0062

1 BEFORE THE WASHINGTON STATE UTILITIES AND

TRANSPORTATION COMMISSION

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WASHINGTON UTILITIES AND )

4 TRANSPORTATION COMMISSION, )

)

5 Complainant, )

) DOCKET NOS.

6 -v- ) UE-160228 & UG-160229

) (Consolidated)

7 AVISTA CORPORATION, D/B/A )

AVISTA UTILITIES, )

8 )

Respondent. )

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12 PAGES 62 - 303

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ADMINISTRATIVE LAW JUDGE DENNIS J. MOSS

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9:31 A.M.

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OCTOBER 12, 2016

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Washington Utilities and Transportation Commission

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0068

1 OLYMPIA, WASHINGTON; October 12, 2016

2 9:31 a.m.

3

4 JUDGE MOSS: Let's be on the record.

5 Good morning, everybody. My name is Dennis Moss. I'm

6 an administrative law judge with the Washington

7 Utilities and Transportation Commission. We are here

8 today in the matter styled Washington Utilities and

9 Transportation Commission against Avista Corporation,

10 Dockets UE-160228 and UG-160229 (Consolidated).

11 Most of you have appeared -- at least appeared

12 before me in one capacity or another. I welcome those

13 of you who have not.

14 Ms. Gafken, I welcome you for the first time

15 in your new capacity as a public counsel for the state

16 of Washington. Nice to have you with us this morning.

17 I don't think I really have anything in the

18 way of opening comments concerning this case. It's,

19 of course, a general rate case proceeding. We're all

20 familiar with what that portends. I think we'll just

21 launch right into the appearances, and we need only do

22 the short form of appearances today. So we'll begin

23 with the Company.

24 MR. MEYER: Thank you, Judge Moss.

25 David Meyer for Avista.

0069

1 JUDGE MOSS: And we'll just go around

2 the room.

3 MR. COWELL: Thank you, Your Honor.

4 Jesse Cowell on behalf of the Industrial Customers of

5 Northwest Utilities.

6 MR. BROOKS: Good morning, Your Honor.

7 Tommy Brooks, Cable Huston, for the Northwest

8 Industrial Gas Users.

9 JUDGE MOSS: And, Mr. Brooks, I'm so

10 glad to see you sitting in front of me today instead

11 of off to the side so I won't overlook you at any

12 point in the hearing, I hope.

13 Energy Project.

14 MR. ROSEMAN: Good morning, Your Honor.

15 I'm Ronald Roseman on behalf of the Energy Project.

16 MS. GAFKEN: Good morning. Lisa

17 Gafken, Assistant Attorney General, appearing on

18 behalf of Public Counsel.

19 MS. CAMERON-RULKOWSKI: Good morning.

20 Jennifer Cameron-Rulkowski, Assistant Attorney

21 General, and with me I have Andrew O'Connell,

22 Assistant Attorney General, and Brett Shearer,

23 Assistant Attorney General, appearing on behalf of

24 Staff.

25 JUDGE MOSS: Okay. And I see

0070

1 Mr. Shearer sitting out there. Will you be conducting

2 everything from here, or will he be participating from

3 up front here?

4 MS. CAMERON-RULKOWSKI: We will be

5 playing some musical chairs.

6 JUDGE MOSS: Okay. That is my point,

7 in fact. I do, of course, require you to be up here

8 when we're actually involved so that we can get the

9 microphone to pick up everything that's said.

10 I will remind the parties to speak slowly,

11 something I cautioned myself about earlier in talking

12 to our court reporter, and I told her that she has the

13 freedom to interrupt you if you talk too fast. If

14 that happens, please keep it in mind.

15 Our plan for the hearing we have an order of

16 witnesses to which the parties agreed, so we'll follow

17 that order unless it's necessary to depart for some

18 reason, availability or some other good reason. We

19 are going to have a panel tomorrow at 10:00 on the

20 telephone. We'll have the cost of capital witnesses,

21 McKenzie, Parcell, and Gorman, for questions from the

22 Bench. There's no cross designated for them.

23 We'll take at least one break this morning and

24 one this afternoon, more if I or other members of the

25 Bench need it, or if the poor court reporter indicates

0071

1 she needs to take a break, we'll do that. The rest of

2 you will just have to suffer silently. We'll set the

3 time for starting tomorrow at the end of the day

4 depending on where we are.

5 Now, the one preliminary matter I have is the

6 question whether we can stipulate all of the prefiled

7 exhibits, testimony, and so forth or whether there are

8 some as to which parties have objections.

9 Mr. Meyer?

10 MR. MEYER: Avista has no objection,

11 and we ask that they all be admitted.

12 JUDGE MOSS: Anybody?

13 MS. CAMERON-RULKOWSKI: Staff

14 stipulates to the entry of all of the exhibits except

15 for CSH-13CX, which is a cross-exhibit directed to

16 Mr. Hancock from Public Counsel.

17 JUDGE MOSS: All right. And

18 Mr. Hancock, as I recall, is designated for

19 cross-examination. So when we get to that exhibit, we

20 will take up the objection at that time.

21 Anything else?

22 MR. MEYER: Just a couple of other

23 preliminary matters.

24 JUDGE MOSS: Let me get through with

25 this first.

0072

1 With the exception of that one exhibit we have

2 just identified, all of the prefiled testimonies and

3 exhibits will be admitted as marked, and we will

4 provide the exhibit list to the court reporter.

