

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

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

9:33 A.M.
OCTOBER 6, 2015

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* * * * *

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1 OLYMPIA, WASHINGTON; OCTOBER 6, 2015

2 9:33 A.M.

3 --000--

4 PROCEEDINGS

5 JUDGE FRIEDLANDER: So we'll go on the

6 record.

7 My name is Marguerite Friedlander. I'm the

8 Administrative Law Judge presiding over this matter. I'm

9 joined again by Chairman Danner, Commissioner Rendahl, and

10 Commissioner Jones.

11 Are there any preliminary matters that we

12 need to address before we get into Mr. La Bolle's

13 testimony?

14 MS. CAMERON-RULKOWSKI: Yes, Your Honor.

15 Yesterday, Mr. Kensok, in the course of his

16 testimony, referred to a -- to a DR, and I didn't want the

17 Bench to think that Staff was sitting on any evidence

18 that -- that had to do with the Project Compass issue, and

19 I have a copy of that -- of that DR here, and I can -- we

20 can make it part of the record, if there's no objection and

21 if the Bench is interested in seeing that.

22 JUDGE FRIEDLANDER: What data request was

23 this in regards to?

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

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

2 COMMISSIONER RENDAHL: And what was it

3 related to, again?

4 MS. CAMERON-RULKOWSKI: And it's related to

5 Project Compass. I can ask -- I can read the request if

6 you'd like. It's pretty short.

7 JUDGE FRIEDLANDER: Yeah. Please.

8 MS. CAMERON-RULKOWSKI: Okay. The request

9 is, "Please refer to Exhibit No. JMK-1T at 20, 5 to 6.

10 Please provide, A, the date on which the board authorized a

11 \$3 million Project Compass spending limit increase, and, B,

12 the board minutes conform -- confirming this

13 authorization."

14 JUDGE FRIEDLANDER: Okay. And are you --

15 yeah. Let's go ahead and have that marked as

16 Exhibit JMK-14, I believe we're up to.

17 Does anyone have objections to admission of

18 the exhibit?

19 MR. MEYER: No objection.

20 JUDGE FRIEDLANDER: Okay. Then it'll be

21 admitted. Thank you.

22 So is there any other matter preliminarily

23 that we need to address before we go into testimony?

24 MR. MEYER: There are.

25 JUDGE FRIEDLANDER: Okay. Please.

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1 MR. MEYER: Just a few.
 2 First of all, I understand this may be
 3 Melinda's very last hearing, and this may be the very last
 4 day of the very last hearing for Melinda, so I want to wish
 5 you well in your retirement. It's been a pleasure over the
 6 years.
 7 MS. DAVISON: Thank you. I appreciate that.
 8 JUDGE FRIEDLANDER: Yes.
 9 MR. MEYER: Second, I am -- I was asked --
 10 the Company was asked, I believe, by the Commission whether
 11 there were 2014 AMI capital additions reflected, and there
 12 were not. No AMI capital in 2014. Okay?
 13 JUDGE FRIEDLANDER: Thank you.
 14 COMMISSIONER JONES: So, Mr. Meyer, I think
 15 that was my question. So in that number in Mr. Norwood's
 16 exhibit, KON-1T, for that -- for the CAPEX -- capital
 17 expenditures, nothing --
 18 MR. MEYER: That's correct.
 19 COMMISSIONER JONES: -- nothing capital for
 20 AMI? Okay.
 21 MR. MEYER: That's it for me. Thank you.
 22 JUDGE FRIEDLANDER: Okay. Thank you.
 23 And I don't see anybody rushing for the mic,
 24 so I think we're probably good with the preliminaries.
 25 So Mr. La Bolle, if you'll stand and raise

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1 your right hand.
 2
 3 LARRY D. LA BOLLE, witness herein, having been
 4 first duly sworn on oath,
 5 was examined and testified
 6 as follows:
 7
 8 JUDGE FRIEDLANDER: Thank you. You can be
 9 seated.
 10 And your witness, Mr. Meyer.
 11 *** EXAMINATION BY MR. MEYER ***
 12 BY MR. MEYER:
 13 **Q. Mr. La Bolle, for the record, please state your**
 14 **name and your employer.**
 15 A. My name is Larry La Bolle. I am employed by
 16 Avista Corporation in Spokane, Washington.
 17 **Q. And have you prepared and filed what has been**
 18 **marked as your rebuttal testimony, LDL-1T, as well as**
 19 **LDL-2, an accompanying exhibit?**
 20 A. Yes, I have.
 21 **Q. And are there changes or corrections to make to**
 22 **either?**
 23 A. No.
 24 MR. MEYER: Thank you. He is available for
 25 cross.

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1 JUDGE FRIEDLANDER: Thank you.
 2 Mr. Shearer or Mr. Oshie?
 3 MR. OSHIE: Oh, thank you, Your Honor.
 4 This is Pat Oshie with Commission Staff, and
 5 we have no questions for Mr. La Bolle.
 6 JUDGE FRIEDLANDER: Oh, okay. Thank you.
 7 Ms. Gafken?
 8 MS. GAFKEN: Thank you. We -- we do have
 9 questions for Mr. La Bolle.
 10 THE WITNESS: I'm surprised.
 11 *** EXAMINATION BY MS. GAFKEN ***
 12 BY MS. GAFKEN:
 13 **Q. Good morning.**
 14 A. Good morning. Can -- can you hear me okay?
 15 JUDGE FRIEDLANDER: Is the red dot on? The
 16 red light?
 17 THE WITNESS: It is.
 18 JUDGE FRIEDLANDER: Okay.
 19 THE WITNESS: But I'm not sure if I'm close
 20 enough.
 21 JUDGE FRIEDLANDER: Okay. Great. Thank you.
 22 THE WITNESS: Thanks.
 23 BY MS. GAFKEN:
 24 **Q. Mr. La Bolle, would you please turn to**
 25 **Cross-Exhibit LDL-15?**

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EXAMINATION BY GAFKEN / LA BOLLE

1 **A. Yes.**
 2 **Q. Do you recognize the exhibit as Avista's response**
 3 **to Public Counsel and The Energy Project's Data Request**
 4 **No. 100?**
 5 A. I do.
 6 **Q. Would you please turn to page 2 of**
 7 **Cross-Exhibit LDL-15?**
 8 A. I'm there.
 9 **Q. Is this and the following pages the material**
 10 **presented by Avista to the Commission in January 2015 in**
 11 **Docket UE-143218?**
 12 A. This particular illustration?
 13 **Q. Right. So that page and the -- the following**
 14 **pages.**
 15 A. Oh. The illustration on the first page was
 16 presented. The illustration on the second page reflects
 17 the request of Public Counsel/Energy Project.
 18 MR. MEYER: Excuse me. I want to make sure
 19 that we're on the same page. Okay? So what exactly --
 20 which -- your LDL- --
 21 MS. GAFKEN: Let me --
 22 MR. MEYER: -- -15?
 23 MS. GAFKEN: Let me ask it a different way.
 24 MR. MEYER: Well, I want to just make sure
 25 the documents are the same.

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EXAMINATION BY GAFKEN / LA BOLLE

1 MS. GAFKEN: Okay.

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

3 MS. GAFKEN: So LDL-15 is Public Counsel and

4 The Energy Project's --

5 MR. MEYER: Right.

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

7 then --

8 MR. MEYER: Yep.

9 MS. GAFKEN: And also the Attachment A --

10 MR. MEYER: Okay.

11 MS. GAFKEN: -- that was provided with

12 that --

13 MR. MEYER: All right.

14 MS. GAFKEN: -- data request.

15 MR. MEYER: May I approach the witness?

16 JUDGE FRIEDLANDER: Yes.

17 THE WITNESS: I've got it right here.

18 MR. MEYER: Okay.

19 BY MS. GAFKEN:

20 **Q. Let's do this a different way. Turn -- turn to**

21 **the first page --**

22 A. Uh-huh.

23 **Q. -- and Subsection A in the response.**

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

25 **Q. Just on the first page.**

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EXAMINATION BY GAFKEN / LA BOLLE

1 MR. MEYER: Could you approach the witness

2 and show him what you're referring to --

3 MS. GAFKEN: May I --

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

5 THE WITNESS: I must be tabbed incorrectly.

6 JUDGE FRIEDLANDER: That's probably going to

7 be -- I think, essentially, Mr. Meyer, you have the copy

8 right there. I think your witness may be on the wrong

9 exhibit, and I think she's referring to the -- the --

10 MS. GAFKEN: Yes.

11 JUDGE FRIEDLANDER: -- first page of that, so

12 one page back.

13 THE WITNESS: Oh. Oh, oh, oh.

14 JUDGE FRIEDLANDER: For Mr. Meyer --

15 THE WITNESS: You know what? I'm sorry. I

16 am on the wrong exhibit.

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

18 THE WITNESS: Now I'm looking at the right

19 one.

20 MR. MEYER: Okay. All right.

21 JUDGE FRIEDLANDER: Okay.

22 MR. MEYER: Thanks.

23 THE WITNESS: Okay.

24 BY MS. GAFKEN:

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

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EXAMINATION BY GAFKEN / LA BOLLE

1 **certain that you're on the right exhibit, but do you see,**

2 **at the top of the page, there's a header that lists out**

3 **the -- what DR number it is, who the responder was, who the**

4 **witness is, those sorts of things --**

5 A. Uh-huh.

6 **Q. -- on the top there?**

7 **Under "Request Number," could you read what --**

8 **what is on the page that you're looking at?**

9 A. So read the request?

10 **Q. No. Just the request number.**

11 A. Oh. PCEP-100.

12 **Q. Okay. Fantastic. That is --**

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

14 **Q. We'll get through this.**

15 **So that is Exhibit LDL-15. It's a**

16 **cross-exhibit that -- that we submitted?**

17 A. Right.

18 **Q. And so you recognize Exhibit LDL-15 as Avista's**

19 **response to Public Counsel and The Energy Project's --**

20 A. Yes.

21 **Q. -- Data Request No. 100?**

22 **And then in Subsection A of the response, so**

23 **halfway down the page, there's the response that's cut out.**

24 **And Subsection A states that Attachment A to Avista's**

25 **response to Data Request No. 100 was material presented to**

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EXAMINATION BY GAFKEN / LA BOLLE

1 **the Commission --**

2 A. Correct.

3 **Q. -- in January 2015?**

4 A. That's correct.

5 **Q. And does that material appear starting at page 2**

6 **and running through the end of the exhibit?**

7 A. Yes, it does.

8 **Q. Would you please turn to page 36 in**

9 **Exhibit LDL-15?**

10 A. I'm there.

11 **Q. Avista estimated the net benefits of its AMI**

12 **proposal to be \$12 million; correct?**

13 A. Yes.

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

15 A. I am there.

16 **Q. Do you recognize the exhibit as Avista's response**

17 **to Public Counsel and The Energy Project's Data Request**

18 **No. 79?**

19 A. Yes.

20 **Q. On page 2 of Exhibit LDL-16, it shows that the**

21 **current estimated net benefit for the AMI project is**

22 **\$3.5 million; correct?**

23 A. Correct.

24 **Q. Were you present during Mr. Kopczynski's testimony**

25 **yesterday?**

| | |
|--|--|
| Page 374 | Page 376 |
| EXAMINATION BY GAFKEN / LA BOLLE | EXAMINATION BY GAFKEN / LA BOLLE |
| 1 A. Yes, I was. | 1 The estimated benefit that's described in that |
| 2 Q. And there were several references made to the | 2 sentence is not a reflection of any published data |
| 3 estimated net benefit being 7.5 million; correct? | 3 associated with the operation of the AMI system in Pullman; |
| 4 A. Correct. | 4 is that correct? |
| 5 Q. But that's not the correct number at this point in | 5 A. The benefit that's represented there is in |
| 6 time; correct? | 6 addition to the benefit that was documented in the Navigant |
| 7 A. Well, actually, it is the correct number, because | 7 report for the Pullman study. Does that make sense? |
| 8 what we filed in our case was a \$7.5 million benefit, not | 8 Q. Maybe. |
| 9 the 12 that appears in the presentation that was made to | 9 A. It -- I think it would help if I -- if I |
| 10 the Commission prior to the time we filed our case. | 10 explained. |
| 11 Q. But the current estimate -- estimated net benefits | 11 Q. Let me -- let me ask this question. |
| 12 is \$3.5 million, isn't it? | 12 A. Go ahead. |
| 13 A. Yes. | 13 Q. The estimated benefit that was described in the |
| 14 Q. Okay. | 14 sentence that you -- you read -- |
| 15 A. Yes. From 7.5 to 3.5. | 15 A. Yes. |
| 16 Q. Is the net benefit estimate a net present value? | 16 Q. -- the Pullman demonstration didn't produce those |
| 17 A. Yes, it is. It's -- it's the difference between | 17 results? |
| 18 two net present values. | 18 A. Didn't produce this 0.6? |
| 19 Q. Okay. And so any fluctuation in either costs | 19 Q. Correct. |
| 20 or -- or the benefits would be taken accounted for -- | 20 A. Correct. 6-8. Yeah. That's correct. |
| 21 A. Yes. | 21 Q. Okay. Would you please turn to your testimony, |
| 22 Q. -- in that net present value -- | 22 LDL-1T, and go to page 7, please? At Footnote 6, you say |
| 23 A. Yes. | 23 that Avista is already permitted to use AMI for credit |
| 24 Q. -- calculation? | 24 disconnections in Washington; correct? |
| 25 Okay. I'd like you to turn now to your rebuttal | 25 A. That's correct. |
| Page 375 | Page 377 |
| EXAMINATION BY GAFKEN / LA BOLLE | EXAMINATION BY GAFKEN / LA BOLLE |
| 1 testimony, which is Exhibit LDL-1T, and would you please go | 1 Q. Would you please turn to Cross-Exhibit No. 5 -- |
| 2 to page 9? | 2 I'm sorry, LDL-5. |
| 3 A. Okay. | 3 A. Correct. I -- I mean I'm there. |
| 4 Q. I'd like you to turn your attentions to lines 5 | 4 Q. Do you recognize the exhibit as Avista's response |
| 5 through 8. There, you describe the estimated savings based | 5 to Public Counsel and The Energy Project's Data Request |
| 6 on additional reduction in voltage expected by using | 6 No. 90? |
| 7 readings from the advanced meter instead of readings from | 7 A. I do. |
| 8 the smart transformer; correct? | 8 Q. Avista met with Commission Staff regarding its |
| 9 A. Yes. | 9 intention to use remote disconnection in connection with |
| 10 Q. Would you please turn to Cross-Exhibit LDL-4? I'm | 10 the Pullman smart-meter project; correct? |
| 11 sorry. I don't think that's the right reference. Give me | 11 A. That's correct. |
| 12 just a minute. No. I'm sorry. It is LDL-4. | 12 Q. Avista did not seek, nor the Commission -- nor did |
| 13 A. Okay. | 13 the Commission issue, an order specifically approving |
| 14 Q. Do you recognize the exhibit as Avista's response | 14 Avista's plan to use remote disconnection in connection |
| 15 to Public Counsel and The Energy Project's Data Request | 15 with the Pullman project, did it? |
| 16 No. 80? | 16 A. That's correct. It was an interpretation of |
| 17 A. Yes, I do. | 17 Avista and Staff that an order was not required. |
| 18 Q. Would you read the last sentence of the response, | 18 Q. Would you please turn to page 2 of |
| 19 please? | 19 Cross-Exhibit LDL-5? |
| 20 A. "Avista's subject matter experts familiar with the | 20 A. I'm there. |
| 21 results of the Pullman conservation voltage system have | 21 Q. In the last paragraph that's on that page, the |
| 22 estimated this potential incremental benefit at 0.5 percent | 22 paragraph that starts after the bullet items -- |
| 23 or a reduction in line voltage of 0.68 volts on a 120-volt | 23 A. Yes. |
| 24 scale." | 24 Q. -- there, Avista details its notice procedures for |
| 25 Q. Thank you. | 25 credit disconnections; correct? |

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EXAMINATION BY GAFKEN / LA BOLLE

1 **A. Right.**

2 **Q. Does Avista believe that its notice procedures as**

3 **detailed in Cross-Exhibit LDL-5 complies with**

4 **WAC 480-100-120 on the electric side and WAC 480-90-128 on**

5 **the natural gas side?**

6 A. Yes, we do.

7 **Q. The reference to the bill in the first sentence is**

8 **not a notice, but it's -- it's the customer bill?**

9 A. That is correct.

10 **Q. And the past-due notice that's mailed after the**

11 **grace period has ended on the bill and is dated seven**

12 **calendar days later, that's the -- that's the notice of**

13 **disconnection; correct?**

14 A. Correct. That -- that comports with the

15 Commission's first notice.

16 **Q. Okay. Is the disconnection date the date that is**

17 **seven calendar days later?**

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

19 **Q. Okay. The reason I'm asking the question is that**

20 **the rule requires that the disconnection date be eight**

21 **business days, and so it was concerning that it was seven**

22 **calendar days. So I guess, would -- would Avista review**

23 **its proc- -- procedures and ensure the compliance with --**

24 **with regulations?**

25 A. Yes.

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EXAMINATION BY GAFKEN / LA BOLLE

1 Q. Okay. Would you please turn to

2 Cross-Exhibit LDL-7?

3 A. I'm there.

4 **Q. Do you recognize the exhibit as Avista's response**

5 **to Public Counsel and The Energy Project's Data Request**

6 **No. 82?**

7 A. Is it Exhibit LDL-7?

8 **Q. Yes.**

9 A. I have tabbed Data Response 87.

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

11 82?

12 MS. GAFKEN: It is supposed to be 82.

13 MR. MEYER: May I approach the witness?

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

15 MR. MEYER: You do have it?

16 THE WITNESS: I have it tabbed wrong, though.

17 MR. MEYER: Okay.

18 THE WITNESS: Okay.

19 BY MS. GAFKEN:

20 **Q. Okay. So you're looking at Avista's response to**

21 **Public Counsel and The Energy Project's Data Request**

22 **No. 82?**

23 A. Yes.

24 **Q. And that is -- you'll have to accept the**

25 **representation that it's Cross-Exhibit LDL-7?**

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EXAMINATION BY GAFKEN / LA BOLLE

1 **A. I will accept that.**

2 **Q. Thank you.**

3 **In Avista's response to Public Counsel and The**

4 **Energy Project's Data Request No. 82, Avista refers to its**

5 **response to Staff Data Request 112; correct?**

6 A. Yes, we do.

7 **Q. And that's in response to a question about the**

8 **body of information regarding the assumptions Avista used**

9 **to estimate potential benefits from customer-installed**

10 **energy efficiency measures --**

11 A. Right.

12 **Q. -- correct?**

13 **Okay. I -- I gave your counsel, Mr. Meyer, a copy**

14 **of Staff Data Request No. 112. I'd like to refer you to**

15 **that data request. Staff -- or the -- Avista's response to**

16 **Staff Data Request 112 is presented by Barbara Alexander in**

17 **her testimony as Exhibit 15, BRA-15.**

18 A. Okay.

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

20 A. I do.

21 **Q. In Avista's response to Staff Data Request**

22 **No. 112, you're listed as the responder; correct?**

23 A. That's correct.

24 **Q. Did you also prepare the spreadsheets that are**

25 **attached to the response?**

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EXAMINATION BY GAFKEN / LA BOLLE

1 **A. I did not.**

2 **Q. Okay. Who did prepare those?**

3 A. Business Analyst Dan Burgess at Avista.

4 **Q. Okay. So I'm going to ask you a series of**

5 **questions based on page 2 --**

6 **A. Okay.**

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

8 **apologize --**

9 MR. MEYER: Excuse me.

10 **Q. -- for the tiny print, but that's the way that it**

11 **came to us.**

12 MR. MEYER: I'm going to ask -- that was my

13 copy I gave you earlier.

14 THE WITNESS: Okay.

15 MR. MEYER: Do you have that earlier copy?

16 THE WITNESS: I don't know if I have it in

17 that form.

18 MR. MEYER: Yeah. No. I -- I gave it to you

19 just as we started.

20 THE WITNESS: What's that?

21 MR. MEYER: Before we started, I gave you a

22 copy of this -- just -- just use this.

23 THE WITNESS: Oh.

24 MR. MEYER: I'll look over your shoulder.

25 Just use that.

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EXAMINATION BY GAFKEN / LA BOLLE

1 THE WITNESS: Okay. I --

2 BY MS. GAFKEN:

3 **Q. Okay.**

4 A. And what I actually need is some more powerful

5 glasses. Not to be -- not to be --

6 **Q. We all do.**

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

8 JUDGE FRIEDLANDER: Do we need to open the

9 blinds a bit? I mean, I closed them so I wouldn't have a

10 glare, and -- and if you need more light, certainly, open

11 the blinds.

12 MS. SMITH: Can I provide it to him

13 electronically so he can see it better?

14 JUDGE FRIEDLANDER: That's fine.

15 MS. GAFKEN: You can make it bigger on -- on

16 the electronic screen.

17 THE WITNESS: You know what? I'm going to

18 have a hard time trying to chase pages around on the Excel

19 file.

20 MS. GAFKEN: We're going to stay on this --

21 on the one page, so if you want to use the electronic, I

22 think that would be fine, but whatever your preference is.

23 THE WITNESS: Okay. Go ahead.

24 BY MS. GAFKEN:

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

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

2 A. Yes.

3 **Q. Okay. And the first asterisk states, "Based on an**

4 **assumption of 3 percent reduction in energy use." Do you**

5 **see that?**

6 A. At the first bullet?

7 **Q. Yes.**

8 A. Yes.

9 **Q. And the assumption of 3 percent is based on**

10 **Avista's review of literature to estimate that reduction;**

11 **is that correct?**

12 A. In part, it is.

13 **Q. Okay. But the -- the parens there, it says,**

14 **"Review of literature to estimate"; correct?**

15 A. That's what the parens say.

16 **Q. And there's a reference, 1 through 10, that's**

17 **listed; correct?**

18 A. Yes.

19 **Q. And down below, there's a section called,**

20 **"References" and Nos. 1 through 10. Do you see those?**

21 A. Yes.

22 **Q. So I'd like you to keep Exhibit BRA-15 handy.**

23 **We'll go back and -- we'll go back to this.**

24 A. Okay.

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

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1 **Cross-Exhibit LDL-8.**

2 A. Now what is the DR number on that?

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

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

5 **Q. Okay. So LDL- -- Cross-Exhibit LDL-8 is a**

6 **compilation of the documents that are referred to under the**

7 **references in Exhibit BRA-15, and they're separated by**

8 **colored pages.**

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

10 **Q. Okay. Pages 1 through 4 of Cross-Exhibit 8 is an**

11 **excerpt from McKinsey's "Unlocking Energy -- Energy**

12 **Efficiency in the U.S. Economy"; is that correct?**

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

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

15 A. Okay.

16 CHAIRMAN DANNER: Mr. La Bolle, my assistant

17 just brought me my magnifying glass that I use because I

18 also suffer from the same problems you have. If you'd like

19 to borrow it, I have it right here.

20 THE WITNESS: Okay.

21 CHAIRMAN DANNER: Would it be helpful?

22 THE WITNESS: If we go back to that table, it

23 would be.

24 CHAIRMAN DANNER: All right.

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

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1 BY MS. GAFKEN:

2 **Q. Okay. "Unlocking Energy Efficiency in the U.S.**

3 **Economy" is Reference No. 1 on page 2 of Exhibit BRA-15; is**

4 **that correct? We're going back to the tiny print.**

5 A. Yes. It appears to be.

6 **Q. Cross-Exhibit 8, pages 3 and 4, on those pages,**

7 **the article discusses demand-side management; correct?**

8 A. Yes, it does.

9 **Q. Avista does not have a demand-side management**

10 **proposal in its AMI business case, does it?**

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

12 conservation?

13 **Q. Does Avista have a demand-side management proposal**

14 **in its AMI business case?**

15 A. Well, I don't want to get crossways. We have an

16 estimate of the benefit for customers of customer-installed

17 energy efficiency measures in this business case.

18 **Q. Okay. Would you please turn to page 6 of**

19 **Cross-Exhibit 8, LDL-8?**

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

21 **Q. And beginning on page 6 is a paper by Sarah Darby**

22 **from April 20, 2006; correct?**

23 A. Yes. There is.

24 **Q. And the paper that begins on page 6 of**

25 **Cross-Exhibit 8 is Reference No. 2 listed on page 2 of**

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1 **Exhibit BRA-15; correct?**
 2 A. I actually can't tell.
 3 MR. MEYER: Subject to check, can you accept
 4 that?
 5 THE WITNESS: Yes. Yeah. It's -- it's an
 6 URL address.
 7 BY MS. GAFKEN:
 8 **Q. Okay. But subject to check, you --**
 9 A. Yes.
 10 **Q. -- you can accept --**
 11 A. Yeah.
 12 **Q. -- that?**
 13 A. Yes.
 14 **Q. Okay. Going back to LDL -- Cross-Exhibit LDL-8 --**
 15 A. Uh-huh.
 16 **Q. -- page 27.**
 17 A. I'm there.
 18 **Q. The table on page 27 -- and I believe it might go**
 19 **on to page 28 -- summarized the quantitative findings of**
 20 **that paper; correct?**
 21 A. I'm not sure.
 22 **Q. Okay. But the paper was written --**
 23 A. It is -- it is titled --
 24 **Q. Okay.**
 25 A. -- as such, yes.

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1 Q. Okay. The article was written in 2006. That was
 2 before substantial development of AMI technology was
 3 deployed nationwide; correct?
 4 A. I would -- I would agree with that.
 5 **Q. And at that time, was AMR more prevalent?**
 6 A. I don't know, but I would assume it is. I can
 7 only guess it would be.
 8 **Q. Please turn to page 31 of Cross-Exhibit 8, LDL-8.**
 9 A. I'm there.
 10 **Q. The finance and commerce article that begins on**
 11 **this page is Reference No. 3 that's listed on page 2 of**
 12 **Exhibit BRA-15.**
 13 A. Okay.
 14 **Q. Would you accept that, subject to check?**
 15 A. Sure. Yes.
 16 **Q. Okay. And would you turn to page 35 of LDL-8?**
 17 A. I'm there.
 18 **Q. The document that begins on page 35 of**
 19 **Cross-Exhibit LDL-8 is a paper by Opower; is that correct?**
 20 A. Yes.
 21 **Q. And would you accept, subject to check, that the**
 22 **paper that begins on page 35 of Cross-Exhibit 8 is**
 23 **Reference No. 4?**
 24 A. Yes, I would.
 25 **Q. Would you please turn to page 36 of**

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1 **Cross-Exhibit LDL-8?**
 2 A. Okay. I'm there.
 3 **Q. The Opower article is discussing happy customers**
 4 **as an asset to the utility; is that correct?**
 5 A. Yes. It does have a header so titled.
 6 **Q. Would you please turn to page 44 of**
 7 **Cross-Exhibit LDL-8?**
 8 **COMMISSIONER JONES: Find a page number,**
 9 **Counsel? Is it the page number in the upper right or in**
 10 **these -- these various --**
 11 MS. GAFKEN: Yes.
 12 COMMISSIONER JONES: -- reports.
 13 MS. GAFKEN: No. I'm referring to the
 14 exhibit page numbers, so 44 of 1- -- 112.
 15 COMMISSIONER JONES: So the one in the upper
 16 right?
 17 MS. GAFKEN: Yes. The one in the upper
 18 right.
 19 COMMISSIONER JONES: Thank you.
 20 BY MS. GAFKEN:
 21 **Q. Page 44?**
 22 A. Yes, ma'am.
 23 **Q. Thank you.**
 24 **Would you accept, subject to check, that the**
 25 **article that begins on page 44 of Cross-Exhibit LDL-8 is**

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1 **Reference No. 5 that's listed on page 2 of cro- --**
 2 **Exhibit BRA-15?**
 3 A. Yep -- yes, I do.
 4 **Q. Would you turn to page 46 of Cross-Exhibit 8,**
 5 **LDL-8?**
 6 A. I -- I'm there.
 7 **Q. And would you accept, subject to check, that the**
 8 **document that begins on this page is -- is Reference No. 6**
 9 **on page 2 of Exhibit BRA-15?**
 10 A. Yes.
 11 **Q. How did Reference No. 6 inform Avista's 3 percent**
 12 **reduction in use -- usage assumption?**
 13 A. Say how did this paper?
 14 **Q. Yes. How did Reference No. 6, which starts on**
 15 **page 46 --**
 16 A. Yeah.
 17 **Q. -- of LDL-8?**
 18 A. Yeah. These were papers that were reviewed, in
 19 addition to others that aren't listed here, by the analysts
 20 who put together an estimate for what we thought customers
 21 who took advantage of interval energy data would save in
 22 terms of a percent on their bill or percent consumption.
 23 The reason I answered earlier that this literature
 24 is a part of how we calculated it is that Avista used this
 25 industry data as a backdrop. What are the general kinds of

| Page 390 | Page 392 |
|--|---|
| <p style="text-align: center;">EXAMINATION BY GAFKEN / LA BOLLE</p> <p>1 ranges you see for conservation savings based on -- there's 2 really a whole range of different types of programs, and 3 with that as a backdrop, then Avista looked at its own 4 information in deciding on a 3 percent savings estimate for 5 our customers. 6 Q. Okay. I -- 7 A. So it was -- it was a reference, but we didn't 8 cite any particular paper. 9 Q. Okay. I -- I appreciate Avista's overall strategy 10 in -- in developing the 3 percent, but I do have a specific 11 question about the -- the ENERGY STAR paper -- 12 A. Uh-huh. 13 Q. -- and how did that particular piece factor into 14 the 3 percent consumption? 15 A. I would have no idea right now. 16 Q. Okay. Would you please turn to page 64 of 17 Exhibit LDL-8? 18 A. 6- -- 6-4? 19 Q. 64. Yes. 20 A. Okay. 21 Q. The document that begins on page 64 is also 22 Reference 9 that's listed on page 2 of BRA-15; correct? 23 A. Correct. 24 Q. And Reference 9 is BC Hydro's business case for 25 AMI; is that correct?</p> | <p style="text-align: center;">EXAMINATION BY GAFKEN / LA BOLLE</p> <p>1 discussion, Cross-Exhibit No. 14. 2 A. Okay. 3 Q. Do you recognize Cross-Exhibit 14-LDL -- I'm 4 sorry. Cross-Exhibit LDL-14, do you recognize that exhibit 5 as Avista's response to Public Counsel and The Energy 6 Project's Data Request No. 95? 7 A. Yes, I do. 8 Q. Avista's web portal was developed and used during 9 the -- Pullman's demonstration; is that correct? 10 A. That is correct. 11 Q. And a relatively small number of customers 12 accessed the enhanced content of the web portal? 13 A. That is correct. 14 Q. And is it Avista's position that the results from 15 the Pullman demonstration underrepresents customer adoption 16 of potential achievable savings? 17 A. It is. 18 Q. Is there more development that's needed with 19 respect to the web portal? 20 A. The web portal is the main reason that the 21 investigators called the pilot a failed experiment. 22 Q. Okay. But is there -- is there additional 23 development that -- 24 A. Well, yes. 25 Q. -- will be required?</p> |
| Page 391 | Page 393 |
| <p style="text-align: center;">EXAMINATION BY GAFKEN / LA BOLLE</p> <p>1 A. That's correct. 2 Q. So the business case for BC Hydro would -- would 3 include that company's assumptions on what it could 4 achieve; correct? 5 A. I -- I can't affirm that immediately, but I assume 6 that's correct. 7 Q. Okay. Let's go ahead and move on to 8 Cross-Exhibit LDL-9. 9 A. Okay. I -- I have it, I hope. 10 Q. Well, let's confirm. 11 A. PCEP-039? 12 Q. Yes. 13 A. Okay. 14 Q. So do you recognize the exhibit as Avista's 15 response to Public Counsel and The Energy Project's Data 16 Request No. 39? 17 A. Yes, I do. 18 Q. And would you also turn to Cross-Exhibit LDL-10? 19 A. Okay. 20 Q. And would you recognize the exhibit in LDL-10 as 21 Avista's response to Public Counsel and the data request -- 22 or I'm sorry -- Public Counsel and The Energy Project's 23 Data Request No. 61? 24 A. Yes, I do. 25 Q. And I want to bring in one more exhibit to this</p> | <p style="text-align: center;">EXAMINATION BY GAFKEN / LA BOLLE</p> <p>1 A. Yeah. Because the web portal was ineffective. 2 Q. Okay. But Avista didn't include any costs 3 associated with the additional development of the web 4 portal in its business case, did it? 5 A. No. It's not part of that -- it's not part -- 6 part of the AMI project. It will be done as part of the 7 web redevelopment project, which is done irrespective of 8 whether AMI moves forward or not. 9 Q. So regardless of whether the AMI project goes 10 forward, the web portal will still be redeveloped -- 11 A. Yes. 12 Q. -- and that's part of a different project? 13 A. Yes. Correct. 14 Q. Is that referenced in the AMI business case? 15 A. It's not. It's referenced in Staff DR-087, where 16 we talked about the redevelopment of the web in order to 17 make it more effective for customers' use of interval data. 18 Q. Okay. Is Avista's response to Staff Data 19 Request 87 an exhibit in this docket? 20 A. It is not, that I know of. 21 Q. Okay. Would the web portal have interval data 22 without AMI installed? 23 A. It would have interval data for the Pullman 24 customers who are advanced meter system customers, and then 25 folks are also at least exploring options to use AMR data</p> |

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

5 **Q. Would you please turn to Cross-Exhibit LDL-11?**
 6 A. I'm there.

7 **Q. One of the benefits that Avista identifies with
 8 respect to its proposed AMI investment is energy
 9 efficiency, including reduced usage of electricity as a
 10 result of being exposed to interval data associated with
 11 AMI; correct?**
 12 A. That's correct.

13 **Q. Avista is not proposing any optional pricing or
 14 rate programs that would rely on the interval data, is it?**
 15 A. That is correct. Not at this time.

16 **Q. And Avista is not proposing specific energy
 17 efficiency programs, other than the web portal and the
 18 functionality of creating alerts to customers about their
 19 monthly usage or bill amounts; correct?**
 20 A. I'm not sure what you mean by "energy efficiency
 21 program." You mean are we going to communicate with
 22 customers about it, or...

23 **Q. Does Avista, today, know what energy efficiency
 24 programs it's going to offer its customers?**
 25 A. Through using web portal?

