable and arrive at a place no different than Mr. Hancock's analysis and Mr. Gomez's analysis.

Q. Thank you, Mr. Mullins. That was actually my next question.

So there's no reason that the attrition revenue requirement couldn't reflect any disallowance that the Commission would want to disallow?

A. Well, but ultimately, you -- you -- if you include the -- the escalation factor, you wouldn't know what is or

is not being -- being disallowed. So it's -- it's just -- it's very confusing about what -- what is in that -- that escalated component of rate base. We just don't know.

Q. Can you take it out afterwards?

A. But what -- again, what --

Q. After it's escalated, can you take any adjustment you want to disallow out? Could you take it out?

A. But what -- what would you be taking out?

Q. Whatever -- any adjustment that the Commission would want to disallow or any of the other intervenors.

A. Well, okay. So -- so again, I'll just reiterate this point and try to do it in a clearer way, but if you -- if you don't know what the rate base represents in -- in the trend, in the amount that is increased, you don't know what you're removing.

So if -- if rate base increases by, let's just say, $100 million in this -- in -- in the trend analysis, you don't know what is in or out of that trend to be removed. So in this instance, it's not clear whether Project Compass was in or out of that original trended rate base number and whether they did or did not actually remove it from -- from the results.

Q. I'm going to try to clarify my question too.

So if we have a rate base figure, we escalate the rate base figure, and then we subtract out an amount of a

disallowance, that wouldn't reflect a disallowance?

A. Well, again --

Q. Is that your testimony?

A. Yeah.

MR. SHEARER: Okay. Thank you. No further questions, Your Honor.

JUDGE FRIEDLANDER: Okay. Thank you.

Any redirect?

MR. COWELL: Just one, Your Honor.

*** EXAMINATION BY MR. COWELL ***

BY MR. COWELL:

Q. So, Mr. Mullins, you just answered regarding Mr. McGuire's testimony earlier today in which he identified some circumstances from prior UTC orders in which attrition was allowed based on extraordinary circumstances.

And I just wanted to clarify for the record, in listening to all of Mr. McGuire's terr- -- testimony concerning those past UTC orders, did you agree with all of his characterizations regarding when the Commission has applied attrition?

A. No, I -- I do not. And, you know -- you know, my understanding is that most of those really, truly were in situations where the -- the company, the utility, was in financial distress, that there was some imminent risk to --

to its financial health, and -- and that's not the case that we have here.

In this case, Avista is -- they're actually over-earning, and so it's -- it's -- I am struggling to understand why we're even talking about an attrition adjustment to begin with, because they're a very financial hea- -- financially healthy company.

MR. COWELL: No further questions.

JUDGE FRIEDLANDER: Thank you.

Any questions from the Bench?

COMMISSIONER JONES: No.

COMMISSIONER RENDAHL: I just have a few, and I'm sorry to delay us this evening.

*** EXAMINATION BY COMMISSIONER RENDAHL ***

BY COMMISSIONER RENDAHL:

Q. So, Mr. Mullins, I asked some questions to Ms. Ramas, and I asked some questions to Mr. Ball, and so I'm going to ask you similar questions.

So in terms of Colstrip, Avista revised its test-year expenses on rebuttal for Colstrip to reflect a one-time refund. So do you agree that this is an appropriate adjustment to Avista's test-year expenses or not?

A. Well, I think that's a pretty good question, and my understanding was that money was insurance proceeds

related to an outage a few years ago, and I think the answer is in a norm- -- in a normalized historical -- modified historical test period, I think the answer is -- is no, because that truly does not represent normalized results.

In this case, those insurance proceeds were the result of -- of an outage, which increased the Company's power costs, and so my recommendation would actually be to -- to apply that money towards the Company's earn and do it that way, because customers paid for the outage and those insurance proceeds were received as a result of the outage, and so, to me, there's -- there would be sort of a connection between the two.

Q. Okay. Thank you.

And then talking about normalizing the major maintenance expenses for Colstrip and Coyote Springs. So if the Commission elects to normalize these major maintenance expenses, should it be based on the forecasted 2016 or, as Mr. Ball said, future expenses or expected expenses, or the historical data, the last round of major maintenance at the plant?

A. Right. So is the question whether to --

Q. To normalize based on future expected or past history, past expense -- you know, test year or what was -- occurred in the past.

EXAMINATION BY COMMISSIONER RENDAHL / MULLINS

A. Well, I think -- I think the way that you would do it is you would take the -- the historic major maintenance outage and you would -- you would amortize that over a future period, so I think you'd use the historical number.

Q. Even if those expenses are likely to change due to labor increases or other -- other?

A. Yeah. And I think the reason why is, you know, they will change as the Company has new outages. So -- so if you have a major outage in, let's just say, 2013, that'll set the -- the normalized level for the next three years. And then in 2016, there'll be a new major outage, and that will set a higher level for -- for the subsequent three years.

Q. Okay. So we're talking about the -- the expected maintenance, regular maintenance, not an unexpected outage; correct?

A. Right. Right. The major -- major overhauls.

COMMISSIONER RENDAHL: Okay. All right. Thank you.

THE WITNESS: Yep.

COMMISSIONER RENDAHL: That's all.

JUDGE FRIEDLANDER: Thank you.

Any questions?

CHAIRMAN DANNER: I'll finish up with just the same question I asked Ms. Ramas.

***EXAMINATION BY CHAIRMAN DANNER ***

BY CHAIRMAN DANNER:

Q. You said that the use of attrition actually is warranted in some circumstances where there's a dire need or there's distress. What about the situation where your utility is unable to achieve its authorized rate of return?

And we see this happening, and we look at the traditional rate-making tools, and they just don't seem to get us there. Would you just say, in that situation, that that's the way it is, or is there some flexibility the Commission has?

A. Well, so -- so I guess I disagree with the -- the premise that the current rate-making methodology doesn't allow utilities to earn their authorized rate of return or doesn't provide them with the opportunity to earn that return. I -- I think we've seen, in -- in Avista's case, that they've -- they've actually exceeded their authorized return.

Q. So you -- there's no situation where you -- you believe that, in any situation, a utility has the -- the wherewithal at hand to -- to meet its -- its authorized rate of return?

A. With the -- the Commission's traditional practices, I do.

Q. Okay. So their -- their failure to do so is

simply a failure of bad management or something like that?

A. It could be.

Q. Okay. So -- but that's not the Commission's responsibility to help them if they -- you don't see, in your -- in your mind, there's no situation where a utility can't achieve its authorized rate of return?

A. Not with the -- the Commission's current methodology, no.

Q. Of historical test years --

A. Right.

Q. -- with pro forma adjustments?

A. Correct.

CHAIRMAN DANNER: Okay. Thank you.

JUDGE FRIEDLANDER: Thank you. And I believe with that, you are dismissed. Thank you so much for your testimony.

THE WITNESS: Okay. Thank you.

JUDGE FRIEDLANDER: Okay. So we went through the witnesses, and I think we're -- we're at a close here. Is there anything else preliminarily -- I guess it's not really preliminary anymore -- procedurally that we need to address before we adjourn?

All right. I don't hear anything, so we are adjourned. Thank you.

(Proceedings concluded at 5:23 p.m.)

C E R T I F I C A T E

STATE OF WASHINGTON

COUNTY OF KING

I, Ryan Ziegler, a Certified Shorthand Reporter in and for the State of Washington, do hereby certify that the foregoing transcript of the proceedings held October 6, 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.

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RYAN ZIEGLER, RPR, CCR