5 All right. Go ahead, Mr. Meyer.

6 MR. MEYER: Thank you. Actually, that

7 revised exhibit list was one thing I had a question

8 on.

9 JUDGE MOSS: All right.

10 MR. MEYER: We did a couple of things

11 in the last two days. By now you should have received

12 a couple of revised pages of Ms. Andrews.

13 JUDGE MOSS: We did.

14 MR. MEYER: And so that has been filed

15 and distributed.

16 We also revised both the Norwood and Andrews

17 testimony to remove the AMI deferral discussion, and

18 that has been received; correct?

19 JUDGE MOSS: Yes.

20 MR. MEYER: So will the revised exhibit

21 list when it's republished that will show that those

22 two bits of testimony have been revised?

23 JUDGE MOSS: When we do the final at

24 the end of the hearing, we'll indicate, in some

25 fashion or another, that those are the revised forms.

0073

1 And thank you for reminding me. I should have said

2 that. It is the most recent revised form of any given

3 exhibit that will be admitted as evidence in the

4 record.

5 MR. MEYER: And we -- as per your

6 instructions, we've distributed hard copies of those

7 two bits of testimony, not only five hard copies to

8 the filing center, but also one to each party of

9 record.

10 JUDGE MOSS: Great.

11 MR. MEYER: So I think we've taken care

12 of that piece.

13 Let's see. The only other thing I would

14 mention is to extend my thanks and appreciation to the

15 Commission for looking over the cross list determining

16 which witnesses could be excused. It greatly helped

17 our planning purposes and so we had an idea of how we

18 could efficiently work it from our end. So thank you

19 for doing that.

20 And also thanks to the parties. This, I

21 think, has gone, at least from my point of view,

22 particularly well, a smooth prehearing lead-up into

23 this whole process. The parties were great providing

24 not only an order of witnesses but their time

25 estimates, so thank you.

0074

1 JUDGE MOSS: We appreciate your

2 remarks.

3 Is there anything else preliminary? Yes, I

4 see some.

5 MR. COWELL: Thank you, Your Honor.

6 One item in regards to the witness order, the parties

7 have discussed allowing Mr. Stephens on behalf of ICNU

8 to be cross-examined after all of the Company

9 cross-examination in recognition of travel issues, and

10 I believe that there was agreement among the parties

11 on that. Someone can correct me if I'm wrong.

12 JUDGE MOSS: Meaning immediately after?

13 MR. COWELL: Right.

14 MS. GAFKEN: That's correct with

15 respect to Public Counsel.

16 MS. CAMERON-RULKOWSKI: Also with

17 respect to Staff.

18 JUDGE MOSS: All right. Everybody is

19 playing nice in our sandbox. I always like that.

20 We'll move Mr. Stephens up then.

21 Anything else?

22 MR. BROOKS: Your Honor.

23 JUDGE MOSS: Go ahead, Mr. Brooks.

24 MR. BROOKS: Would it be helpful to the

25 Bench we have some revisions to our cross estimates

0075

1 and a couple witnesses that we no longer have

2 questions for. I don't know if, for planning

3 purposes, it would be good for you to know that we

4 have taken some people off the list?

5 JUDGE MOSS: Sure. Go ahead and tell

6 me.

7 MR. BROOKS: We no longer have

8 questions for Mr. Norwood nor for Mr. Ehrbar, and we

9 also no longer have questions for Mr. Ball. And then

10 the final change is we've -- our estimate for

11 Mr. Hancock is we are only going to need about five

12 minutes.

13 JUDGE MOSS: All right. Okay. Anybody

14 else have a preliminary matter for me?

15 MS. CAMERON-RULKOWSKI: Yes, Your

16 Honor. We also have a reduction to our

17 cross-examination estimates. Staff will no longer

18 need to cross-examine Mr. Norwood or Ms. Andrews.

19 JUDGE MOSS: All right.

20 MS. CAMERON-RULKOWSKI: And, in

21 addition, Staff will not have cross for Mr. Stephens.

22 JUDGE MOSS: All right.

23 MS. CAMERON-RULKOWSKI: And then I have

24 one other issue, which is that Staff recently

25 supplemented discovery responses to ICNU, and two of

0076

1 these responses are part of cross-exhibits. And we --

2 I haven't had a chance to speak to Mr. Cowell, but we

3 do have those corrected responses available if -- and

4 we can decide if we want to do those corrections on

5 the record or if you'd like to provide copies. We're

6 open to taking care of that however you'd prefer.

7 JUDGE MOSS: Why don't we talk at the

8 break. All right?

9 MS. CAMERON-RULKOWSKI: Certainly.

10 JUDGE MOSS: Ms. Gafken, did you have

11 something as well?

12 MS. GAFKEN: I do. And I guess it's

13 good that I went after Ms. Cameron-Rulkowski because I

14 have a different something. My issue is the public

15 comment exhibit, and I wanted to propose a due date

16 for that.

17 JUDGE MOSS: Okay.

18 MS. GAFKEN: We typically do these

19 about a week after the hearing, and so I would propose

20 that the due date for that be October 21, so next

21 Friday, if that's acceptable to the Bench.

22 JUDGE MOSS: That's acceptable to the

23 Bench. Anybody else have a problem with it? All

24 right. Very good. October 21, it is.

25 MS. GAFKEN: What would you like to

0077

1 designate it as?

2 JUDGE MOSS: Do we normally designate

3 that as a Bench exhibit or Public Counsel exhibit?

4 MS. GAFKEN: It's been done both ways.

5 JUDGE MOSS: We'll make it a Bench

6 exhibit. What number will it be?