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

11 **Q. Okay. Was that idea included in Avista's business
 12 case?**
 13 A. That idea doesn't require any additional
 14 expenditure beyond what we spend on that program today.
 15 One of the things that -- that may be confusing, it's in --
 16 we did respond in Staff DR-087, that -- I said that once.
 17 Part of the communications budget that's been
 18 listed as one of the project costs is to acquaint customers
 19 with the new meter system, to inform them of the AMI -- I'm
 20 repeating what we provided in the data request -- of the
 21 AMI interval data that's now available to them, as well as
 22 some initial communications for how they might be able to
 23 use that information.
 24 That'll be sustained over the course of the
 25 project as part of that communication plan, and then the

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

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

7 **COMMISSIONER RENDAHL: May I ask a Bench
 8 request at this point, given that it's now referenced twice
 9 in your responses, that if -- if Avista would provide the
 10 response to that DR or provide the reference to where it is
 11 referenced in a cross-exhibit somewhere?**
 12 **JUDGE FRIEDLANDER: It -- it's --**
 13 MR. MEYER: We can --
 14 JUDGE FRIEDLANDER: I believe it's LDL -- are
 15 you talking about the Data Request 87?
 16 COMMISSIONER RENDAHL: Yes, I am. Staff
 17 DR-87.
 18 JUDGE FRIEDLANDER: Okay. So that's LDL-6, I
 19 believe. Isn't it? But you're right. I don't think it
 20 was ever mentioned that this was an exhibit.
 21 COMMISSIONER RENDAHL: It is. I just --
 22 JUDGE FRIEDLANDER: Okay.
 23 COMMISSIONER RENDAHL: It's -- it's --
 24 MR. MEYER: Yes.
 25 COMMISSIONER RENDAHL: -- LDL-6, so no need

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1 for the Bench request. I withdraw the Bench request.
 2 JUDGE FRIEDLANDER: Okay.
 3 MS. GAFKEN: Well, let me -- let me make sure
 4 that -- so LDL-6 is the data request from Public Counsel
 5 and The Energy Project?
 6 COMMISSIONER RENDAHL: Oh. Right. It's not
 7 a Staff --
 8 MS. GAFKEN: No. 87 and 85.
 9 COMMISSIONER RENDAHL: Right.
 10 JUDGE FRIEDLANDER: You're right. You're
 11 right. So --
 12 MR. OSHIE: Your Honor, the -- Staff is --
 13 you know, we can easily run down and get the DR. I know
 14 exactly where it's at, and we can provide that.
 15 JUDGE FRIEDLANDER: That'd be great. Okay.
 16 MR. OSHIE: I would have offered it, but I
 17 haven't read it, at least by memory, so I didn't want to go
 18 that far. But it's been requested by the Bench. We'll
 19 provide it, and we'll provide it very quickly.
 20 COMMISSIONER RENDAHL: So --
 21 JUDGE FRIEDLANDER: Okay. Thank you.
 22 We'll have that be Bench Exhibit 10.
 23 MR. MEYER: I think --
 24 COMMISSIONER RENDAHL: Okay. So it's a Bench
 25 request --

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1 MR. MEYER: -- we might beat you to the
 2 punch. We -- we're looking for it here.
 3 JUDGE FRIEDLANDER: Okay.
 4 COMMISSIONER RENDAHL: So both to --
 5 MR. OSHIE: We'll see who gets there first.
 6 COMMISSIONER RENDAHL: Both to Staff and the
 7 Company, whoever provides it is just fine.
 8 COMMISSIONER JONES: Tell them --
 9 JUDGE FRIEDLANDER: Thank you.
 10 BY MS. GAFKEN:
 11 **Q. Okay. I'd like to go back to**
 12 **Cross-Exhibit LDL-11.**
 13 A. Okay.
 14 **Q. And that's Avista's response to Public Counsel and**
 15 **The Energy Project's Data Request No. 81.**
 16 A. Yes.
 17 **Q. About three quarters of the way down, the first**
 18 **paragraph, do you see the sentence, "Avista will also**
 19 **support in-home display and home-area network devices"?**
 20 A. I'm slow, but I'm sure it says that.
 21 **Q. Well, it's a fairly easy-to-spot sentence because**
 22 **there's, like, two acronyms, IHD and HAN, that stands**
 23 **out --**
 24 A. Okay. Yeah.
 25 **Q. -- so it's that sentence.**

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1 **In-home display and home-area network devices are**
 2 **customer-purchased devices; correct?**
 3 A. We anticipate, at this point, that would be the
 4 case.
 5 **Q. And Avista did not include the costs of the**
 6 **customer-purchased devices in its cost-benefit analysis for**
 7 **the proposed AMI investment, did it?**
 8 A. That is correct.
 9 **Q. Are you familiar with the total resource cost test**
 10 **used to evaluate energy efficiency programs?**
 11 A. I'm not.
 12 **Q. Okay. So then you're not aware that, under this**
 13 **total cost resource test, that the cost of**
 14 **customer-purchased energy efficiency measures would be**
 15 **included in the cost-benefit analysis?**
 16 A. You know, the reason we don't have a cost-benefit
 17 analysis is we're not claiming any benefit for the savings
 18 that would accrue to customers who bought those home-area
 19 network devices, so didn't even pretend to analyze the
 20 costs.
 21 **Q. Okay. With respect to the -- I'm switching topics**
 22 **now.**
 23 A. Okay.
 24 **Q. Still with the AMI, just a different component of**
 25 **it. With respect to the Department of Energy's**

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1 **Interruption Cost Estimator --**
 2 A. Yes.
 3 **Q. -- or ICE --**
 4 A. Yes.
 5 **Q. -- is it fair to say that Avista is not aware of**
 6 **any state regulatory agency that has relied on the ICE**
 7 **model to include a specific dollar amount for benefits for**
 8 **a utility's AMI business case?**
 9 A. Yes. That is correct.
 10 **Q. Would you please turn to exhibit --**
 11 **Cross-Exhibit LDL-12?**
 12 A. PCEP-077?
 13 **Q. No.**
 14 A. Oh.
 15 **Q. So I want to refer you to --**
 16 A. Oh. 084?
 17 **Q. That's right. So let me ask the question.**
 18 **Do you recognize the exhibit, LDL-12, as Avista's**
 19 **response to Public Counsel and The Energy Project's Data**
 20 **Request No. 84?**
 21 A. Yes, I do.
 22 **Q. The last sentence of the response reads, "But**
 23 **unlike other benefits, such as those derived by energy**
 24 **efficiency or the installation of conservation measures,**
 25 **the benefits of reduced outage duration are not derived**

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1 **from any reduction in the customers' bills"; correct?**
 2 A. That is correct.
 3 MS. GAFKEN: I'm going to stop there. Thank
 4 you very much. Those are my questions.
 5 THE WITNESS: Okay.
 6 JUDGE FRIEDLANDER: Thank you.
 7 Mr. Roseman?
 8 MR. ROSEMAN: No questions, Your Honor.
 9 JUDGE FRIEDLANDER: Okay. Thank you. I
 10 believe that was all that had signed up for cross.
 11 Redirect?
 12 MR. MEYER: No redirect.
 13 JUDGE FRIEDLANDER: Okay. Do we have any
 14 questions from the Bench?
 15 COMMISSIONER JONES: I'll start.
 16 *** EXAMINATION BY COMMISSIONER JONES ***
 17 BY COMMISSIONER JONES:
 18 **Q. Good morning --**
 19 A. Good morning.
 20 **Q. -- Mr. La Bolle.**
 21 **Go back to the -- the CVR, the conservation**
 22 **voltage reduction. I think that's in exhibit --**
 23 **Cross-Exhibit LDL-4X. I just want to make sure I**
 24 **understand what you're saying here.**
 25 **Does this analysis apply to the systemwide system**

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EXAMINATION BY COMMISSIONER JONES / LA BOLLE

1 of Avista, and not just the Pullman project, that would be
 2 proposed for the AMI?
 3 A. This conservation voltage savings?
 4 **Q. Yes.**
 5 A. Yes.
 6 **Q. And how many feeders do you have total,**
 7 **systemwide? You have a hundred and -- you have a large**
 8 **number, don't you?**
 9 A. We do. I can't remember the total.
 10 **Q. Okay. So --**
 11 A. Seven- -- 72 feeders were evaluated in the Pullman
 12 study, which included feeders in Spokane and Pullman.
 13 **Q. So what were the actual results -- so the actual**
 14 **results from the Pullman CVR system were 0.5 percent or**
 15 **reduction in live voltage of 0.68 volts on the 120-volt**
 16 **scale?**
 17 A. No. That's not correct.
 18 **Q. Not correct?**
 19 A. And I'm sorry this is such a confusing topic.
 20 **Q. Okay.**
 21 A. As part of the Pullman study, our company
 22 engineers developed a mathematical model to estimate the
 23 savings that would accrue to customers and the Company if
 24 we implemented a conservation voltage reduction program.
 25 Of course, what that allows you to do is use

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1 devices out on the line to measure voltage so that you can
 2 reduce the amount of the buffer that you have to provide,
 3 as Don Kopczynski explained yesterday, and it -- it makes
 4 the electricity we deliver cheaper.
 5 Company engineers estimated that we would save
 6 32,000 megawatt hours as part of the CVR program. It ended
 7 up being 42,000 hours, and then Navigant was asked to
 8 confirm that, which they did, having almost an identical
 9 result that Avista's model and WSU's model predicted. That
 10 savings was about 2 percent.
 11 So now, with advanced metering, instead of using
 12 the voltage readings that are taken from, say, a smart
 13 transformer out on the feeder, you use the voltage-level
 14 readings taken from every customer meter, so you know now
 15 exactly what the end points are, what the end-point
 16 voltages are, and it allows you to reduce that voltage just
 17 a little bit more.
 18 There's -- there's still a 6-volt buffer after the
 19 2 percent savings CVR program. This AMI CVR-enabled
 20 program allows you to reduce that 6-volt buffer, we're
 21 staying, by .68 volts, so we're being very conservative in
 22 taking just about 9 and a half percent of that buffer.
 23 That savings equates to a .5 percent energy savings.
 24 **Q. And that's specifically due to the new technology**
 25 **enabled by AMI?**

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1 **A. Yes. That's correct.**
 2 **Q. So the baseline savings, as confirmed by the**
 3 **Navigant report, in Pullman was 2 percent?**
 4 A. That's correct.
 5 **Q. Cybersecurity: No surprise to some of you.**
 6 **So cybersecurity -- I think this was a response to**
 7 **a DR from somebody, but the budget -- the additional budget**
 8 **for cybersecurity is \$292,000 as a line item, or is -- does**
 9 **that include other security-related measures?**
 10 **Because, as you know, the reliability of an AMI**
 11 **system includes the meters, the mesh network --**
 12 A. Right.
 13 **Q. -- and then the collection of the interval data,**
 14 **and then the -- and the management of that, and those are**
 15 **all located in different places.**
 16 A. Right.
 17 **Q. The met- -- the meter is located at the customer**
 18 **premise.**
 19 A. Right.
 20 **Q. The mesh network is, you know, from the pole to**
 21 **the meter --**
 22 A. Right.
 23 **Q. -- back to your DMS, your distribution management**
 24 **system, at headquarters; right?**
 25 A. Right.

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1 Q. So that number seems a little low to me, so could
 2 you just describe what's -- you know, and this is a --
 3 A. Yeah.
 4 **Q. -- nonconfidential setting, so I don't want you to**
 5 **get into confidential stuff, but is this -- just describe**
 6 **the basis of this number.**
 7 A. We alluded in that data response generally to the
 8 fact that there is cybersecurity embedded in every one of
 9 the meter-system components. There are -- they're
 10 embedded. They're part of the software/hardware systems,
 11 so there are cybersecurity machines in communications
 12 networks, in the meters themselves, in the mesh network, as
 13 well as in the headend systems.
 14 In addition to that, we had to -- we have -- we
 15 will have to integrate all of these devices, with their
 16 cybersecurity systems, into Avista's system. The costs for
 17 integrating all of those were included in the headend
 18 system as a part of that cost.
 19 The only line item identifiable cost that we could
 20 find was the 282,000, because it was related to one staff
 21 person who would have some discrete functions, but we tried
 22 to explain that cybersecurity today isn't a line item
 23 thing. It's embedded throughout.
 24 **Q. Okay.**
 25 A. And there are incremental costs, but we did not

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1 develop them as a line item.

2 **Q. And I think that's true with -- with other**

3 **utilities and ad- -- advanced technology and their**

4 **treatment of -- in a budgeting sense, with cybersecurity.**

5 A. Sure.

6 **Q. And you may not know this right now, but let's say**

7 **you choose a meter -- once you choose a meter manufacturer**

8 **in the first quarter of 2016, I would imagine that all the**

9 **liability issues of a breach -- let's just take the meter.**

10 **That's hardware and software, primarily hardware.**

11 A. Uh-huh.

12 **Q. But in the event of a breach of its firewall --**

13 **well -- well, let me ask you this: Who bears that? Based**

14 **on your current understanding, who would bear that risk?**

15 **Would that be the meter manufacturer, or would that be you,**

16 **Avista, as the utility?**

17 A. I do not know the answer.

18 **Q. Okay.**

19 A. I know that we have protocols in place, you know,

20 as emergency measures in the event something like that

21 would happen, but honestly, I think both fingers would be

22 pointed at each other.

23 **Q. Yeah. Okay. Well that's enough for now. I'm**

24 **sure Mr. Meyer will be heavily involved in that issue**

25 **moving into the future, so enough on cybersecurity.**

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EXAMINATION BY COMMISSIONER JONES / LA BOLLE

1 **Finally, could you turn to BRA-3? I referenced**

2 **this yesterday in my questions to Mr. Kop. So BRA-3, this**

3 **is an Alexander -- this is an ICNU-076 supplemental data**

4 **request. It's on page 2 of BRA-3, if you could find that.**

5 MR. MEYER: I'll show you.

6 BY COMMISSIONER JONES:

7 **Q. And what it is, it's the revised budget from the**

8 **initial budget. It's "July 2015 revision" at the top. Are**

9 **you there?**

10 A. Yes.

11 **Q. Now, have you -- who has been responsible at a**

12 **senior-management level for the revision of this budget?**

13 **Is -- is that Mr. Kop, or is that you?**

14 A. It is -- it is Don Kopczynski.

15 **Q. Okay. So let's go over -- I think you heard my**

16 **exchange with him yesterday, did you not? You were sitting**

17 **in the room?**

18 A. Yes, I was.

19 **Q. So let's go over some of these changes. Electric**

20 **meters go up about -- it looks like about 2 million; right?**

21 **From 33.8 million to 35.8?**

22 A. Yes.

23 **Q. It looks to me that the various labor**

24 **components -- excuse me, the labor components are all going**

25 **up fairly substantially, both in-house and contract. Is**

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1 **there any particular reason that labor -- that there's**

2 **such -- such substantial -- is it just a more realistic**

3 **number?**

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

5 **Q. Okay.**

6 A. -- explanation, and I -- sheet, and I don't have

7 it with me.

8 **Q. Okay.**

9 A. Darn.

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

11 **You do have some narrative below. Okay.**

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

13 descriptive.

14 MR. MEYER: You want to just -- can he just

15 have a moment to --

16 COMMISSIONER JONES: Oh, sure.

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

18 COMMISSIONER JONES: Yes. Certainly,

19 Mr. Meyer.

20 MR. MEYER: Just take your time.

21 BY COMMISSIONER JONES:

22 **Q. And if you need Chair Danner's magnifying glass,**

23 **you can always say yes.**

24 A. Okay. Back to the -- the -- the first part of

25 that change, as you might have -- as you might expect, is a

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EXAMINATION BY COMMISSIONER JONES / LA BOLLE

1 better estimate of the actual internal labor requirement to

2 get it done, to get that installation done.

3 The original estimate did not include ancillary

4 costs like management and project team and space and trucks

5 and overheads, and so when that really was made more

6 complete, then you see that huge move. There was also a

7 little bit of a shift between the amount that would be done

8 by contract and internal labor.

9 **Q. So I'm looking at some pretty significant changes,**

10 **as you said. The headend labor, internal -- and, again,**

11 **the headend is located at Avista's headquarters, right,**

12 **with the DSM system?**

13 A. Yes. That's correct.

14 **Q. And then the big move from electric meter labor,**

15 **that's in your meter shop; right? That's the labor**

16 **associated in your meter shop? Those are fairly**

17 **significant increases, but the primary reason there was the**

18 **initial estimate did not include those --**

19 A. Yes.

20 **Q. -- ancillary costs?**

21 The last line item I -- AFUDC is there. The last

22 item, we've talked and, I think later we'll get into a

23 discussion of outreach and opt-in and communicating with

24 customers, but there's a \$1 million drop in the budget for

25 customer communications, and I think Ms. Alexander raised

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EXAMINATION BY COMMISSIONER JONES / LA BOLLE

1 **some -- raised some points in her testimony.**
 2 **So just at a high level, is -- what's the basis**
 3 **for that \$1 million reduction? It seems to me it might be**
 4 **going the other way if you're coming to the Commission for**
 5 **an opt-in tariff or if there's a -- if there's a privacy**
 6 **regulatory proceeding at the Commission, the costs should**
 7 **be going up. Does -- does this include all the costs of**
 8 **regulatory staff who are sitting in the audience or not?**
 9 A. I don't know. I don't believe it does.
 10 **Q. Okay.**
 11 A. You know, our assessment of the costs, candidly,
 12 is just based on the effort that it takes us to run -- to
 13 do these, to participate in these proceedings.
 14 We just finished a proceeding in Idaho that allows
 15 us to use remote disconnect. It was something that mainly
 16 Linda did. We completed an opt-out policy in Oregon that
 17 was Linda and Shaun, so our business experience is that
 18 these processes don't require great, big, expensive,
 19 lots-of-people regulatory proceedings.
 20 Now, that said, it could happen, and so
 21 that's why we have a 15 percent contingency in the budget.
 22 Our -- our best guess, based on our experience and our
 23 practice, is those things won't happen, but it could, and
 24 so we didn't estimate budgets for things that we don't
 25 think will happen.

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EXAMINATION BY COMMISSIONER JONES / LA BOLLE

1 Q. So just so I understand, just to clarify, so the
 2 budget labeled "Communicat- -- Customer Communications,"
 3 this does not include the budget for regulatory staff such
 4 as Ms. Gervais and others?
 5 A. That's correct.
 6 **Q. Do you have any idea of how much that might cost**
 7 **and bill to the regulatory staff that you could provide for**
 8 **the record?**
 9 A. I -- no, I do not.
 10 COMMISSIONER JONES: Okay. Okay. Thank you.
 11 *** EXAMINATION BY COMMISSIONER RENDAHL ***
 12 BY COMMISSIONER RENDAHL:
 13 **Q. Mr. La Bolle, good morning.**
 14 A. Good morning.
 15 **Q. I do have a few questions for you.**
 16 **Just in general, first, did you participate in**
 17 **developing the business case --**
 18 A. Yes --
 19 **Q. -- for this project?**
 20 A. -- I did.
 21 **Q. Okay. Some of my questions have already been**
 22 **answered.**
 23 **So if you look at your Exhibit LDL-1T, your**
 24 **testimony on rebuttal --**
 25 A. Yes.

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EXAMINATION BY COMMISSIONER RENDAHL / LA BOLLE

1 Q. -- page 18, in the section, line Nos. 1 through
 2 11, you're discussing the Pullman project and opt-out.
 3 MR. MEYER: I'm sorry. What page?
 4 COMMISSIONER RENDAHL: Page 18.
 5 MR. MEYER: 18. Thank you.
 6 THE WITNESS: And 1 through 11 --
 7 COMMISSIONER RENDAHL: Lines --
 8 THE WITNESS: -- is that correct?
 9 COMMISSIONER RENDAHL: Lines 1 through 11,
 10 yes.
 11 THE WITNESS: Okay.
 12 BY COMMISSIONER RENDAHL:
 13 **Q. So that's about Pullman and the opt-out?**
 14 A. Correct.
 15 **Q. So there wasn't an opt-out offered for Pullman;**
 16 **was there?**
 17 A. We did not have an opt-out policy developed for
 18 that.
 19 **Q. Okay.**
 20 A. We -- we did make the decision internally, which
 21 is really in keeping with our style, that if somebody did
 22 not want a smart meter, they were not going to get one.
 23 **Q. Okay.**
 24 A. But we didn't have a formalized policy.
 25 **Q. And I understand from reading your testimony as**

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EXAMINATION BY COMMISSIONER RENDAHL / LA BOLLE

1 **well that part of the reason for that was you had a control**
 2 **group and a project group, and you didn't want to do**
 3 **extensive communication to affect the control group?**
 4 A. That is correct.
 5 **Q. Okay. So if you'd look at page 15 of your**
 6 **testimony, lines 18 through 20, and at that point,**
 7 **you're -- you're referencing the discussion of other rate**
 8 **options?**
 9 A. Yes.
 10 **Q. Okay. In particular, the prepay --**
 11 A. Yes.
 12 **Q. -- option?**
 13 **Which I understand is not -- it's part of the**
 14 **intangible benefits that Avista discusses in the study;**
 15 **correct?**
 16 A. That is correct. It's provided as an example of
 17 something you can do with AMI as a platform that you can't
 18 do otherwise.
 19 **Q. Okay. So you may have already said this, or**
 20 **Mr. Kop may have said this yesterday --**
 21 A. Uh-huh.
 22 **Q. -- so the current Customer Care and Billing,**
 23 **Project Compass --**
 24 A. Yes.
 25 **Q. -- that was developed and implemented would allow**

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EXAMINATION BY COMMISSIONER RENDAHL / LA BOLLE

1 **the billing -- would the billing system need to be modified**
 2 **to address prepay if the Company chose to put that forward**
 3 **as an option in the future?**
 4 A. I believe it would have to be -- there would have
 5 to be some configuring done, that's tweaking inside the
 6 application to enable tools that are already embedded in
 7 there. That's an option that's already embedded in the
 8 CC&B system.
 9 **Q. But it is not turned on --**
 10 A. That's correct.
 11 **Q. -- so to speak?**
 12 A. And it would take some work to -- to turn it on.
 13 **Q. There would need to be some sort of integration --**
 14 A. Yes.
 15 **Q. -- between the meters installed --**
 16 A. No. That's all done. All that integration work
 17 is done. It would just have to be -- you would have to
 18 configure the part of that tool that sets up Avista's
 19 particular program.
 20 **Q. Okay. But those estimates, because they're**
 21 **intangible at this point, are not included in your**
 22 **proposal?**
 23 A. That's right. We're not proposing those or trying
 24 to estimate the value.
 25 **Q. Okay. And then is the meter technology,**

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EXAMINATION BY COMMISSIONER RENDAHL / LA BOLLE

1 **understanding you haven't signed a contract yet --**
 2 A. Yes.
 3 **Q. -- is that part of your RFP, to look at meters**
 4 **that are capable of providing a prepay option?**
 5 A. To the best of my knowledge, that's not one of the
 6 meter capabilities that you purchase, but I don't know that
 7 for sure. I think they're all equipped to do that, as long
 8 as they have that remote off-and-on switch, which the
 9 meters we'll buy will have.
 10 **Q. Okay.**
 11 A. So that may be the only requirement, the
 12 applicable requirement, and our meters will have that
 13 switch.
 14 **Q. Okay. And one other question for you in terms of**
 15 **remote disconnection.**
 16 A. Yes.
 17 **Q. Has Avista, or have you in particular, looked at**
 18 **examples in other jurisdictions where utilities that are**
 19 **using remote disconnection are required to take actions**
 20 **that provide customers a means to pay immediately prior to**
 21 **disconnection?**
 22 A. No, we have not.
 23 **Q. Is that something the Company would look at prior**
 24 **to implementing such a proposal?**
 25 A. I -- I know if it was of interest to you, we would

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EXAMINATION BY COMMISSIONER RENDAHL / LA BOLLE

1 do that.
 2 COMMISSIONER RENDAHL: Thank you. That's all
 3 I have.
 4 *** EXAMINATION BY CHAIRMAN DANNER ***
 5 BY CHAIRMAN DANNER:
 6 **Q. So I want to come back again to these budget**
 7 **estimates, because whether it's \$12 million or 7.5 net**
 8 **benefits --**
 9 A. Right.
 10 **Q. -- we have both the cone of uncertainty and a**
 11 **number of intangibles --**
 12 A. Yes.
 13 **Q. -- which suggests that the net benefits could**
 14 **either be higher than 7-point or 12 or they could be lower,**
 15 **they could be negative, they could be zero.**
 16 A. Right.
 17 **Q. It is your opinion that, if they were to be -- in**
 18 **your final analysis, to be negative or zero, that you would**
 19 **still advocate for going ahead with this project? And why?**
 20 A. If -- you know, depending upon -- you know, when
 21 we get -- you're saying when we get in more accurate costs?
 22 Depending upon what those costs were -- and I
 23 don't know what the breakpoint would be -- the Company
 24 would make a decision about its confidence in getting those
 25 benefits and -- or -- or a greater level of benefit and

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EXAMINATION BY CHAIRMAN DANNER / LA BOLLE

1 balance that against the cost, as well as our sense of how
 2 this Commission might consider the value of intangible
 3 benefits, to include the customer experience, as well as
 4 those future rate things, as part of the mix. We don't
 5 know that, and I'm assuming you don't know that either at
 6 this point in time.
 7 One of the things that I kind of sensed yesterday
 8 during Don's presentation and one of your questions was --
 9 it was about Avista's approach in being conservative in how
 10 we estimated the benefits.
 11 And the -- the team that -- the team that put this
 12 together, this analysis together, was of the mind that we
 13 want to stay on the low end of what we think the reasonable
 14 benefits should be, because we want to make sure that we
 15 can demonstrate those, because we expect you're going to
 16 hold us accountable to do that. That's our expectation.
 17 And so we were conservative in how we claimed the
 18 benefits. I've -- I've provided some examples in my
 19 testimony, but you know, in our theft-diversion estimate,
 20 we just arbitrarily cut it in half to make it more
 21 conservative.
 22 So we left \$1,053,000 in reasonable benefits that
 23 we believe we'll get, we left those on the table. In
 24 outage reduction, we left \$728,000 on the table, because we
 25 arbitrarily decided to make it more conservative. And

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EXAMINATION BY CHAIRMAN DANNER / LA BOLLE

1 there are a number of others too, in the smaller range.
 2 We also didn't take advantage of the kinds of
 3 benefits that we often see in other utility business cases,
 4 and that is, you know, we expect outage duration to be
 5 reduced and there to be a benefit to customers, which we've
 6 estimated, but there's also a capital cost savings, because
 7 you're spending less time during the outage, very expensive
 8 time.
 9 So an East Coast utility at about our size
 10 included \$4 million a year in capital savings as a result
 11 of their estimate of the capital cost benefits of reduced
 12 outage, so those are just some examples.
 13 I did a little tally of the benefits where we
 14 arbitrarily decided not to claim the entire benefit as a
 15 way to be conservative and tallied those up in the model,
 16 and it adds almost \$30 million to the net benefit of the
 17 model, so it's pretty substantial.
 18 So I know one of the things that we're going to do
 19 before we come back to you is look pretty darn carefully at
 20 those and -- and ask ourselves, "Are we -- are we really
 21 doing ourselves a favor by being so conservative?" And I
 22 really don't think we have been.
 23 **Q. So, you know, we have to -- unless we're going to**
 24 **start building our own budgets for this, which I don't**
 25 **think we intend to do, we -- we've got to -- to look at**

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EXAMINATION BY CHAIRMAN DANNER / LA BOLLE

1 **what you're providing to us, and there is some fluidity in**
 2 **the numbers you've given us, just the changes from the**
 3 **initial budget to the July 2015 --**
 4 A. Costs, yes.
 5 **Q. -- numbers. And when I hear you say, "Well, we've**
 6 **done it conservatively," in some ways, you're asking us to**
 7 **put an add-er on that that you haven't put on yourself.**
 8 **And so, you know, I -- I'm a little squeamish about saying,**
 9 **"Well, you -- you say they're conservative, and you're**
 10 **asking us to -- to accept those benefits as being a little**
 11 **bit higher."**
 12 **And so I -- I'm trying to figure out where we step**
 13 **in in this process, because even though, at this point,**
 14 **you're only asking for guidance and not for a prudence**
 15 **review --**
 16 A. Right.
 17 **Q. -- I still see the guidance saying, "Yes. Go**
 18 **ahead," as locking us into the concept, and so the prudence**
 19 **review would really be around -- around the edges, about**
 20 **whether you've paid too much for this item or that item as**
 21 **opposed to the core here.**
 22 A. Right.
 23 **Q. And so these are my questions. It's -- I feel**
 24 **like the intangibles are very high, the -- the cone of**
 25 **uncertainty is very broad --**

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EXAMINATION BY CHAIRMAN DANNER / LA BOLLE

1 **A. Uh-huh.**
 2 **Q. -- and I'm trying to get a handle on whether there**
 3 **are net benefits to the consumers, and -- because that,**
 4 **ultimately, is what we have to figure out if we're going to**
 5 **approve the AMI.**
 6 A. Correct. First thing, I -- I'm sorry for giving
 7 the impression that I'm asking you to consider this vague
 8 additional benefit in your thinking. We know that when we
 9 come back to you the next time, we're going to have to
 10 re-present everything.
 11 We'll have a much better idea of what the costs
 12 are going to be by then, and we will have to even update
 13 those costs during the early term of the rate case, because
 14 we'll be getting final contracts done then. But the -- the
 15 issue of the benefits, there isn't the same kind of
 16 uncertainty around the benefits as there are with the
 17 costs. People lump uncertainty of costs and benefits in
 18 the same bucket, but they're not the same.
 19 60 percent of the benefits that we projected come
 20 from the elimination of known activities and the budgets
 21 supporting those activities, so that's 60 percent. Another
 22 15 percent comes from reductions in known activities and
 23 known costs where we've conservatively estimated the amount
 24 of reduction that we'll expect, so estimates using known
 25 operations and cost. It's 25 percent of the benefits that

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EXAMINATION BY CHAIRMAN DANNER / LA BOLLE

1 we have to make assumptions around, and -- and that's a
 2 substantial chunk of the benefit.
 3 What we fully expect was, you know, for people
 4 like -- Ms. Alexander has to reasonably dig into and
 5 challenge the basis for our estimate of benefits and that
 6 we would have to defend that, and you know, we may end up
 7 moving a little bit on -- you know, because of that
 8 conversation, and -- and you know, maybe we're okay. Maybe
 9 we're found to be okay.
 10 But I realized yesterday one of the real problems
 11 with this case is that you never got to see the benefits.
 12 Mr. Nightingale, through discovery, asked for all the
 13 models for every single benefit, how is it derived, and we
 14 provided those, but then we never did hear from him again.
 15 I -- I thought that was going to start a conversation in
 16 which we would be sitting down with everybody, going
 17 through how each one of these was derived.
 18 But -- so as it is, none of those benefit models
 19 are in the record for, you know, this part of the case
 20 right now, and so I just realized that it's just a huge
 21 missing piece that you didn't get to see how all of these
 22 things were done and hear from the different parties about
 23 whether or not that made sense. And hopefully, we can
 24 figure out a way to do that different this next time
 25 around.

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EXAMINATION BY CHAIRMAN DANNER / LA BOLLE

1 Q. Well, okay. I will leave it to the Judge and the
 2 lawyers to figure out what should and shouldn't be in the
 3 record.
 4 The -- the benefits that you mentioned, though, I
 5 mean, at the end of the day, there are costs, and the costs
 6 are somewhere between 142 and \$165 million, and so those
 7 benefits have to equal or exceed, at the end of the day,
 8 and we have to be comfortable that -- that that is there,
 9 or that we are so persuaded that the intangibles or future
 10 benefits are -- are going to come our way.
 11 So I'm -- I'm just thinking about what it is that
 12 we -- what test we have to apply to these numbers, and so
 13 if you think there's something in the -- that should be in
 14 the record that would bolster your case, I certainly would
 15 ask you to put it there.
 16 A. Okay. Thank you.
 17 CHAIRMAN DANNER: Thank you. And that's all
 18 I have.
 19 JUDGE FRIEDLANDER: Okay. Thank you.
 20 So with that, I think that we are concluding
 21 your testimony, so thank you so much for your testimony,
 22 Mr. La Bolle.
 23 THE WITNESS: Thank you.
 24 JUDGE FRIEDLANDER: Thank you.
 25 How about a break? Yeah. Let's go 10

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1 minutes?
 2 MR. OSHIE: Your Honor, before --
 3 JUDGE FRIEDLANDER: Sure.
 4 MR. OSHIE: -- if I can interrupt just
 5 briefly?
 6 JUDGE FRIEDLANDER: Sure.
 7 MR. OSHIE: We do have a number of copies
 8 of -- of Staff DR-087 and the response available for the
 9 Commission --
 10 JUDGE FRIEDLANDER: Excellent.
 11 MR. OSHIE: -- and -- for Commission. I've
 12 given a copy to all counsel, and --
 13 JUDGE FRIEDLANDER: Okay.
 14 MR. OSHIE: -- so it's at your discretion as
 15 to what you'd like to do.
 16 JUDGE FRIEDLANDER: Yeah. I would like to
 17 have copies for the Bench. This'll be Exhibit 10, and then
 18 if we can get that -- I don't know who wants to be the one
 19 that -- that files it and goes through the electronic
 20 portal and puts it into the record, but we'll need that for
 21 the records center as well.
 22 MR. MEYER: We can take care of that.
 23 JUDGE FRIEDLANDER: Okay. Thank you.
 24 All right. And with that, we'll go off the
 25 record and be back in 10 minutes. Thank you.

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1 (A break was taken from 10:46 a.m. to 11:06 a.m.)
 2 JUDGE FRIEDLANDER: We'll go back on the
 3 record.
 4 If you want to raise your right hand?
 5
 6 CHRIS R. MCGUIRE, witness herein, having been
 7 first duly sworn on oath,
 8 was examined and testified
 9 as follows:
 10
 11 JUDGE FRIEDLANDER: Okay. You can be seated.
 12 Mr. Shearer?
 13 MR. SHEARER: Thank you, Your Honor.
 14 *** EXAMINATION BY MR. SHEARER ***
 15 BY MR. SHEARER:
 16 Q. Good morning, Mr. McGuire. Can you please state
 17 your name and spell your last name for the record?
 18 A. Chris McGuire, M-C-G-U-I-R-E.
 19 Q. And who is your employer, Mr. McGuire?
 20 A. I'm employed by the Washington Utilities and
 21 Transportation Commission.
 22 Q. And are you the same Mr. Chris McGuire who has
 23 filed testimony in this case, Exhibits CRM-1 through CRM-6?
 24 A. I am.
 25 Q. And, Mr. McGuire, do you have any corrections to

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EXAMINATION BY SHEARER / MCGUIRE

1 that -- that testimony or prior exhibits?
 2 A. I do have some corrections. And so I have
 3 corrected errors that were identified by Mr. Norwood in his
 4 cross-examination, and those errors were also identified by
 5 Ms. Andrews in her rebuttal testimony.
 6 I'll just, for the Bench, cover the -- the
 7 corrections very quickly. I have revised exhibits here.
 8 Specifically, I have revised exhibits for the pages that
 9 have -- have changed. I have ten copies with me right now.
 10 I can provide the -- the electronic versions later.
 11 And let me know if you would like me to describe
 12 in any more detail the -- the nature of the corrections,
 13 but just briefly --
 14 JUDGE FRIEDLANDER: Could we have copies of
 15 those right now --
 16 THE WITNESS: Yes. Yes.
 17 JUDGE FRIEDLANDER: -- so that we can kind of
 18 go through them as you -- as you read them?
 19 Approximately how many corrections?
 20 THE WITNESS: There are three corrections for
 21 the electric attrition study --
 22 JUDGE FRIEDLANDER: Okay.
 23 THE WITNESS: -- which is CRM-2 --
 24 JUDGE FRIEDLANDER: Okay.
 25 THE WITNESS: -- and two corrections for the

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|----------------------------------|---|----------------------------------|---|
| EXAMINATION BY SHEARER / MCGUIRE | | EXAMINATION BY SHEARER / MCGUIRE | |
| 1 | natural gas attrition study -- | 1 | testimony and actually edit the -- |
| 2 | JUDGE FRIEDLANDER: Okay. | 2 | JUDGE FRIEDLANDER: Sure. |
| 3 | THE WITNESS: -- CRM-3. | 3 | CHAIRMAN DANNER: -- the pages. |
| 4 | JUDGE FRIEDLANDER: I was just asking because | 4 | JUDGE FRIEDLANDER: Sure. |
| 5 | if they're -- if it's extensive, we might not go into it | 5 | THE WITNESS: I can do that as well. |
| 6 | orally, we might just have you file this and -- and go | 6 | JUDGE FRIEDLANDER: Sure. |
| 7 | right into cross. So -- | 7 | CHAIRMAN DANNER: Make the changes in the |
| 8 | THE WITNESS: Okay. | 8 | pages. |
| 9 | JUDGE FRIEDLANDER: But it doesn't sound like | 9 | JUDGE FRIEDLANDER: Sounds good. Thank you. |
| 10 | there -- there are that many, so we can go into them, if | 10 | CHAIRMAN DANNER: So for example, on |
| 11 | you'd like. | 11 | page 4 -- |
| 12 | THE WITNESS: Okay. Yeah. I will just -- I | 12 | THE WITNESS: Would you prefer that I just |
| 13 | can provide a brief narrative, and then -- they were | 13 | go -- do you want me to do that now, or would you like me |
| 14 | already covered, so -- | 14 | to do that afterward? |
| 15 | JUDGE FRIEDLANDER: Right. Right. | 15 | CHAIRMAN DANNER: Well, is it something that |
| 16 | THE WITNESS: -- there may be no need to | 16 | could be done quickly, or is it -- is it extensive? |
| 17 | discuss them further. | 17 | COMMISSIONER RENDAHL: Is it just replacing |
| 18 | JUDGE FRIEDLANDER: Okay. That sounds fine. | 18 | the number that's on line 22 on page 4? Right now, it |
| 19 | Thank you. | 19 | says, "33.2 million." |
| 20 | THE WITNESS: And, Your Honor, should I wait? | 20 | THE WITNESS: Are you referring to page 2 of |
| 21 | JUDGE FRIEDLANDER: Please do. | 21 | CR- -- CRM-1T? |
| 22 | THE WITNESS: Okay. | 22 | COMMISSIONER RENDAHL: I'm referring to |
| 23 | JUDGE FRIEDLANDER: Yeah. Thank you. | 23 | page 4 of CRM-1T. |
| 24 | And these will be filed electronically, you | 24 | THE WITNESS: There are numerous references |
| 25 | said, shortly? Maybe within the next day or so? | 25 | throughout the testimony to these revenue requirement |
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| EXAMINATION BY SHEARER / MCGUIRE | | EXAMINATION BY SHEARER / MCGUIRE | |
| 1 | THE WITNESS: Yes. | 1 | dollars, so I think it would be quite extensive to go |
| 2 | JUDGE FRIEDLANDER: Okay. Thank you. | 2 | through them one by one here. |
| 3 | COMMISSIONER JONES: Okay. | 3 | I'm happy to submit the revised exhibits and |
| 4 | JUDGE FRIEDLANDER: Okay. I think -- I think | 4 | a revised direct testimony that corrects the dollar amounts |
| 5 | we're all ready if you want to go into the corrections. | 5 | that are referenced in the direct testimony. I can also |
| 6 | THE WITNESS: Okay. The corrections are made | 6 | provide a narrative of the changes or the corrections to |
| 7 | to, in my -- my direct exhibits, CRM-2 and CRM-3, to page 4 | 7 | the errors that I've made. |
| 8 | and page 5, and those corrections will roll forward to | 8 | COMMISSIONER RENDAHL: I think it would be |
| 9 | the -- the front page, page 1 of each exhibit. And so for | 9 | helpful to provide that, but I'm just wondering -- I noted |
| 10 | my -- | 10 | in here, at some point, that it was reduced to 10 million, |
| 11 | COMMISSIONER RENDAHL: I'm sorry, | 11 | the 33.2 to 10 million, based on Avista's identification. |
| 12 | Mr. McGuire. You said page 4 and 5, but I only have a | 12 | THE WITNESS: Yes. So that -- that reduction |
| 13 | three-page exhibit. | 13 | is a -- that is the change between Avista's direct electric |
| 14 | THE WITNESS: In my direct exhibit, the | 14 | attrition case and Avista's revised attrition case. This |
| 15 | changes were made to page 4 and page 5. | 15 | is -- I'm not making any corrections to either of those two |
| 16 | And Staff agrees in principle with the | 16 | studies. I'm making corrections, to my own analysis, which |
| 17 | corrections that were identified by Avista, and those | 17 | were provided as Exhibit Nos. CRM-2 and CRM-3. |
| 18 | corrections, for the electric attrition study, CRM-2, were | 18 | JUDGE FRIEDLANDER: Actually, I have a |
| 19 | to remove the regulatory asset and amortization expense for | 19 | question about that, because I think, in the exhibit list, |
| 20 | Avista's meter retirement pro- -- proposal. | 20 | I have CRM-4 and -5 as containing Avista's response to |
| 21 | Staff erroneously had left that adjustment in its | 21 | Staff DR-130. |
| 22 | attrition model, and it should have been removed per | 22 | THE WITNESS: Yes. |
| 23 | Staff's position in this case. | 23 | JUDGE FRIEDLANDER: And that's what these -- |
| 24 | CHAIRMAN DANNER: So what would be helpful to | 24 | these papers are from; is that correct? Would -- |
| 25 | me, Judge, would be maybe we could go through the direct | 25 | THE WITNESS: No. |

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|---|--|
| <p>EXAMINATION BY SHEARER / MCGUIRE</p> <p>1 JUDGE FRIEDLANDER: Oh, so these don't revise</p> <p>2 CRM-4 and -5?</p> <p>3 THE WITNESS: Correct.</p> <p>4 JUDGE FRIEDLANDER: Okay. So these are</p> <p>5 separate exhibits?</p> <p>6 THE WITNESS: CRM-4 and CRM-5?</p> <p>7 JUDGE FRIEDLANDER: No. These ones that we</p> <p>8 just received.</p> <p>9 THE WITNESS: These are revised exhibits for</p> <p>10 CRM-2 and CRM-3. So for -- for clarification, CRM-2 and</p> <p>11 CRM-3 are Staff's attrition studies. CRM-4 and CRM-5 are</p> <p>12 Avista's revised attrition studies as provided in response</p> <p>13 to Staff Data Request No. 130.</p> <p>14 JUDGE FRIEDLANDER: So I -- I think what</p> <p>15 might be helpful is, when Staff provides the electronic</p> <p>16 copy, to have the entire -- include the entire exhibit,</p> <p>17 because I'm looking at CRM-2 and -3, and there's more than</p> <p>18 three pages, so these are just pieces of those --</p> <p>19 THE WITNESS: Correct.</p> <p>20 JUDGE FRIEDLANDER: -- exhibits. So we would</p> <p>21 need -- I -- I would appreciate it if we got the full</p> <p>22 electronic version.</p> <p>23 THE WITNESS: Okay.</p> <p>24 JUDGE FRIEDLANDER: That would be great.</p> <p>25 Thank you.</p> | <p>EXAMINATION BY SHEARER / MCGUIRE</p> <p>1 be useful.</p> <p>2 (Discussion off the record at the Bench.)</p> <p>3 JUDGE FRIEDLANDER: Okay. I think we're</p> <p>4 ready.</p> <p>5 CHAIRMAN DANNER: All right.</p> <p>6 JUDGE FRIEDLANDER: If you wanted to just</p> <p>7 quickly go through those changes, that would be great.</p> <p>8 THE WITNESS: Okay.</p> <p>9 JUDGE FRIEDLANDER: Thank you.</p> <p>10 THE WITNESS: Very quickly, I removed the</p> <p>11 regulatory asset and amortization expense for Avista's AMI</p> <p>12 proposal, and I have reflected the tax benefit of debt</p> <p>13 interest for Project Compass, and I have corrected two</p> <p>14 formula errors in the model, and that is for the electric</p> <p>15 attrition study. And the net impact of these corrections</p> <p>16 is an approximately \$250,000 reduction in revenue</p> <p>17 requirement.</p> <p>18 For the gas attrition study, I have reflected</p> <p>19 the tax benefit of debt interest for Project Compass, and I</p> <p>20 have reflected the increase in gas costs related to Staff's</p> <p>21 upward adjustment to the Company's load-growth forecast.</p> <p>22 The net impact of these two adjustments is a \$1.3 million</p> <p>23 increase in revenue requirement.</p> <p>24 Now, it's important to point out here that</p> <p>25 there still remains a few notable difference between</p> |
| <p>Page 431</p> <p>EXAMINATION BY SHEARER / MCGUIRE</p> <p>1 THE WITNESS: Would you still like me to</p> <p>2 generally describe the changes now, or would you prefer</p> <p>3 that I supply a narrative of the -- the changes along with</p> <p>4 the revised exhibits?</p> <p>5 JUDGE FRIEDLANDER: Do you want him to go</p> <p>6 through --</p> <p>7 CHAIRMAN DANNER: I think --</p> <p>8 COMMISSIONER RENDAHL: If you can provide a</p> <p>9 general description now, that would be helpful, and we'll</p> <p>10 have that on the record. At least for my purposes, I don't</p> <p>11 need an additional narrative with the --</p> <p>12 JUDGE FRIEDLANDER: Exhibits.</p> <p>13 COMMISSIONER RENDAHL: -- exhib- -- the</p> <p>14 electronic version. And I agree with Judge Friedlander</p> <p>15 that, when you submit the electronic, it should be</p> <p>16 corrected from what it appears now in CRM-2 and -3 so we</p> <p>17 can see the changes to that exhibit, because this does</p> <p>18 appear to be smaller than what are -2 and -3.</p> <p>19 THE WITNESS: Okay.</p> <p>20 COMMISSIONER JONES: Yeah. And -- and for my</p> <p>21 purposes, Mr. McGuire, I think that would be fine, a</p> <p>22 high-level summary right now. I notice the attrition</p> <p>23 allowance for gas, there's a change of about 1.3 million,</p> <p>24 attrition allowance for electric is only 300,000, so -- so</p> <p>25 if you could just briefly describe why, I think that would</p> | <p>Page 433</p> <p>EXAMINATION BY SHEARER / MCGUIRE</p> <p>1 Staff's electric and natural gas attrition studies in</p> <p>2 comparison to Avista's electric and natural gas attrition</p> <p>3 studies, and we can describe those in more detail as the</p> <p>4 cross proceeds.</p> <p>5 COMMISSIONER JONES: Good.</p> <p>6 JUDGE FRIEDLANDER: I think that's fine.</p> <p>7 Thank you.</p> <p>8 Okay. So I have Public Counsel up first.</p> <p>9 Ms. Gafken? Or --</p> <p>10 MR. ROSEMAN: I --</p> <p>11 MR. SHEARER: I was just going to say, he's</p> <p>12 ready for cross.</p> <p>13 JUDGE FRIEDLANDER: Okay. Thank you.</p> <p>14 So Ms. Gafken?</p> <p>15 MS. GAFKEN: I do just have a few questions,</p> <p>16 just to clarify the -- the updated exhibits that we</p> <p>17 received.</p> <p>18 *** EXAMINATION BY MS. GAFKEN ***</p> <p>19 BY MS. GAFKEN:</p> <p>20 Q. So, Mr. McGuire, on -- the electric exhibit is</p> <p>21 CRM-2; correct?</p> <p>22 A. Correct.</p> <p>23 Q. And so the attrition allowance with -- with the</p> <p>24 changes that were made is 14,472,000; correct?</p> <p>25 A. Correct.</p> |

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EXAMINATION BY GAFKEN / MCGUIRE

1 Q. Okay. And then the -- on the natural gas side of
 2 things, that's CRM-3, and the attrition allowance that
 3 you're advocating for now is 6,704,000?
 4 A. Correct.
 5 **Q. Okay. Do the adjustments in --**
 6 **COMMISSIONER RENDAHL: I'm sorry. Would**
 7 **those be thousands or millions?**
 8 MS. GAFKEN: Sorry. Million.
 9 COMMISSIONER RENDAHL: You said thousands.
 10 MS. GAFKEN: Did I say thousands? I meant
 11 million.
 12 COMMISSIONER RENDAHL: Okay. Thank you.
 13 BY MS. GAFKEN:
 14 **Q. 6 -- 6.7 million for natural gas?**
 15 A. Correct.
 16 **Q. Okay. And 14.5 million for electric?**
 17 A. Correct.
 18 **Q. Okay. Now, Staff also, in the cross-check**
 19 **studies, had corresponding adjustments of 14.7 million on**
 20 **the electric side and 5.4 million on the gas side. Did**
 21 **those numbers also change?**
 22 A. I don't know which numbers you're referring to.
 23 **Q. The adjustment that goes from the Staff**
 24 **cross-check or, you know, the historical -- modified**
 25 **historical test periods to the Staff attrition case. Those**

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1 **adjustments --**
 2 A. The --
 3 **Q. -- what happens to those?**
 4 A. -- attrition allowances that were provided or that
 5 are recommended in addition to the -- the pro forma revenue
 6 requirements, yes. Those are the correct number -- or
 7 those are the numbers that correspond to the numbers that
 8 we've changed on the front page, on page 1 of Exhibits
 9 CRM-2 and CRM-3.
 10 **Q. So then there will be changes to the numbers in**
 11 **the -- in the cross-checks as well?**
 12 A. No.
 13 **Q. Or, I guess, the difference between the attrition**
 14 **case, Staff's attrition case and Staff's modified**
 15 **historical test period case?**
 16 A. That is reflected in CRM-2 and CRM-3.
 17 MS. GAFKEN: Okay. Thank you.
 18 JUDGE FRIEDLANDER: Thank you.
 19 And I believe Ms. Davison?
 20 MS. DAVISON: Thank you, Your Honor.
 21 I -- I'd like to say, for the record, that
 22 these -- in our quick check, these are not minor, you know,
 23 corrections, and so some of my cross may be off a little
 24 bit, so I'll try to, you know, work through this.
 25 There's a few things we understand and a few

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1 things we don't understand of what we've been given today,
 2 so I'm kind of trying to do this on the fly, but I'll do
 3 the best I can.
 4 JUDGE FRIEDLANDER: Thank you.
 5 *** EXAMINATION BY MS. DAVISON ***
 6 BY MS. DAVISON:
 7 **Q. Good morning, Mr. McGuire.**
 8 A. Good morning.
 9 **Q. So if I understand -- let me just back up and ask**
 10 **the question to you directly. Are you recommending -- are**
 11 **you, Mr. McGuire, advocating that the Commission -- excuse**
 12 **me, adopt an attrition adjustment for Avista in this rate**
 13 **case?**
 14 A. I am advocating that, if the Commission were to
 15 calculate a revenue requirement using only a modified
 16 historical test period, that the Company would likely
 17 experience attrition in the rate year. Therefore, I'm
 18 recommending that the Commission provide an attrition
 19 allowance for both electric and natural gas service that is
 20 an adjustment to the modified historical test year results.
 21 I want to point out here to the Bench that,
 22 although Staff is recommending an attrition allowance for
 23 electric and gas service, Staff is still recommending a
 24 revenue decrease for electric service. That revenue
 25 decrease incorporates the effect of the attrition

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1 allowance.
 2 **Q. And what is the -- your recommended revenue**
 3 **requirement decrease with the impact of the attrition**
 4 **adjustment now?**
 5 A. The -- the revenue reduction for electric service
 6 relative to the rates currently in effect for 2015 is
 7 \$6,463,000.
 8 **Q. Thank you.**
 9 **What is the revenue requirement decrease that**
 10 **Staff would recommend if the Commission were not to**
 11 **implement an attrition adjustment in this case?**
 12 A. I don't have the precise numbers in front of me,
 13 but my recollection is the revenue decrease would be
 14 approximately \$20 million, \$21 million.
 15 **Q. Yes.**
 16 **If you turn to CRM-1T, page 8, line -- I can't**
 17 **read my handwriting -- 14, we -- we see, if you**
 18 **calculate -- if you add the 6.2 to 14.7, you get 20.9, but**
 19 **that number will change with your revised testimony;**
 20 **correct?**
 21 A. No, it will not.
 22 **Q. It'll stay 20.9?**
 23 A. I am not -- I'm not revising the -- the -- Staff
 24 Witness Mr. Hancock's analysis.
 25 **Q. Okay. But the 6.2 became 6.4, didn't it?**

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1 **A. Correct.**

2 **Q. So wouldn't that number be bigger?**

3 A. Wouldn't which number be bigger?

4 **Q. The 20.9?**

5 A. No. The pro forma study is an independent

6 analysis of the revenue requirement.

7 **Q. Okay. So let's back up and talk about what**

8 **factors you consider relevant in evaluating whether Avista**

9 **needs an attrition adjustment. Can you identify what**

10 **factors you looked at in order to reach your conclusion?**

11 A. Yes, I can. I think it's important to

12 qualitatively assess whether or not extraordinary

13 circumstances may be present first, and through my

14 assessment, it -- it appeared to me that Avista is

15 experiencing rapid plant growth and Avista is experiencing

16 low load growth, and for a company that's experiencing

17 low -- low load growth, that company is also experiencing

18 low revenue growth.

19 So it is plausible that a company experiencing low

20 load growth and high plant growth could experience

21 attrition in the rate year. Now, it's important to

22 recognize that a qualitative assessment of whether or not

23 those factors may or may not be present is going to be

24 insufficient for determining whether or not a company does,

25 in fact, need an attrition allowance, which is why I

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1 performed an attrition study.

2 Without an attrition study, you do not know

3 whether or not those factors are indeed extraordinary. And

4 my understanding is that neither ICNU nor Public Counsel

5 performed an attrition study to determine whether or not

6 those factors that appear to be present were likely to

7 contribute to earnings attrition in the rate year.

8 **Q. But isn't it true in your testimony, Mr. McGuire,**

9 **that you talk about Avista having a large capital program,**

10 **but you also mention that Avista hasn't really provided**

11 **good details supporting why they need to have such high**

12 **capital expenditures, particularly at a time in which they**

13 **are experiencing low load growth and perhaps some of these**

14 **capital projects could be postponed?**

15 A. I believe Staff Witness Mr. Gomez provides the

16 assessment of the documentation for specific plant

17 investments. I did not testify to the appropriateness of

18 specific capital additions.

19 I did comment that I do not believe the Company

20 provided sufficient documentation for its investments in

21 reliability upgrades, but I did not testify to the balance

22 of the plant additions being discussed in this case.

23 **Q. So is it relevant in your consideration of whether**

24 **the Commission should adopt an attrition adjustment that**

25 **Mr. Norwood has admitted that the Commiss- -- the Company**

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1 **over-earned in 2013, 2014, and will likely over-earn in**

2 **2015?**

3 A. That is not at all relevant.

4 MR. MEYER: And I object to the form of the

5 question. I think it mischaracterizes Mr. Norwood's

6 testimony in that regard, and I would let the record speak

7 for itself.

8 JUDGE FRIEDLANDER: Well, unfortunately, the

9 objection came after he answered, but I -- I certainly

10 will -- I mean, the record is going to reflect --

11 MR. MEYER: Sure.

12 JUDGE FRIEDLANDER: -- you know, your -- your

13 objection, so.

14 MR. MEYER: That's the point.

15 JUDGE FRIEDLANDER: Thank you.

16 BY MS. DAVISON:

17 **Q. So as I understand your answer, whether Avista's**

18 **over-earning or not is completely irrelevant?**

19 A. That is not what you asked me. You asked me

20 whether or not Avista over-earned in 2013 and 2014. I

21 would argue that they over-earned in 2014. I would argue

22 that you would be splitting hairs to say that they

23 over-earned in 2013. I believe they over-earned by a

24 couple of basis points.

25 However, we're not calculating rates for 2013

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1 right now. We're not calculating rates for 2014. We're

2 calculating rates to be effective in 2016, so what I'm

3 attempting to do in my analysis is provide revenues

4 sufficient for costs in 2016, not 2014.

5 **Q. So let's -- let's back up a little further.**

6 **The -- you're aware that the Commission has traditionally**

7 **used a modified historic test year; correct?**

8 A. Correct.

9 **Q. And do you know why the Commission has, over all**

10 **these years, used a modified historic test year?**

11 A. I cannot speak to what various Commissions were

12 thinking throughout the history of this Commission, no.

13 **Q. But do you know, from a policy perspective, what**

14 **the basis is?**

15 A. What the basis is for what?

16 **Q. A modified historic test year.**

17 A. The basis for a modified historic test year is

18 that, in a historic test year, costs are known and

19 measurable, and under normal circumstances, the

20 relationship between revenues, expenses, and rate base

21 would be expected to remain relatively stable between a

22 test year, a historic test year, and a future rate year.

23 That is under normal circumstances. What I'm

24 arguing here is that there are circumstances present to

25 warrant a different approach to thinking about the revenues

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

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

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

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

14 A. I don't know what you mean by "a long time."
 15 **Q. Well, when did they last approve an attrition
 16 adjustment?**

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

19 **Q. I consider that a long time.**

20 A. I consider a hundred years a long time.

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

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

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1 **that generally correct?**

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

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

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

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

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

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

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

8 JUDGE FRIEDLANDER: Can you rephrase the
 9 question?

10 BY MS. DAVISON:

11 **Q. So the Company is over-earning for at least 2013,
 12 2014, so I think we can agree that they received too high a
 13 revenue based on where they should have been with their
 14 authorized rate of a return on equity; is that correct?**

15 A. I would agree for 2014, yes.

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

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

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

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

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

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

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

21 A. I was.

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

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

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|--|--|
| <p style="text-align: center;">EXAMINATION BY DAVISON / MCGUIRE</p> <p>1 several years, and if that load growth continues at a slow 2 pace, the Company is not going to be able to generate the 3 revenues necessary to cover the expenses moving forward. 4 I would expect, if Avista's load starts to pick 5 up, starts to grow more rapidly, that the Company would not 6 need to come in here for annual rate increases and they 7 would not need an attrition allowance. 8 Q. Are you familiar with the concept of "death 9 spiral"? 10 A. I am somewhat familiar with that concept, yes. 11 Q. Well, isn't it true that if you have low load and 12 your customer base is not economically doing particularly 13 well, that rather than continuing to raise rates and put 14 your customer base in a worse situation, that it makes 15 sense to take your capital projects and prioritize those? 16 A. I would say, conceptually, that that is true. 17 However, what you would be asking of Avista for -- to cut 18 their capital expenditures to an extent that their growth 19 in revenues would be sufficient to cover those capital 20 expenditures would be unreasonable. 21 And I've done some back-of-the-envelope 22 calculations here for a hypothetical situation for what if 23 Avista only increased its net plant to the level that was 24 appropriate or -- not appropriate, to the level that was -- 25 let me rephrase -- that Avista only invested in plant at a</p> | <p style="text-align: center;">EXAMINATION BY DAVISON / MCGUIRE</p> <p>1 plant has been growing at a relatively rapid pace; correct? 2 A. Correct. 3 Q. And doesn't Mr. Morris or Avista have the burden 4 of proof to demonstrate why their net plant is growing at a 5 relatively rapid pace? 6 A. Yes, it does. Mr. Morris is testifying, however, 7 on the generalities of this case. It is not Mr. Morris's 8 responsibility in this case, in my opinion, to provide 9 detail on specific plant investments. This is a general 10 narrative, and I'm commenting on a general narrative. 11 Q. Well, I assume that if you thought that Avista had 12 provided detail on why net plant has grown at a relatively 13 rapid pace, you wouldn't have made the statement. 14 A. Was that a question? 15 Q. Well, did -- I'll rephrase it. 16 Did you find that other Avista witnesses provided 17 the detail that's required to be sufficient to explain why 18 net plant is growing at a relatively rapid pace? 19 A. I -- again, I did not testify to specific plant 20 investments. I will answer your question, but the question 21 to me sounds as if you're asking me about whether or not 22 specific plant investments and the rate of growth 23 associated with those investments or that level of 24 investments was appropriate. 25 I think it's important here to point out that the</p> |
| Page 447 | Page 449 |
| <p style="text-align: center;">EXAMINATION BY DAVISON / MCGUIRE</p> <p>1 level consistent with its growth in revenues. 2 So for electric service, if we were to say that 3 Avista's current expected revenue growth between the test 4 year and the rate year will be sufficient to cover costs, 5 particularly net plant, the growth in net plant between the 6 test year and the rate year would be zero percent. So what 7 you're asking the Company to do is to scale back its 8 capital investments to zero. 9 Now, I would argue that that's unreasonable, and 10 that's what I'm arguing here is that, without doing any 11 sort of analysis, providing any sort of analysis of what 12 might happen in the rate year, you don't know whether or 13 not the Company can even achieve what you're expecting them 14 to achieve. 15 Q. Well, Mr. McGuire, I'm personally not asking the 16 Company to do anything. I'm just asking you questions 17 based on various scenarios, but I'd ask you to turn to your 18 testimony, CRM-1T, page 19, lines 10 and 11. 19 A. Can you tell me the page again, please? 20 Q. Page 19. 21 A. And those were lines 10 and 11? 22 Q. Yes. 23 A. Okay. I'm there. 24 Q. In response to that question, you basically state 25 that Mr. Morris does not provide much detail on why net</p> | <p style="text-align: center;">EXAMINATION BY DAVISON / MCGUIRE</p> <p>1 rate of growth that I'm using for my analysis is the rate 2 of growth embedded in the historical data, not the rate of 3 growth associated with the specific plant additions that 4 the Company has made in 2015 or that it intends to make in 5 2016. 6 So as a result, because I'm deriving this rate of 7 growth for net plant from historical data, I'm deriving 8 growth in net plant over the years in which this Company 9 has come before this Commission and has presented its 10 results, and those results were accepted. This rate of 11 growth that I'm using is the rate of growth that has 12 effectively been accepted by this Commission over the past 13 several years. 14 Q. Are you familiar with the concept of "regulatory 15 lag"? 16 A. I am. 17 Q. And if a company is coming in for annual rate 18 cases, is it really suffering from regulatory lag? 19 A. I don't think those two things are related. 20 Regulatory lag is the situation that occurs when a company 21 asks for a rate increase and will not get that rate 22 increase for another 11 months, or the Commission's 23 decision on whether or not they should even be given that 24 rate increase would not come for another 11 months. 25 Regulatory lag happens in between the filing of a</p> |

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EXAMINATION BY DAVISON / MCGUIRE

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

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

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

12 **Q. Well, let's look at it in context of Avista for**
 13 **this year. So is Avista experiencing regulatory lag for**
 14 **2015?**

15 A. Everyone experiences regulatory lag. Yes.

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

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

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

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EXAMINATION BY DAVISON / MCGUIRE

1 A. Yes. That's correct.

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

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

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

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

18 A. I am somewhat familiar with that concept.

19 **Q. And how would you define that?**

20 A. I do not have a definition for that.

21 **Q. Is Avista facing high inflation?**

22 A. It is not.

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

25 A. I believe that's correct. Yes.

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EXAMINATION BY DAVISON / MCGUIRE

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

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

5 **Q. Let's turn to Exhibit CRM-2, page 5, line 37.**
 6 **COMMISSIONER RENDAHL: This is the original,**
 7 **not the revised?**

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

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

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

15 COMMISSIONER RENDAHL: Thank you.

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

18 MS. DAVISON: Yes.

19 THE WITNESS: Okay.

20 BY MS. DAVISON:

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

24 A. I see that.

25 **Q. And this value represents the increase to gross**

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EXAMINATION BY DAVISON / MCGUIRE

1 **plant in your attrition revenue requirement study; correct?**

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

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

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

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

11 MS. DAVISON: Well --

12 A. -- this is important --

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

14 A. -- I think --

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

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

25 JUDGE FRIEDLANDER: I think you'll have a

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

3 THE WITNESS: Can you please rephrase your
 4 question?

5 BY MS. DAVISON:

6 **Q. I'll reask the question.**

7 A. That works.

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

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

12 **Q. Sir, would you refer to your Exhibit CRM-1T, Note**
 13 **2, page 9? Do you --**

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

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

17 CHAIRMAN DANNER: Thank you.

18 BY MS. DAVISON:

19 **Q. Are you there, Mr. McGuire?**

20 A. I'm there.

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

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EXAMINATION BY DAVISON / MCGUIRE

1 **A. I do.**

2 **Q. And that is accurate, still?**

3 A. It is.

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

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

11 **JUDGE FRIEDLANDER: I'm sorry.**

12 MS. DAVISON: -- would you say --

13 JUDGE FRIEDLANDER: What was the exhibit
 14 number again?

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

16 JUDGE FRIEDLANDER: Thank you.

17 THE WITNESS: And I do not have that.

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

21 COMMISSIONER JONES: Table 4?

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

24 MS. DAVISON: Yes, Commissioner.

25

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EXAMINATION BY DAVISON / MCGUIRE

1 BY MS. DAVISON:

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

4 A. I do.

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

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

11 Q. Okay. And then my question to you is, why is it
 12 that your analysis proposes to escalate gross plant by
 13 177 million, yet Staff only supports 56.7 million in
 14 capital additions as meeting the Commission's standards for
 15 inclusion in rates?

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

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

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EXAMINATION BY DAVISON / MCGUIRE

1 **standard?**

2 A. I've already answered that question.

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

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

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

19 A. Yes, I would agree with that.

20 **Q. Thank you.**

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

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

| | |
|--|---|
| <p style="text-align: right;">Page 458</p> <p style="text-align: center;">EXAMINATION BY DAVISON / MCGUIRE</p> <p>1 to go through all the trouble of evaluating the insurance 2 effect if -- if, in fact, the Commission adopts an 3 attrition adjustment, his insurance recommendation doesn't 4 get included in it? Why go through that -- that whole 5 process if it has no impact on the bottom line? 6 A. So there are two reasons for going through this 7 process. One is that, if Commission Staff finds that -- 8 finds grounds for disallowance, that disallowance must be 9 incorporated into the -- the attrition study. 10 Now, it's possible that what Ms. Davison refers to 11 currently was a disallowance, and if that is, in fact, 12 true -- I do not know the specifics of it here -- if that 13 is, in fact, true, that is something that should have been 14 captured in the attrition study. Disallowances have to be 15 accounted for regardless. 16 So I can give you an -- an example. So for 17 Project Compass, we -- Staff Witness Mr. Gomez recommends a 18 disallowance for a certain portion of Project Compass. 19 That disallowance is incorporated into this attrition 20 study. It's important that we take into consideration the 21 disallowances. 22 Secondly, it's possible that this Commission 23 rejects outright an attrition allowance. We want to make 24 sure that, if that happens, that the basic underlying case, 25 the modified historical test year case, is as accurate as</p> | <p style="text-align: right;">Page 460</p> <p style="text-align: center;">*** EXAMINATION BY MR. MEYER ***</p> <p>1 2 BY MR. MEYER: 3 Q. Good morning, Mr. McGuire. 4 A. It's afternoon now. 5 Q. And when did that happen? 6 A. But good afternoon. 7 Q. Say, we -- we've talked at some length about -- in 8 connection with other witnesses about one aspect of your 9 attrition study, and that had to do with the O&M trending. 10 But this morning -- excuse me, this afternoon, I'd like to 11 talk to you about the choice of the trend of period. 12 You understand, do you not, that the Company used 13 the period 2007 through 2014? 14 A. I do understand that. However, I do believe that 15 it calculated the rate of growth over that time period 16 incorrectly. 17 I advocated in my testimony that an objective 18 analysis should calculate rates of growth using historical 19 data and using a model that best fits that data. The 20 Company's used a linear model here, and those data are not 21 linear. They fit a line to nonlinear data. 22 If I have -- I ran some numbers in between 23 yesterday and today to actually calculate what the rate of 24 growth would be if you fit the best model to that data, and 25 using a quadratic, you get a higher correlation to the data</p> |
| <p style="text-align: right;">Page 459</p> <p style="text-align: center;">EXAMINATION BY DAVISON / MCGUIRE</p> <p>1 possible. 2 Q. Thank you. 3 So as I understand Mr. Ball's adjustment on 4 insurance is that it's a pro forma insurance adjustment. 5 How is that accounted for? 6 A. How is -- I don't know how specific insurance 7 adjustments are accounted for. Are you asking me, how is a 8 pro forma adjustment, in general, accounted for? 9 Q. How this would be accounted for in your attrition 10 analysis. 11 A. If -- I just answered that. If it's a 12 disallowance, then it needs to be taken into consideration, 13 and if it is not, then that is -- that is an error that 14 needs to be corrected. 15 If it is simply a matter of timing -- for example, 16 there are multiple recommendations from Mr. Gomez on the 17 amount of plant that should be recoverable in this case, 18 because certain plant was not in service in time for Staff 19 to be able to -- to audit those dollar values. So if there 20 is a recommendation regarding timing, then my attrition 21 study does not need to take that into consideration. 22 MS. DAVISON: I have no further questions, 23 Your Honor. 24 JUDGE FRIEDLANDER: Thank you. 25 Mr. Meyer?</p> | <p style="text-align: right;">Page 461</p> <p style="text-align: center;">EXAMINATION BY MEYER / MCGUIRE</p> <p>1 than a line, and instead of a 4.6 percent rate of growth, 2 you get a 0.6 percent rate of growth. So I am aware that 3 the Company used that time period, but it used it 4 incorrectly, in my opinion. 5 Q. I -- I'm focusing on -- on not a review here of -- 6 of the time period for any particular adjustment. I'm 7 referring more so here to the trending of the capital 2007 8 through 2014. Okay? 9 A. Okay. 10 Q. So if we look at that assessment, the starting 11 point for that was 2007, which do you understand the 12 Company used because it believed that it marks the point at 13 which there is a significant shift in the capital 14 expenditure trend? 15 A. Yes. 16 Q. And you, on the other hand, chose to use 2009 as 17 your starting point for trending this capital; is that 18 correct? 19 A. That's correct. 20 Q. And is it your testimony that you used this as a 21 beginning point to avoid what you termed "statistical 22 complications" caused by changes in the normalization 23 methodology? 24 A. Yes. I chose that time period because data were 25 normalized in a consistent manner between 2009 and -- and</p> |

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|---|--|
| <p style="text-align: center;">EXAMINATION BY MEYER / MCGUIRE</p> <p>1 2014; however, I agree with the Company's assessment that 2 it is irrelevant. The -- the normalization consistency is 3 irrelevant here. You normalize things that are not 4 escalated in the attrition study, and I -- I failed to 5 recognize that in my study. 6 However, the fact that we ran two different time 7 periods can give you some general sense of what different 8 analyses might lead you to conclude regarding the level of 9 attrition likely to be present in the rate year. And the 10 Company used its historical data from 2007 and 2014. I 11 used 2009 to 2014, and I believe we were roughly \$100,000 12 different for electric service and roughly \$500,000 13 different for natural gas service. 14 So that -- it's helpful that we ran different time 15 periods, because you can have -- you can then get some 16 sense of how much impact different time periods would have 17 on the outcome here, and I'm -- I'm testifying now that -- 18 that is very little. 19 MR. MEYER: I -- I have no further cross. 20 Thank you. 21 JUDGE FRIEDLANDER: Thank you. 22 Any clarification questions? 23 CHAIRMAN DANNER: No, I don't. 24 COMMISSIONER RENDAHL: I have one question. 25</p> | <p style="text-align: center;">EXAMINATION BY COMMISSIONER RENDAHL / MCGUIRE</p> <p>1 final order. It is on page 22, paragraph 34. 2 Q. Okay. Thank you. 3 A. In an order in 1977, this is Cause No. U-77-83, 4 the Commission noted declining sales as a reason for 5 considering extraordinary rate relief. Now, that was prior 6 to any mention of the term "attrition" or "attrition 7 allowance" or "attrition adjustment" in my -- in my review. 8 However, that's -- we are -- we are deciding here 9 whether or not extraordinary rate treatment is appropriate 10 and what might be the circumstances that would cause 11 extraordinary rate treatment to be warranted here. So 12 there is that order, and there is -- in Order UG-920840, 13 Washington Natural Gas Company final order, page 29 -- I 14 believe this is the final order. 15 I again don't have the -- the precise citation, 16 but this is -- was provided in Exhibit CRM-6, and I believe 17 this is the -- the final order, the last page, I believe, 18 in -- CRM-6. Nevertheless, declining sales, again, was 19 noted as a reason for considering extraordinary rate 20 treatment. 21 Now, it's important to consider that, in the early 22 '80s when the Commission was providing attrition allowances 23 to companies, they were doing so because of -- of very high 24 capital growth, but there's no mention of the revenues that 25 the company or these companies were -- or the growth in</p> |
| <p style="text-align: center;">Page 463</p> <p>1 *** EXAMINATION BY COMMISSIONER RENDAHL *** 2 BY COMMISSIONER RENDAHL: 3 Q. This follows along from questions by counsel for 4 ICNU. Can you explain why the need for an attrition 5 adjustment is necessary based on, "Why are the 6 circumstances right now extraordinary?" within the meaning 7 of the cases that the Comm- -- you've attached as an 8 exhibit? 9 A. Yes. Just give me one moment. 10 So I would first like to -- to just point out 11 that, in a Commission order in -- in 2010 -- so more 12 recently -- this is in Docket U-100522 -- that the 13 Commission has -- has said that, in the context of a 14 general rate case, inclusion of an appropriate attrition 15 adjustment designed to protect the company from lost margin 16 due to any reason is -- is appropriate. 17 So I -- even -- even if there were no evidence in 18 the historical record that the Commission has considered 19 extraordinary rate treatment for low load growth, I believe 20 the Commission still is able to justify an attrition 21 allowance, in this case, because load growth is -- is, in 22 fact, low. I -- 23 Q. Can you provide the exact citation for that? What 24 document you're referring to in that docket number? 25 A. I don't have the final order number, but it is the</p> | <p style="text-align: center;">Page 465</p> <p style="text-align: center;">EXAMINATION BY COMMISSIONER RENDAHL / MCGUIRE</p> <p>1 revenues that these companies were experiencing. When I 2 say no mention, I mean in -- in the context of this 3 discussion. There was mention in the order. 4 And the rates of growth for these companies for 5 revenues at a time when they were given attrition 6 allowances, 5.6 percent annual growth rate in revenues for 7 one company in 1981, and this was in Cause No. U-81-15. 8 Q. And what page of your Exhibit CRM-6 are you 9 looking at? 10 A. Are there page numbers at the foot of your -- 11 Q. No. They're at the top. 12 CHAIRMAN DANNER: In the upper right. 13 BY COMMISSIONER RENDAHL: 14 Q. So U-81-15? 15 A. Yes. U-81-15. These are in chronological order, 16 so you may be able to thumb through and find 81. My -- 17 mine does not have page numbers for whatever reason, so I 18 don't know -- 19 Q. So this -- is this page 22 of the order? 20 A. Yes, it is. 21 Q. Okay. So page 10 of the exhibit. 22 COMMISSIONER JONES: Mr. McGuire, which 23 company is that? Could you mention the company name as 24 well? 25 COMMISSIONER RENDAHL: I'm not sure it's</p> |

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1 referenced.

2 THE WITNESS: I -- it's not referenced here.

3 I -- I do have it written down, but it's just not -- not

4 here. I can provide that later.

5 BY COMMISSIONER RENDAHL:

6 **Q. Okay. Well, so we could go through each of these**

7 **particular cases, but in -- in this -- so -- which I'm not**

8 **sure is necessary --**

9 A. Okay. Well, I --

10 **Q. -- at this point. But just overall, so you're --**

11 **you're saying that the Commission has stated that low load**

12 **growth with high capital spend is indicative of**

13 **extraordinary circumstances, and in the docket -- you**

14 **mentioned the most recent one, U-100522 -- that the**

15 **Commission said -- a prior Commission said that addressing**

16 **lost margin through an attrition adjustment is appropriate.**

17 **So that would be to summarize your response?**

18 A. Yes. And to summarize just one brief step

19 further, it is -- load growth was -- was high or -- I guess

20 it is all relative. Load growth during that period was --

21 was between 5 and 8 percent, which means companies were

22 gaining, annually, substantial revenues just from load

23 growth. And comparing those numbers to the numbers

24 Avista's experiencing today, Avista's experiencing less

25 than 1 percent annual load growth.

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EXAMINATION BY COMMISSIONER JONES / MCGUIRE

1 **was I doing then? It's a long time ago, and it's over 30**

2 **years -- almost 30 years ago, as Ms. Davison said.**

3 A. If that's a question for me, I believe playing

4 football was the answer.

5 **Q. What were you doing then?**

6 A. I meant you.

7 **Q. So turn to page 33 of your testimony, please, of**

8 **CRM-1T.**

9 A. I'm on page 33.

10 **Q. Yeah. Lines -- I want you to explain a little bit**

11 **more lines 9 through 13 at a high level. You -- you, first**

12 **of all, define inferential statistics, and then you seem to**

13 **indicate that an attrition analysis should be "scien- --**

14 **scientifically objective and free from bias."**

15 **So what do you mean by that? Because we've**

16 **been -- we've been discussing with Ms. Davison and -- and**

17 **some others, and I'll have a few questions for you on**

18 **assumptions or models or post-attrition adjustments or**

19 **whatever, but what do you mean by "bias"? Is this a**

20 **statistical term or not?**

21 A. No. I wrote this in response to the Company's

22 direct case, and what I meant was that a statistical

23 analysis is -- is -- is an analysis of data and

24 observations.

25 **Q. Okay.**

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EXAMINATION BY COMMISSIONER RENDAHL / MCGUIRE

1 Q. But those -- so you're referring to the U-81-15

2 load-growth rates of 5 and -- about 5 percent, and that's

3 during a time of extremely high inflation rate at that

4 point, so there were other factors involved?

5 A. There were other factors, although there was --

6 there are only two references that I could find in my

7 review of -- of historical orders that gave attrition

8 allowances specifically for inflation. Most attrition

9 allowances were given, during this time period, for

10 extraordinary capital growth.

11 **Q. Okay.**

12 A. But yes, there are many circumstances. And

13 generally, very generally, this Commission has provided

14 attrition allowances when there's evidence of different

15 rates of growth in revenues, expenses, and rate base such

16 that test-year relationships are not likely to hold during

17 the rate-affected period.