7 JUDGE PEARSON: BR-4.

8 JUDGE MOSS: All right. BR-4.

9 And I am remiss in not having acknowledged

10 Judge Rayne Pearson's presence on the Bench with me

11 today. She's working with me in this case. This is

12 her first general rate case, and so I'm proud to have

13 her here and pleased to have her here. And she's also

14 sufficiently capable with all this modern technology

15 that I'm sitting up here with no books today. That's

16 our goal is to be a paperless workplace, and so we're

17 moving in that direction.

18 Yes, Mr. Meyer, if not for her, I'd have all

19 that in front of me too. All right. Very good.

20 Anything else? Mr. Roseman?

21 All right. Fine.

22 Then I think we're ready to go. Let's call

23 Mr. Norwood up to the stand, please.

24

25

0078

1 KELLY O. NORWOOD, witness herein, having been

2 first duly sworn on oath,

3 was examined and testified

4 as follows:

5

6 E X A M I N A T I O N

7 BY MR. MEYER:

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

9 name.

10 A Yes. Kelly O. Norwood.

11 Q And have you prepared rebuttal testimony that

12 has been filed and admitted? It has been marked as

13 Exhibit KON-1T?

14 A Yes.

15 Q Do you have any changes to make to that other

16 than the revisions that were provided to the

17 Commission and all parties yesterday?

18 A No.

19 MR. MEYER: So having had that exhibit

20 entered as revised, he is available for cross.

21 JUDGE MOSS: All right. Thank you very

22 much. And let's see. We have the first -- I'm just

23 going to use my list unless somebody wants a different

24 order. We'll start with Public Counsel for

25 Mr. Norwood since Staff has waived cross.

0079

1 E X A M I N A T I O N

2 BY MS. GAFKEN:

3 Q Good morning, Mr. Norwood.

4 A Good morning, Ms. Gafken.

5 Q Would you please turn to your rebuttal

6 testimony, which is KON-1T, and go to page 11.

7 A I have it.

8 Q And refer to Table 3.

9 JUDGE MOSS: Excuse me for

10 interrupting. We have an indication through our

11 magical e-mail up here that some parties who are

12 listening in are having a hard time hearing. So if

13 people could be sure they're speaking directly into

14 the mike and perhaps elevate their voice slightly,

15 that will perhaps alleviate that problem.

16 Go ahead. And I'm sorry for the interruption.

17 BY MS. GAFKEN:

18 Q There you set out Avista's ROE for electric,

19 national gas, and total Washington jurisdiction;

20 correct?

21 A That's correct.

22 Q Is it Avista's position that the Commission

23 should evaluate Avista's recent earned rates of return

24 on equity on a combined basis for both electric and

25 national gas operations?

0080

1 A I think they should look at the combined. I

2 think they should also look at them individually.

3 Q And when setting the ROE and setting rates for

4 each service, what should the Commission consider?

5 A They should consider what's appropriate for

6 the electric business as well as the gas business,

7 and, generally, they do that. They look at the

8 revenue requirements separately, electric and then

9 natural gas.

10 Q Would you please turn to -- stay with the same

11 exhibit, Exhibit KON-1T, and turn to page 7, Table 1.

12 A I have it.

13 Q There you set out the positions advocated for

14 by Public Counsel, ICNU, and Commission Staff in

15 Avista's 2012, 2014, and 2015 general rate cases;

16 correct?

17 A Yes.

18 Q And just for the record, the electric

19 dockets -- I won't go through both the consolidated

20 dockets for those cases, but the electric dockets were

21 UE-1120436, UE-140188, and UE-150204. Does that sound

22 correct?

23 A I will accept that.

24 Q Subject to check?

25 A Yes.

0081

1 Q Table 1 also shows the revenue requirement

2 authorized by the Commission in each of those cases;

3 correct?

4 A That's correct.

5 Q And in your testimony, you conclude that the

6 Commission determined that the positions of Public

7 Counsel and ICNU were not reasonable based on the

8 amounts authorized versus the amounts advocated for;

9 correct?

10 A Either implicitly or explicitly, yes.

11 Q In Avista's 2012 general rate case, which set

12 the rates for the 2013 rate year, Avista sought a

13 revenue requirement of, approximately, $41 million;

14 correct?

15 A I will accept that subject to check.

16 Q And in Avista's 2014 general rate case, which

17 set rates for the 2015 rate year, Avista sought a

18 revenue requirement of, approximately, $18.2 million;

19 correct?

20 A Are you saying -- when you say Avista set a

21 revenue --

22 Q Sought.

23 A -- is that Avista's request?

24 Q Yes.

25 A Okay. I will accept that subject to check,

0082

1 but I think it's important to consider what happens

2 during the course of the case. In every rate case we

3 file, we provide updated information to all the

4 parties. So what's relevant really is what is the

5 need for rate relief at the end of the case when the

6 Commission makes its decision versus a decision is

7 made.

8 Because things change over the course of the

9 case up or down, and this Commission has determined in

10 the past that they want to see the updated information

11 so long as the parties have time to review that

12 information. So that's the relevant comparison.

13 Q But, Mr. Norwood, Avista has a litigated

14 position in each one of these general rate cases;

15 isn't that correct?

16 A Yes. We filed what we need at the beginning

17 of the case, but we provide updated information along

18 the way, which is important.

19 Q Right. And even the updated position is a

20 litigated position?

21 A Yes. Unless there's a settlement, that's

22 correct.

23 Q And that position, even the updated position

24 at the end of the case, is, oftentimes, different than

25 what the Commission ultimately orders in their -- in

0083

1 the final order?

2 A Generally, yes.

3 Q And Avista's 2015 general rate case, which set

4 rates for the 2016 rate year, Avista sought a revenue

5 requirement of, approximately, $33 million; correct?

6 A Yes, it did.

7 Q Do you agree that Avista bears the burden of

8 proof in this case and all general rate cases to

9 demonstrate that the rate request is fair, just,

10 reasonable, and sufficient?

11 A Yes. At the beginning of the case and as the

12 case progresses, the burden is on Avista to

13 demonstrate the need for rate relief whether it goes

14 up or down during the pendency of the case.

15 MS. GAFKEN: Thank you. I have no

16 further questions.

17 JUDGE MOSS: Thank you very much,

18 Ms. Gafken.

19 And ICNU has some questions, I believe.

20 Mr. Cowell.

21 MR. COWELL: Thank you, Your Honor.

22 E X A M I N A T I O N

23 BY MR. COWELL:

24 Q Good morning, Mr. Norwood.

25 A Good morning.

0084

1 Q Mr. Norwood, if we could start at page 6 of

2 your rebuttal testimony.

3 A I have it.

4 Q On behalf of the Company, you asked that the

5 Commission consider revenue adjustment proposals

6 within the context of several criteria on this page;

7 right?

8 A Yes.

9 Q First, you testified that non-Company

10 proposals in prior rate cases have been demonstrated

11 to be unreasonable; right?

12 A Yes.

13 Q In particular, you singled out ICNU and Public

14 Counsel for proposals, quote, dramatically different

15 from the end results ordered by the Commission;

16 correct?

17 A Yes. And I provided numbers to demonstrate

18 what the proposals were versus what was ordered at the

19 end of the case.

20 Q Right. And we'll go into that a little bit

21 here. And if you'd please turn to Cross-Exhibit

22 KON-2CX, please, page 1 of the exhibit.

23 A I have it.

24 Q Okay. Now, in the first sentence of the

25 Company's response to ICNU Data Request 179 Subpart B,

0085

1 the Company agrees that Avista originally filed for a

2 33.2 million electric increase in the last general

3 rate case as discussed in your cross with Ms. Gafken;

4 correct?

5 A That's correct.

6 Q As Vice President of State Regulation, can you

7 describe the level of involvement you have personally

8 in the Company's original filing of a general electric

9 rate case?

10 A I'm very involved in the development of the

11 revenue requirement. I work closely with Ms. Andrews

12 as she gathers all the adjustments to the rate case.

13 So I am very familiar with all the adjustments that

14 are reflected in the case as well as the policy issues

15 that are included in the case. So I'm very familiar

16 with the initial revenue requirement filed by the

17 Company.

18 Q Now, would it be fair to say, Mr. Norwood,

19 that the company has access to the information it

20 needs to justify an electric rate increase at the time

21 it makes an original general rate case filing?

22 A Absolutely.

23 Q So staying here on page 1 of this

24 cross-exhibit, if you'd look to the first sentence of

25 the response to ICNU Data Request 179 Subpart C, here

0086

1 the Company agrees that the Commission approved an

2 electric revenue reduction of 8.1 million in the last

3 general rate case; right?

4 A That's correct.

5 Q And the first sentence of the next paragraph

6 in the Company's response, still Subpart C here, this

7 is now on the second page of this cross-exhibit,

8 beginning at the first full paragraph, the Company

9 agrees that the Commission's authorized electric

10 revenue reduction was 41.3 million below Avista's

11 original request; right?

12 A The key word is "original request." As we

13 progress through a case, the Commission and the

14 parties expect us to provide updated information. The

15 relevant comparison here is at the time the Commission

16 made the decision what was the Company's proposal.

17 And as we all know, natural gas prices fell

18 considerably last year, and that was reflected in the

19 case. We had a settlement agreement where we agreed

20 to certain changes, the Nine Mile project as an

21 example. As we got into that project, it took more

22 time to complete; and because that shifted to 2016,

23 that reduced our need for rate relief.

24 So when we file a case, we file a request

25 based on the known information at the time. As things

0087

1 change, we provide all that information. So it was a

2 good thing for everyone that things changed last year,

3 which reduced our need for rate relief. So the

4 relevant consideration is at the time the Commission

5 ordered an $8 million rate reduction, Avista's

6 proposal was a reduction of 5.7. It was very close.

7 At the same time, you had ICNU and Public

8 Counsel -- I don't have the numbers in front of me,

9 but it was -- ICNU was $29.7 million reduction and

10 Public Counsel had a $42 million reduction. So at the

11 time that the decision was made, there was a dramatic

12 difference between where the Company was at, where the

13 Commission landed, and where those parties were.

14 That's the relevant comparison.

15 Q Right. So bearing in mind the figure you just

16 quoted for ICNU's proposed revenue reduction in the

17 last case, if you could, please turn to page 3 of this

18 cross-exhibit.

19 A I'm there.

20 Q And in response to Subpart B in ICNU Data

21 Request 181, the Company confirms the difference

22 between ICNU's proposal and the electric revenue

23 requirement decrease approved by the Commission in the

24 last general rate case was 21.6 million; right?

25 A Yes.

0088

1 Q Now, subject to check, in the Company's last

2 rate case, would you agree that Avista's original

3 proposal was 19.7 million further away from the

4 Commission's authorized revenue level than was ICNU's

5 proposal?