18 COMMISSIONER RENDAHL: Thank you.

19 *** EXAMINATION BY COMMISSIONER JONES ***

20 BY COMMISSIONER JONES:

21 **Q. Mr. McGuire, I'm going to start at a higher level**

22 **and then dig down into some weeds. I'm sorry. It's**

23 **afternoon and before the lunch hour, but this won't take**

24 **that long.**

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

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EXAMINATION BY COMMISSIONER JONES / MCGUIRE

1 **A. The Company had included in its own trend analysis**

2 **some speculative future numbers, and I -- I testified that**

3 **I believe that's inappropriate. I believe that the**

4 **Commission has -- has stated directly that a historical**

5 **trend analysis is -- is appropriate for calculating rates**

6 **of growth in specific categories.**

7 **I was only pointing out here that the Company, in**

8 **its direct case, was not being scientifically objective,**

9 **and there was bias in its analysis, because it was using**

10 **its own -- its own budgets and its own --**

11 **Q. Okay.**

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

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

14 A. Yes.

15 **Q. And I'm -- I've read your testimony, and I totally**

16 **understand that, and I think you call that speculative --**

17 **A. Yes.**

18 **Q. -- using speculation to bring in 2016 rate base**

19 **additions; right?**

20 A. Yeah. Correct.

21 **Q. But my question is more on the analysis,**

22 **because -- and I'm -- I'm not saying where I'm going to be**

23 **on this yet. We have two options before us: One is a**

24 **modified historical test year; and the other is attrition,**

25 **which you did.**

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EXAMINATION BY COMMISSIONER JONES / MCGUIRE

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

5 A. Correct.

6 **Q. Then we have your analysis that yields a**
 7 **\$3.9 million reduction in electric, I think? Is that the**
 8 **final number? If I do the math correctly?**

9 A. The final number is approximately --

10 **Q. 4.2?**

11 A. -- 6.5 million.

12 **Q. I'm sorry.**

13 A. This is in the revised exhibit.

14 **Q. So your -- excuse me. I misspoke. Your revised**
 15 **decrease is 6.5 million -- and I'll get to this in a**
 16 **minute. The Company's revised attrition analysis is**
 17 **3.9 million positive; right?**

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

23 A. Correct.

24 **Q. Which yields an insufficient number for the**
 25 **Company?**

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EXAMINATION BY COMMISSIONER JONES / MCGUIRE

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

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

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

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

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

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EXAMINATION BY COMMISSIONER JONES / MCGUIRE

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

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

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

12 A. Okay.

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

19 A. Correct.

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

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

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1 **9.9 percent, which you -- you, I think, characterize as**
 2 **minimal, just a few basis points, or is it the**
 3 **10.6 percent?**

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

6 **Q. Okay.**

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

12 **Q. Okay.**

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

16 **Q. Okay.**

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

19 **Q. Okay.**

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

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

25 A. It only applies to my attrition analysis, because

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EXAMINATION BY COMMISSIONER JONES / MCGUIRE

1 my attrition adjustment is an adjustment to the pro forma
 2 analysis, so this is --
 3 **Q. Okay. I understand.**
 4 A. Okay.
 5 **Q. So let me get back to my question. What is --**
 6 **what are the -- if you had to list two or three reasons for**
 7 **the major differences between Avista's, on rebuttal, their**
 8 **attrition analysis, and yours, your final, what are they?**
 9 A. The -- there are three, and far and away the
 10 biggest is the escalator for O&M.
 11 **Q. Okay.**
 12 A. And as I have mentioned here today, that -- I
 13 believe that my analysis is objective, and I believe that
 14 had they -- had the Company used the historical data
 15 appropriately, it would have gotten a much smaller number
 16 for an escalator for O&M.
 17 Secondly, the Company has added back into its
 18 revenue requirement the disallowance for Project Compass.
 19 Staff Witness Mr. Gomez --
 20 **Q. Okay.**
 21 A. -- makes a recommendation for that. We've added
 22 that -- added that -- or sorry. They've added that back
 23 in, Avista has --
 24 **Q. And you took it out?**
 25 A. And I took it out.

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EXAMINATION BY COMMISSIONER JONES / MCGUIRE

1 Q. Okay.
 2 A. And third, the Company has an alternative
 3 recommendation for Mr. Ball's treatment of Colstrip/Coyote
 4 Springs --
 5 **Q. Okay.**
 6 A. -- major maintenance, and that contributes to a
 7 revenue requirement differential between Avista and Staff.
 8 **Q. Yeah.**
 9 **And I think that latter one is about 3 million,**
 10 **isn't it? 3 -- 3-plus something?**
 11 A. That sounds right.
 12 **Q. So if you add all those three up, you get pretty**
 13 **close to the delta, the difference between the two --**
 14 A. Yes.
 15 **Q. -- of about 10; right?**
 16 A. Yes.
 17 **Q. Okay. I've got a couple more, and then we will**
 18 **go -- then we'll -- we'll adjourn.**
 19 **In response to Commissioner Rendahl's question,**
 20 **you -- you cited to many historical antecedents going back**
 21 **to 1981 and '86 where you think we have sufficient legal**
 22 **authority to proceed with an attrition adjustment, but do**
 23 **you think we have sufficient policy authority?**
 24 **Meaning that we have no policy statement on**
 25 **attrition. We had a workshop about a year ago, but no**

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EXAMINATION BY COMMISSIONER JONES / MCGUIRE

1 **policy statement came out of that; right?**
 2 A. That -- that's correct. I -- my attorney is
 3 probably going to start glaring at me here pretty soon --
 4 **Q. He's right here.**
 5 A. -- because this is -- this is --
 6 **Q. He's smiling right now --**
 7 A. We're talking about --
 8 **Q. -- for the record.**
 9 A. -- legal interpretation.
 10 I would argue that the historical orders are a
 11 better indicator of a policy perspective and that the
 12 Commission's obligation to provide rates that are fair,
 13 just, reasonable, and sufficient would be the legal
 14 framework within which the Commission could entertain an
 15 attrition allowance.
 16 And I believe the Commission could entertain an
 17 attrition allowance, because there's evidence on this
 18 record that rates calculated using only a modified
 19 historical test period would be insufficient.
 20 **Q. Okay. Last question relates to Project Compass,**
 21 **but it's more specifically on disallowances as well.**
 22 **As you stated on page 33, you believe this to be**
 23 **empirically valid and scientifically objective, but as**
 24 **we're seeing on the rebuttal case, we have certain things**
 25 **in and out: Project Compass, major O&M on Coyote Springs 2**

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EXAMINATION BY COMMISSIONER JONES / MCGUIRE

1 **and Colstrip, kind of -- there are others.**
 2 **And so you -- in your analysis, you do what is**
 3 **called a post-attrition adjustment; right?**
 4 A. Correct.
 5 **Q. So why is that scientifically valid, and why is**
 6 **that -- I'm just thinking ahead in the future.**
 7 **Hypothetically, if we accept attrition adjustments**
 8 **in the future, I'm kind of thinking that we might --**
 9 **instead of modif- -- instead of arguing over modified**
 10 **historical test years and pro formas and bright lines,**
 11 **we'll be having different arguments, but we'll still be**
 12 **having arguments about these adjustments over a methodology**
 13 **that's supposed to be pretty machine-like; right?**
 14 A. Yeah. Correct.
 15 Yesterday, Chairman Danner asked a question -- I
 16 don't -- I don't recall of which witness, but asked the
 17 question, "What are some basic underlying principles that
 18 we should consider when we're considering an attrition
 19 allowance?" And I jotted a few down, and objectivity was
 20 the first thing I jotted down.
 21 The second thing I jotted down, however, was --
 22 was reasonableness. I think that an analysis can be done
 23 in a scientifically objective manner, but we are still able
 24 to assess whether or not that scientifically, objectively
 25 derived answer makes sense.

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EXAMINATION BY COMMISSIONER JONES / MCGUIRE

1 And so this is in -- in response to your question,
 2 I've -- I've calculated a rate of growth for plant, and
 3 then that rate of growth, keeping -- keep in mind, was
 4 calculated using data through 2014. We're in -- in 2015
 5 now, so we're able to look at what's happening in 2015 to
 6 see how well it tracks to the trends that were calculate
 7 in -- in the attrition study.
 8 And I have the analysis here. Just give me one
 9 second.
 10 **Q. Sure.**
 11 A. I can --
 12 JUDGE FRIEDLANDER: While we're waiting, I'll
 13 just mention that I did forget that you need to do
 14 redirect, Mr. Shearer, or at least be offered the
 15 opportunity for redirect, so we'll get to that as soon as
 16 we get clarification questions from the Bench. Thank you.
 17 MR. SHEARER: That's fine.
 18 A. So if you do not remove Project Compass from the
 19 gross transfers to plant in 2015, the growth rate in -- the
 20 actual growth rate in gross plant is much higher than what
 21 would have been -- than what it would have been under the
 22 trended expectation.
 23 Once you remove Project Compass from the data
 24 through the first eight months of 2015, my trend analysis
 25 would have predicted approximately \$70 million in transfers

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EXAMINATION BY COMMISSIONER JONES / MCGUIRE

1 to plant. The Company has transferred \$75 million to
 2 plant. This is for electric.
 3 BY COMMISSIONER JONES:
 4 **Q. Okay.**
 5 A. And for natural gas, my trend analysis would have
 6 projected about \$15.4 million through the first eight
 7 months of 2015. The actual was 15.5.
 8 So what that tells me is that the -- that trend
 9 analysis is pretty good at representing what the Company is
 10 doing in -- in actuality, and it also tells me that Project
 11 Compass appears to be an anomaly with respect to the
 12 historical data.
 13 And I say it appears to be an anomaly because,
 14 once you remove Project Compass, the growth rates are
 15 nearly identical between the -- the attrition analysis and
 16 the reality.
 17 **Q. Right. And is that due to the lumpiness of the**
 18 **inclusion of Project Compass in plant in service? It was,**
 19 **like, four- -- \$45 million in February of --**
 20 A. Exactly.
 21 **Q. -- '14; right?**
 22 A. Yes.
 23 **Q. So if the Commission were to reject Mr. Gomez's**
 24 **adjustment and leave Project Compass in plant in service,**
 25 **is -- is the Company's methodology sound, in terms of the**

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EXAMINATION BY COMMISSIONER JONES / MCGUIRE

1 **escalation factor for plant in service?**
 2 A. Yes. They have the same basic methodology that --
 3 that I've used. Yes. And I -- I believe that it is sound.
 4 **Q. So if the Commission were to reject Mr. Gomez's**
 5 **adjustment, we would go back or --**
 6 A. We have the same escalator.
 7 **Q. Okay.**
 8 A. Sorry. I didn't wait.
 9 **Q. You have the same escalator on that?**
 10 A. I believe -- I believe that's -- or very -- very
 11 close, because they used 2007 to 2014 to calculate the
 12 growth rate, and I used 2009 to 2014, but the growth rates
 13 for plant are very similar between my analysis and the
 14 Company's, and the Company has included an after-attrition
 15 adjustment for Project Compass, just as I have.
 16 **Q. Okay. Finally, in regards to the question of net**
 17 **benefits, were you in the room yesterday when I think I**
 18 **asked Ms. -- Ms. Andrews about the pension and**
 19 **post-retirement medical benefits?**
 20 A. Yes. I believe so.
 21 **Q. Okay. So they're asserting it's volatile, and so**
 22 **the volatility leads to -- it's kind of like your Project**
 23 **Compass. I guess the logic would be the same. It's kind**
 24 **of lumpy and volatile, and we should smooth it out.**
 25 **And so they're recommending an adjustment to your**

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EXAMINATION BY COMMISSIONER JONES / MCGUIRE

1 **escalation factor, as you know, in their latest testimony,**
 2 **that brings it up to 4.9 percent or -- what is it? Let me**
 3 **see what their final number is. No. I'm sorry. For the**
 4 **record, it's 5.16 percent.**
 5 **And your number, just for the rec- -- just so the**
 6 **record is clear on this, what is your final number? The**
 7 **arithmetic average of A and B, is it 2.41 or 2.42 percent?**
 8 **I have two numbers in our Staff memo here, and I know**
 9 **you're a very precise person.**
 10 A. It is, on an annual basis, 2.41 percent.
 11 **Q. It's 4-1. Okay.**
 12 **So is that the basic difference between the two,**
 13 **2.41 percent versus 5.16 percent, the Company and you?**
 14 A. Yes. That's -- that's the basic difference.
 15 **Q. And isn't that a very important difference for an**
 16 **atti- -- that -- that -- that produces large differences,**
 17 **as you said before, in the revenue requirement?**
 18 A. Yeah. It -- it does, but as I mentioned before, I
 19 don't think that the -- the analysis that they performed on
 20 operating expenses was -- was done accurately. I would
 21 have -- have used a different formula for the trend
 22 analysis, but you had asked about pensions --
 23 **Q. Yes.**
 24 A. -- and post-retirement, and so the Company had
 25 removed that data from its operating expenses and then

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|---|---|
| <p>EXAMINATION BY COMMISSIONER JONES / MCGUIRE</p> <p>1 trend the remaining operating expenses, so operating 2 expenses less benefits.</p> <p>3 Q. Right.</p> <p>4 A. They've trended those non-benefit expenses to get 5 an escalation factor, but then they apply that escalation 6 factor to operating expenses that include benefits. 7 So the --</p> <p>8 Q. I see.</p> <p>9 A. -- the underlying assumption is -- on their part, 10 is that benefits will grow at the same rate as 11 non-benefits, and I don't believe that they're -- the 12 Company has provided any evidence that that's true. In 13 fact, it appears that they're growing at -- at different 14 rates, the benefits expenses and the non-benefits expenses.</p> <p>15 Q. So if we were to adopt an attrition analysis, you 16 would recommend that we reject that -- that adjustment for 17 this, quote, "volatile," in the Company's words, factor of 18 pension and post-retirement medical and just adopt your 19 arithmetic -- your escalation factor of 2.41 percent; 20 right?</p> <p>21 A. Yes.</p> <p>22 COMMISSIONER JONES: Okay. That's all I 23 have.</p> <p>24 JUDGE FRIEDLANDER: Thank you. 25 Mr. Shearer, did you have any redirect?</p> | <p>EXAMINATION BY COMMISSIONER RENDAHL / MCGUIRE</p> <p>1 support for the initial 3.0 percent growth rate in 2 operating expenses and found very little support for any 3 rate of growth.</p> <p>4 So I -- I, to be honest, used some amount of 5 judgment. I found a rate of growth between 2013 and 2014, 6 recognized that it's problematic to use a single year's 7 rate of growth -- it's much better to have more years -- so 8 I just -- and looking at the historical data, I noted that 9 there's likely to be upward pressure on operating expenses, 10 just the -- the shape of the data, historically, seemed to 11 be quite a bit steeper than the rate of growth annually.</p> <p>12 However, having -- having said that, if you were 13 to reject that averaging methodology and instead just go 14 with the annual growth rate as I have calculated it, the 15 change in revenue requirement is about a half million 16 dollars for electric and gas, so it's not a large change to 17 revenue requirement using one methodology or another in 18 this case.</p> <p>19 COMMISSIONER RENDAHL: Okay. Thank you. 20 JUDGE FRIEDLANDER: Thank you. 21 Mr. Shearer, did you have any redirect? 22 MR. SHEARER: No redirect, Your Honor. 23 JUDGE FRIEDLANDER: Okay. Thank you. I 24 figured if you had, you'd have stood up and shouted, so. 25 MR. SHEARER: We covered a lot of ground.</p> |
| <p>Page 483</p> <p>1 COMMISSIONER RENDAHL: I actually have just 2 one follow-up.</p> <p>3 JUDGE FRIEDLANDER: Oh, okay. Okay.</p> <p>4 COMMISSIONER RENDAHL: Sorry to delay your 5 lunch, Mr. McGuire, and all of ours.</p> <p>6 THE WITNESS: It's okay.</p> <p>7 *** EXAMINATION BY COMMISSIONER RENDAHL *** 8 BY COMMISSIONER RENDAHL:</p> <p>9 Q. So staying on that point of the electric O&M 10 escalation rate, so you are -- you do an average of 11 3 percent for 2007 to 2014, taking the Company's original 12 proposed escalation rate, and then using that period of 13 time where there's a change, 2013 to 2014.</p> <p>14 But in your testimony, on page 40, starting at 15 line 8, you raise questions about the support for the 16 3 percent growth rate that Avista uses. And since that 17 time, Avista, in the rebuttal, has -- has changed that.</p> <p>18 So what is your support now based on the questions 19 you raised in your testimony about the reasonableness of 20 that 3 percent escalator for the 2007 to 2014 period? Have 21 you done independent analysis of that to justify the 22 3 percent? That's a question that I have remaining on this 23 escalation rate question.</p> <p>24 A. Yes. It's a good question. And no, I did not 25 provide independent analysis. I reviewed the Company's</p> | <p>Page 485</p> <p>1 I'm not sure there's much left to ask.</p> <p>2 JUDGE FRIEDLANDER: Okay. Thank you.</p> <p>3 So it's a little after noon and about time to 4 go off the record. Do we have anything preliminary before 5 we go off the record and discuss lunch?</p> <p>6 Okay. Then let's go ahead and go off the 7 record. Thank you.</p> <p>8 (A luncheon recess was taken from 12:46 p.m. to 9 2:03 p.m.) 10 (Ms. Davison left the proceedings.)</p> <p>11 JUDGE FRIEDLANDER: All right. 12 CHAIRMAN DANNER: So is Mr. McGuire excused? 13 JUDGE FRIEDLANDER: I don't know. Maybe we 14 should take a vote? But we do thank you for your 15 testimony. Thank you.</p> <p>16 And I should say, we're back on the record, 17 and I'm joined by Chairman Danner, Commissioner Rendahl, 18 and Commissioner Jones, and we have Mr. Hancock ready to 19 testify.</p> <p>20 So if you'll stand and raise your right hand.</p> <p>21 22 CHRISTOPHER S. HANCOCK, witness herein, having been 23 first duly sworn on oath, 24 was examined and testified 25 as follows:</p> |

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1 JUDGE FRIEDLANDER: Thank you. You can be
 2 seated. And --
 3 *** EXAMINATION BY MS. CAMERON-RULKOWSKI ***
 4 BY MS. CAMERON-RULKOWSKI:
 5 **Q. Good afternoon, Mr. Hancock.**
 6 A. Good afternoon.
 7 **Q. Could you please state your full name?**
 8 A. My name is Christopher Scott Hancock.
 9 **Q. And where are you employed?**
 10 A. I am employed by the Washington Utilities and
 11 Transportation Commission.
 12 **Q. And what is your position with the Commission?**
 13 A. I am a regulatory analyst in the energy division.
 14 **Q. And are you the same Mr. Hancock who prepared**
 15 **testimony and exhibits on behalf of Staff?**
 16 A. Yes.
 17 **Q. And if you could please turn your attention to**
 18 **Exhibits CSH-1T, -2, -3, -4, -5, -6, -7, -8, and -9T, do**
 19 **these comprise your testimony and exhibits?**
 20 A. Yes, they do.
 21 **Q. Do you have any corrections to these exhibits?**
 22 A. It should be noted that the revisions to
 23 Mr. McGuire's exhibits should also be reflected in my
 24 Exhibits CSH-2, page 2, and CSH-3, page 2.
 25 **Q. Do we need to make any corrections manually to**

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EXAMINATION BY CAMERON-RULKOWSKI / HANCOCK
 1 **those exhibits?**
 2 A. Yes. I didn't quite capture the exact figures
 3 that Mr. McGuire noted, but they should be reflected on
 4 page 2 of both of those exhibits.
 5 MS. CAMERON-RULKOWSKI: Your Honor and
 6 Mr. Chairman and Commissioners, we will refile anything
 7 that we need to make sure that Mr. Hancock's exhibits are
 8 clear.
 9 JUDGE FRIEDLANDER: Thank you.
 10 MS. CAMERON-RULKOWSKI: Mr. Hancock is now
 11 available for examination.
 12 JUDGE FRIEDLANDER: Thank you.
 13 I believe we have questioning from
 14 Ms. Gafken.
 15 MS. GAFKEN: Yes, and they should be
 16 relatively quick.
 17 JUDGE FRIEDLANDER: Okay. Thank you.
 18 MS. GAFKEN: I don't think I'll use the full
 19 15 minutes that I originally estimated.
 20 JUDGE FRIEDLANDER: Okay. Thank you.
 21 *** EXAMINATION BY MS. GAFKEN ***
 22 BY MS. GAFKEN:
 23 **Q. Good afternoon, Mr. Hancock.**
 24 A. Good afternoon.
 25 **Q. I have just a very quick clarifying question or**

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1 **maybe two, because there's two exhibits on the changes,**
 2 **based on Mr. McGuire's changes. So looking at your**
 3 **Exhibit CSH-2, the changes that you will be making just**
 4 **apply to lines 11 through 13; correct?**
 5 A. Lines 11 through 14 on --
 6 **Q. I'm sorry. 14.**
 7 A. -- page 2 of CSH-2 should be updated, and the same
 8 lines on page 2 of CSH-3.
 9 **Q. Okay. Thank you.**
 10 **If you could turn to your testimony, your direct**
 11 **testimony, which is Exhibit CSH-1T, and go to page 16?**
 12 A. Okay.
 13 **Q. There, you state, "Historically, the Commission**
 14 **has preferred AMA rate calculations adhering to the**
 15 **matching principle. However, as noted above, using an EOP**
 16 **approach has been identified as a tool for addressing**
 17 **regulatory lag and, more importantly, attrition"; correct?**
 18 A. It does say that.
 19 **Q. In your revenue calculations, the historic test**
 20 **period you use is based on the 12-month -- 12 months ended**
 21 **September 30th, 2014; correct?**
 22 A. Yes.
 23 **Q. And in your analysis, you roll the rate base**
 24 **forward to end-of-period balance as of December 31st, 2014;**
 25 **correct?**

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1 A. That is correct.
 2 **Q. December 31st of 2014 is three months past the**
 3 **test-year period; correct?**
 4 A. That is correct.
 5 **Q. And you didn't roll forward expenses and revenues**
 6 **to the end of December 31st of 2014; is that correct?**
 7 A. That is correct.
 8 **Q. Is it your position that the matching principle is**
 9 **maintained when plant is extended three months beyond the**
 10 **test period but other components such as expenses and**
 11 **revenue are not?**
 12 A. The matching principle is not as -- as adhered to
 13 as well as it is with AMA and A- -- in the 12-month rate
 14 year -- or I'm sorry, the 12-month test year.
 15 **Q. Shifting gears a little bit, and this is a**
 16 **question that's -- that was similarly posed to Mr. McGuire,**
 17 **but if the Commission sets rates based on the attrition**
 18 **adjustment, is there a role for looking at individual**
 19 **adjustments for a company, and if so, what is that role?**
 20 A. Your question is why do we bother looking at
 21 individual adjustments when we're using an attrition
 22 allowance?
 23 **Q. Putting a very fine point on it, yes.**
 24 A. The modified historical test year approach that
 25 I've presented in my testimony allows the Commission to see

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1 what a more traditional rate-making approach would look
 2 like for this Company in this rate case.
 3 It also allows Mr. Gomez to do his prudence review
 4 so that any rates set based on Mr. Gomez's recommendations
 5 in this case -- or sorry, any rate-based additions made
 6 dependent on Mr. Gomez's testimony would be carried forward
 7 in future rate cases. So there still is a role for
 8 reviewing the individual adjustments in a modified
 9 historical test year approach.
 10 **Q. And I understand that that's -- that's the role in**
 11 **this particular case, but going forward, if the Commission**
 12 **decides that attrition and attrition adjustments is -- is**
 13 **an ordinary way of setting rates, would that same**
 14 **individual adjustment analysis have a role under that**
 15 **landscape?**
 16 A. I believe so, because the attrition analysis done
 17 by Mr. McGuire is a check of the sufficiency of the
 18 revenues produced through the modified historical test year
 19 approach, so I would imagine that any future rate cases in
 20 which an attrition adjustment is considered would also be
 21 accompanied with a more traditional modified historical
 22 test year approach with limited pro forma adjustments.
 23 MS. GAFKEN: Okay. Thank you. Those are my
 24 questions.
 25 THE WITNESS: Thank you.

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1 JUDGE FRIEDLANDER: Thank you.
 2 Mr. Cowell, do you have some cross?
 3 MR. COWELL: None from ICNU, Your Honor.
 4 JUDGE FRIEDLANDER: Okay. Thank you.
 5 That's all I had for cross-examination, so do
 6 we have redirect?
 7 MS. CAMERON-RULKOWSKI: No, Your Honor.
 8 JUDGE FRIEDLANDER: Okay. And do we have any
 9 Commissioner questions from --
 10 COMMISSIONER JONES: Just -- just one.
 11 *** EXAMINATION BY COMMISSIONER JONES ***
 12 BY COMMISSIONER JONES:
 13 **Q. So on that last question, Mr. Hancock, I think**
 14 **the -- the Company asserts that modified historical test**
 15 **year and attrition analysis are totally separate; right?**
 16 A. I believe that that is their presentation of the
 17 matter.
 18 **Q. But your testimony in this case is that they**
 19 **are -- I'll use an analogy -- joined at the hip; you need**
 20 **to have a comparator, your analysis, and for the arithmetic**
 21 **to work the way Staff wants it to work, you need to do**
 22 **both?**
 23 A. The manner in which I would frame things is that,
 24 with the Company's case, their, quote, "pro forma
 25 cross-check study" was a tool to assess the reasonableness

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EXAMINATION BY COMMISSIONER JONES / HANCOCK
 1 of their attrition study, whereas in Staff's case, the
 2 attrition study done by Mr. McGuire tests the sufficiency
 3 of the revenues produced through the modified historical
 4 test year approach that I've used. So perhaps this is what
 5 you're getting at.
 6 **Q. So let me get this right. So in Staff's case, the**
 7 **attrition analysis is derivative of your testimony, the**
 8 **modified historical test year?**
 9 A. We -- we conducted our two analyses independently
 10 of one another and then, upon finding that the attrition
 11 analysis produced different revenue requirement results
 12 than the modified historical test year, that told
 13 Mr. McGuire that the revenues produced through the modified
 14 historical test year were insufficient for this Company in
 15 this case.
 16 **Q. Right. And I questioned -- were you in the room**
 17 **when I questioned Mr. McGuire about that this morning -- or**
 18 **this afternoon?**
 19 A. Yes, sir.
 20 **Q. Yes.**
 21 **So Mr. McGuire asserted that the end result of**
 22 **your analysis, modified historical test year, with Project**
 23 **Compass and other adjustments, produced an insufficient**
 24 **return for the Company?**
 25 A. That was his determination, yes.

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COMMISSIONER JONES: Yeah. Thank you.
 *** EXAMINATION BY CHAIRMAN DANNER ***
 BY CHAIRMAN DANNER:
 4 **Q. So I have one question. Is this -- we were -- one**
 5 **of the questions was about adopting attrition going**
 6 **forward. Your analysis is really just looking at this**
 7 **case; right? You're not putting together a template that**
 8 **you're seeing that would be used going forward; is -- is**
 9 **that correct? For all utilities in all cases.**
 10 A. Yes. I haven't spoken more broadly on attrition.
 11 I presented a modified historical test year with limited
 12 pro forma adjustments as the Commission would expect to see
 13 in other rate cases as well.
 14 CHAIRMAN DANNER: All right. Thank you.
 *** EXAMINATION BY COMMISSIONER RENDAHL ***
 BY COMMISSIONER RENDAHL:
 17 **Q. I just have one question, Mr. Hancock, and that**
 18 **has to do with the definition of major plant additions.**
 19 A. Yes, ma'am.
 20 **Q. So you recommended, based on the Commission's**
 21 **rule, a basis for Avista based on that rule; but in**
 22 **Mr. Gomez's testimony, he includes some pro forma plant**
 23 **additions, net booked amounts that are lower than the**
 24 **threshold. So is there an inconsistency?**
 25 **Can you explain whether that is consistent with**

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1 **your -- your definition of a major plant addition and**
 2 **whether we should be looking at recorded net booked amounts**
 3 **following the definition of a major plant addition or not?**
 4 A. Yes. I believe this confusion comes from the
 5 somewhat Byzantine way that I interpreted the -- the WAC,
 6 but -- I may need a moment to turn to that section of my
 7 testimony.
 8 **Q. Go ahead. I'm sorry. I don't have a page number**
 9 **for you.**
 10 A. Oh, I'll find it.
 11 **Q. I think it starts on page 19.**
 12 A. I identified WAC 480-140-040 on page 12 of CSH-12,
 13 and I'll direct you to lines 5 through 12, which quotes the
 14 WAC.
 15 Here, I'll have to use some emphasis on certain
 16 sections, but it notes that "Major construction projects
 17 will be determined for companies as all projects where the
 18 Washington-allocated share of the total project is greater
 19 than five tenths of 1 percent of the Company's latest
 20 year-end Washington-allocated net utility plant in service,
 21 but does not include any project of less than \$3 million on
 22 a total project basis."
 23 So the first step in identifying which projects
 24 may be considered major is to look at the cost of the
 25 project on the total project basis. First, that must

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EXAMINATION BY COMMISSIONER RENDAHL / HANCOCK

1 exceed \$3 million. Then, we identify at which level -- or
 2 the dollar amount that reflects five tenths of 1 percent of
 3 the Company's latest year-end Washington-allocated net
 4 utility plant in service.
 5 So this is a different standard. That is a simple
 6 arithmetic process, and that might be where some of the
 7 confusion is coming through. So first, a project must be
 8 greater than \$3 million on a total project basis, so across
 9 all jurisdictions, across all industries; and then we look
 10 at the Washington-allocated portion of that project for the
 11 specific industry, and that is what the half of 1 percent
 12 standard applies to.
 13 COMMISSIONER RENDAHL: Okay. Thank you.
 14 THE WITNESS: Thank you.
 15 COMMISSIONER RENDAHL: That's all I have.
 16 JUDGE FRIEDLANDER: Okay. Thank you. So if
 17 there's nothing further, then you're dismissed, and thank
 18 you so much for your testimony.
 19 And next, I believe we have Mr. Gomez.
 20 Okay. If you'll raise your right hand.
 21
 22 DAVID C. GOMEZ, witness herein, having been
 23 first duly sworn on oath,
 24 was examined and testified
 25 as follows:

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JUDGE FRIEDLANDER: Thank you. You can be
 2 seated.
 3 So I will remind -- I believe Avista is the
 4 only party that will be cross-examining the witness, but
 5 just to remind people, there's a lot of confidential
 6 information in Mr. Gomez's testimony and exhibits, so if we
 7 can avoid that, it would be great. If not, I'm going to
 8 need a heads up, so thank you.
 9 *** EXAMINATION BY MS. CAMERON-RULKOWSKI ***
 10 BY MS. CAMERON-RULKOWSKI:
 11 **Q. Good afternoon, Mr. Gomez.**
 12 A. Good afternoon.
 13 **Q. Please state your name.**
 14 A. David Carlos Gomez.
 15 **Q. And who is your employer?**
 16 A. My employer is the Washington Utilities and
 17 Transportation Commission.
 18 **Q. And what is your position with the Commission?**
 19 A. I'm the assistant power supply manager, and I work
 20 for the regulatory services division.
 21 **Q. And are you the same Mr. Gomez who prepared**
 22 **testimony and exhibits on behalf of Staff?**
 23 A. I am.
 24 **Q. And does this testimony and these exhibits**
 25 **comprise DCG-1T, -2, -3, -4, -5C, DCG-6 though -14,**

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EXAMINATION BY CAMERON-RULKOWSKI / GOMEZ

1 **DCG-15C, DCG-16C, -17C, -18C, -19, -20 through -30, -31C,**
 2 **-32 and -33?**
 3 A. It does.
 4 **Q. Do you have any corrections to -- that need to be**
 5 **made to your testimony or to the exhibits?**
 6 A. No, I do not.
 7 MS. CAMERON-RULKOWSKI: Mr. Gomez is
 8 available for questions from the Bench and from counsel.
 9 JUDGE FRIEDLANDER: Thank you.
 10 Mr. Meyer?
 11 MR. MEYER: Thank you.
 12 *** EXAMINATION BY MR. MEYER ***
 13 BY MR. MEYER:
 14 **Q. You and other Staff members have raised questions**
 15 **about why the Company invested as it did in distribution**
 16 **plant; correct?**
 17 A. Yes.
 18 MR. MEYER: Could the witness be provided a
 19 copy of LDL Exhibit 2, please? I just have my one working
 20 copy. It's Larry La Bolle's Exhibit No. 2.
 21 THE WITNESS: I have it.
 22 BY MR. MEYER:
 23 **Q. Mr. Gomez, have you reviewed in detail this**
 24 **document?**
 25 A. I -- when I looked at it -- I believe I looked at

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|--|---|
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| <p>EXAMINATION BY MEYER / GOMEZ</p> <p>1 it in the course of my examination, yes.</p> <p>2 Q. Did you review this prior to drafting and</p> <p>3 submitting your testimony?</p> <p>4 A. Yes, I did.</p> <p>5 Q. All right. And give or take, would you agree that</p> <p>6 this document summarizes approximately 24 different asset</p> <p>7 management programs?</p> <p>8 A. Yes. I mean, yes, I -- I think it -- it does, and</p> <p>9 I'll take your word for it that it does.</p> <p>10 Q. All right.</p> <p>11 COMMISSIONER RENDAHL: Mr. Meyer, before you</p> <p>12 go further, so I just have a cover page, because I think</p> <p>13 this was information provided on a disk.</p> <p>14 MR. MEYER: Oh, do you? Okay.</p> <p>15 COMMISSIONER RENDAHL: Is that -- is that</p> <p>16 correct?</p> <p>17 MR. MEYER: Is that true of everyone on the</p> <p>18 Bench?</p> <p>19 JUDGE FRIEDLANDER: No.</p> <p>20 CHAIRMAN DANNER: No. This is the asset</p> <p>21 management distribution program?</p> <p>22 MR. MEYER: Yes.</p> <p>23 COMMISSIONER RENDAHL: All right. I'll look</p> <p>24 for it.</p> <p>25 CHAIRMAN DANNER: We will share.</p> | <p>EXAMINATION BY MEYER / GOMEZ</p> <p>1 I think that's what -- the point that I was making</p> <p>2 in my testimony is that it's not evident and apparent in --</p> <p>3 in the documentation provided in this case and in the</p> <p>4 testimony provided in this case by Ms. Schuh that makes the</p> <p>5 connection to this document.</p> <p>6 Q. Okay. But I'm asking you specifically about this,</p> <p>7 I'm going to call it, a discipline, if you will, this</p> <p>8 discipline of asset program management. Have you looked at</p> <p>9 each of these programs to determine whether they identify a</p> <p>10 need that must be addressed in a cost-effective manner?</p> <p>11 A. Again, I'm going to ask you to kind of look at the</p> <p>12 scope of my examination, which I describe in my testimony,</p> <p>13 which it didn't include examining every single one of these</p> <p>14 transmission and distribution cases, at least from the</p> <p>15 perspective of the testimony provided in Ms. Schuh, which</p> <p>16 she had over a hundred different ERs to examine.</p> <p>17 As Mr. Hancock had explained, we used the -- our</p> <p>18 process to, if you will, filter out what we consider the</p> <p>19 major capital additions, of which case, some of them are, I</p> <p>20 believe -- I'd have to look exactly -- but I know for wood</p> <p>21 pole management, for instance, was one of them, it was one</p> <p>22 of the ones included in "major."</p> <p>23 To the extent I examined every single one, we just</p> <p>24 simply didn't have enough time within this case to examine</p> <p>25 all of the different projects that you include here in this</p> |
| Page 499 | Page 501 |
| <p>EXAMINATION BY MEYER / GOMEZ</p> <p>1 BY MR. MEYER:</p> <p>2 Q. Mr. Gomez, irrespective of which of the 24</p> <p>3 programs we're talking about, what is the purpose of the</p> <p>4 asset management program?</p> <p>5 A. Are you asking me to refer to my testimony? I</p> <p>6 think I --</p> <p>7 Q. No. I'm asking you about this particular exhibit</p> <p>8 and your understanding of this exhibit. What is an asset</p> <p>9 management program designed to do?</p> <p>10 A. My understanding of an asset management program is</p> <p>11 it's where the Company examines its assets, looks at them</p> <p>12 both in terms of what their requirements are of -- for</p> <p>13 doing its business and ascertaining what level of</p> <p>14 investment it will need to make in order to maintain those</p> <p>15 assets in a relatively good working order.</p> <p>16 Q. Would you agree that these programs, of which</p> <p>17 there are 24 summarized here, serve to address the issues,</p> <p>18 needs, cost-effectiveness, and other analyses meant to</p> <p>19 support the prudence of the Company's distribution plant</p> <p>20 investment?</p> <p>21 A. I believe in my examination I find -- I found it</p> <p>22 difficult to make -- connect those dots and to make that --</p> <p>23 to make a connection between what the actual investment the</p> <p>24 Company was talking about relative to its business cases</p> <p>25 and this document here.</p> | <p>EXAMINATION BY MEYER / GOMEZ</p> <p>1 document.</p> <p>2 Q. How would you characterize your understanding of</p> <p>3 the actual asset management process of Avista? Would you</p> <p>4 say you are particularly well informed?</p> <p>5 A. Again, I wasn't asked to examine Avista's asset</p> <p>6 management program. I was asked to examine the capital</p> <p>7 projects, their amounts, and whether or not they should be</p> <p>8 included in rates. That was the scope of my examination,</p> <p>9 not whether or not I understood and some kind of a</p> <p>10 description of the asset management program that Avista</p> <p>11 has.</p> <p>12 And I think that -- my reporting recommendations,</p> <p>13 I think, acknowledge the fact that there's a great deal</p> <p>14 that Staff needs to know about this in order to determine</p> <p>15 what is the right level and the right prioritization of</p> <p>16 the -- of expenditures on capital that need to happen.</p> <p>17 Q. Now, Mr. Gomez, we're not -- I'm not asking you</p> <p>18 about what you did do, I'm asking you about what you didn't</p> <p>19 do; and my questions are focused on the asset management</p> <p>20 program as a driver of distribution investment.</p> <p>21 So do you dispute that asset management, that</p> <p>22 focus on asset management, has been largely responsible for</p> <p>23 the growth in the Company's distribution plant investment?</p> <p>24 A. I can't make that assessment. Again, that wasn't</p> <p>25 part of the scope of my examination.</p> |