6 A I didn't follow all of that.

7 Q 33.2 million --

8 A Our original request.

9 Q -- your original proposal.

10 A Versus?

11 Q Authorized level of 8.1 million reduction

12 compared with ICNU proposed reduction of

13 29.6 million -- .7 million.

14 So my question is: Would you agree that

15 Avista's original proposal was $19.7 million further

16 away from the Commission's authorized electric revenue

17 level in comparison to where ICNU's proposal was in

18 that case? Subject to check, does that sound about in

19 the ballpark?

20 A I'm assuming what you're doing is taking the

21 8 million negative and the 33 million positive --

22 Q Comparing the differences --

23 A -- that's 41 million --

24 JUDGE MOSS: Let's remind ourselves to

25 just talk one at a time. The court reporter can't get

0089

1 both of you at once.

2 A I'm sorry. I didn't follow your math, and the

3 math doesn't add up for me. But we've already covered

4 the ground that Avista originally asked for an

5 increase of 33. The Commission ordered 8.1, so I'll

6 accept that.

7 Q We can move on.

8 Now, same page, in response to Subpart C and D

9 of ICNU Data Request 181, the Company confirms that an

10 electric revenue proposal that varies by 21.6 million

11 from an amount ultimately authorized by the Commission

12 is, in the Company's understanding, dramatically

13 different and not reasonable; right?

14 A Absolutely. If you convert that into return

15 on equity, the Commission ordered a 9.5 percent ROE.

16 This would translate into a difference of, roughly,

17 200 basis points. If we were to have an opportunity

18 to earn 7.5 percent, I think the rating agencies,

19 investors, and others would consider that a dramatic

20 change.

21 Q Sure. And I do want to follow up with ROE a

22 little bit later.

23 In your opinion, Mr. Norwood, do non-Company

24 parties in a general rate proceeding have the same,

25 less, or more information about the Company's revenue

0090

1 requirement than Avista itself?

2 A You said the parties in the rate proceeding?

3 Q In a general rate proceeding have the same,

4 less, or more information than Avista regarding the

5 Company's revenue requirement?

6 A Well, we provide all the information that's

7 relevant to the case to the parties. In direct case,

8 we respond to discovery. So, you know, I'm not sure

9 where you're going with a question, but all the

10 information surrounding the revenue requirements is

11 provided to all the parties.

12 Q Okay. Just looking for your opinion on that

13 question. Same, less, or more?

14 A I think we're all focused on the same

15 information as it relates to the requested revenue

16 increase.

17 Q Could you please turn to page 2 of your

18 rebuttal testimony.

19 A Page 2, I'm there.

20 Q Okay. You provided a block quote here on this

21 page from Staff witness Mr. Hancock regarding his

22 support for changing the cycle of rate filings; right?

23 A Yes.

24 Q Do you agree generally with Mr. Hancock's

25 statements in that block quote?

0091

1 A Yes.

2 Q Okay. In that portion of testimony you

3 quoted, Mr. Hancock states that, in the second

4 sentence of that block quote: Intervening Parties

5 would likely be better able to represent their

6 constituents and provide deeper analysis and

7 commentary to the Commission in its efforts to produce

8 outcomes in the public interest. Did I read that

9 correctly?

10 A Yes.

11 Q Specifically, do you agree that changing the

12 cycle of Avista rate case files would allow

13 Intervening Parties in the Company's future general

14 rate cases to provide deeper analysis than Intervening

15 Parties have historically been able to provide in

16 company rate cases?

17 A That's really the view of Commission Staff,

18 and it's based on the workload they have and their

19 approach to a rate case. So this is Mr. Hancock's

20 representation with regard to that piece of this

21 quote.

22 So I can't comment on whether -- what factors

23 go into what would allow Intervening Parties or the

24 Staff in terms of more time and to dig deeper. They

25 certainly have the opportunity over the course of an

0092

1 11-month proceeding to ask discovery. They've been

2 over to our offices a couple of times to audit

3 information, so I would leave that to Mr. Hancock as

4 to what he's getting at right there.

5 Q Right. And we've designated some cross time

6 for him, and I can ask him about it. But because you

7 quoted it, I'm just asking for your opinion on that

8 because you chose to provide this as a block quote.

9 A I would defer to Mr. Hancock on what he meant

10 by that portion of the quote.

11 Q Okay. Let me try to state this concept

12 another way.

13 There's room for improvement in regard to

14 Intervener analysis of Company-proposed revenue

15 requirement that changing the cycle of Avista filings

16 will facilitate or promote in your opinion? Would

17 that be accurate?

18 A No. I think the Interveners and Staff would

19 have to speak for themselves as to whether they need

20 more information or a different approach. So I will

21 not try to attempt to speak for Interveners or Staff

22 with regard to that topic.

23 Q Let's turn back, please, to your

24 cross-exhibit, page 2, KON-2CX, page 2.

25 A I'm there.

0093

1 Q The very last sentence of the Company's

2 response states in the last clause, quote, who had --

3 who also had all information when deciding the

4 Company's case.

5 And my question to you is: Who does the "who"

6 here refer to?

7 A The Commission.

8 Q To the Commission. Okay. Thank you. If we

9 could turn back to page 5 of your rebuttal testimony.

10 A I'm there.

11 Q Okay. The last sentence of the first full

12 paragraph states: A mechanistic application of inputs

13 to a model, along with logical arguments that on the

14 surface may appear to be reasonable, will not

15 necessarily produce reasonable end results.