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|---|--|
| <p style="text-align: right;">Page 502</p> <p style="text-align: center;">EXAMINATION BY MEYER / GOMEZ</p> <p>1 Q. Therefore, if -- would you agree that, if one is 2 to understand the answer to the "why" question that has 3 been posed throughout Staff's testimony, why distribution 4 plant is invested in, wouldn't it be important to have at 5 least a working understanding of the Company's asset 6 management program? 7 A. Yes. And that's why I recommend reporting and 8 taking that process outside of the adjudicative process so 9 that we can all have an open discussion and come to an 10 understanding of what that asset management program is and 11 what does that mean in term of investment, both in capital 12 spending and the transfers to plant. 13 Q. But before presenting testimony in this case and 14 before reaching the conclusion that you were or other Staff 15 members were at loss as to explain why the Company was 16 doing this, it might have been helpful to have reviewed the 17 asset management programs already in place; correct? 18 A. Again, I think that you have to understand what 19 the task was to Staff to do. Considering the fact that 20 we've got back-to-back rate cases, our period of time to be 21 able to examine what the Company is bringing forth before 22 us, we look at the exhibits that are presented in the 23 Company's direct case, and in that, we -- we look for it to 24 make a demonstration in terms of what it's asking for in 25 rates.</p> | <p style="text-align: right;">Page 504</p> <p style="text-align: center;">EXAMINATION BY MEYER / GOMEZ</p> <p>1 participate? 2 A. Well, I think that, given the workload and we had, 3 in order -- and considering all the things that we had to 4 do, you know, it -- we don't need three people there when 5 two people can get it done. 6 And we communicate fairly well with Staff on 7 issues, and so all of that information was downloaded by 8 Mr. Hancock and Mr. McGuire. So the results of what they 9 discovered, I -- I learned, and so I didn't, in any way -- 10 the -- in not knowing that information, I mean, it's -- how 11 can I say it? There was nothing that they did not uncover 12 that wasn't communicated to me. 13 Q. You discuss capital reporting, and I believe you 14 recommend an expanded use of capital reporting in between 15 rate cases; correct? 16 A. Yes. 17 Q. Thank you. 18 And let's just very quickly recount where we've 19 been in the last two years in that regard. Isn't it true 20 that Avista began a few years ago with quarterly capital 21 recording really as a result of a previous rate case in 22 which, in between rate cases, the Company would provide 23 information on actual capital spend? That sort of thing? 24 A. That's correct. 25 Q. And that process involved, until it was changed,</p> |
| <p style="text-align: right;">Page 503</p> <p style="text-align: center;">EXAMINATION BY MEYER / GOMEZ</p> <p>1 And to that extent, we -- we then fan out to try 2 to find context and information that helps support or that 3 helps rebut the Company's case, and in terms of developing 4 my own testimony and my own opinion, with regards to what 5 the level of capital additions for the 2015 period should 6 be included. 7 So to the extent that the asset management 8 distribution program update that you have provided for me, 9 I used it to be able to help me understand not only the 10 context but the greater variability between -- just in 11 simple -- two rate cases. We're talking about 12 Mr. DeFelice's exhibits and then, now, Ms. Schuh's. 13 A significant change and variation in expenditures 14 and capital transfers amount, and trying to find some 15 explanation for that in the context of what the Company is 16 trying to do in its asset management program in terms of 17 prioritization. 18 Q. Mr. Gomez, during the Staff's preparation of this 19 case, isn't it true that Staff participated in two -- two 20 different on-site visits to review capital projects at the 21 Company's headquarters, one in May and one in July? 22 A. Yes. And my colleagues Mr. Hancock and 23 Mr. McGuire participated there, and we conferred afterwards 24 with regards to the results of what they found. 25 Q. But you -- you chose, for whatever reason, not to</p> | <p style="text-align: right;">Page 505</p> <p style="text-align: center;">EXAMINATION BY MEYER / GOMEZ</p> <p>1 five different quarterly reports? 2 A. Yes. 3 Q. And then weren't you quite active in then 4 expanding the scope of that quarterly report, turning it 5 into a semiannual report and adding some additional 6 features? 7 A. Yes. And that was in anticipation of the fact 8 that the Company would be filing annual rate cases, and 9 given the fact that I've seen both the evidence that was 10 provided and testimony that was provided in exhibits by 11 Ms. Schuh and Mr. DeFelice in two separate rate cases, I 12 really found that the material that was presented in their 13 direct case, those exhibits were deficient. 14 We needed more information to be able to 15 understand what was going on with capital spending. More 16 importantly, that the Company was spending money, but how 17 quickly could it transfer and actually put these into 18 service? Which is, I think, the real main issue. 19 Not expenditures, as Mr. Norwood points in his 20 rebuttal testimony, but what was the transfers to plant? 21 What is used and useful plant that we should establish 22 rates from? 23 Q. So in working with Staff and augmenting, if you 24 will, those semiannual reports to be responsive to Staff's 25 concerns, the Company supplied information on capital</p> |

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EXAMINATION BY MEYER / GOMEZ

1 **projects in February of this year and then again, more**
 2 **recently, in September; correct?**
 3 A. Yes. And I point to that in my testimony, that it
 4 yielded good results as far as being in -- the usability of
 5 that reporting in this case.
 6 **Q. Just by and by, does any other regulated utility**
 7 **in this jurisdiction provide that level of capital**
 8 **reporting in between rate cases?**
 9 A. Not to my knowledge.
 10 **Q. So the Company, with the cooperation of Staff, has**
 11 **developed a way of providing for capital reporting, and**
 12 **according to your testimony, it's just within the last few**
 13 **years that we've developed this process, for better or**
 14 **worse; correct?**
 15 A. Well, I think that there's the obligation for
 16 capital reporting, and at least construction budgets is
 17 already included as an obligation for the Company.
 18 Expanding from that, I think that you have to take
 19 into context what the Company's already said it's doing:
 20 this -- large capital expenditures on a -- on a -- on an
 21 annual basis; on -- every year, coming in for rate cases;
 22 every year, the information that's provided on direct case
 23 is, in my opinion, deficient, and we are unable to be able
 24 to use it to ascertain exactly what the level of capital --
 25 or excuse me, what the level of net plant is in order to

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EXAMINATION BY MEYER / GOMEZ

1 accurately set rates.
 2 So the point of this -- the point of my
 3 recommendation is so we can take a step back, outside of
 4 the adjudicative process, and have a -- have a conversation
 5 with regards to what the Company is spending money on and
 6 what the Company -- what the context is behind this
 7 prioritization and try to get ahead of this before we have
 8 a rate case and we're already locked into the ex parte
 9 wall, essentially, as we've -- the communication between
 10 Staff and the Commission is limited.
 11 **Q. But, Mr. Gomez, wasn't that precisely the purpose**
 12 **of these most recent two iterations of this extensive**
 13 **capital reporting?**
 14 A. The expectation was that the Company would take
 15 what -- what -- would take the information that I provided
 16 in my last testimony in the 2014 case and apply it to
 17 improve the quality of the data it presented in testimony
 18 and exhibits in its direct case, and it didn't.
 19 **Q. Thank you.**
 20 MR. MEYER: That's all I have.
 21 JUDGE FRIEDLANDER: Thank you.
 22 Any redirect?
 23 MS. CAMERON-RULKOWSKI: Yes, Your Honor.
 24 Just one moment.
 25 JUDGE FRIEDLANDER: Okay.

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1 *** EXAMINATION BY MS. CAMERON-RULKOWSKI ***
 2 BY MS. CAMERON-RULKOWSKI:
 3 **Q. Mr. Gomez, do you recall reviewing Exhibit KKS-5?**
 4 **And if you need a copy, I'd be happy to bring you one.**
 5 A. Yes. If you could bring me a copy, it'd be great.
 6 And thank you. I have it.
 7 **Q. Mr. Gomez, could you give a brief description of**
 8 **your understanding of the purpose of KKS-5?**
 9 A. KKS-5 has a cover sheet for a business case which
 10 includes a number of different pieces of information. It
 11 includes what the spend amount was for -- for a particular
 12 period, and then it includes transfer-to-plant amounts for
 13 the -- for whatever period that's presented here.
 14 For instance, in the case of KKS-5 and the one
 15 that I'm looking at -- and I'll give the Commission time to
 16 find it. If you can go to Exhibit No. KKS-5, Attachment
 17 Number GP-1, which is the very first business case.
 18 **Q. And while they're looking for that, could you give**
 19 **just a ballpark description of about how many pages are in**
 20 **this exhibit?**
 21 MR. MEYER: Your Honor, I object. I object
 22 to this line of questions. If this -- if this is redirect,
 23 a redirect of what? My questioning was just focused on his
 24 familiarity with the asset management reports as a tool.
 25 And if she wants to redirect, by all means, do so, but

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EXAMINATION BY CAMERON-RULKOWSKI / GOMEZ

1 we're far afield of my examination.
 2 MS. CAMERON-RULKOWSKI: This discussion has
 3 to do with Mr. Gomez's evaluation of the Company's case for
 4 its capital additions, and the asset management questions
 5 were directed to exactly that testimony. And my questions
 6 are going to look at what Mr. Gomez did look at when he
 7 evaluated the capital additions of the Company.
 8 MR. MEYER: And Your -- Your Honor, my --
 9 JUDGE FRIEDLANDER: Yes.
 10 MR. MEYER: My very question was, with the
 11 witness, "I'm not asking what you did look at; I'm asking
 12 what you didn't look at," and that was the whole point of
 13 my examination.
 14 MS. CAMERON-RULKOWSKI: Well, I -- I think,
 15 in this case, we need to -- the -- the question "what you
 16 didn't look at" also includes "what you did look at," and
 17 it -- the -- the question here is, it's about capital
 18 additions, generally, and it's about what the Company
 19 provided in support of their asset management program and
 20 their capital expenditures program.
 21 JUDGE FRIEDLANDER: I think that the
 22 questioning was fairly limited to the scope of the asset
 23 management or the asset management program. If you have
 24 some questions about that, certainly, please -- please feel
 25 free to redirect. I think that we have adequate

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1 information in Mr. Gomez's testimony about what he did look
 2 at.
 3 MS. CAMERON-RULKOWSKI: No further questions,
 4 Your Honor.
 5 JUDGE FRIEDLANDER: Okay. Thank you.
 6 Are there any questions from the Bench?
 7 *** EXAMINATION BY COMMISSIONER JONES ***
 8 BY COMMISSIONER JONES:
 9 **Q. Mr. Gomez, could you refer to DCG-20 in your**
 10 **testimony? It's the -- as Mr. Meyer referenced, it's one**
 11 **of the semiannual reports that the Company is obliged to**
 12 **file with the Commission.**
 13 A. I'm having problems with the electronics, here.
 14 **Q. Are your electronics working?**
 15 A. I'm generally familiar with it, so let's try to
 16 work with that. I can't get it open, Commissioner.
 17 **Q. Would you like a copy? Well, I'm -- my questions**
 18 **are going to be fairly general. I'm not going --**
 19 A. All right.
 20 **Q. -- to ask about specific capital projects.**
 21 A. I'm -- I'm a bit challenged here with -- I have
 22 big carrot fingers, and they're hard to work on the
 23 surface. I think I'm doomed when I transition to the --
 24 **Q. Ms. Cameron-Rulkowski can help out with narrower**
 25 **fingers.**

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EXAMINATION BY COMMISSIONER JONES / GOMEZ
 1 **A. Dexterity, yes. My mom always wanted a surgeon,**
 2 **and I was doomed. I couldn't -- there it is. All righty.**
 3 **Okay. We have it, Commissioner.**
 4 **Q. Are you there?**
 5 **Well, I'm just going to refer to the title page**
 6 **and the -- and the -- pages 1 through 4, but -- and by way**
 7 **of background, this -- this compliance filing does come to**
 8 **me as well. It comes to my desk. I have looked at it.**
 9 **So I guess my question is, I have never heard**
 10 **anything from Staff, at least to this Commissioner, saying,**
 11 **"This is a compliance filing. I would like to update you**
 12 **or I'd like to bring you up to speed. This was a**
 13 **compliance order."**
 14 **So what was -- what was your intent when you --**
 15 **you know, the order came out, these compliance filings came**
 16 **in, and these updates are coming in. What was your**
 17 **intention on briefing the Commission -- the Commission, and**
 18 **specifically, the three Commissioners on this?**
 19 A. Well, when we look at the -- the information
 20 that's been provided, I think that the -- you have to take
 21 into consideration the fact that the Company's filing, you
 22 know, rate cases right behind these reports.
 23 So to the extent that we had a window of time to
 24 be able to do actual conferring with the Commissioners
 25 about what we were finding, what you have to understand is

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EXAMINATION BY COMMISSIONER JONES / GOMEZ
 1 that the time that passed before we could have a relevant
 2 conversation with the commissioners, we already had the ex
 3 parte walls up on the next case.
 4 **Q. You just stated that there -- the information in**
 5 **these reports are deficient. So could you point out to**
 6 **me -- these -- these appear to be fairly comprehensive. I**
 7 **mean, they -- how many pages do we have? 40 or 50 pages?**
 8 **So do you have a summary? You have a 4-page summary. You**
 9 **have --**
 10 A. Well --
 11 **Q. -- breakdown -- excuse me?**
 12 A. If I may add, Commissioner -- sorry.
 13 **Q. You know, just business case, capital budget**
 14 **report. You have budgeted spend, actual spend, broken down**
 15 **by line item category. So what's deficient in here? Can**
 16 **you give me a few examples?**
 17 A. The term "deficiency" that I was applying to the
 18 Commissioner -- to the exhibits that were provided in the
 19 direct case by the Company, when I'm saying deficient, I'm
 20 not saying that the Company -- that there wasn't effort or
 21 that -- that -- you know, that the Company -- I mean, I
 22 have to be -- I'm in -- in this case, I have to be honest,
 23 because I spent a large amount of time using these exhibits
 24 and trying to conscientiously arrive at a position,
 25 understand the Company's position, and arrive at the task

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EXAMINATION BY COMMISSIONER JONES / GOMEZ
 1 that I had, which was to determine what the capital plant
 2 additions would be for the 2015 period, and in the previous
 3 case, to do really the same thing.
 4 When I looked at the information that's provided,
 5 it's deficient because, first of all, you have very general
 6 information with regards to the transfer-to-plant amounts
 7 and the expenditure amounts. What the Company puts on that
 8 cover sheet is almost guaranteed to change for a number of
 9 reasons.
 10 And I think Mr. Norwood and other witnesses for
 11 the Company have talked about how the directors of the
 12 Company, the capital planning group, on a routine basis, on
 13 a monthly basis and yearly basis, change the numbers all
 14 the time for different reasons. So that's part of the
 15 problem with these exhibits.
 16 The second thing is, is if you look at the back of
 17 the exhibit itself, there's a -- and I'm going to -- excuse
 18 me for a second -- open them.
 19 **Q. I have it open right now. Are you talking about**
 20 **the transfers-to-plant actual section? That's at the back**
 21 **of this report.**
 22 A. Well, I'm actually -- I'm back out on to the
 23 exhibit, so I guess maybe we can't talk about the exhibits.
 24 **Q. Okay.**
 25 A. But what I was referring to in the deficiency in

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|--|--|
| <p style="text-align: center;">EXAMINATION BY COMMISSIONER JONES / GOMEZ</p> <p>1 there is not -- the deficiency part, I'm not saying that --</p> <p>2 that the compliance filing that the Company's provided is</p> <p>3 deficient.</p> <p>4 What I'm saying is is that there's a broader</p> <p>5 conversation that would be helpful for Staff to be able to</p> <p>6 understand what's going on, both from an expenditure and a</p> <p>7 transfer-to-plant amount that's not present in the -- in</p> <p>8 the direct cases that the Company has filed.</p> <p>9 And what's been frustrating about this is that,</p> <p>10 when we get the direct case, which is Ms. Schuh's exhibits,</p> <p>11 and you look at the capital program business case, which is</p> <p>12 a -- essentially, I believe it's an Excel -- a printout of</p> <p>13 an Excel spreadsheet, the information that's provided in</p> <p>14 there -- and the Company in a data request to me had</p> <p>15 indicated that, "We don't update these. We do them once,</p> <p>16 and the project's done, and then this is the information</p> <p>17 you have."</p> <p>18 Well, a lot of the details associated with -- went</p> <p>19 into -- into creation of this exhibit have changed and</p> <p>20 they're no longer relevant. So what's happened in every</p> <p>21 single case that I was trying to do my examination is I had</p> <p>22 to go in and ask very specific data requests on all 14</p> <p>23 projects that I examined, and that was --</p> <p>24 Q. Okay.</p> <p>25 A. -- very strenuous and tedious, whereas if the</p> | <p style="text-align: center;">EXAMINATION BY COMMISSIONER JONES / GOMEZ</p> <p>1 that I can recommend for them or recommend for Mr. Hancock</p> <p>2 so that he can complete his portion of the study.</p> <p>3 And to do that, I have to ascertain actual</p> <p>4 numbers, and I have -- I have to make a factual</p> <p>5 determination, and that -- that in itself, with the</p> <p>6 exhibits that Ms. Schuh provided, I could not do that.</p> <p>7 Q. Didn't this compliance obligation come out of a</p> <p>8 two-year rate plan? I think it was the 2012 rate plan. It</p> <p>9 was a two-year rate plan with a -- with an estimated</p> <p>10 adjustment in 2014?</p> <p>11 A. I believe so, Commissioner.</p> <p>12 Q. And as I recall that case -- I don't know if you</p> <p>13 were testifying on this portion of the case at the time --</p> <p>14 I think this was a close call by the Commission, at least</p> <p>15 for me, in the 2- -- 2014 adjustment factor.</p> <p>16 And so the Commission -- I think in our order, we</p> <p>17 stated that -- I don't have it in front of me -- we wanted</p> <p>18 to be sure that the -- that the adjustment factor -- I</p> <p>19 think it was 3 percent -- was being reflected in the same</p> <p>20 sort of analysis that Mr. McGuire's doing.</p> <p>21 You know, you look at plant in service, expenses,</p> <p>22 and try to cross-check that with the actual thing, the</p> <p>23 actual number in a two-year rate plan. Was that your</p> <p>24 understanding of that two-year rate plan?</p> <p>25 A. Well, I did -- I did read Ms. Breda's testimony.</p> |
| <p style="text-align: center;">Page 515</p> <p style="text-align: center;">EXAMINATION BY COMMISSIONER JONES / GOMEZ</p> <p>1 Company had provided better information, in the case of the</p> <p>2 reporting that I recommend, I think we could make the</p> <p>3 process much easier for everybody.</p> <p>4 Q. But are the 14 projects included in this</p> <p>5 compliance report? This update? I assume that they are.</p> <p>6 The 14 projects that Staff agreed to put in and do a pro</p> <p>7 forma addition are in here; right?</p> <p>8 A. Yes.</p> <p>9 Q. So what you're saying is that you needed further</p> <p>10 information beyond what Ms. Schuh provided in these reports</p> <p>11 to -- to -- to make your case?</p> <p>12 A. Well, remember that the -- the report contains a</p> <p>13 retrospective and a prospective number. Okay? So to the</p> <p>14 extent that we have a retrospective number, it's good to</p> <p>15 come back and then compare what the Company said in the</p> <p>16 last case it was going to do -- remember, it's asking for</p> <p>17 rates based on what it -- what it had said it was going to</p> <p>18 do -- and to look at that and make some kind of judgment in</p> <p>19 terms of, what does the prospective, this report, and the</p> <p>20 testimony that the Company had make sense with regards to</p> <p>21 determining what capital addition amount we should use at</p> <p>22 all?</p> <p>23 I mean, and the sense is that the recommendation</p> <p>24 that I believe that my team is looking from me is to</p> <p>25 determine a known and measurable, used and useful amount</p> | <p style="text-align: center;">Page 517</p> <p style="text-align: center;">EXAMINATION BY COMMISSIONER JONES / GOMEZ</p> <p>1 It was the Staff person that had analyzed this particular</p> <p>2 area of Avista, I believe, in the 2012 case. And I believe</p> <p>3 that Ms. Breda was as equally challenged by the quality of</p> <p>4 the information presented by the Company in terms of being</p> <p>5 able to arrive at this -- arrive at a number of capital</p> <p>6 additions that met the Commission's statute -- statutory</p> <p>7 requirements for known and measurable and used and useful.</p> <p>8 Q. Well, I guess what I'm trying to get at is, is --</p> <p>9 so you're -- again, this is not a two-year rate plan. This</p> <p>10 is a one-year rate period, and I take your point on filing</p> <p>11 annually. The Company basically has said that they're</p> <p>12 going to file annually.</p> <p>13 But it seems to me if there is a two-year rate</p> <p>14 plan and there's an adjustment factor, especially for that</p> <p>15 second year, it behooves the Commission Staff to come up</p> <p>16 with a better way of trying to engage the Commission, the</p> <p>17 Commissioners, and to keep us abreast, to keep us updated</p> <p>18 as to, you know, how the actual spend, the plant transfer</p> <p>19 to service, how that is actually going on.</p> <p>20 Because these -- I'm just telling you, these</p> <p>21 reports come in, they sit on -- at least on my desk. We're</p> <p>22 kind of busy. So it -- that's not a question. It's more</p> <p>23 of a comment, but I guess my question is, your best</p> <p>24 solution to this challenge, if you will, is this updated</p> <p>25 reporting requirement on T and D, on transmission and</p> |

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EXAMINATION BY COMMISSIONER JONES / GOMEZ

1 distribution, investments in some sort of a collaborative
 2 role, a new study?
 3 **That is in Mr. -- I think it's in Mr. McGuire's**
 4 **testimony. It's in Mr. Ball's testimony. That's your best**
 5 **solution to this challenge?**
 6 A. Well, Mr. McGuire supports a separate study on
 7 transmission and distribution. My -- my push covers all
 8 of -- all of the different areas of the Company's capital
 9 spending.
 10 And I think that you brought up a very good point,
 11 Commissioner Jones, is that, indeed, we would like to
 12 engage the Commissioners, and I think my recommendation
 13 establishes that process, and to do so, again, in a very
 14 open way which allows for the kind of dialogue and
 15 conversation that's required to get to an understanding of
 16 what the Company's capital planning asset management plan
 17 is.
 18 Unfortunately, when we're in this adjudicative
 19 process year after year and then analyzing a compliance
 20 report just for us to be able to get a handle on what the
 21 trending is and get better information, I think that we are
 22 continuously going to be in this situation.
 23 **Q. But I think, for the record, in 2013 and '14, we**
 24 **were not always in adjudicative process; right? It was two**
 25 **years.**

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EXAMINATION BY COMMISSIONER JONES / GOMEZ

1 **A. Well, I -- I -- I -- I acknowledge that your --**
 2 **your memory's probably better than mine. Again, I'm just**
 3 **thinking from last year at this time, we were just going**
 4 **through the same iteration, and now hearing Mr. Norwood and**
 5 **other folks from the Company say that for February, we've**
 6 **got another one coming, so it's going to be a routine now.**
 7 **So, you know, and I think that what we can do to**
 8 **improve what the Commission knows and what Staff knows is**
 9 **going to -- you know, is going to, I think, think outside**
 10 **the box and make -- and simplify the dialogue between the**
 11 **Company and Staff with this regard. And to do so in a**
 12 **focused way and the way that we need to have other parties**
 13 **present, too, that can ask the hard questions and -- that**
 14 **Staff doesn't always get to see.**
 15 **And this goes beyond just doing a PowerPoint**
 16 **presentation and talking to us about it. I think it has to**
 17 **be a little bit more involved. And my recommendation, too,**
 18 **includes to just stay focused on -- on some of the major**
 19 **highlighted items to better inform both the Commission**
 20 **Staff and the Commissioners.**
 21 **COMMISSIONER JONES: Thank you.**
 22 ***** EXAMINATION BY CHAIRMAN DANNER *****
 23 **BY CHAIRMAN DANNER:**
 24 **Q. Mr. Gomez, you noted that the asset management**
 25 **distribution program update was not provided on direct, it**

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EXAMINATION BY CHAIRMAN DANNER / GOMEZ

1 **was provided on rebuttal, but you said after you received**
 2 **the direct case, you started doing DRs. What was the first**
 3 **time that you saw this update? Was it on rebuttal?**
 4 A. Oh. I think in my testimony, when I talk about
 5 it -- can I refer back to my testimony?
 6 **Q. Yes, you may.**
 7 A. Okay. I examined, in the last case -- and I have
 8 the DRs listed in my Footnote 107 to my testimony.
 9 COMMISSIONER JONES: What page?
 10 THE WITNESS: And I think it's on page 61.
 11 CHAIRMAN DANNER: 61.
 12 A. Yes. 61, lines 10 through 17. Okay. So I'm
 13 sorry. So match the -- the Avista system planning
 14 assessment? Is that --
 15 BY CHAIRMAN DANNER:
 16 **Q. Well, it's where I --**
 17 A. Is that what you're calling it?
 18 **Q. -- reference Mr. Thies's -- it's where I reference**
 19 **Mr. Thies's. I may be incorrect on that -- on that**
 20 **reference.**
 21 MR. MEYER: I -- I don't know if this is
 22 helpful, but I'll offer it. In response to an ICNU data
 23 request that was served on all parties -- and it was
 24 prepared March 9th -- we provided a copy of information
 25 pertaining to asset management, including specifically the

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EXAMINATION BY CHAIRMAN DANNER / GOMEZ

1 2013 asset management distribution program update that I
 2 was referencing earlier.
 3 CHAIRMAN DANNER: So that was March --
 4 MR. MEYER: March 9th --
 5 CHAIRMAN DANNER: Give me the date again?
 6 MR. MEYER: -- of this year.
 7 THE WITNESS: If I could ask Mr. Meyer a
 8 question? Mr. Meyer, is my -- my -- I'm not --
 9 JUDGE FRIEDLANDER: He's not under oath.
 10 CHAIRMAN DANNER: Judge, are you --
 11 THE WITNESS: No. It's to help -- it's to
 12 help the process along. If my -- is -- is the -- the --
 13 MR. MEYER: If I can answer subject to check.
 14 THE WITNESS: No. I'm asking because, if you
 15 look at the LDL -- which is the one you showed me, LDL-3?
 16 Is that --
 17 MR. MEYER: I don't have that.
 18 THE WITNESS: -- 2013 asset management
 19 distribution program, is that Mr. Thies's Exhibit
 20 No. MTT-1T? I'm going to have you -- no, that's not it.
 21 MR. MEYER: Okay.
 22 THE WITNESS: I'm sorry. I think I'm lost,
 23 Commissioner.
 24 CHAIRMAN DANNER: All right. Let's --
 25 MR. MEYER: In any event --

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EXAMINATION BY CHAIRMAN DANNER / GOMEZ

1 BY CHAIRMAN DANNER:

2 **Q. So thank you. I'm going to -- all I wanted to**

3 **know is when -- when you were provided with a copy of**

4 **the -- of the asset management distribution program update,**

5 **and it sounds like March 9th, 2015?**

6 A. Yes. Yes.

7 CHAIRMAN DANNER: Okay. Thank you.

8 COMMISSIONER JONES: Just to clarify, is

9 there an asset management program update or is -- is it a

10 CAPEX update for the compliance filing? Which is which?

11 MR. MEYER: This -- this is a compilation of

12 different things, so it --

13 COMMISSIONER JONES: Could you just --

14 MR. MEYER: -- in the response.

15 COMMISSIONER JONES: Okay.

16 MR. MEYER: For example, in response, it has

17 an electrical substation 2012 system review, which is, oh,

18 50, 60 pages. It has a 2013 asset management distribution

19 program update, which has I'm guessing, 60, 70, pages. It

20 has a 2013 underground equipment inspection asset

21 management plan of maybe 5 pages. It has an asset

22 management program for Alderley pipe replacement, maybe 60

23 pages.

24 It has maintenance cost modeling for the Nine

25 Mile hydro plant, and I mean, I can go on. There are

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EXAMINATION BY CHAIRMAN DANNER / GOMEZ

1 probably half a dozen other types of things included within

2 this package.

3 COMMISSIONER JONES: Thank you.

4 JUDGE FRIEDLANDER: Thank you. Okay. So

5 with no further questions, thank you very much for your

6 testimony.

7 And I believe Mr. Jason Ball is next.

8

9 JASON L. BALL, witness herein, having been

10 first duly sworn on oath,

11 was examined and testified

12 as follows:

13

14 JUDGE FRIEDLANDER: Thank you. You can be

15 seated.

16 Ms. Cameron-Rulkowski or Mr. Oshie?

17 MR. OSHIE: Thank you, Your Honor. I'm

18 Patrick Oshie, representing Commission Staff.

19 *** EXAMINATION BY MR. OSHIE ***

20 BY MR. OSHIE:

21 **Q. So, Mr. Ball, this is not the first time you've**

22 **been up on the witness stand, and you probably know the**

23 **preliminary details that we have to go through. So let me**

24 **start first with your name. Could you please state your**

25 **name, spell your last name?**

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EXAMINATION BY OSHIE / BALL

1 **A. Jason Ball, B-A-L-L.**

2 **Q. Are you the same Jason Ball that offered prefiled**

3 **testimony in this case on behalf of Staff?**

4 A. Yes.

5 **Q. And if I can direct your attention to what I**

6 **believe are six exhibits that are a part of your testimony,**

7 **beginning with JLB-1T and that progresses down through**

8 **JLB-2C, -3, -4C, -5C, and -6C; is that correct?**

9 A. Correct.

10 **Q. Now, are there any corrections to this -- to the**

11 **testimony that you have prefiled? And if so, please state**

12 **them.**

13 A. Yes. On page 28 of JLB-1T.

14 **Q. Go on.**

15 A. On lines -- on line 1, it reads, "This adjustment

16 increases NOI by \$41,000." That number should be \$41.

17 And --

18 JUDGE FRIEDLANDER: I'm sorry. What page are

19 you on?

20 THE WITNESS: Page 28 of JLB-1T. On line 1,

21 it should be \$41 instead of \$41,000.

22 JUDGE FRIEDLANDER: I see. Thank you.

23 THE WITNESS: And the same with line 9, it

24 should be \$41 instead of \$41,000.

25

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EXAMINATION BY OSHIE / BALL

1 BY MR. OSHIE:

2 **Q. Mr. Ball, is this correction affecting of your**

3 **exhibits that -- that have been filed, as well as your**

4 **direct testimony?**

5 A. Yes. It affects Exhibit JLB-3, page 1.

6 **Q. Go on.**

7 A. On lines -- on line 3 in the "Staff" column, that

8 should read .063, still negative, and all the numbers

9 continuing on should have a ".0" in front of them, so the

10 next one would be .063 and so forth.

11 **Q. All right. Thank you, Mr. Ball.**

12 **Is that the extent of the corrections that you**

13 **would like to make at this point?**

14 A. Yes.

15 MR. OSHIE: Thank you.

16 Your Honor, Mr. Ball is tendered for

17 cross-examination. Thank you.

18 JUDGE FRIEDLANDER: Thank you. Thank you.

19 Mr. Meyer?

20 MR. MEYER: Thank you. May I approach the

21 witness?

22 JUDGE FRIEDLANDER: Yes.

23 MR. MEYER: And the record should reflect

24 that I am providing the witness with a copy of his response

25 to Bench Request No. 2.

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1 JUDGE FRIEDLANDER: Thank you.
 2 MR. MEYER: Do you have it?
 3 THE WITNESS: Yeah.
 4 MR. MEYER: Okay.
 5 MR. OSHIE: Do you have a copy of that,
 6 Mr. Ball?
 7 THE WITNESS: Yes, I do.
 8 MR. MEYER: And I have some extra copies if
 9 people are looking for them right now. May I?
 10 COMMISSIONER RENDAHL: It would be --
 11 COMMISSIONER JONES: Yes.
 12 COMMISSIONER RENDAHL: It would be helpful.
 13 CHAIRMAN DANNER: Please.
 14 COMMISSIONER RENDAHL: To speed things up.
 15 MR. MEYER: Here is one, but I've got two
 16 more.
 17 JUDGE FRIEDLANDER: Are you also going to get
 18 into Attachment A?
 19 MR. MEYER: No.
 20 JUDGE FRIEDLANDER: Okay. So it's just the
 21 Bench request response?
 22 MR. MEYER: That's right.
 23 JUDGE FRIEDLANDER: Okay. Thank you.
 24 MR. MEYER: That's right.
 25 JUDGE FRIEDLANDER: And this is confidential.

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1 THE WITNESS: I believe just Attachment A is
 2 confidential.
 3 JUDGE FRIEDLANDER: Okay. So we won't be
 4 delving into any confidential material, Mr. Meyer? Is that
 5 correct?
 6 MR. MEYER: Correct.
 7 JUDGE FRIEDLANDER: Okay.
 8 MR. MEYER: That is correct.
 9 JUDGE FRIEDLANDER: Thank you.
 10 MR. MEYER: Well, can you share?
 11 CHAIRMAN DANNER: We can share. We can
 12 share.
 13 JUDGE FRIEDLANDER: I have it up here too,
 14 so.
 15 MR. MEYER: This is marked up.
 16 MS. ANDREWS: I'm sorry. I'm sorry. I
 17 thought you just meant for you to look at. I'm sorry.
 18 MR. MEYER: The fact it says, "Wow. Good
 19 point," probably --
 20 MR. OSHIE: Well, that's better than other
 21 things.
 22 *** EXAMINATION BY MR. MEYER ***
 23 BY MR. MEYER:
 24 **Q. Okay. Referring you to this, this is a response**
 25 **that you authored in response to Bench Request No. 2;**

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EXAMINATION BY MEYER / BALL

1 **correct?**
 2 A. Correct.
 3 **Q. Now, were you present yesterday when Mr. Norwood**
 4 **was asked about the accounting surrounding the thermal**
 5 **maintenance deferral issue?**
 6 A. Yes.
 7 **Q. And you recall his reference to the need for a**
 8 **preferability letter?**
 9 A. Yes.
 10 **Q. And his general description of the difficulty of**
 11 **going to this sort of accounting absent a deferral order**
 12 **from this Commission?**
 13 A. Yes.
 14 **Q. So I'll direct your attention, then, to the very**
 15 **last paragraph -- I want to make sure we're all following**
 16 **along -- it begins, "If the Commission is concerned." Are**
 17 **you there?**
 18 A. I'm there.
 19 **Q. So I'll read at least a part of it aloud. "If the**
 20 **Commission is concerned about the Company's ability to use**
 21 **this type of FASB accounting, then Staff can accept the**
 22 **creation of a regulatory asset similar to the approach**
 23 **Avista recommends in its rebuttal case.**
 24 **"However, Staff advocates a separate regulatory**
 25 **asset for each overhaul with an amortization schedule**

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EXAMINATION BY MEYER / BALL

1 **matching the expected cycle of the maintenance for each**
 2 **plant." Do you -- was that the essence of what you said**
 3 **there?**
 4 A. Yes.
 5 **Q. Okay. So with reference, then, to the thermal**
 6 **plants, whether it's Colstrip, CS2, Boulder, or Rathdrum,**
 7 **would you then agree that it would be appropriate to**
 8 **establish a separate regular- -- regulatory asset account**
 9 **for each of these thermal plants?**
 10 A. Only if the Commission wants to do it that way.
 11 If you refer to my direct testimony on JLB-1T, page 10, on
 12 line 4 and 5, the question begins, "Does Staff have any
 13 alternative recommendations on planned maintenance
 14 activities?"
 15 And my answer is yes. If the Commission wishes to
 16 include Rathdrum and Boulder Park maintenance in -- in the
 17 revenue requirement going forward, then Staff recommends
 18 that we treat them the same way as we're recommending
 19 treatment for Colstrip and CS2, which is normalize the
 20 overhauls.
 21 If the Commission chooses not to normalize the
 22 overhauls and instead wants to go with a regulatory asset
 23 treatment, then I -- and they also want to include Rathdrum
 24 and Boulder Park, then that would be an appropriate --
 25 appropriate way of handling it.

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EXAMINATION BY MEYER / BALL

1 I would like to add just a clarification on Bench
 2 Request No. 2. I'm an economist. I -- I think in terms of
 3 opportunity cost, so the reason I put that in there was
 4 just to make it clear that this is the next best option.
 5 The first option, the one Staff is advocating for, is
 6 normalization. We think that's the best approach for
 7 Colstrip and CS2.

8 If the Commission disagrees, if they think there's
 9 a better reason or a reason to do something different, the
 10 next best option is to use regulatory assets.