16 Does this statement refer to Mr. Mullins'

17 attrition study on behalf of ICNU?

18 A It is a general statement, and so in this

19 case, yes. I would say yes. And Ms. Andrews and

20 Mr. -- Dr. Forsyth have addressed some of the

21 mechanics that he's employed, which, in our view, are

22 not appropriate.

23 Q Now, sticking here with this statement in your

24 testimony, did you intentionally mean to emphasize the

25 phrases "mechanistic application of inputs" and "on

0094

1 the surface" by underlining them?

2 A Yes.

3 Q Now, when you testified that an attrition

4 analysis is emphatically mechanistic and includes

5 logical arguments that may appear reasonable on the

6 surface, do you mean to say that such analysis is

7 arbitrary?

8 A Absolutely not. In other places in my

9 testimony, I emphasize that you shouldn't just apply

10 mechanics to numbers. You should do the studies, and

11 then after you do the studies, you should consider all

12 other evidence in the case to see whether your outcome

13 or your end result is representative of what's going

14 to happen during the rate-effected period.

15 Q Now, have you reviewed or are you familiar

16 with Mr. Mullins' updated revenue requirement

17 calculations provided in his cross-answering

18 testimony?

19 A I read his cross-answering testimony.

20 Q Would you agree that Mr. Mullins' updated

21 attrition allowance model supports an electric revenue

22 sufficiency of 1.0 million for Avista?

23 A I'll accept your number subject to check.

24 Q Now, based on the Company's discovery

25 response, we talked about this defining the

0095

1 dramatically different phrase that was used. Would

2 you agree that ICNU's attrition-based proposal in this

3 case is dramatically different from the

4 $29.7 million electric revenue sufficiency that ICNU

5 proposed in the last general rate case?

6 A This is a different case. We have a different

7 starting point, a different set of data. If you're

8 asking whether ICNU's proposal in this case is

9 dramatically different than what Avista has

10 demonstrated in terms of a need for rate relief, I

11 would say, yes, it is dramatically different and

12 dramatically low.

13 Q Right. And just to confirm as we had talked

14 about on page 3 of your cross-exhibit, Avista had said

15 that a $21.6 million difference was dramatically

16 different. That was the threshold confirmed; correct?

17 A Dramatically different from what the

18 Commission ordered, and after the fact, if you look at

19 it, it shows that what the Commission ordered was in

20 line with what was needed.

21 Q Okay. Would you also agree that ICNU

22 conducted an attrition study analysis in this

23 proceeding while it did not in the last general rate

24 case?

25 A Yes.

0096

1 Q Would you agree that the 1.0 million electric

2 revenue decrease proposed by Mr. Mullins based on

3 attrition modeling in this case is over $7 million

4 higher than the $8.1 million end result authorized by

5 the Commission in the last general rate case also

6 based on attrition models?

7 A That's completely irrelevant, completely

8 different set of circumstances, different set of

9 investment. There's no reason to compare those two

10 numbers. They're not comparable. What's relevant is

11 what is the evidence in this case.

12 And if you look at his application of the

13 attrition methodology, his selective use of many years

14 for one escalator and a few years for others, his end

15 result isn't reasonable when you compare it to other

16 proposals in this case.

17 Q Okay. I think you just answered my next

18 question. But to confirm, it's your position that

19 ICNU's proposed end result of electric revenue of

20 $1.0 million decrease is unreasonable?

21 A Correct.

22 Q Could you please turn to page 6 of your

23 rebuttal testimony.

24 A I'm there.

25 Q Beginning at line 25, you request that the

0097

1 Commission consider revenue adjustment proposals in

2 this proceeding within the context of evidence

3 pertaining to no evidence of a self-fulfilling

4 prophecy; right?

5 A Correct.

6 Q Now, in support of this position, looking at

7 the last sentence of this paragraph beginning on

8 line 34, you testify that Avista's operating costs

9 also reflect recent and continuing efforts to partner

10 with customers, and skipping ahead a little bit, to

11 provide new products, services, and information for

12 customers toward an energy-efficient and low-carbon

13 future; right?

14 A Yes.

15 Q First, what does it mean to you to partner

16 with customers in the context of providing new

17 products toward an energy-efficient future?

18 A There's a number of examples we can talk

19 about. The Commission recently approved our electric

20 vehicle pilot program where we're partnering with

21 vendors and our customers related to electric

22 vehicles. That's an ongoing program.

23 We, last year, started a program related to --

24 it's home heating and ventilation, HVAC, filters,

25 which provides the opportunity for customers to sign

0098

1 up for reminders or to have filters delivered to their

2 house on a regular basis. We're looking at the

3 advanced metering infrastructure, which is going to

4 allow us to gather more information and provide more

5 information to customers.

6 So these are just a few of the items that

7 we're doing to partner with customers to help them

8 manage their energy use, give them more information,

9 which will address energy efficiency as well as

10 carbon, and all those things cost money. And we're

11 being very transparent with all those programs with

12 all the parties.

13 Q And I know that there are other company

14 witnesses more focused upon AMI. But as you mentioned

15 it, is it your understanding that the AMI program

16 would swap out industrial customer meters?

17 A I'll defer to Ms. Rosentrater on the answer to

18 that question.

19 Q Okay. And I know she's not scheduled to

20 appear, but I think the record is fine with that.

21 I'll leave it at that.

22 In your view, does an energy-efficient future

23 for Avista include demand response programs?

24 A I believe it does. We addressed that in the

25 last integrated resource plan. I think what they

0099

1 found there is that may be a while before we engage

2 significantly in that, but we're certainly interested

3 in that. So I believe that is a part of our future.

4 Q Okay. Now, based on the evidence in this

5 proceeding, do you believe that Avista could support a

6 claim of recent and continuing efforts to partner with

7 industrial customers in developing new demand

8 responses products or services?

9 A Yes. I have actually been directly involved

10 in one -- with one of ICNU's customers in looking at a

11 possible demand response program. In fact, we have

12 talked with that particular customer two or three

13 times over the last five years to try to figure out a

14 way where we could compensate them for temporarily

15 shutting down their process, which would provide

16 capacity for us for some period of time.

17 We, at this point, have not been able to reach

18 agreement partly because the value of capacity at this

19 point in time is relatively low, and also that

20 particular customer has a limited opportunity to stay

21 down for very many hours. But we have talked with

22 that customer a number of times.

23 Q And is it your understanding that ICNU has

24 proposed a demand response program in this proceeding?

25 A Yes. And we have looked at that. And for --

0100

1 based on the value of capacity, the amount of hours

2 that they would be able to shut down is very limited

3 value to that particular proposal.

4 Q Okay. Could you please turn to page 13 of

5 your rebuttal testimony, and I'd ask that you take a

6 moment to review your testimony between page 13,

7 line 19, through page 14, line 3. And let me know

8 when you're ready.

9 A I've read it.

10 Q Okay. Now, starting on page 14, line 1, you

11 testify that if the Commission had ordered revenue

12 adjustments in line with those proposed by non-Company

13 parties in the 2015 general rate case, Avista would be

14 experiencing significant under-earnings during 2016;

15 right?

16 A Correct.

17 Q Now, based upon your own reasoning here, would

18 you agree that Avista would be experiencing

19 significant over-earnings during 2016 if the

20 Commission had ordered revenue adjustments in line

21 with the $33.2 million electric increase that Avista

22 originally proposed in the last rate case?

23 A That's irrelevant. Our proposal at the time

24 the Commission issued its order was for a revenue

25 decrease of $5.7 million. The Commission ordered a

0101

1 decrease of 8.1, which was very close.

2 Q Okay. Would you please turn to page 24 of

3 your rebuttal testimony.

4 A I'm there.

5 Q Okay. Lines 1 through 4 here, you state here

6 that in the last three general rate cases, including

7 for rate year 2016, both the Company and Staff

8 developed attrition analyses; right?

9 A That's correct.

10 Q But you also testified that the Commission did

11 not approve specific attrition studies or

12 methodologies in any of these cases; correct?

13 A Especially in the cases that developed rates

14 for 2013 to '15. In the Commission's last order, they

15 did have some discussion around the number of years to

16 include in an attrition analysis, so they spent more

17 time with it in the most recent case.

18 Q Now, if I could direct your attention to

19 line 3, I'm just going to read this last sentence.

20 Although the Commission did not approve specific

21 attrition studies or methodologies, attrition analyses

22 were the underlying foundation.

23 So should there be any revision to that

24 sentence based on what you just stated?

25 A Probably because the Commission in this last

0102

1 order, Order 05 and Dockets UE-150204 and the gas

2 docket, the Commission actually did approve a specific

3 attrition adjustment, so that should probably be

4 clarified.

5 Q But to try to dial this in a little bit more,

6 is it your understanding that they approved a specific

7 study or methodology?

8 A I'd have to revisit the order to see whether

9 they specifically approved a methodology or a study.

10 Q Okay. Next page, please, page 25, beginning

11 at line 23 --

12 A I'm there.

13 Q -- you go on to testify here that it is

14 critically important for the Commission to use

15 informed judgment in exercising broad discretion to

16 establish rates based on specific facts and

17 circumstances in this case; right?

18 A Correct.

19 Q If I put your testimony together, would you

20 agree that the Commission should review attrition

21 studies and methodology in this case even if different

22 from Company or Staff analyses in prior cases based on

23 the specific facts in this record?

24 A Yes.

25 MR. COWELL: Okay. Thank you,

0103

1 Mr. Norwood.

2 No further questions, Your Honor.

3 JUDGE MOSS: Thank you, Mr. Norwood and

4 Mr. Cowell.

5 I believe that completes the parties'

6 cross-examination of Mr. Norwood, but there may be

7 some questions from the Bench. So let me ask if

8 that's the case.

9 All right. Commissioner Jones, apparently,

10 has some questions.

11 COMMISSIONER JONES: Yes, I do, Judge.

12 E X A M I N A T I O N

13 BY COMMISSIONER JONES:

14 Q Good morning, Mr. Norwood.

15 A Good morning.

16 Q Good to see you here again.

17 A Thank you.

18 Q A few questions. This could be a question for

19 Ms. Andrews. It's in her Exhibit EMA-6T, but it deals

20 with the cost of debt.

21 A Yes.

22 Q Do you want to answer that question, or should

23 Ms. Andrews? It's really a question for Mr. Thies, I

24 think, your CFO.

25 A Let me give it a shot. I did review some of

0104

1 the debt information before coming today.

2 Q Okay. Let me -- well, why don't you give me

3 the -- I have a few specific issues, but why don't you

4 give me an overview of that issuance first, please,

5 and why it should be included in this case.

6 A What was the reference again, if you would,

7 please?