11 MR. MEYER: All right. That's all I have.
 12 Thank you.

13 JUDGE FRIEDLANDER: Thank you. Are there
 14 other -- I guess is there any redirect?

15 MR. OSHIE: No redirect, Your Honor.

16 JUDGE FRIEDLANDER: Thank you.
 17 Any questions from the Bench?

18 *** EXAMINATION BY CHAIRMAN DANNER ***
 19 BY CHAIRMAN DANNER:
 20 **Q. So I just want to make sure, your pref- -- your**
 21 **preferred position is, basically, normalize expenses on**
 22 **Colstrip and Coyote Springs 2 group for major maintenance;**
 23 **right?**
 24 A. Correct.
 25 **Q. And then you basically use test-year actuals for**

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EXAMINATION BY CHAIRMAN DANNER / BALL

1 **non-basic and all the other facilities?**
 2 A. Correct, with the added caveat that any overhauls
 3 that did occur in the test year would be removed since we
 4 would then be taking them out of the test year, amortizing
 5 them effectively under the regulatory asset method or just
 6 normalizing them, and then putting them back in.

7 **Q. Okay. And so, basically, your flexibility is in**
 8 **response to any concerns that we might raise with this**
 9 **approach?**
 10 A. Correct. I -- I do not believe that there's a
 11 problem with the Company using FASB accounting methods.
 12 I'm also not one of their auditors, so if one of their
 13 auditors, you know, really has a big problem with them
 14 changing and they are able to impress upon the Commission
 15 that that's a really big problem, then I say that the
 16 next -- the next best way to handle it is through
 17 regulatory assets.

18 I was here yesterday, and the way I understood
 19 Mr. Norwood's testimony was that they wouldn't issue that
 20 letter saying that it's necessary, which implies to me that
 21 it's not that big of an issue. And if it's not that big of
 22 an issue, then I don't understand what the necessity for
 23 extraordinary treatment, which is what regulatory assets
 24 is, I don't understand why that's needed.
 25 CHAIRMAN DANNER: All right. Thank you.

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1 MR. MEYER: Just -- just for the -- just for
 2 the record, to make sure there's no misunderstanding, I
 3 don't believe that's what Mr. Norwood said with reference
 4 to the position of the accountants on this issue, so I -- I
 5 think his testimony was pretty clear yesterday.

6 JUDGE FRIEDLANDER: Thank you.
 7 CHAIRMAN DANNER: All right. Thank you.
 8 *** EXAMINATION BY COMMISSIONER JONES ***
 9 BY COMMISSIONER JONES:
 10 **Q. Just one question, Mr. Ball. So -- and Colstrip**
 11 **major maintenance is scheduled every three years; correct?**
 12 A. Correct.
 13 **Q. So would you propose your primary recommendation**
 14 **is to normalize these major maintenance expenses over how**
 15 **many years? Three years? Four years? Three?**
 16 A. Three. Three years.
 17 **Q. So you would just take it three years for**
 18 **Colstrip?**
 19 A. Correct. I would normalize them for each
 20 maintenance cycle.
 21 **Q. And you haven't seen anything in this record or**
 22 **otherwise that would indicate that those major maintenance**
 23 **cycles are changing based on the operation, the ramping up,**
 24 **down, whatever of the plants?**
 25 A. No. Not -- I have not seen anything, and Talen

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EXAMINATION BY COMMISSIONER JONES / BALL

1 Energy is the one who manages Colstrip. I -- I believe
 2 they've -- forgive the hyperbole, but they've got it down
 3 to an art. They -- they really know what they're doing
 4 when it comes to those major maintenance cycles.

5 And when those engineers take those things apart,
 6 they know where every seal goes, they know where every
 7 gasket goes, they know where every rod goes. So every
 8 three years, the way -- the cycle they've got it down to
 9 is -- is very precise, and it seems to work really well.

10 **Q. Same question for Coyote Springs. Four years,**
 11 **that's based on hours-based maintenance of what? 40,000**
 12 **hours?**
 13 A. I believe that's the number, yes.
 14 **Q. Okay. So have you seen anything in this record**
 15 **that would change that?**
 16 A. Not to my knowledge, no.
 17 **Q. And who manages that plant? Avista?**
 18 A. I believe it's Avista, yes.
 19 **Q. Do they have it down to an art as well?**
 20 A. They pre- -- Avista's pretty good, yes.
 21 COMMISSIONER JONES: Thank you.
 22 CHAIRMAN DANNER: So insofar as we've kind of
 23 gotten beyond clarifying questions, it might be appropriate
 24 to let Avista speak for itself on whether they've got it
 25 down to an art or not.

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1 ***** EXAMINATION BY COMMISSIONER RENDAHL *****
2 BY COMMISSIONER RENDAHL:
3 **Q. I have one other question, Mr. Ball. So if -- if**
4 **the Commission elects to normalize the major maintenance --**
5 **maintenance expenses, should the normalization be based on**
6 **forecasted 2016 expenses or the cost of the last round of**
7 **major maintenance at the plant? So historical or**
8 **forecasted?**
9 A. My recommendation was to use the expected major
10 maintenance amount for the next cycle, and that's based
11 upon, as I've just said, the fact that they've got it down
12 pretty well. They seem to know what they're doing.
13 They -- the budget doesn't really change. It's performed
14 by a third party, which doesn't give Avista a whole lot of
15 wiggle room on, you know, making major changes to what
16 is -- or does not go into it.
17 And what they do every -- perhaps a metaphor would
18 help. With an overhaul, it's not like you take your car
19 into a mechanic and get, you know, an estimate for how much
20 it's going to cost. It's more like you take your car into
21 the mechanic and ask for an inspection and the price is
22 listed up at the top. It's really pretty standard.
23 So there isn't a lot of variation that goes into
24 it, so using the amount that's -- we're expecting to occur
25 is not that different than using the historical amount, and

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1 EXAMINATION BY COMMISSIONER RENDAHL / BALL
2 you can see the historical amounts in my confidential
3 Exhibit JLB-4.
4 **Q. Okay. So if we -- are you -- you're saying use**
5 **the amount that's expected, which would change based on**
6 **just increases in labor cost, et cetera, but not -- not --**
7 **the nature of that overhaul's not going to change?**
8 A. It -- if you normalize it, we use the cost that's
9 expected, and whatever expense is incurred is the one
10 that's incurred.
11 COMMISSIONER RENDAHL: Okay. Thank you.
12 JUDGE FRIEDLANDER: Thank you. Okay. Thank
13 you for your testimony. Much appreciated.
14 So -- okay. Then I guess we have
15 Ms. Reynolds next, adopting the testimony of Juliana
16 Williams.
17 (Mr. Meyer left the proceedings.)
18 DEBORAH REYNOLDS, witness herein, having been
19 first duly sworn on oath,
20 was examined and testified
21 as follows:
22
23 JUDGE FRIEDLANDER: Thank you.
24 Ms. Cameron-Rulkowski or Mr. Oshie? Great.
25 MR. OSHIE: Thank you, Your Honor. And

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1 again, this is Patrick Oshie, representing Commission
2 Staff.
3 ***** EXAMINATION BY MR. OSHIE *****
4 BY MR. OSHIE:
5 **Q. Welcome, Ms. Reynolds. This too is not your first**
6 **time testifying before the Commission, and if I'm not**
7 **mistaken, you may have adopted testimony sometime in the**
8 **past, so.**
9 **But I think we'll start off with, of course, if**
10 **you could state your name and you could spell your last**
11 **name for the record, please.**
12 A. I am Deborah Reynolds, R-E-Y-N-O-L-D-S.
13 **Q. And what's your position at the Commission,**
14 **Ms. Reynolds?**
15 A. I'm the assistant director of conservation and
16 energy planning.
17 (Mr. Meyer rejoined the proceedings.)
18 BY MR. OSHIE:
19 **Q. Did Juli- -- did Juliana Williams, the original**
20 **witness, did she work under you?**
21 A. Yes.
22 **Q. Was her testimony produced under your supervision**
23 **and direction?**
24 A. Yes.
25 **Q. Are you familiar with her testimony?**

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1 **EXAMINATION BY OSHIE / REYNOLDS**
2 **A. Yes, I am.**
3 **Q. And do you adopt her testimony as it stands right**
4 **now, which is JLB- -- excuse me, JMW-1T and JMW-2T?**
5 A. Yes, with two corrections.
6 **Q. Okay. I was going to get to that, but we can --**
7 **we can jump right to it. So Ms. Reynolds, do you have**
8 **corrections to Ms. Williams' testimony? And if so, can you**
9 **please tell the Commission what that might be?**
10 A. Yes. These are very simple.
11 On page 6, Footnote 9, at the very end, it says,
12 "At 16," and it should say, "Page 3."
13 Q. Thank you.
14 A. And on page 13, Footnote 18, there are three
15 references to WAC 480-80-120, and those should have been
16 changed to 480-80-102.
17 **Q. So it looks like the 1-2-0 should be changed to**
18 **1-0-2, and in all other respects, they --**
19 A. Yes, in all three places.
20 **Q. -- are accurate?**
21 MR. OSHIE: Okay. Thank you.
22 Your Honor, the Staff tenders Ms. Reynolds
23 for cross-examination.
24 JUDGE FRIEDLANDER: Thank you.
25 Mr. Roseman?

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1 ***** EXAMINATION BY MR. ROSEMAN *****
 2 BY MR. ROSEMAN:
 3 **Q. Good afternoon, Ms. Reynolds.**
 4 A. Good afternoon.
 5 **Q. I think this will be quick.**
 6 **In the testimony, does Staff agree -- in**
 7 **Ms. Williams' testimony, does Staff agree that there is**
 8 **insufficient LIRAP funding to assist all eligible**
 9 **customers?**
 10 A. Yes, we do.
 11 **Q. Does this lack of funding introduce the question**
 12 **of fairness of the program?**
 13 A. Yes. Staff does believe that, for the standard of
 14 fairness to be met, eventually, all customers who are
 15 eligible and who request assistance should be able to
 16 receive it.
 17 **Q. Okay. Thank you.**
 18 **And in -- in this case, does Staff have any**
 19 **recommend- -- is Staff's intent to recommend that LIRAP**
 20 **heat eligibility be changed at this time?**
 21 A. No.
 22 MR. ROSEMAN: That's all I have. Thank you.
 23 JUDGE FRIEDLANDER: Thank you. Any redirect?
 24 MR. OSHIE: No redirect, Your Honor.
 25 JUDGE FRIEDLANDER: Thank you.

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1 Any Commission questions?
 2 CHAIRMAN DANNER: No questions.
 3 JUDGE FRIEDLANDER: Okay.
 4 COMMISSIONER RENDAHL: I have one.
 5 ***** EXAMINATION BY COMMISSIONER RENDAHL *****
 6 BY COMMISSIONER RENDAHL:
 7 **Q. Ms. Reynolds --**
 8 A. Commissioner.
 9 **Q. -- so between the Staff and Intervenor filing and**
 10 **the Company's filing, there's been a significant change**
 11 **regarding LIRAP funding from the Company's initial filing;**
 12 **correct?**
 13 A. Yes.
 14 **Q. So given the changes since you filed -- well,**
 15 **since Ms. Williams filed her testimony for Staff, which you**
 16 **are now adopting, does Staff have a change in position**
 17 **based on LIRAP funding, either concerning Public Counsel**
 18 **and The Energy Project's proposal or the Company's**
 19 **proposal, and if so, can you explain what Staff would**
 20 **recommend?**
 21 A. Yes. Staff does find that the 7 percent approach
 22 is a little simpler to calculate than the approach that we
 23 originally proposed, and it allows -- it also clarifies how
 24 much money should go to electric and how much money should
 25 go to gas, which we also found helpful, and so this is the

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1 Company's proposal.
 2 We also note that it does get us to serving at
 3 least half of the need that we've identified so far within
 4 about six years, which is faster than our original
 5 proposal, and we think that that's appropriate.
 6 **Q. So you would support the Company's proposal at**
 7 **this time?**
 8 A. Yes.
 9 COMMISSIONER RENDAHL: All right. That's all
 10 I have.
 11 JUDGE FRIEDLANDER: Thank you.
 12 MR. ROSEMAN: Your -- go ahead.
 13 COMMISSIONER JONES: No.
 14 JUDGE FRIEDLANDER: Mr. Roseman?
 15 MR. ROSEMAN: I do have one follow-up, based
 16 upon Commissioner Rendahl's.
 17 JUDGE FRIEDLANDER: If Staff doesn't mind, I
 18 don't.
 19 MR. OSHIE: Well, I'd like to hear the
 20 question, Your Honor.
 21 MR. ROSEMAN: Would you like me to --
 22 THE WITNESS: I'll wait to answer.
 23 MR. ROSEMAN: -- whisper it in your ear?
 24 THE WITNESS: I won't answer until you do.
 25 MR. ROSEMAN: What's your preference?

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1 MR. OSHIE: No. Would you like -- well,
 2 just -- I'd just offer your question.
 3 MR. ROSEMAN: Okay.
 4 MR. OSHIE: Maybe I missed it.
 5 MR. ROSEMAN: Okay. And I will.
 6 ***** EXAMINATION BY MR. ROSEMAN *****
 7 BY MR. ROSEMAN:
 8 **Q. You -- the question you just answered said that**
 9 **the Company's proposal would address this -- this goal of**
 10 **approximately half -- I think, 25,000, approximately -- at**
 11 **a quicker pace than -- than what Staff's proposal would be.**
 12 **Are you familiar with the Public Counsel and Energy**
 13 **Project's proposal in this issue?**
 14 A. Yes, I am.
 15 **Q. And would you say that their proposal would**
 16 **address -- provide LIRAP funding, assuming that there's no**
 17 **rate case, at an even quicker rate than Avista's proposal?**
 18 A. Yes.
 19 MR. ROSEMAN: Thank you.
 20 JUDGE FRIEDLANDER: Thank you.
 21 COMMISSIONER RENDAHL: And just so the record
 22 can show, I will be asking the same question to the
 23 witnesses for Energy Project and the Public Counsel so that
 24 they can weigh in on this same issue.
 25 MR. ROSEMAN: Thank you very much.

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1 JUDGE FRIEDLANDER: And with that, I believe
 2 you're dismissed. Thank you so much for your testimony.
 3 And Mr. Cebulko?
 4
 5 BRADLEY T. CEBULKO, witness herein, having been
 6 first duly sworn on oath,
 7 was examined and testified
 8 as follows:
 9
 10 JUDGE FRIEDLANDER: Thank you. You can be
 11 seated.
 12 THE WITNESS: Thank you.
 13 MR. OSHIE: Thank you, Your Honor.
 14 *** EXAMINATION BY MR. OSHIE ***
 15 BY MR. OSHIE:
 16 **Q. Mr. Cebulko, you have one exhibit that you filed**
 17 **in response to the Company's case, so let's start with your**
 18 **name. Would you please state your name for the record and**
 19 **spell your last name?**
 20 A. My name is Bradley Cebulko, C-E-B-U-L-K-O.
 21 **Q. And you are the same Bradley Cebulko that filed**
 22 **testimony, and it's marked as Exhibit BTC-1T?**
 23 A. Yes.
 24 **Q. Do you have any changes or corrections to your**
 25 **testimony?**

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EXAMINATION BY OSHIE / CEBULKO
 1 **A. No, I do not.**
 2 MR. OSHIE: The witness is tendered for
 3 cross-examination, Your Honor.
 4 JUDGE FRIEDLANDER: Thank you.
 5 Mr. Meyer?
 6 MR. MEYER: Thank you.
 7 *** EXAMINATION BY MR. MEYER ***
 8 BY MR. MEYER:
 9 **Q. You are recommending an econometric model that**
 10 **would take into account specific service territory**
 11 **attributes. For what purpose? What is the purpose of this**
 12 **econometric model?**
 13 A. Yes. I feel that Staff does not have an objective
 14 evaluation tool to measure reliability, and we're seeking
 15 this econometric model because it will give us
 16 company-specific scores for SAIDI and SAIFI.
 17 **Q. All right. So I'm going to try to accurately**
 18 **characterize your testimony, and correct me if I don't.**
 19 **You would need to identify, in your words, as many relevant**
 20 **variables as possible and collect data from as many**
 21 **regulated utilities as possible?**
 22 A. I believe those were my words.
 23 **Q. And do you, yourself, characterize this as a**
 24 **laborious task, and participation from the regulated**
 25 **utilities in the industry and key data sources in**

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EXAMINATION BY MEYER / CEBULKO
 1 **developing a model will be critical? I kind of butchered**
 2 **that, but did you get the essence of that?**
 3 A. Yes. I -- I believe you captured the essence --
 4 **Q. Okay.**
 5 A. -- of what I wrote.
 6 **Q. They -- I couldn't read my writing.**
 7 A. I have my testimony if you want to read it.
 8 **Q. Okay. So, just on the face of this, it -- it**
 9 **sounds like, would you agree that this is a rather**
 10 **ambitious undertaking?**
 11 A. Not in a pejorative sense, no. I think it -- it
 12 is ambitious. It's a -- it's a new tool for the Staff, but
 13 it's certainly one that can be achieved.
 14 **Q. Okay. So -- but the ultimate objective is to get**
 15 **at measures of reliability and do comparisons; correct?**
 16 A. The -- the objective is to achieve
 17 company-specific scores so we can determine sufficient
 18 levels of reliability.
 19 **Q. Okay. Well, but at -- at present, let's -- let's**
 20 **examine what information is already being provided on a --**
 21 **on a utility-specific basis for --**
 22 A. Mm-hmm.
 23 **Q. -- Avista, and some of this, we've covered earlier**
 24 **this afternoon. I'm not going to belabor these points.**
 25 **But you're familiar, of course, with the asset management**

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EXAMINATION BY MEYER / CEBULKO
 1 **reports that are developed and assess reliability and needs**
 2 **for each project?**
 3 A. I became aware of it when it showed up in the
 4 rebuttal testimony of Mr. La Bolle.
 5 **Q. Okay. And are you also familiar with yet another**
 6 **level of reporting that we've discussed in the form of**
 7 **quarterly and semiannual capital reports?**
 8 A. I'm aware of its existence.
 9 **Q. All right. And thirdly -- and I think you were**
 10 **active in developing this -- the Company has filed service**
 11 **quality measures with this Commission recently; correct?**
 12 A. Yes. And I participated in negotiations of that,
 13 and those -- the difference there is that those largely
 14 concerned customer guarantees and customer service metrics.
 15 It did include two reliability metrics in which the Company
 16 would report against its historic five-year average, but
 17 that's a -- that's a baseline measure.
 18 **Q. Sure. But those service quality measures were**
 19 **only very recently implemented; correct?**
 20 A. In reference to customer service metrics, yes.
 21 That's not necessarily reliability.
 22 **Q. Okay. But I believe it was -- and I may have my**
 23 **date wrong, but it was either in June or July of this year**
 24 **that those were put into place?**
 25 A. That the service quality index --

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EXAMINATION BY MEYER / CEBULKO

1 Q. Yeah.

2 A. -- yes.

3 **Q. So what I've described in the -- in the past**

4 **minute or so are really three levels of information, three**

5 **types of reporting, if you will, that are -- are there to**

6 **be analyzed. My question to you is, would it make sense,**

7 **before we do yet another iteration of econometric modeling,**

8 **to digest all of this reporting that I've just described**

9 **and make use of that first?**

10 A. I cannot speak to the capital reports that you're

11 speaking of or the asset management plan. That's just been

12 made aware recently. I can say those are not objective

13 measures on which Commission has helped -- Commission Staff

14 has helped define the methodology. In the study, what we

15 are seeking is an objective measure that takes in

16 company-specific variables. It's -- it's a different --

17 it's a different test.

18 **Q. But one that would require yet an additional layer**

19 **of extensive effort, data gathering, and comparisons with**

20 **other utilities would be required? Quite an ambitious**

21 **project; correct?**

22 A. Yeah. Company -- Staff is pursuing this as it is.

23 Right now, we are -- this is a tool that we think we need,

24 and so we are developing it, and we would like your

25 assistance.

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1 MR. MEYER: Thank you. That's -- that's all

2 I have. Thank you.

3 JUDGE FRIEDLANDER: Thank you.

4 Any redirect?

5 MR. OSHIE: No redirect.

6 JUDGE FRIEDLANDER: Thank you.

7 Any questions from the Bench?

8 *** EXAMINATION BY CHAIRMAN DANNER ***

9 BY CHAIRMAN DANNER:

10 **Q. So the only question I have is, Mr. Cebulko, is**

11 **there currently a high level of concern about reliability**

12 **with this utility?**

13 A. I just -- I don't know. I -- I don't know their

14 level of reliability. I don't have the information to

15 determine a sufficient level of reliability. What we see

16 right now is a baseline, 2005, and then we see the scores

17 each subsequent year, and that shows us a trend.

18 And that's important for determining how it's

19 changed over the years. But there is a spectrum between

20 sufficient and insufficient reliability, and we don't know

21 where we are on that trend. That's -- we just don't have

22 the tools for that -- or excuse me, in that spectrum, we

23 don't know where we are.

24 Are they consistently providing very reliable

25 service, or are they consistently providing insufficient

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EXAMINATION BY CHAIRMAN DANNER / CEBULKO

1 reliability? I just -- I don't know.

2 **Q. Yeah. Are you seeing -- are you seeing**

3 **consistency when you overlay the voice of the consumer with**

4 **the J.D. Power with the SAIDI and SAIFI? Are you -- I**

5 **mean, are you able to see trends when you superimpose**

6 **those?**

7 A. So the J.D. Power is a new one to me. Again, it

8 just appeared in the rebuttal testimony, and I -- it's the

9 black box. I don't understand how it's developed. It's

10 private information.

11 The voice of the customer survey is a

12 Company-administered, with a third party, survey in which

13 they designed the questions. And it's certainly important

14 to understand what your customers are saying, but I'm not

15 sure that's the best -- customer perception of reliability

16 does not necessarily indicate sufficient reliability.

17 **Q. Okay. And Staff had no input on that survey?**

18 A. We did not design that, to the best of my

19 knowledge.

20 **Q. Okay. Thank you.**

21 A. Yes.

22 *** EXAMINATION BY COMMISSIONER JONES ***

23 BY COMMISSIONER JONES:

24 **Q. Mr. Cebulko, just a quick one. You are an**

25 **economist, and so you like ec- -- econometric studies. I**

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EXAMINATION BY COMMISSIONER JONES / CEBULKO

1 **understand that. But is the -- how does this relate to**

2 **SAIDI and SAIFI reports? Because I've reviewed quite a bit**

3 **of those, and that's focused on reliability metrics; right?**

4 **Outage, duration --**

5 A. Mm-hmm.

6 **Q. -- that's not econometric, is it?**

7 A. No, not necessarily. So the real purpose of this

8 is to try and gauge what is the correct level of

9 reliability using a SAIDI and SAIFI score, which are the

10 two best metrics that we have. How do you determine what

11 the right score is? It's 100 minutes, SAIDI minutes.

12 What's that mean?

13 It means different things to different utilities.

14 It might not be fair for Avista to be compared to Seattle

15 City Light or Puget Sound Energy. It's -- they're

16 different service territories. And so this econometric

17 model, it really -- it takes as many variables as we can,

18 relevant variables that we can see their -- their relevant

19 impact on a SAIDI score and we can input the

20 company-specific characteristics into that model and come

21 out with a score.

22 So we would expect Avista to have a different

23 score, benchmark, ideal score, if you will, of sufficient

24 reliability than the other investor-owned utilities because

25 their service territories are very different.

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|--|--|
| <p>EXAMINATION BY COMMISSIONER JONES / CEBULKO</p> <p>1 Q. So you're looking at things like population 2 density --</p> <p>3 A. Absolutely.</p> <p>4 Q. -- per feeder line in a neighborhood, transformer, 5 and you're looking at kind of demographic --</p> <p>6 A. Mm-hmm.</p> <p>7 Q. -- population information?</p> <p>8 A. Capi- -- per capita, forestry --</p> <p>9 Q. Okay.</p> <p>10 A. -- number of lines on the ground, yes. Weather.</p> <p>11 Q. So it sounds like you're already doing this; 12 you're doing this on your own. Are there any other 13 institutes out there that are of help? Do any other states 14 do this? NRRRI? RAP? EPRI?</p> <p>15 A. NR- --</p> <p>16 Q. EPRI? Are there other institutes that are of 17 assistance to you in this?</p> <p>18 A. Yes. There have been a handful of utilities that 19 have pursued this. This is the cutting edge of where we're 20 going. Most recently, Lawrence Berkeley National 21 Laboratories put out a study in August 2015 in which they 22 did this same type of econometric study. We have that 23 available, should it be necessary.</p> <p>24 COMMISSIONER JONES: Thank you. That's all I 25 have.</p> | <p>1 ten-minute break. We'll come back at 2:45 -- I'm sorry, 2 3:45. Thank you.</p> <p>3 (A break was taken from 3:34 p.m. to 3:49 p.m.)</p> <p>4 JUDGE FRIEDLANDER: So let's go back on the 5 record. I have that the next witness is Ms. Ramas, but I 6 understand that there was revised testimony.</p> <p>7 MS. GAFKEN: That's correct, and I can go 8 through that -- go through that with the witness.</p> <p>9 There's -- there are three numbers -- well, two numbers and 10 a date that changed.</p> <p>11 JUDGE FRIEDLANDER: Okay.</p> <p>12 MS. GAFKEN: So it's very minor, but the 13 replacement exhibits have been distributed.</p> <p>14 JUDGE FRIEDLANDER: And have they been filed 15 with the records center?</p> <p>16 MS. GAFKEN: They have. They were filed on 17 Friday.</p> <p>18 JUDGE FRIEDLANDER: Okay. And that's what 19 I -- that was my next question. This is the testimony 20 and -- that has been revised for October 2nd?</p> <p>21 MS. GAFKEN: Yes.</p> <p>22 JUDGE FRIEDLANDER: Okay. Thank you.</p> <p>23 MS. GAFKEN: So you've probably received 24 copies through the records center as well.</p> <p>25 JUDGE FRIEDLANDER: We did. We got two</p> |
| Page 551 | Page 553 |
| <p>1 JUDGE FRIEDLANDER: Thank you. 2 Any questions?</p> <p>3 COMMISSIONER RENDAHL: No.</p> <p>4 JUDGE FRIEDLANDER: All right, then. Thank 5 you for your testimony. You're excused.</p> <p>6 THE WITNESS: Thank you.</p> <p>7 JUDGE FRIEDLANDER: Why don't we go ahead and 8 take a very quick break? And I believe we are done with 9 cross-examination of Staff's case and Staff's witnesses.</p> <p>10 MR. OSHIE: Yes. Thank you, Your Honor. 11 That's -- Mr. Nightingale would be Staff's last witness to 12 appear this afternoon.</p> <p>13 JUDGE FRIEDLANDER: Okay.</p> <p>14 MR. OSHIE: And if he's not going to -- if 15 there's no need to call him up, I think it was -- his 16 testimony and exhibits were admitted --</p> <p>17 JUDGE FRIEDLANDER: Yes.</p> <p>18 MR. OSHIE: -- at the beginning of this 19 proceeding.</p> <p>20 JUDGE FRIEDLANDER: Yes, they were. And I 21 just conferred with the Bench, and we don't have any 22 clarification questions after all, so thank you.</p> <p>23 MR. OSHIE: All right. Thank you, Your 24 Honor.</p> <p>25 JUDGE FRIEDLANDER: Let's go ahead and take a</p> | <p>1 copies. I just wanted to make sure we had the right one. 2 And this does contain confidential 3 information, I understand, so --</p> <p>4 MS. GAFKEN: Yes.</p> <p>5 JUDGE FRIEDLANDER: All right. So I'll swear 6 you in.</p> <p>7</p> <p>8 DONNA M. RAMAS, witness herein, having been 9 first duly sworn on oath, 10 was examined and testified 11 as follows:</p> <p>12</p> <p>13 JUDGE FRIEDLANDER: Thank you. You can be 14 seated.</p> <p>15 MS. GAFKEN: Although with respect to the 16 confidential, I don't think that the numbers that were 17 changed were confidential.</p> <p>18 JUDGE FRIEDLANDER: Okay. Let's make sure 19 before we --</p> <p>20 MS. GAFKEN: Before we do them out loud? 21 JUDGE FRIEDLANDER: -- say anything. Yeah. 22 Yeah. Thank you.</p> <p>23 *** EXAMINATION BY MS. GAFKEN *** 24 BY MS. GAFKEN: 25 Q. Good afternoon.</p> |

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EXAMINATION BY GAFKEN / RAMAS

1 **A. Good afternoon.**

2 **Q. Would you please state your name and spell your**

3 **last name for the record?**

4 A. Donna Ramas, R-A-M-A-S.

5 **Q. And who is your employer, and in what capacity are**

6 **you employed?**

7 A. I'm principal of Ramas Regulatory Consulting, LLC.

8 **Q. On whose behalf are you testifying for today?**

9 A. The Public Counsel division of the Attorney

10 General's office.

11 **Q. And did you prepare direct and rebuttal -- or**

12 **cross-answering testimony and exhibits DMR-1CT through**

13 **DMR-26T?**

14 A. Yes, I did.

15 **Q. Do you have any changes or corrections to any of**

16 **your exhibits?**

17 A. Yes. I believe these were handed out previously,

18 and they're very minor changes that don't in any way impact

19 the -- the revenue requirements I'm recommending in this

20 case. Would you like me to walk through them?

21 **Q. I'm not sure that it's necessary. If the Bench**

22 **would like you to, I think we can, but...**

23 **JUDGE FRIEDLANDER: If they're just brief**

24 **corrections, why don't we go ahead and walk through them?**

25 MS. GAFKEN: Okay.

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EXAMINATION BY GAFKEN / RAMAS

JUDGE FRIEDLANDER: Thanks.

BY MS. GAFKEN:

3 **Q. Go ahead.**

4 A. Okay. The first correction was Exhibit DMR-1CT at

5 page 70, on lines 5 -- well, first on line 5. Okay? The

6 number \$3,013,000 was replaced with \$3,907,000, and on the

7 line below that, line 6, the number \$3,013,000 was replaced

8 with \$2,683,000. And again, that didn't in any way impact

9 the adjustment I recommended on -- in that area.

10 And then also, if you go to Exhibit DMR-3, page 8

11 of 9, on line 2, the date 11/31/14 should be replaced with

12 9/30/14. And again, it doesn't affect any of the revenue

13 requirement calculations. I just put in an incorrect title

14 on that line. And that completes all the revisions I have.

15 **Q. Okay. Thank you.**

16 MS. GAFKEN: The witness is available for

17 cross-examination questions and questions from the Bench.

18 JUDGE FRIEDLANDER: Thank you.

19 Mr. Shearer?

20 MR. SHEARER: Thank you, Your Honor.

21 *** EXAMINATION BY MR. SHEARER ***

22 BY MR. SHEARER:

23 **Q. Good afternoon, Ms. Ramas.**

24 A. Good afternoon.

25 **Q. I'm just going to spend our time together talking**

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EXAMINATION BY SHEARER / RAMAS

1 **about attrition.**

2 A. I had anticipated as such.

3 **Q. Yeah.**

4 **Okay. And I really want to spend the time**

5 **highlighting where exactly the parties disagree.**

6 A. Okay.

7 **Q. So we'll give that overall road map.**

8 **Now, your initial and cross-answering testimony**

9 **both oppose the use of any attrition adjustment in this**

10 **case; is that correct?**

11 A. Yes, absolutely.

12 **Q. And your rebuttal testimony specifically rejects**

13 **Staff's analysis, attrition analysis -- excuse me --**

14 A. Ah --

15 **Q. -- because it --**

16 A. I'm sorry. I thought you were done.

17 **Q. Oh. Because it includes estimates and**

18 **projections. Is that an accurate statement?**

19 A. That's -- that's part of the summarization I give

20 in my testimony. In addition to the reasons cited in my

21 initial testimony with regards to why I would reject the

22 Company's attrition analysis as well, you would be basing

23 rates not on cost-based rates anymore but rather on a

24 trending forecast, which wouldn't necessarily result in

25 known, measurable amounts and rates set based on known and

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EXAMINATION BY SHEARER / RAMAS

1 measurable amounts, as well as all the other reasons

2 incorporated in my direct and cross-rebuttal testimony --

3 or cross-answering testimony.

4 **Q. So you have a lot of reasons you disagree with the**

5 **use of an attrition analysis in this case? Is that**

6 **accurate?**

7 A. Yes, that is accurate.

8 **Q. But your rebuttal testimony does state briefly**

9 **that Staff's approach is more complete than the Company's?**

10 **Is that accurate?**

11 A. Maybe if you could cite me to somewhere, I'm

12 not --

13 **Q. Yeah. I can point you.**

14 A. Okay.

15 **Q. In D- -- DRM [sic], I think it's -26, the**

16 **rebuttal --**

17 A. Yeah.

18 **Q. -- -26T, on page 5, lines 17 and 18.**

19 A. Yeah. I don't know if I would call it more

20 complete, but it does incorporate -- I acknowledge that it

21 incorporated more historical trends than the approach used

22 by the Company. I don't know if that means it's more

23 complete. It's just a different approach that incorporates

24 more historical information than the Company's had.

25 **Q. Well, then let me ask you point-blank, is Staff's**

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EXAMINATION BY SHEARER / RAMAS

1 **attrition study better than the Company's?**
 2 A. I'd hate to have to pick one or the other because,
 3 again, I -- for the reasons said in my testimony and
 4 cross-reply testimony, I -- I -- it's my very strong
 5 opinion that that's not the reasonable or appropriate way
 6 to set rates going forward.
 7 But if you were to say, "Pick between the two, A
 8 or B," and I had to pick between the two, then Staff's
 9 would be preferable in my opinion than the Company's.
 10 **Q. So we understand that you disfavor the use of an**
 11 **attrition study and some of the qualitative discussion to**
 12 **support the use of an attrition study. Do you take issue**
 13 **with the quantitative methodologies used in Mr. McGuire's**
 14 **testimony?**
 15 A. The quantitative as far as the trending he used
 16 and --
 17 **Q. Yes.**
 18 A. -- the methodology?
 19 **Q. So --**
 20 A. Yeah. I do not think that's the appropriate way
 21 to go about setting rates. I mean, I've been doing this
 22 for 23 or 24 years now. In my experience with the numerous
 23 utilities I've reviewed and over 100 rate cases I've
 24 participated in is that, from year to year, there are so
 25 many changes in utility operations and what they're

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EXAMINATION BY SHEARER / RAMAS

1 doing -- you have changes made in generation plants,
 2 customer levels, loads -- that it's my opinion you can't
 3 just take a historic trending line, based on different
 4 methods of trending, even, and say, "Using this trending,
 5 this is what's going to happen two years and three months
 6 after the historic period being looked at."
 7 It's just too simplistic, and determining the
 8 needs of a utility in the future aren't that simplistic as
 9 just simply looking at historic trends and curves applied
 10 to those trends to see what may or may not happen. It
 11 still results in including rate base, expenses, taxes other
 12 than income, and depreciation on forecasts. It's just a
 13 different way of getting at that forecasted or
 14 future-period amounts.
 15 Hopefully, that answered your question. If not,
 16 please feel free to ask --
 17 **Q. I'll be a --**
 18 A. -- ask it differently.
 19 **Q. -- little more specific.**
 20 A. Mm-hmm.
 21 **Q. Are regression analyses and correlation**
 22 **calculations generally well-recognized statistical tools to**
 23 **measure historical data and issue projections?**
 24 A. Yeah. It's my understanding that that's what
 25 Staff's goal was, and Mr. McGuire's in preparing his

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EXAMINATION BY SHEARER / RAMAS

1 attrition study.
 2 **Q. Are any of the regressions Mr. McGuire put forward**
 3 **and the correlation figures that show they were the best**
 4 **fit, are any of those mathematically incorrect?**
 5 A. Not that I'm aware of.
 6 **Q. Thank you.**
 7 **Ms. Ramas, I'd like to move on to talk about the**
 8 **attrition versus the future test year, and you've broached**
 9 **on this a little bit already. Now, your cross-answering**
 10 **testimony argues that an attrition study is essentially a**
 11 **future test year. Is that a fair summary?**
 12 A. Yeah. I would agree that using the attrition
 13 study approach results in a future test period.
 14 **Q. Are attrition and a future test year conceptually**
 15 **distinct?**
 16 A. They can be different because they're a
 17 different -- it's -- the attrition study would be an
 18 approach that is being utilized to get to a future test
 19 year, but there are many other methods and approaches I've
 20 seen in rate cases in which future test periods are used.
 21 And in fact, I've done quite a few rate cases
 22 involving future test periods, and this is the first time
 23 I've come across an attrition-type approach being used to
 24 determine future test-year amounts.
 25 **Q. So is your testimony that they are conceptually**

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EXAMINATION BY SHEARER / RAMAS

1 **distinct but the results in this case are the same?**
 2 A. I don't know if I'd say conceptually distinct,
 3 because I think under both -- in the attrition study,
 4 you're projecting numbers into a future test period, so
 5 it's not conceptually different, it's just they're
 6 different ways to get to a future test period if that's the
 7 desire to go to a future test period.
 8 **Q. Are they calculated differently?**
 9 A. Yeah. Again, all -- all the jurisdictions and
 10 cases I've done involving a future test year, this is the
 11 first time I've -- I've seen the attrition-study-type
 12 approach used to get to that future test period.
 13 **Q. Does -- does this Commission employ a future test**
 14 **year?**
 15 A. Not that I -- I've seen.
 16 **Q. But has this Commission ever employed an attrition**
 17 **adjustment?**
 18 A. I think the last time it was done -- I reviewed a
 19 lot of the past attrition orders before preparing my
 20 testimony, and I think back in the '80s, there were several
 21 cases in which an attrition adjustment was made.
 22 **Q. Now I want to turn to the -- the existence or the**
 23 **impact of disallowances on Staff's attrition study. Your**
 24 **testimony points out that the modified historical test year**
 25 **results would not inform the attrition-related revenue**

| | |
|---|--|
| <p style="text-align: right;">Page 562</p> <p style="text-align: center;">EXAMINATION BY SHEARER / RAMAS</p> <p>1 requirement; is that correct?</p> <p>2 A. I'm sorry. Could you repeat that?</p> <p>3 Q. So your cross-es- -- cross-answering testimony</p> <p>4 stated that changes to the modified historical test year</p> <p>5 approach, the traditional rate-making approach, that any --</p> <p>6 those changes would not impact the attrition-related</p> <p>7 revenue requirement. Does that accurately summarize your</p> <p>8 testimony?</p> <p>9 A. Yeah. I think -- I think what I -- I said is that</p> <p>10 if the Com- -- if Commission Staff had made other</p> <p>11 adjustments to the historic test period with known and</p> <p>12 measurable adjustments, that approach, that say they had</p> <p>13 added more or less plant additions for major pro forma</p> <p>14 plant items, with the exception of the one-off adjustment</p> <p>15 in the attrition study for Project Compass, those wouldn't</p> <p>16 have mattered, because you're -- Staff would still be going</p> <p>17 to the same attrition-adjusted revenue requirements.</p> <p>18 Q. I was just going to --</p> <p>19 A. So say, for --</p> <p>20 Q. -- ask that.</p> <p>21 A. -- example, that more major plant additions had</p> <p>22 been added or less had been added by Staff, that wouldn't</p> <p>23 have really mattered, because you're calculating the</p> <p>24 difference between Staff's attrition approach and the</p> <p>25 cross-text -- -check study approach to get to that</p> | <p style="text-align: right;">Page 564</p> <p>1 very brief.</p> <p>2 *** EXAMINATION BY MS. GAFKEN ***</p> <p>3 BY MS. GAFKEN:</p> <p>4 Q. Ms. Ramas, you were asked questions about whether</p> <p>5 Staff's attrition approach was better than Avista's</p> <p>6 attrition approach. Is Staff's attrition approach a</p> <p>7 reasonable way to set rates in this case?</p> <p>8 A. No. In my opinion, it's not, for the reasons</p> <p>9 presented in my cross-reply testimony -- or cross-answering</p> <p>10 testimony.</p> <p>11 Q. For the reasons stated in your cross-answering</p> <p>12 testimony and your direct testimony?</p> <p>13 A. Yes, as well. It's the same principles in setting</p> <p>14 rates in my opinion and why you shouldn't go an attrition</p> <p>15 approach in -- in determining rates being charged to</p> <p>16 ratepayers.</p> <p>17 Q. So the critiques of -- of the attrition adjustment</p> <p>18 offered by the Company that you present in your direct</p> <p>19 testimony also would apply to the Staff's attrition --</p> <p>20 A. For the --</p> <p>21 Q. -- study?</p> <p>22 A. -- most part. Not 100 percent of them, because</p> <p>23 one of the concerns pointed out in my direct testimony with</p> <p>24 the Company's approach was that they were -- the percentage</p> <p>25 escalations they were applying to net plant in service, net</p> |
| <p style="text-align: right;">Page 563</p> <p style="text-align: center;">EXAMINATION BY SHEARER / RAMAS</p> <p>1 attrition number.</p> <p>2 Q. That was my next question, to turn to Compass.</p> <p>3 Staff did make an attrition adjust -- adjustment to its</p> <p>4 attrition-related revenue requirement to include the</p> <p>5 effects of disallowing a portion of Project Compass; is</p> <p>6 that correct?</p> <p>7 A. Yeah. My -- my understanding of what Staff did</p> <p>8 with Project Compass is that they felt that that historical</p> <p>9 trend that they applied to the net plant -- to the net</p> <p>10 plant in service, net of ADIT, that Project Compass was</p> <p>11 something that was beyond that trending level that they</p> <p>12 saw.</p> <p>13 So they did make an additional adjustment, above</p> <p>14 and beyond the -- the attrition trending to add Project</p> <p>15 Compass, but they added it at a lower amount than what the</p> <p>16 Company had proposed for Project Compass to -- to reflect</p> <p>17 some disallowances for that project.</p> <p>18 Q. And that -- and that lower amount was to reflect</p> <p>19 the disallowance; is that correct?</p> <p>20 A. That's correct.</p> <p>21 MR. SHEARER: No further questions, Your</p> <p>22 Honor.</p> <p>23 JUDGE FRIEDLANDER: Thank you.</p> <p>24 Is there any redirect?</p> <p>25 MS. GAFKEN: One, maybe two questions, so</p> | <p style="text-align: right;">Page 565</p> <p style="text-align: center;">EXAMINATION BY GAFKEN / RAMAS</p> <p>1 of accumulated deferred federal income taxes, was based</p> <p>2 entirely on some of their budgets for two thousand and --</p> <p>3 through 2016, whereas Staff's approach isn't using the</p> <p>4 budgeted amounts. They're using the historical amounts.</p> <p>5 MS. GAFKEN: That's all I have. Thank you.</p> <p>6 MR. MEYER: May I just do a quick follow-up</p> <p>7 on that last answer?</p> <p>8 JUDGE FRIEDLANDER: Okay.</p> <p>9 MR. MEYER: Okay.</p> <p>10 JUDGE FRIEDLANDER: I -- I will allow it --</p> <p>11 MR. MEYER: Okay.</p> <p>12 JUDGE FRIEDLANDER: -- with the opportunity</p> <p>13 for redirect again. It'll be considered cross.</p> <p>14 MR. MEYER: It -- I just wanted to clarify</p> <p>15 one thing I thought I heard the witness say, that she had</p> <p>16 some concerns about use of projections in the -- in the</p> <p>17 Company's attrition analysis.</p> <p>18 *** EXAMINATION BY MR. MEYER ***</p> <p>19 BY MR. MEYER:</p> <p>20 Q. The question is, now, you understand that</p> <p>21 on re- -- that the Company's attrition adjustment on</p> <p>22 rebuttal was modified to conform with Staff's --</p> <p>23 A. Yes.</p> <p>24 Q. -- correct?</p> <p>25 A. But I was asked about concerns in my direct</p> |

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EXAMINATION BY MEYER / RAMAS

1 testimony, and I didn't get an opportunity to reply to the
 2 Company's new study it presented --
 3 **Q. Okay.**
 4 A. -- in its rebuttal position.
 5 MR. MEYER: Thank you. I wanted to be clear
 6 about that.
 7 JUDGE FRIEDLANDER: Sure. Thank you.
 8 And do you have any questions on that
 9 clarification?
 10 MS. GAFKEN: No, I do not. Thank you.
 11 JUDGE FRIEDLANDER: Okay. Thank you.
 12 Any Bench questions?
 13 *** EXAMINATION BY CHAIRMAN DANNER ***
 14 BY CHAIRMAN DANNER:
 15 **Q. Thank you. Ms. Ramas, so is there ever a time**
 16 **when attrition -- when doing attrition analysis might be**
 17 **warranted? Are there any conditions that you would want to**
 18 **see that justify that approach?**
 19 A. In my opinion, I -- I don't see a situation using
 20 an attrition study, in which you're forecasting out from a
 21 historic period into a future test period, that that would
 22 be a correct or reasonable co- -- way to set rates, because
 23 you're no longer basing it on cost-based rates; you're
 24 assuming that historical trending or curving is going to
 25 continue in the future.

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EXAMINATION BY CHAIRMAN DANNER / RAMAS

1 And that's just too simplistic in my opinion,
 2 because so many things change as -- change -- so many
 3 things change for utilities over time, and to just -- I
 4 just don't see how that is -- I do know, though, that the
 5 Commission, in addressing attrition in past cases, has made
 6 some other adjustments as a result of attrition, beyond
 7 going to a -- setting rates based on an attrition study.
 8 For example, the end of test period, using
 9 end-of-period rate base, or allowing certain adjustments
 10 that are known and measurable to go beyond the test year
 11 itself as a way -- in the Commission orders I read -- as a
 12 way to address attrition that may be occurring.
 13 So I think there's other ways to address potential
 14 attrition or regulatory lag without having to go to using
 15 forecast -- setting rates based on forecasted amounts that
 16 are based on trends.
 17 **Q. So -- but wouldn't you say that, in going back**
 18 **into the past history, though, I mean, the Commission has,**
 19 **while it favors using the historic test year with pro forma**
 20 **adjustments, it has, basically, stretched that to deal with**
 21 **the circumstances at hand.**
 22 **And so when you're using end-of-period, for**
 23 **example, I mean, that's -- that's because you're trying to**
 24 **address regulatory lag. Here, we're in a situation where,**
 25 **not only regulatory lag, but a concern about whether the**

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EXAMINATION BY CHAIRMAN DANNER / RAMAS

1 **Company can ever meet its -- its ROR, you know.**
 2 **We -- and this Commission has used attrition in**
 3 **the past. I mean, back in -- in the '80s, you know, Duran**
 4 **Duran and The Bangles, and those groups are actually making**
 5 **a comeback this year, so --**
 6 A. I hope not.
 7 **Q. -- you know that the -- so -- so basically, the**
 8 **question has been, what flexibility should the Commission**
 9 **have to use tools to address particular circumstances?**
 10 **And so if the Commission finds that the inability**
 11 **to -- to earn an authorized rate of return, if the**
 12 **Commission finds that a company simply doesn't have that**
 13 **and -- you know, should it adjust its tools to address**
 14 **that. And -- and so I'm just looking at what kind of**
 15 **flexibility you see us having?**
 16 A. Yeah. And again, I -- I'm not sure of all the
 17 statutes that may put limitations on your tools, but it's
 18 my understanding that the Commission has addressed that
 19 some by going to end-of-period and allowing more major pro
 20 forma plant additions that are used and useful and known
 21 and measurable, so you're still setting rates based on use
 22 and useful plant in service and based on known and
 23 measurable amounts.
 24 **Q. Well, and we've --**
 25 A. So I do think --

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EXAMINATION BY CHAIRMAN DANNER / RAMAS

1 Q. We've had --
 2 A. -- there are more tools in there.
 3 **Q. But haven't we had arguments that even -- even**
 4 **those adjustments violated the principles of used and**
 5 **useful and known and measurable? I mean, I -- I seem to**
 6 **recall that we did have those arguments in those rate**
 7 **cases.**
 8 A. I don't know, if you're using actual amounts, that
 9 they're necessarily not used and useful or known and
 10 measurable, but there are -- is the concern that you're
 11 going to start no longer having a match in the revenues and
 12 investment and expenses.
 13 So that's why when you do go past an historic test
 14 period, you've got to be careful that you pick up not only
 15 those plant additions but the incumbent impacts on other
 16 components of revenue requirements of those impacts.
 17 And, again, I'm not saying that -- that you need
 18 to go to a future test year, because I do think you can get
 19 fair and reasonable rates that will allow a utility an
 20 opportunity to earn a rate of return -- fair and reasonable
 21 rate of return under the historical test year with known
 22 and measurable adjustments.
 23 And I -- I still don't -- I don't agree that it's
 24 necessarily been demonstrated in this case that the Company
 25 cannot earn a fair and reasonable rate of return without an

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EXAMINATION BY CHAIRMAN DANNER / RAMAS

1 attrition adjustment. I mean, again, that attrition --

2 **Q. Yeah.**

3 A. -- study that shows the under-earnings --

4 **Q. I understand that.**

5 A. Oh, I'm sorry.

6 **Q. I'm just asking at the -- at the theoretical**

7 **level --**

8 A. Okay.

9 **Q. -- what -- what tools do we have in our holster**

10 **and is attrition analysis one of them? And so what I'm**

11 **hearing you say is --**

12 A. That --

13 **Q. -- is that's kind of --**

14 A. -- may -- I -- legislature --

15 COURT REPORTER: I'm sorry. Please let him

16 finish.

17 THE WITNESS: I'm sorry.

18 A. Under the Commission rules, I'm not sure what

19 additional tools you may have, but I do know you have some

20 flexibility as far as going beyond the end of historic test

21 years that you can take into consideration, but I'm not

22 sure of all the tools you may have available to you.

23 BY CHAIRMAN DANNER:

24 **Q. Okay. But again, it's your position that an**

25 **attrition analysis is just a bridge too far?**

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EXAMINATION BY CHAIRMAN DANNER / RAMAS

1 **A. Yeah. I don't think that that would result in**

2 **cost-based rates, that you -- you can't just simplistically**

3 **assume that these historic trends will be reflective of**

4 **what's going to happen in the future.**

5 **Q. But isn't there kind of a sliding scale? I mean,**

6 **there's known and measurable, and then there's less known**

7 **and measurable, and less known and measurable. The more**

8 **you get out of the things like end-of-period, you're --**

9 **you're getting further away from those things. I mean, how**

10 **far can you go before you've gone too far? And, I mean,**

11 **how do you -- how do you draw that line?**

12 A. Well, end-of-period is still, in my opinion, known

13 and measurable, because you're basing on actual amounts

14 that have been booked and placed into service, so you're

15 not using forecasts and projections. You're based --

16 basing them on amounts that are based on the Company's

17 books, so they're actual known and measurable costs.

18 CHAIRMAN DANNER: Okay. All right. Thank

19 you.

20 JUDGE FRIEDLANDER: Thank you.

21 *** EXAMINATION BY COMMISSIONER RENDAHL ***

22 BY COMMISSIONER RENDAHL:

23 **Q. Afternoon, Ms. Ramas.**

24 A. Good afternoon.

25 **Q. Ramas or Ramas?**

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EXAMINATION BY COMMISSIONER RENDAHL / RAMAS

1 **A. Ramas.**

2 **Q. Good. We'll do that. Okay.**

3 **So Ms. Ramas, if you would turn to your testimony**

4 **in DMR-1T, page 20.**

5 A. I'm there.

6 **Q. Okay. So in the Q and A that starts on line 11**

7 **and goes on to page 21, you're talking about the time**

8 **period used in evaluating in -- in the electric attrition**

9 **study that the Company used; correct?**

10 A. Correct.

11 **Q. Okay. So you did some analysis based on a time**

12 **period of 2011 through 2014; correct?**

13 A. Yes, I did.

14 **Q. Okay. So do you -- did you just do a calculation,**

15 **or did you do some sort of an attrition study that's**

16 **comparable to Staff's method for this 2011 to 2014 time**

17 **period?**

18 A. No. It -- in doing this, I used the Company --

19 the actual attrition model that had been provided by the

20 Company, the updated one that -- that factored in the

21 impacts of the settlement agreement, and that was provided

22 in response to Staff Data Request 130, Attachment B, the

23 revised attachment.

24 And all's I did was -- was change -- change the

25 factors that were put up in the escalation lines, so I

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EXAMINATION BY COMMISSIONER RENDAHL / RAMAS

1 still used all -- all the numbers and amounts that were in

2 the Company's model. I just -- instead of escalating it

3 based on the Company's forecasted plant additions, I used

4 it based on the three prior years, the 2011 through 2014,

5 so that's all based on the Company's attrition model.

6 **Q. So since that time, and since Staff filed its --**

7 **its testimony and its attrition study, did you do a similar**

8 **evaluation of that time period using Staff's?**

9 A. No, I -- I did not.

10 **Q. Okay. I have one other question, and this is**

11 **related to the O&M expenses.**

12 A. Okay.

13 **Q. So on rebuttal, the Company revised its test-year**

14 **expenses for Colstrip to reflect a one-time refund?**

15 A. Yes. That's my understanding.

16 **Q. Okay. Do you agree that this is an appropriate**

17 **adjustment to their test-year expenses?**

18 A. I'm not sure. That came in so late in the record

19 that I really didn't have a lot of time to think it through

20 and evaluate it and ask more follow-up discovery on it.

21 It's my understanding that it relates to -- it's a refund

22 of costs that it -- that were initially occurred --

23 hopefully, my recollection was right, but around 2013, and

24 it's a refund of those amounts.

25 So just given how late it was presented by the

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EXAMINATION BY COMMISSIONER RENDAHL / RAMAS

1 Company at the rebuttal phase, I -- I haven't formed an
 2 opinion if it's reasonable or not. I -- I do know that the
 3 amount of adjustment to make for it would be different if
 4 you're using the cross-check study approach or the historic
 5 test year approach in setting rates versus the attrition
 6 approach because of the different periods used, because in
 7 the Sept- -- in the historic test year ended
 8 September 31st [sic], 2014, the amount is lower -- that was
 9 booked in that 12-month period than what was booked on the
 10 12-month period ending December 31st, 2014, which was used
 11 in the attrition studies.

12 And I believe one of the cross-exhibits that was
 13 introduced clarifies that, that -- what the adjustment
 14 would be, depending on which time period you're using.

15 **Q. Okay. Thank you.**

16 A. You're welcome.

17 *** EXAMINATION BY COMMISSIONER JONES ***
 18 BY COMMISSIONER JONES:

19 **Q. Ms. Ramas, just one question. We haven't talked**
 20 **about decoupling that much. We've all been talking about**
 21 **attrition. Decoupling used to be a big thing around here,**
 22 **around this Commission. But could you turn to page 22? I**
 23 **think you mentioned decoupling.**

24 A. Yes, I'm there.

25 **Q. So I guess my question is, a full decoupling**

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EXAMINATION BY COMMISSIONER JONES / RAMAS

1 **mechanism for Avista, both on the electric and natural gas**
 2 **system, is relatively new; right? It just implemented**
 3 **January 1st?**

4 A. Yeah. That's my understanding.

5 **Q. So how, in your view, will a decoupling mechanism**
 6 **interact with -- let's say we adopt a full attrition**
 7 **analysis along the lines of either Mr. McGuire or the**
 8 **Company's? What should we be aware of?**

9 **Because what decoupling does, as I understand it,**
 10 **it allows the utility to recover their fixed costs, which**
 11 **included CAPEX and O&M, I would think, and it separates the**
 12 **basic charge from the volumetric charge, and it's on a**
 13 **revenue-per-customer basis.**

14 A. Yeah.

15 **Q. So can you talk a little bit about that, please?**

16 A. Yeah. I mean, it's my -- my understanding that
 17 decoupling should offset the pressures that the Company
 18 contends is causing the attrition situation, so now if
 19 you're having plant growth in the future, and if you
 20 have -- you may have lower load growth and lower -- if you
 21 do have declining usage per customer, that's kind of
 22 corrected for with the -- at least my understanding of how
 23 the decoupling mechanism works, that -- that impacts of
 24 lower load growth or lower per-customer usage aren't as
 25 great now as they were in the past because now you're going

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EXAMINATION BY COMMISSIONER JONES / RAMAS

1 to have that decoupling true-up in rates.

2 **Q. Does it affect rate -- what we think of as rate**
 3 **base additions directly or does it do so indirectly? I**
 4 **think Mr. Norwood --**

5 A. I guess it would indirectly, because it -- it's
 6 going to result in the Company being more -- I hate to say
 7 "guaranteed," but a larger probability of collecting the
 8 amount of revenues that was determined based on the plant
 9 in service for which the rates were set based on.

10 **Q. Okay. Thank you.**

11 A. You're welcome.

12 JUDGE FRIEDLANDER: Thank you. Thank you for
 13 your testimony. You're excused.

14 So I believe next up is Ms. Alexander.

15

16 BARBARA R. ALEXANDER, witness herein, having been
 17 first duly sworn on oath,
 18 was examined and testified
 19 as follows:

20

21 JUDGE FRIEDLANDER: Thank you.
 22 *** EXAMINATION BY MS. GAFKEN ***

23 BY MS. GAFKEN:

24 **Q. Good afternoon.**

25 A. Good afternoon.

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EXAMINATION BY GAFKEN / ALEXANDER

1 Q. Would you please state your name and spell your
 2 last name for the record?

3 A. Barbara R. Alexander, A-L-E-X-A-N-D-E-R.

4 **Q. And who are you employed by?**

5 A. I'm a self-employed consultant.

6 **Q. On whose behalf are you testifying for in these**
 7 **dockets?**

8 A. The Public Counsel and The Energy Project.

9 **Q. And did you prepare direct testimony and exhibits**
 10 **BRA-1T through BRA-20?**

11 A. Yes.

12 **Q. And do you have any changes or corrections to your**
 13 **testimony or exhibits?**

14 A. I do not have a formal correction, but I
 15 acknowledge that on page 29 of my direct testimony, that
 16 I -- and I'll give you the line number -- picked up the --
 17 line 4, I picked up the wrong number from the Company's
 18 data request about the amount of savings they projected
 19 from detecting energy theft due to the AMI system.

20 And Mr. La Bolle corrected that misstatement in
 21 his rebuttal testimony, and I agree with his correction;
 22 however, this change does not impact my analysis or my
 23 concerns about the validity of the number they are
 24 including in their business case.

25 MS. GAFKEN: Thank you.

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1 Ms. Alexander is -- is ready for cross.
 2 CHAIRMAN DANNER: So I'm sorry. Could I get
 3 clarification? So you're changing the number that is
 4 currently 2.24 million, and you're changing it to something
 5 else?
 6 THE WITNESS: Well, I'm letting
 7 Mr. La Bolle's testimony on the record stand as --
 8 CHAIRMAN DANNER: Okay. So you're not --
 9 THE WITNESS: -- as a proper correction.
 10 CHAIRMAN DANNER: So you're not making
 11 amendments to your own testimony?
 12 THE WITNESS: Well, I didn't bring it in that
 13 respect, but I'm happy to acknowledge --
 14 CHAIRMAN DANNER: Thank you.
 15 THE WITNESS: -- the error. Yes.
 16 JUDGE FRIEDLANDER: Thank you.
 17 Mr. Shearer?
 18 MR. SHEARER: Staff has no cross for
 19 Ms. Alexander.
 20 JUDGE FRIEDLANDER: You're right. My bad.
 21 Mr. Meyer?
 22 MR. MEYER: Yes, I do.
 23 *** EXAMINATION BY MR. MEYER ***
 24 BY MR. MEYER:
 25 **Q. Good afternoon.**

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EXAMINATION BY MEYER / ALEXANDER
 1 **A. Good afternoon. Evening for me, but afternoon to**
 2 **you.**
 3 **Q. You state at page 11 of your testimony -- and you**
 4 **don't need to turn to it if -- you can, obviously, but it's**
 5 **your BRA-1T -- that you have no inherent disagreement with**
 6 **AMI deployment. I think your words were that this does not**
 7 **"reflect opposition to AMI in particular or smart-grid**
 8 **investments generally." Have I characterized that portion**
 9 **of your testimony accurately?**
 10 A. You've quoted it correctly, yes.
 11 **Q. Thank you.**
 12 **Do you have in front of you Cross-Exhibit BRA-21?**
 13 A. Am I supposed to have something here?
 14 **Q. You should, and I can give you a copy of that if**
 15 **that speeds things up.**
 16 **JUDGE FRIEDLANDER: That's fine.**
 17 A. Yes. I'm familiar with this response to your data
 18 request to me, yes.
 19 BY MR. MEYER:
 20 **Q. Yes. Okay.**
 21 A. Okay. Very good.
 22 MR. MEYER: So I have an extra copy if anyone
 23 needs it.
 24 JUDGE FRIEDLANDER: I have it.
 25 COMMISSIONER JONES: I'm fine.

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EXAMINATION BY MEYER / ALEXANDER
 1 MR. MEYER: We're good?
 2 BY MR. MEYER:
 3 **Q. Now, in that request, you were asked to identify**
 4 **each docket or case in which you've presented testimony**
 5 **addressing AMI; correct?**
 6 A. Addressed utility proposals with business cases
 7 for AMI deployment, yes.
 8 **Q. All right. And as I counted up the sheer number**
 9 **of entries there, I -- I came up with 27 entries?**
 10 A. You may be correct. I haven't --
 11 **Q. Okay.**
 12 A. -- double- --
 13 **Q. Subject to check?**
 14 A. Yes.
 15 **Q. Okay. All right. Now, you were also asked as**
 16 **part of that same request, Subpart B, concerning those**
 17 **dockets, those 27 different entries, "Please identify each**
 18 **case in which you have submitted testimony or comments**
 19 **recommending the implementation of AMI -- AMI as a part of**
 20 **that proceeding," and I'll ask you to read the last**
 21 **paragraph of this data response, beginning with,**
 22 **"Ms. Alexander's engagements." Would you read that aloud?**
 23 A. Certainly. "Ms. Alexander's engagements in each
 24 of these proceedings was to evaluate the costs and benefits
 25 of AMI, as well as the customer bill impacts associated

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EXAMINATION BY MEYER / ALEXANDER
 1 with that investment, or to respond to specific policy
 2 issues associated with AMI deployment.
 3 "Ms. Alexander's testimony on behalf of consumer
 4 advocates did not endorse or recommend the approval of AMI
 5 deployment or, where such deployment was already approved,
 6 she recommended performance metrics, consumer protections,
 7 cost recovery and rate design, time-varying rate programs,
 8 and other conditions of deployment."
 9 Q. So -- thank you.
 10 So you have not presented testimony in all of
 11 these identified dockets in -- in not one instance did you
 12 recommend adoption of AMI for that particular utility;
 13 correct?
 14 A. That is correct. I have not been asked to endorse
 15 AMI. I've been asked to evaluate costs and benefits being
 16 imposed on residential customers, primarily, to support
 17 this investment, and that is my -- the subject of my
 18 testimony in all those proceedings.
 19 **Q. Thank you.**
 20 **So am I to infer from that that you were never**
 21 **retained to independently evaluate, but rather you were**
 22 **retained to oppose the adoption of AMI?**
 23 A. No. I was retained to evaluate the utility's
 24 presentation of its facts about costs and benefits and the
 25 associated programs that the utility included in its filing

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EXAMINATION BY MEYER / ALEXANDER

1 to justify its AMI deployment, so I looked at that from the
 2 bottom up.

3 As a ratepayer advocate, I was critical and
 4 intended to be critical of attempting to find whether the
 5 assumptions were reasonable, whether the bill impacts were
 6 affordable, and whether the technology would, in fact,
 7 result in the benefits that the utility claimed.

8 **Q. So, Ms. Alexander, in your testimony at -- I think**
 9 **it's at page 2, but irrespective of that, this -- this is**
 10 **your -- your direct testimony, you test- -- you say you**
 11 **testified in Oklahoma, Maryland, Michigan, California, and**
 12 **Maine. Do -- have all five of those jurisdictions adopted,**
 13 **in one form or another, AMI?**

14 A. The commissions in those juris- -- well, I'll have
 15 to hold out Michigan. I've lost track of their situation.
 16 It was appealed to court as being insufficiently supported
 17 on the record.

18 But in Maine, AMI has been adopted. In Oklahoma,
 19 the commissions have adopted AMI. In Maryland, they did.
 20 In most of those jurisdictions, they had half the cost of
 21 the program paid with the federal government's American
 22 Reinvestment and -- I'm sorry, the ARRA funding that was
 23 adopted in the late 2000s.

24 **Q. Okay. Well, let's complete this list of five.**
 25 **Michigan --**

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EXAMINATION BY MEYER / ALEXANDER

1 **A. Sure.**

2 **Q. -- has adopted it; correct?**

3 A. Well, as I said, the commission did approve some
 4 initial costs. It was not a full deployment case, and it
 5 was appealed, and the court rejected the commission's
 6 decision as not being within the confines of the record
 7 evidence. I do not know the current status of that
 8 situation.

9 **Q. All right. Fair enough. And --**

10 A. Okay.

11 **Q. -- California has very much adopted and embraced**
 12 **AMI?**

13 A. Oh, absolutely, and they did so before any federal
 14 money was available. The total costs in California is
 15 \$5 billion and growing. The one case that I participated
 16 in was the gas company's AMI deployment, and it happened
 17 after the commission had approved AMI for all other
 18 combined gas and electric utilities in California.

19 **Q. All right. Now, did this Commission hold, I'm**
 20 **going to call it, a workshop or a conference on AMI with**
 21 **reference to Avista's plans that was open to all interested**
 22 **parties earlier this year, and I believe it was in**
 23 **February?**

24 A. I would have no personal knowledge of that.

25 **Q. Have you since been made aware of that workshop?**

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EXAMINATION BY MEYER / ALEXANDER

1 **A. I have seen a data response with a presentation**
 2 **that Avista made at that workshop, yes.**

3 **Q. Do you understand that that was publicly noticed**
 4 **and any interested party could appear?**

5 A. If you say so. I would have no knowledge of that.

6 **Q. And was it open for representatives of Public**
 7 **Counsel to attend and participate --**

8 A. I have --

9 **Q. -- if you know?**

10 A. I have no knowledge of that.

11 **Q. Do you know whether Public Counsel representatives**
 12 **appeared and participated in that process?**

13 A. I do not know.

14 MR. MEYER: Okay. That's all I have. Thank
 15 you.

16 JUDGE FRIEDLANDER: Thank you.
 17 Any redirect?

18 MS. GAFKEN: Yes. This should be fairly --
 19 fairly quick.

20 *** EXAMINATION BY MS. GAFKEN ***

21 BY MS. GAFKEN:

22 **Q. I want to first start with the line of questioning**
 23 **that Mr. Meyer ended with. Were you retained by Public**
 24 **Counsel to address the workshop docket that Mr. Meyer**
 25 **inquired about?**

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EXAMINATION BY GAFKEN / ALEXANDER

1 **A. No. I was only retained after Avista filed the**
 2 **AMI deployment business case in this proceeding.**

3 **Q. Mr. Meyer asked you a series of questions about**
 4 **other states that you have worked in and other AMI**
 5 **proposals that you have addressed.**

6 A. Mm-hmm.

7 **Q. He specifically asked you about Michigan and**
 8 **California, and Maryland was in the first question, but not**
 9 **in the -- when he started listing out the states.**

10 A. Mm-hmm.

11 **Q. Let's focus first on California. What was the**
 12 **reason for your recommendation in that case, on a very high**
 13 **level?**

14 A. I was retained by the UWUA to review a gas
 15 company's, a standalone gas company's, proposal to replace
 16 and install AMI for its gas metering system. I reviewed
 17 the company's costs and benefits and provided testimony
 18 that pointed out the risks that the benefits are unlikely
 19 to be appearing as they projected, and the commission
 20 approved the proposal in any case.

21 But as I said, California had long ago decided
 22 that AMI -- ubiquitous AMI deployment in that state was
 23 something that they were going to do, and the combination
 24 gas and electric utilities had already had approval for
 25 doing AMI for their gas portion of their business. So this

| | |
|--|---|
| Page 586 | Page 588 |
| <p style="text-align: center;">EXAMINATION BY GAFKEN / ALEXANDER</p> <p>1 utility was the only utility left in California without an 2 AMI deployment approval, and they obtained it after this 3 proceeding that I've just described. 4 Q. With respect to your work in Maryland -- 5 A. Mm-hmm. 6 Q. -- did the commission in that state initially 7 approve the AMI proposal? 8 A. No. In fact, they rejected it. Even with the 9 hundreds of millions of dollars that the utility had 10 already received in a commitment from the Department of 11 Energy to fund half the cost of the deployment in that -- 12 Baltimore Gas and Electric and Potomac Edison electric 13 companies. 14 And the commission's rejection was specifically 15 discussing the lack of documentation for benefits in that 16 case. The company came back with revised proposals, and 17 they changed the nature of the customer programs that they 18 were making a commitment to implement quite dramatically. 19 And their proposal relied in great part on funding 20 a demand response program called "peak-time rebate" through 21 revenues from the PJM wholesale market, which dramatically 22 impacted their cost-benefit analysis. 23 And the commission did approve it, but did not 24 roll the costs into rates, but said, "You may come back and 25 seek recovery of these costs if you, at the same time,</p> | <p style="text-align: center;">EXAMINATION BY GAFKEN / ALEXANDER</p> <p>1 only later did they change their mind with respect to how 2 they wanted to proceed. 3 But in this case, we have not one bill impact 4 analysis done by the Company, no indication of how people's 5 bills will be impacted by this proposal, and as a result, I 6 doubt, with exactly the information that they were willing 7 to provide with regard to their projected benefits, of 8 which I, obviously, had serious concerns about their 9 validity. 10 MS. GAFKEN: Okay. Thank you. I have no 11 further questions. Thank you. 12 JUDGE FRIEDLANDER: Thank you. 13 Any questions from the Bench? 14 *** EXAMINATION BY COMMISSIONER JONES *** 15 BY COMMISSIONER JONES: 16 Q. Ms. Alexander, could you turn to page -- I have a 17 few questions on customer privacy and opt-out. 18 A. Yes. 19 Q. Page 17 and 18 is where you describe -- 20 A. 17 and 18? 21 Q. 18 of your Exhibit BRA-1T. 22 A. Yes. 23 Q. So I guess the bottom line here is, you describe a 24 number of concerns based on your national -- your -- your 25 testimony and review of literature nationwide on customer</p> |
| Page 587 | Page 589 |
| <p style="text-align: center;">EXAMINATION BY GAFKEN / ALEXANDER</p> <p>1 document that all of the benefits, and in the amount that 2 you have projected, have actually occurred as you've 3 rec- -- estimated that they will." 4 And they set in motion a very elaborate tracking 5 mechanism for each one of the cost categories and the 6 benefit categories, and to my knowledge, the utility has 7 yet to come in to seek full rate base inclusion of those 8 AMI costs. I have no doubt that they will, but they have 9 not yet done so. 10 Q. Mr. Meyer asked you a series of questions about 11 whether you have been retained by various consumers' 12 advocates to oppose AMI generally, and I think you fairly 13 clearly said that you were retained to evaluate the 14 business cases for each one of the utility cases that 15 you've worked on; is that correct? 16 A. Yes. 17 Q. In this case, did either Public Counsel or The 18 Energy Project ask you to come to a foregone conclusion or 19 did we ask you to evaluate the case that was presented by 20 the Company? 21 A. You did not suggest a foregone conclusion. You 22 asked me to evaluate the business case in this situation, 23 from the perspective of the ratepayers, who will be asked 24 to pay for this investment. Obviously, in the beginning of 25 the case, the Company wanted to include costs in rates, and</p> | <p style="text-align: center;">EXAMINATION BY COMMISSIONER JONES / ALEXANDER</p> <p>1 privacy issues and especially sharing of the interval data 2 with third parties; correct? 3 A. Yes. 4 Q. My question is timing and your recommendation. 5 Did you hear my exchange earlier today with Mr. La Bolle on 6 the corporate communications budget and whether or not 7 regulatory proceedings are part of that? 8 A. Yes, I did. 9 Q. Does that give you any concern? Because as I read 10 your testimony, it is in that last sentence on line 19 11 where you state, "Avista has not budgeted for any customer 12 privacy issues in this project." 13 A. That's right. I asked that question specifically. 14 Where are the costs for addressing the desire or the 15 obvious need to develop policies with how you're going to 16 handle the release of this data and the availability of 17 this data to third parties who would find it very valuable, 18 either in the combined nonspecific customer sense and in 19 the specific customer sense of the personal interval data? 20 And the answer was that there were no expectations 21 of additional costs, that they already had a privacy 22 policy, and that they would guard all this information and 23 not release anything without the customer's permission. 24 But that's very naive, because it doesn't address what 25 other states have had to deal with with these policy</p> |

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EXAMINATION BY COMMISSIONER JONES / ALEXANDER

1 issues.

2 **Q. I have read part of the California PUC rule on**

3 **privacy and smart grid. It is very voluminous, very --**

4 A. Yes, sir. And it took two years to get that far.

5 Now, I will admit to you that California kind of overdid it

6 with regard to its complexity and length of time. I'm not

7 suggesting that Avista would need two years to get this

8 resolved here. However, I do think it's important to

9 recognize that the -- the actual implementation of this has

10 not been thought through as carefully as I think they

11 should have.

12 **Q. Okay. And timing of this, would you recommend**

13 **that if we -- I'm still not sure what the Company is asking**

14 **us, some sort of guidance and then deferred accounting on**

15 **the -- on the existing meters in this order, through a**

16 **separating accounting petition.**

17 **But in any case, let's say it's either in this**

18 **order or Decem- -- let's say we issue it in December or**

19 **they file first quarter of 2016, when do you -- when would**

20 **you recommend that we initiate -- I -- do you recommend**

21 **that we proceed with a rule-making on smart-grid privacy**

22 **issues?**

23 A. That would be a perfectly acceptable way to

24 proceed --

25 **Q. Okay.**

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EXAMINATION BY COMMISSIONER JONES / ALEXANDER

1 **A. -- at some point, if deployment is actually going**

2 **to be undertaken.**

3 **Q. Okay.**

4 A. I, of course, hope you do not give the --

5 **Q. Yes.**

6 A. -- request that the Company's asking you to give,

7 but if --

8 **Q. Hypothetically.**

9 A. Yes.

10 **Q. Hypothetically. If we did.**

11 A. Hypothetically, a rule-making would be an entirely

12 appropriate way to proceed. Yes, sir.

13 **Q. And California -- the way I understand your**

14 **testimony, California's too complex, two years; we might be**

15 **able to get it done in a lesser period of time?**

16 A. I would think that you could. Yes, sir.

17 And it depends who intervenes and seeks to get

18 your attention on this matter. If you look at the parties

19 and the national and -- and regional privacy customer

20 rights organizations that proceeded to get involved in the

21 California proceeding, that was why it became a huge and

22 very complex investigation.

23 **Q. Right.**

24 A. Yes.

25 **Q. On page 19, you describe your concerns over an**

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EXAMINATION BY COMMISSIONER JONES / ALEXANDER

1 **opt-out policy, do you not?**

2 A. Yes.

3 **Q. Okay. So what is your primary recommendation to**

4 **us here on opt-out? That we, again, make sure that the**

5 **Company budgets for this properly?**

6 A. The fact that the Company thought that it could

7 handle this matter by having a collaborative meeting with

8 who it thought or you thought might be the interested

9 stakeholders and get a policy resolved promptly, again, was

10 very nai- -- is very naive in my opinion and not in keeping

11 with the intense amount of concern that is likely to bubble

12 up from what I will acknowledge is a -- probably a

13 minority, small group of customers who have made this a

14 very big deal in most states that have implemented smart

15 meter.

16 They have budgeted, as they said, over 5 million

17 for customer education. I don't know what they intend to

18 do with that money because they didn't break it down, but

19 one would assume that that money would include the

20 announcement to its customers that they're going to come

21 into the house -- not in the home, but onto the home,

22 remove the meter that's there, and put a new one in.

23 And they're going to explain to them if they have

24 to be there or not, that there might be a momentary power

25 outage as a result, they may want to do it neighborhood by

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EXAMINATION BY COMMISSIONER JONES / ALEXANDER

1 neighborhood. I mean, there is an elaborate process to go

2 through here to let people know what's happening.

3 And the last thing that I hope they think they're

4 going to do here is to just sort of do it without really

5 telling people what they're doing, and that is going to

6 result in the most advers- -- adversarial kind of

7 grass-roots suspicion and reaction and controversy.

8 So once you announce properly that you are going

9 to replace every meter and what the meter does and why

10 they're doing it, you're going to bubble up people who will

11 be opposed to this. And it would behoove the Company and

12 the Commission to have this policy in place before

13 deployment begins.

14 And there's a variety of ways to do it, and I

15 don't say I know the correct way, but I can give you

16 examples of wide varieties of ways to do this. But

17 nonetheless, a publicly noticed and -- dialogue needs to

18 occur.

19 **Q. So would you recommend that they do that through a**

20 **tariff filing, which is sometimes not very well publicly**

21 **noticed -- few people understand how commissions adopt**

22 **tariffs -- or are you recommending something broader?**

23 A. The ultimate result will be a tariff, but that is

24 not the process that I would recommend --

25 **Q. Okay.**

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EXAMINATION BY COMMISSIONER JONES / ALEXANDER

1 **A. -- to get there.**
 2 **Q. Thank you.**
 3 A. That is correct.
 4 **Q. My last question to resolve is about outage**
 5 **reduction savings or outage management. Could you turn to**
 6 **page 33?**
 7 A. Yes.
 8 **Q. This is where you -- now, do you agree in**
 9 **principle that outage reduction savings through an AMI**
 10 **could -- could provide significant benefits to customers**
 11 **for an outage of eight hours, ten hours, six hours, whether**
 12 **that -- that customer -- let's -- let's just take the**
 13 **residential class -- whether it's -- it's just a**
 14 **residential user or a person working at home in a home**
 15 **business --**
 16 A. Mm-hmm.
 17 **Q. -- does that provide, if -- if AMI can provide**
 18 **greater reduction savings, is that not a tangible benefit?**
 19 A. What's tangible might be a systemwide reduction in
 20 the amount of time it takes to respond and -- to outages
 21 that occur. AMI will not prevent the tree from falling
 22 down or the pow- -- or the storm from occurring.
 23 All it does is help the utility understand who's
 24 out, who isn't. They might avoid some truck rolls. They
 25 very well could repair some things faster because they're

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EXAMINATION BY COMMISSIONER JONES / ALEXANDER

1 more efficient at finding out where the outages are and
 2 what they need to do to fix them.
 3 So I acknowledge there will be some improvement,
 4 the volume of which I do not believe will be experienced by
 5 all customers. You cannot promise anyone that, somehow,
 6 they will experience fewer outages as a result of AMI.
 7 There will be some operational improvements. There will be
 8 some operational efficiencies, and there will be,
 9 generically, the potential to measure in that SAIFI and
 10 SAIDI, there might be some basis for finding some modest
 11 improvement there.
 12 But when you go to customers and you say, "How
 13 much would you be willing to pay to avoid an hour -- an
 14 outage?" and, in fact, they still have an outage and it's 7
 15 hours and 50 minutes as opposed to 8 hours and 20 minutes,
 16 I mean, that -- that's the kind of analysis that I find
 17 absolutely useless for this purpose, and to impute money as
 18 a customer benefit in this analysis was my main --
 19 **Q. Right.**
 20 A. -- opposition and concern.
 21 **Q. So in your testimony, you criticize and critique**
 22 **the Lawrence Berkeley. We've talked a lot about Lawrence**
 23 **Berkeley today, haven't we?**
 24 A. Evidently.
 25 **Q. So -- and I'm -- I'm quite familiar with this in**

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EXAMINATION BY COMMISSIONER JONES / ALEXANDER

1 **my work nationally with NARUC, but Berkeley did this study,**
 2 **DOE adopted. It's called the ICE Calculator, the -- the**
 3 **Interruption --**
 4 A. Yes. Actually, Berkeley didn't do the study. The
 5 Berkeley report summarized what some utilities did to
 6 survey their customers. And the Berkeley report, all it
 7 did was say, "Here's what the utilities" --
 8 **Q. Right.**
 9 A. -- "found," and then they give you the range, the
 10 customer class, low income versus not, and so forth. Yes.
 11 **Q. So are you saying that the ICE Calculator -- and I**
 12 **understand its deficiencies and infirmities. It doesn't go**
 13 **beyond 8 hours and other factors -- but are you alleging in**
 14 **your testimony that the ICE Calculator does not calculate**
 15 **any benefit to customers, let's say, in the summer peak?**
 16 **I think on page 37, it says -- you say the models**
 17 **show a 1-hour summer interruption cost for residential**
 18 **customers in the 2 to \$5 range.**
 19 A. Mm-hmm.
 20 **Q. So are you saying those numbers are not real?**
 21 **Under -- under some value -- I understand your concerns**
 22 **about valuation. It's --**
 23 A. Right.
 24 **Q. -- hard, but are -- are you saying there's no**
 25 **value? There's no interruption cost of an outage to a**

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EXAMINATION BY COMMISSIONER JONES / ALEXANDER

1 **customer?**
 2 A. As an econ- -- I am not an economist. An
 3 economist would certainly agree that there is value, as
 4 that term is used, in the economy world.
 5 I am saying that does not translate into using
 6 those values in a business case to offset costs and pretend
 7 that there is some benefit on the customer side of the
 8 ledger that would offset those costs, because they aren't
 9 real. They don't appear on the bill. They aren't
 10 delivered to customers. There's no linkage.
 11 The ICE was done by the DOE as an internal
 12 determination as to how they were going to evaluate those
 13 billions of dollars they handed out for the smart-grid
 14 projects.
 15 **Q. Yes.**
 16 A. They made use of that for their own internal
 17 analysis --
 18 **Q. Okay.**
 19 A. -- but they aren't involved in rate-making. It
 20 has nothing to do with rate-making, and that's what --
 21 **Q. Okay.**
 22 A. -- I would urge this Commission to pay attention
 23 to.
 24 **Q. Okay. I understand your concerns --**
 25 A. Yes. Okay. Thank you.

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EXAMINATION BY COMMISSIONER JONES / ALEXANDER

1 Q. -- a little bit more precisely, but is there any
 2 other method -- on page 38, you critique the, quote,
 3 "Contingent Valuation Method." You cite to Footnote 61,
 4 which I find rather amusing, by an MIT economist. It says,
 5 "Contingent valuation from dubious to hopeless." I mean,
 6 that should make all the --
 7 A. Well, this --
 8 **Q. -- economists in the room cheer up.**
 9 A. Well, yeah. You can ask anything you want on a
 10 survey. That doesn't mean the data you get has any
 11 validity. And what people say they're willing to pay is
 12 not what they actually do pay when they have to spend their
 13 paycheck, and that's the point of the MIT article.
 14 **Q. So I understand you're concerned about no bill**
 15 **savings or no bill analysis, but --**
 16 A. Right.
 17 **Q. -- is there any guidance you can give the**
 18 **Commission on, if it's not the ICE, if it's not the**
 19 **contingent valuation method, are there other methods that**
 20 **you think we should consider to get at this question?**
 21 A. I think that if you -- first of all, it needs to
 22 be excluded from the business case, as many of the things
 23 that I have recommended be excluded, thereby failing
 24 totally the notion that this investment has benefits that
 25 exceed costs. 3.5 million over 21 years is not an

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EXAMINATION BY COMMISSIONER JONES / ALEXANDER

1 acceptable range of concern.
 2 If you want to suggest -- and I understand why you
 3 would want to -- that there may be reliability benefits
 4 from AMI, I would recommend that they be tracked in a way
 5 that allows you to determine the incremental impact of the
 6 AMI investment as a condition of cost recovery.
 7 But let's not pretend it's a customer benefit that
 8 is included in the business case. That's what my main
 9 concern is here.
 10 **Q. Okay.**
 11 A. Yes.
 12 COMMISSIONER JONES: Okay. Thank you. Those
 13 are all my questions.
 14 THE WITNESS: Mm-hmm.
 15 CHAIRMAN DANNER: No questions.
 16 JUDGE FRIEDLANDER: No questions? All right.
 17 Thank you. I believe that's all the questions --
 18 THE WITNESS: Oh, that's it.
 19 JUDGE FRIEDLANDER: -- that we have.
 20 THE WITNESS: Okay.
 21 JUDGE FRIEDLANDER: Yeah. Thank you so much
 22 for your testimony.
 23 THE WITNESS: Sure. Thank you very much.
 24 JUDGE FRIEDLANDER: All right. I believe at
 25 this time we have Shawn Collins and Stefanie Johnson.

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1 SHAWN M. COLLINS and witnesses herein, having been
 2 STEFANIE A. JOHNSON,
 3 first duly sworn on oath,
 4 were examined and testified
 5 as follows:
 6 JUDGE FRIEDLANDER: Thank you. You can be
 7 seated.
 8 Who wants to introduce the witnesses? All
 9 right. Mr. Roseman?
 10 MR. ROSEMAN: Well, it's almost good evening.
 11 I'm go -- you've heard the litany of these introductory
 12 questions. I think the best way to do is ask one person,
 13 let them go through and get the answer, and I think I'll
 14 start with Stefanie.
 15 *** EXAMINATION OF WITNESS JOHNSON BY MR. ROSEMAN ***
 16 BY MR. ROSEMAN:
 17 **Q. Will you state your name, please?**
 18 A. (BY MS. JOHNSON) My name is Stefanie Ann Johnson.
 19 **Q. And who's your employer?**
 20 A. I work for the Washington State Attorney General's
 21 Office, Public Counsel unit.
 22 **Q. And what is your position in that office?**
 23 A. I'm a regulatory analyst.
 24 **Q. Okay. And have you filed testimony in this case?**
 25 A. I have this testimony, and I was also a witness in

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EXAMINATION BY ROSEMAN / JOHNSON

1 the joint testimony in support of the settlement.
 2 **Q. Okay. And this is filed jointly with Shawn**
 3 **Collins?**
 4 A. Correct.
 5 **Q. Okay. And did -- did you and Mr. Collins prepare**
 6 **the testimony in this case?**
 7 A. Yes, we did.
 8 **Q. Okay. And is the -- the testimony exhibits,**
 9 **are -- do they include SMC-1T through SMC-5?**
 10 A. Yes.
 11 **Q. Okay. And do you have any corrections in this**
 12 **testimony?**
 13 A. I do. I have two corrections to SMC-2, if you're
 14 there. So the first correction is just a typo. It's the
 15 estimated households served between 2014 and 2015, not the
 16 estimated households served between 2014 and 2105, which
 17 would be a much longer period.
 18 And my second correction is in Footnote 3. At the
 19 end of the footnote, it says -- it's divided by the total
 20 households served by program year, and it's -- the
 21 reference is "Column B," but it should read "Column C."
 22 Q. Thank you. Okay.
 23 *** EXAMINATION OF WITNESS COLLINS BY MR. ROSEMAN ***
 24 BY MR. ROSEMAN:
 25 **Q. Okay. Mr. Collins, will you state and spell your**

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EXAMINATION BY ROSEMAN / COLLINS

1 **name, please?**

2 A. (BY MR. COLLINS) Shawn Michael Collins,

3 C-O-L-L-I-N-S.

4 **Q. And who are you employed with?**

5 A. I'm employed by the Opportunity Council and The

6 Energy Project.

7 **Q. And what is your position?**

8 A. I am the director of The Energy Project.

9 **Q. And you joined Ms. Johnson in filing this joint**

10 **testimony?**

11 A. Correct.

12 **Q. The -- and the -- and that includes the exhibits**

13 **that I read, S- -- SMC-1T through SMC-5?**

14 A. Yes.

15 MR. ROSEMAN: The witnesses are ready for any

16 questions.

17 JUDGE FRIEDLANDER: Thank you.

18 COMMISSIONER RENDAHL: Thank you for making

19 yourselves available. I think my questions may take less

20 time than the introduction, but --

21 WITNESS JOHNSON: Maybe we'll have a really

22 good answer.

23 COMMISSIONER RENDAHL: Okay. Since you know

24 the question already.

25

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1 *** EXAMINATION BY COMMISSIONER RENDAHL ***

2 BY COMMISSIONER RENDAHL:

3 **Q. So you asked -- you heard the question I asked to**

4 **Ms. Reynolds about the response to the Company's testimony**

5 **and to your testimony jointly, so to the two of you, in**

6 **your testimony in responding to what Staff filed**

7 **simultaneously with you and the Company filing the**

8 **rebuttal, do you support either the LIRAP funding plan**

9 **proposed by Avista on rebuttal or Staff, or do you still**

10 **maintain that yours is the best proposal, and why?**

11 A. (BY MS. JOHNSON) So thank you for asking us the

12 question a couple hours in advance. That was helpful when

13 there's two of us.

14 We -- we continue to support our proposal for the

15 10 percent increase. I think that there are components of

16 Mr. Ehrbar's testimony, particularly the -- the detailed

17 description of how the true-up works between the -- the

18 fall filing in advance of the heating season and then how

19 it would be updated after -- if a rate increase was to go

20 into effect and so when that would be done. I think that

21 was a component that we -- we agreed that we didn't address

22 in our testimony that we -- we are fine with.

23 But overall, we continue to support our position

24 of the -- the 10 percent increase. I think that number --

25 you know, we didn't -- that number wasn't arrived at

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EXAMINATION BY COMMISSIONER RENDAHL / JOHNSON AND COLLINS

1 arbitrarily for us. We consulted relationship CAP agencies

2 and -- well, with Shawn and The Energy Project in

3 particular, you know, had worked with them, and that --

4 they had indicated that was something they could do.

5 And I think that, based on the Eastern Washington

6 University study, you know, indicating that 22.5 percent of

7 households in the Avista service territory are eligible for

8 these programs, we felt like it was appropriate to try and

9 ramp this program up faster at this point in time.

10 A. (BY MR. COLLINS) And I'd say, additionally, in

11 Staff's recommendation of proposing to meet 50 percent of

12 the eligible population, we're certainly in support of

13 that, and I think they were getting there a few years after

14 our -- our recommendation of the 10 percent, so there's

15 elements of -- of that proposal, too, that we also support.

16 A. (BY MS. JOHNSON) And just for clarification's

17 sake, when you look at the numbers provided in

18 Mr. Ehrbar -- well, in response to discovery, where they

19 kind of -- they showed what it -- the numbers looked like

20 after a number of years, so like in Mr. Ehrbar's

21 Cross-Exhibit PDE-13CX, the budget numbers there, those

22 in -- when I first looked at them, I was confused, because

23 I thought, "Those look a lot like my numbers," but --

24 COMMISSIONER RENDAHL: Now, is this a

25 confidential exhibit, so you're not going to be mentioning

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EXAMINATION BY COMMISSIONER RENDAHL / JOHNSON AND COLLINS

1 numbers?

2 WITNESS JOHNSON: It is not, no. CX is

3 "Cross-Exhibit."

4 COMMISSIONER RENDAHL: Oh, okay. Sorry.

5 WITNESS JOHNSON: Sorry. No. That's okay.

6 A. (BY MS. JOHNSON) So in that number, the budget

7 numbers look similar to what we have in our exhibit, kind

8 of within the same scope, but part of that has to do with

9 the fact that their budget numbers, as proposed by Avista,

10 incorporate their proposed rate increase at this time, and

11 so it -- it's different than what -- what ours is.

12 BY COMMISSIONER RENDAHL:

13 **Q. Okay. Okay. So one -- one last question, and I**

14 **understand, in the Company's proposal, they separate out**

15 **gas and electric and analyze it separately. Is that a**

16 **concept that you would support or not? Does it make a**

17 **difference?**

18 A. (BY MS. JOHNSON) Well, so my understanding, based

19 on -- I didn't take part in all of the workshops that

20 happened with the stakeholder -- the low-income workshops,

21 but there is an element of flexibility that's helpful for

22 the CAP agencies in administering the programs.

23 So, I mean, I think Shawn could -- can maybe speak

24 to this more. It's not something I -- I guess as Public

25 Counsel, you know, I would -- would want to be careful

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EXAMINATION BY COMMISSIONER RENDAHL / JOHNSON AND COLLINS

1 about how it's done, but I do think that there's benefits
 2 to -- to allowing the agencies to distribute the funds as
 3 needed to the customers.

4 **Q. Okay. So the -- so providing that specific number
 5 between electric and gas would, in your belief -- and
 6 maybe, Mr. Collins, you'll address that -- is -- would
 7 limit the flexibility of the agencies in -- in
 8 administering the funds?**

9 A. (BY MS. JOHNSON) That's my understanding, in that
 10 some of what was -- what happened in that work group was
 11 that they tried to come up with additional ways to -- to --
 12 to make it easier for the CAP agencies, so.

13 A. (BY MR. COLLINS) Yeah. And I would add that, in
 14 terms of the need among the population in the Avista
 15 territory, the electric customers tend to have higher bills
 16 than the gas side, and so we see a more -- more meaningful
 17 benefit to them would be a higher dollar amount of LIRAP.

18 And so we would ask to retain some flexibility in
 19 the use of those funds, so if -- while -- while there'll be
 20 funds coming from both gas and electric customers, that
 21 there be allowed some flexibility in how those are
 22 determined to be provided to a -- as a benefit to customers
 23 based on -- based on the need.

24 **Q. So in -- in terms of that issue, I seem to
 25 recall -- and I don't remember now whether it was in this**

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EXAMINATION BY COMMISSIONER RENDAHL / JOHNSON AND COLLINS

1 **case or whether in the petition filed by and following the
 2 work group -- ensuring that there are funds available for
 3 gas customers who do need this for heating and ensuring
 4 that, if there are such customers, that those funds aren't,
 5 for lack of a word, diverted to electric customer?**

6 **So is -- what would be your response to that in
 7 ensuring that there are adequate funds for those gas
 8 customers who might use it for heating purposes?**

9 A. (BY MR. COLLINS) Well, I would say that we
 10 provide benefits to both gas and electric customers, and
 11 I'm not familiar enough with -- with how, currently,
 12 those -- those funds are split and made available, but
 13 certainly, we would, at -- at your request, ensure that
 14 there are funds available for gas customers at an
 15 appropriate level.

16 COMMISSIONER RENDAHL: Okay. Thank you. I
 17 don't have any further questions for the witness.

18 JUDGE FRIEDLANDER: I think that's it. Thank
 19 you both for your testimony. So I believe we're on to the
 20 last witness, Mr. Mullins.

21
 22 BRADLEY G. MULLINS, witness herein, having been
 23 first duly sworn on oath,
 24 was examined and testified
 25 as follows:

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1 JUDGE FRIEDLANDER: Thank you. Please be
 2 seated.

3 *** EXAMINATION BY MR. COWELL ***

4 BY MR. COWELL:

5 **Q. Mr. Mullins, could you state your name for the
 6 record and please spell your last name?**

7 A. Yeah. It's Bradley G. Mullins. Mullins is
 8 spelled M-U-L-L-I-N-S.

9 **Q. And by whom are you employed?**

10 A. I am an independent consultant.

11 **Q. And who are you testifying on behalf of in this
 12 proceeding?**

13 A. On behalf of the Industrial Customers of Northwest
 14 Utilities.

15 **Q. And, Mr. Mullins, did you submit testimony and
 16 exhibits designated BGM-1CT through BGM-6?**

17 A. Yes.

18 MR. COWELL: Okay. The witness is available
 19 for cross-examination.

20 JUDGE FRIEDLANDER: So no corrections, then?

21 MR. COWELL: Oh, excuse me. Sorry, Your
 22 Honor.

23 JUDGE FRIEDLANDER: No worries.

24 BY MR. COWELL:

25 **Q. Mr. Mullins, do you have any corrections to make**

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EXAMINATION BY COWELL / MULLINS

1 **to your --**

2 A. I do not.

3 **Q. Okay.**

4 **JUDGE FRIEDLANDER: Thank you.**

5 MR. COWELL: Witness is --

6 **JUDGE FRIEDLANDER: Mr. Shearer?**

7 MR. SHEARER: Thank you, Your Honor.

8 *** EXAMINATION BY MR. SHEARER ***

9 BY MR. SHEARER:

10 **Q. And good evening, Mr. Mullins.**

11 A. Good evening.

12 **Q. 5:04. We'll try to be efficient.**

13 **Now, your testimony rejects the use of an
 14 attrition adjustment; is that correct?**

15 A. Correct.

16 **Q. And you argue in your testimony that the -- this
 17 Company's not facing the type of extraordinary
 18 circumstances that would merit the extraordinary rate
 19 treatment in attrition; is that accurate?**

20 A. So, among other reasons --

21 **Q. You can qualify --**

22 A. -- yes.

23 **Q. -- it that way. Yes.**

24 A. Yes.

25 **Q. Now, your testimony clearly disputes the rationale**

EXAMINATION BY SHEARER / MULLINS

EXAMINATION BY SHEARER / MULLINS

1 **for the attrition adjustment. Do you take issue with**
 2 **Mr. McGuire's quantitative analysis?**
 3 A. I do, because I don't think that revenue
 4 requirements should be quanti- -- quantified using trends.
 5 I think it should be based on actual accounting data and
 6 the use of -- of known and measurable costs and the
 7 application of the used and useful standard.
 8 **Q. Well, let me ask it this way: Are the regression**
 9 **figures and the correlation figures Mr. McGuire provides**
 10 **accurate? Mathematically accurate?**
 11 A. So -- so I agree that he used a regression. I --
 12 I didn't review every data point in his analysis to say
 13 whether -- whether it's accurate or not.
 14 **Q. Would you accept that, subject to check?**
 15 A. Sure.
 16 **Q. Thank you.**
 17 **Now, are regression analyses and correlation**
 18 **statistics generally well-understood and well-recognized**
 19 **statistical methodologies?**
 20 A. Not for rate-making, no.
 21 **Q. For statistics?**
 22 A. Well, for purposes of this case, the answer's no,
 23 because this is a rate-making case. It's not a statistics
 24 class.
 25 **Q. Yes. Thank you, Mr. Mullins.**

1 **the traditional rate-making standards of used and useful**
 2 **and known and measurable; is that correct?**
 3 A. Right. So -- so among other reasons or among
 4 other topics discussed, I point out that an attrition
 5 allowance would require the Commission to approve capital
 6 that has not been demonstrated to be used and useful
 7 pursuant to the State's standard. And in addition to that,
 8 reliance on a trend is -- does not comport to the
 9 Commission's past definition of -- of known and measurable.
 10 **Q. And those are the traditional rate-making concepts**
 11 **this Commission typically employs; is that correct? Or is**
 12 **that your understanding?**
 13 A. They are -- they are components of -- of that --
 14 of the rate-making methodology employed by this Commission;
 15 correct.
 16 **Q. Now, attrition is an extraordinary mechanism. Is**
 17 **that your testimony as well?**
 18 A. My testimony is that attrition should be limited
 19 to extraordinary circumstances, when the -- the financial
 20 integrity of the utility is at stake.
 21 **Q. Has the Commission ever allowed an attrition**
 22 **adjustment?**
 23 A. I think Mr. McGuire identified some circumstances
 24 where they have in response to extraordinary circumstances.
 25 **Q. Okay. Thank you, Mr. Mullins.**

EXAMINATION BY SHEARER / MULLINS

EXAMINATION BY SHEARER / MULLINS

1 **My question, though, is, is it a sound**
 2 **mathematical approach? I'm not talking about --**
 3 A. Well, but for what --
 4 **Q. -- applied to rate-making.**
 5 A. But for what purpose; right? I mean, so this
 6 is -- this is rate-making.
 7 **Q. Well, for -- let's go back one step. Is the use**
 8 **of regression analyses and a correlation calculation a**
 9 **common statistical tool to evaluate historical data and**
 10 **issue future projections?**
 11 A. In -- it's used that way in --
 12 **Q. Thank you.**
 13 A. -- some cases, yeah.
 14 **Q. And I'll ask you, similar to Ms. Ramas, is Staff's**
 15 **attrition study better than the Company's?**
 16 A. So, you know, we don't agree with attrition in
 17 this case, so we think that both of the studies are
 18 inconsistent with the Commission's traditional approach, so
 19 neither is -- is appropriate to be used in this case.
 20 **Q. They're equally bad?**
 21 A. I think that's a fair -- fair assessment, and
 22 they're equally bad for -- for ratepayers, correct.
 23 **Q. I'd like to shift to the discussion about the**
 24 **modified historical test year in your testimony. You're**
 25 **cross-answering testimony states attrition does not meet**

1 **Let's move on to the last area I'd like to discuss**
 2 **about the attrition study. Is it your understanding that**
 3 **Mr. McGuire, his attrition study removed that portion of**
 4 **Project Compass that Staff Witnesses Mr. Gomez and**
 5 **Mr. Hancock recommend be disallowed?**
 6 A. So, no, and I had some confusion about this,
 7 because -- and maybe it makes sense to go to his exhibit to
 8 try to figure this out. So I guess we go to CRM-2, and I'm
 9 looking -- I only have the original version here, so if we
 10 go to page 5 of CRM-2, and we'll go to -- go to line -- I
 11 guess it's just line 32, which is "Intangible Plant in
 12 Service," and I'll wait for a minute until everyone's
 13 there.
 14 So in -- so I don't really understand the logic
 15 of -- of how Project Compass is or is not included in
 16 Staff's ultimate rate base projection, and if -- if you
 17 look here -- so -- so Staff, in Column E, they
 18 start with -- and on the intangible line, they start with
 19 \$102 million of intangible plant in service. They escalate
 20 that in Column H to \$110.6 million.
 21 And so the question is, first, whether that
 22 escalation did or did not already include rate base
 23 associated with Project Compass, and -- and we don't know
 24 whether it did or not, because we don't know what that rate
 25 base was related to.

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EXAMINATION BY SHEARER / MULLINS

1 And then you go over to -- I guess the foot- --
 2 footing column on the far right, it's Column N, and I'm
 3 just looking at his -- his original work paper, and there's
 4 a number right before that that says, "After attrition
 5 adjustment to Project Compass," that's \$39 million;
 6 however, the number doesn't change from -- from the
 7 \$110 million.
 8 So to me, it's very confusing about what --
 9 whether or not Project Compass is in or out, you know, what
 10 the impact of a prudence disallowance would or would not
 11 have on that -- on that project.
 12 **Q. So you don't understand where or whether**
 13 **Mr. McGuire did, in fact, take that out of his attrition**
 14 **model; is that --**
 15 A. Well, I think --
 16 **Q. -- accurate?**
 17 A. I think, conceptually, it's impossible to know how
 18 it -- how it -- whether or not it's included, because we
 19 have this -- this trend factor, the 7.83 percent, and so we
 20 don't know how much of this -- of the increase was Project
 21 Compass or not.
 22 **Q. Could it be removed? Is there any reason it**
 23 **couldn't be --**
 24 A. Well, so the --
 25 **Q. -- broke down --**

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EXAMINATION BY SHEARER / MULLINS

1 **A. -- the usual way --**
 2 **Q. -- or removed?**
 3 A. -- that we do this is we do pro forma adjustments,
 4 and we look at --
 5 **Q. Yeah. That's -- that's not what I --**
 6 **COURT REPORTER: I'm sorry. I need you to**
 7 **speak one at a time.**
 8 BY MR. SHEARER:
 9 **Q. I just want to clarify that that's not my**
 10 **question. My question is, is there any reason it could not**
 11 **be removed?**
 12 A. So I -- I guess it depends on what you're removing
 13 it from. I mean, you could -- you could remove anything
 14 from -- from the trended rate base calculations. In fact,
 15 you could go to the extent of removing everything that
 16 hasn't been determined to be used and useful and known and
 17 measurable and arrive at a place no different than
 18 Mr. Hancock's analysis and Mr. Gomez's analysis.
 19 **Q. Thank you, Mr. Mullins. That was actually my next**
 20 **question.**
 21 **So there's no reason that the attrition revenue**
 22 **requirement couldn't reflect any disallowance that the**
 23 **Commission would want to disallow?**
 24 A. Well, but ultimately, you -- you -- if you include
 25 the -- the escalation factor, you wouldn't know what is or

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EXAMINATION BY SHEARER / MULLINS

1 is not being -- being disallowed. So it's -- it's just --
 2 it's very confusing about what -- what is in that -- that
 3 escalated component of rate base. We just don't know.
 4 **Q. Can you take it out afterwards?**
 5 A. But what -- again, what --
 6 **Q. After it's escalated, can you take any adjustment**
 7 **you want to disallow out? Could you take it out?**
 8 A. But what -- what would you be taking out?
 9 **Q. Whatever -- any adjustment that the Commission**
 10 **would want to disallow or any of the other intervenors.**
 11 A. Well, okay. So -- so again, I'll just reiterate
 12 this point and try to do it in a clearer way, but if you --
 13 if you don't know what the rate base represents in -- in
 14 the trend, in the amount that is increased, you don't know
 15 what you're removing.
 16 So if -- if rate base increases by, let's just
 17 say, \$100 million in this -- in -- in the trend analysis,
 18 you don't know what is in or out of that trend to be
 19 removed. So in this instance, it's not clear whether
 20 Project Compass was in or out of that original trended rate
 21 base number and whether they did or did not actually remove
 22 it from -- from the results.
 23 **Q. I'm going to try to clarify my question too.**
 24 **So if we have a rate base figure, we escalate the**
 25 **rate base figure, and then we subtract out an amount of a**

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EXAMINATION BY SHEARER / MULLINS

1 **disallowance, that wouldn't reflect a disallowance?**
 2 A. Well, again --
 3 **Q. Is that your testimony?**
 4 A. Yeah.
 5 MR. SHEARER: Okay. Thank you. No further
 6 questions, Your Honor.
 7 JUDGE FRIEDLANDER: Okay. Thank you.
 8 Any redirect?
 9 MR. COWELL: Just one, Your Honor.
 10 *** EXAMINATION BY MR. COWELL ***
 11 BY MR. COWELL:
 12 **Q. So, Mr. Mullins, you just answered regarding**
 13 **Mr. McGuire's testimony earlier today in which he**
 14 **identified some circumstances from prior UTC orders in**
 15 **which attrition was allowed based on extraordinary**
 16 **circumstances.**
 17 **And I just wanted to clarify for the record, in**
 18 **listening to all of Mr. McGuire's terr- -- testimony**
 19 **concerning those past UTC orders, did you agree with all of**
 20 **his characterizations regarding when the Commission has**
 21 **applied attrition?**
 22 A. No, I -- I do not. And, you know -- you know, my
 23 understanding is that most of those really, truly were in
 24 situations where the -- the company, the utility, was in
 25 financial distress, that there was some imminent risk to --

| Page 618 | Page 620 |
|--|--|
| <p>EXAMINATION BY COWELL / MULLINS</p> <p>1 to its financial health, and -- and that's not the case 2 that we have here.</p> <p>3 In this case, Avista is -- they're actually 4 over-earning, and so it's -- it's -- I am struggling to 5 understand why we're even talking about an attrition 6 adjustment to begin with, because they're a very financial 7 hea- -- financially healthy company.</p> <p>8 MR. COWELL: No further questions. 9 JUDGE FRIEDLANDER: Thank you. 10 Any questions from the Bench? 11 COMMISSIONER JONES: No. 12 COMMISSIONER RENDAHL: I just have a few, and 13 I'm sorry to delay us this evening.</p> <p>14 *** EXAMINATION BY COMMISSIONER RENDAHL *** 15 BY COMMISSIONER RENDAHL: 16 Q. So, Mr. Mullins, I asked some questions to 17 Ms. Ramas, and I asked some questions to Mr. Ball, and so 18 I'm going to ask you similar questions. 19 So in terms of Colstrip, Avista revised its 20 test-year expenses on rebuttal for Colstrip to reflect a 21 one-time refund. So do you agree that this is an 22 appropriate adjustment to Avista's test-year expenses or 23 not? 24 A. Well, I think that's a pretty good question, and 25 my understanding was that money was insurance proceeds</p> | <p>EXAMINATION BY COMMISSIONER RENDAHL / MULLINS</p> <p>1 A. Well, I think -- I think the way that you would do 2 it is you would take the -- the historic major maintenance 3 outage and you would -- you would amortize that over a 4 future period, so I think you'd use the historical number. 5 Q. Even if those expenses are likely to change due to 6 labor increases or other -- other? 7 A. Yeah. And I think the reason why is, you know, 8 they will change as the Company has new outages. So -- so 9 if you have a major outage in, let's just say, 2013, 10 that'll set the -- the normalized level for the next three 11 years. And then in 2016, there'll be a new major outage, 12 and that will set a higher level for -- for the subsequent 13 three years. 14 Q. Okay. So we're talking about the -- the expected 15 maintenance, regular maintenance, not an unexpected outage; 16 correct? 17 A. Right. Right. The major -- major overhauls. 18 COMMISSIONER RENDAHL: Okay. All right. 19 Thank you. 20 THE WITNESS: Yep. 21 COMMISSIONER RENDAHL: That's all. 22 JUDGE FRIEDLANDER: Thank you. 23 Any questions? 24 CHAIRMAN DANNER: I'll finish up with just 25 the same question I asked Ms. Ramas.</p> |
| <p>Page 619</p> <p>EXAMINATION BY COMMISSIONER RENDAHL / MULLINS</p> <p>1 related to an outage a few years ago, and I think the 2 answer is in a norm- -- in a normalized historical -- 3 modified historical test period, I think the answer is -- 4 is no, because that truly does not represent normalized 5 results.</p> <p>6 In this case, those insurance proceeds were the 7 result of -- of an outage, which increased the Company's 8 power costs, and so my recommendation would actually be 9 to -- to apply that money towards the Company's earn and do 10 it that way, because customers paid for the outage and 11 those insurance proceeds were received as a result of the 12 outage, and so, to me, there's -- there would be sort of a 13 connection between the two.</p> <p>14 Q. Okay. Thank you. 15 And then talking about normalizing the major 16 maintenance expenses for Colstrip and Coyote Springs. So 17 if the Commission elects to normalize these major 18 maintenance expenses, should it be based on the forecasted 19 2016 or, as Mr. Ball said, future expenses or expected 20 expenses, or the historical data, the last round of major 21 maintenance at the plant? 22 A. Right. So is the question whether to -- 23 Q. To normalize based on future expected or past 24 history, past expense -- you know, test year or what was -- 25 occurred in the past.</p> | <p>Page 621</p> <p>***EXAMINATION BY CHAIRMAN DANNER ***</p> <p>1 BY CHAIRMAN DANNER: 2 Q. You said that the use of attrition actually is 3 warranted in some circumstances where there's a dire need 4 or there's distress. What about the situation where your 5 utility is unable to achieve its authorized rate of return? 6 And we see this happening, and we look at the 7 traditional rate-making tools, and they just don't seem to 8 get us there. Would you just say, in that situation, that 9 that's the way it is, or is there some flexibility the 10 Commission has? 11 A. Well, so -- so I guess I disagree with the -- the 12 premise that the current rate-making methodology doesn't 13 allow utilities to earn their authorized rate of return or 14 doesn't provide them with the opportunity to earn that 15 return. I -- I think we've seen, in -- in Avista's case, 16 that they've -- they've actually exceeded their authorized 17 return. 18 Q. So you -- there's no situation where you -- you 19 believe that, in any situation, a utility has the -- the 20 wherewithal at hand to -- to meet its -- its authorized 21 rate of return? 22 A. With the -- the Commission's traditional 23 practices, I do. 24 Q. Okay. So their -- their failure to do so is</p> |

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EXAMINATION BY CHAIRMAN DANNER / MULLINS

1 **simply a failure of bad management or something like that?**

2 A. It could be.

3 **Q. Okay. So -- but that's not the Commission's**
 4 **responsibility to help them if they -- you don't see, in**
 5 **your -- in your mind, there's no situation where a utility**
 6 **can't achieve its authorized rate of return?**

7 A. Not with the -- the Commission's current
 8 methodology, no.

9 **Q. Of historical test years --**

10 A. Right.

11 **Q. -- with pro forma adjustments?**

12 A. Correct.

13 CHAIRMAN DANNER: Okay. Thank you.

14 JUDGE FRIEDLANDER: Thank you. And I believe
 15 with that, you are dismissed. Thank you so much for your
 16 testimony.

17 THE WITNESS: Okay. Thank you.

18 JUDGE FRIEDLANDER: Okay. So we went through
 19 the witnesses, and I think we're -- we're at a close here.
 20 Is there anything else preliminarily -- I guess it's not
 21 really preliminary anymore -- procedurally that we need to
 22 address before we adjourn?

23 All right. I don't hear anything, so we are
 24 adjourned. Thank you.

25 (Proceedings concluded at 5:23 p.m.)

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C E R T I F I C A T E

1
 2
 3 STATE OF WASHINGTON
 4 COUNTY OF KING
 5

6 I, Ryan Ziegler, a Certified Shorthand Reporter in
 7 and for the State of Washington, do hereby certify that the
 8 foregoing transcript of the proceedings held October 6,
 9 2015, is true and accurate to the best of my knowledge,
 10 skill, and ability.

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

13
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