8 Q It's EMA-6T, page 14, lines 3 through 9, so

9 I'll just let you get there. It's labeled Cost of

10 Debt Update.

11 A And the page reference again? I'm sorry.

12 Q Fourteen.

13 A Thank you.

14 Q And it describes an FMB, first mortgage bond,

15 due in 2051 private placement --

16 A Yes, if you give me just a moment --

17 Q -- and all-in rate of 5.63 percent.

18 A Okay. I've read that, and I'm familiar with

19 that issuance. We had $90 million of short-term -- I

20 see a three-year debt that matured in September of

21 2016. We actually negotiated an extension -- a

22 short-term piece of debt to get us through December.

23 And so the 175 million of debt that will be

24 issued in December of this year is to replace the

25 90 million that matured in addition to issuing

0105

1 additional debt to cover our capital expenditures that

2 we need. So that is something that we knew at the

3 time we filed the case we were planning to issue debt.

4 It was actually 150 million at the time. We upped it

5 to 175, 175 million, in the end.

6 Q Has this cost of debt update information been

7 provided to the parties -- to Staff, ICNU, Public

8 Counsel?

9 A I'm going to defer that to Ms. Andrews. She

10 would know when this information was provided.

11 Q I can ask her later.

12 Why should it be included in this case? This

13 is an issuance in December of 2016.

14 A Yes. It will be in place during the rate

15 period. We did provide estimates during the case. In

16 September, I think, is when we priced the -- priced

17 this debt even though it will be issued in December.

18 So I think sometime in September is when we provided

19 it, but I don't remember the date.

20 Q You have a BBB rating as a corporate credit

21 rating with S & P, don't you?

22 A That's correct.

23 Q Do you happen to know -- you could provide

24 this for the record maybe -- what your last issuance

25 of an FMB, a first mortgage bond, was and the interest

0106

1 rate and the terms on that?

2 A If I can take just a moment, I think I have

3 that.

4 Q Well, you can provide it for the record. You

5 don't need to take the time now.

6 A Okay. We can provide that.

7 Q My question to you -- and maybe this is better

8 for Mr. Thies or Ms. Andrews -- the interest rate

9 seems a bit high. The Federal Reserve, as you know --

10 and we'll get into this tomorrow --

11 A Yes.

12 Q -- with the cost of capital witnesses, but

13 interest rates short-term are below 1 percent?

14 A Yes.

15 Q If you look at nationally recognized numbers

16 for a BBB, BBB-plus companies, it's in the high fours,

17 low fives. And so that's the nature of my question.

18 A Right. The last issuance that I remember was

19 in the mid-4 percent range, roughly 4 1/2 percent for

20 a 30-year money. This is for a 35-year money. And so

21 this interest rate of 5.6 percent reflects a coupon

22 rate, which was 3.6 percent, I believe. And when you

23 include in that the cost to issue and we had some

24 hedges where we had hedged a portion of the issuance,

25 then the all-in rate is 5.6 percent.

0107

1 COMMISSIONER JONES: Well, Judge, maybe

2 we should make a Bench request here. I would like to

3 know at least what the all-in rate is and what the

4 components are above the coupon rate and the terms of

5 that placement.

6 JUDGE MOSS: If that information is not

7 otherwise readily available, I suppose we can make it

8 a Bench request.

9 MR. MEYER: That would be No. 4.

10 MR. NORWOOD: Five, I think.

11 JUDGE MOSS: Five.

12 BY COMMISSIONER JONES:

13 Q Okay. Moving on to the next topic,

14 Mr. Norwood, if you could, turn to page 6 of your

15 testimony. Wait a minute. Yeah, page 6. And I think

16 Mr. Pepple asked you a few questions on lines 25

17 through 35 on this, quote, self-fulfilling prophecy.

18 I just want to ask you a few high-level questions and

19 a few internal questions about the drivers of cap X,

20 capital expenditures, in this case.

21 Could you just list them for me, the top

22 three, top four. Is it aging infrastructure? Is it

23 reliability? Is it AMI? Is it outage management?

24 Just go over -- and, again, you are not the asset

25 manager in the company; right?

0108

1 A No. But I'm very familiar with what we're

2 spending money on.

3 Q Okay. I'll get to that in a minute about how

4 you internally look at these things. Give me your --

5 if you could, prioritize what the drivers are.

6 A And Ms. Rosentrater would have additional

7 details on some of these. In terms of the primary

8 drivers, right now we are working on our Spokane River

9 projects. So in Mr. Kinney's testimony, he talked

10 about Post Falls projects, which we recently completed

11 upgrading the headgates there -- not the headgates,

12 but the spillway. That was 100 years old.

13 Little Falls, we're spending lots of money

14 there. It's, basically, a 100-year-old project.

15 We're replacing equipment there. And the Nine Mile

16 project where a couple of those units have been out of

17 service for some period of time, and so we are

18 spending a lot of money on those three Spokane River

19 projects.

20 Q Stop there for a minute.

21 A Okay.

22 Q So is that aging infrastructure is it a WEC or

23 FERC requirement, or is it a reliability issue or just

24 general aging infrastructure?

25 A It's a combination of things. When we

0109

1 relicensed the Spokane River projects, part of the

2 requirement to receiving the license was to redo the

3 spillway for Post Falls and also do some of the

4 upgrades at Nine Mile. That is part of the driver.

5 The other part of the driver is, as I mentioned, much

6 of that is 100 years old, so it was aging

7 infrastructure and time to replace it going forward.

8 Q Okay. Thank you.

9 A And so other components --

10 Q Moving on to other asset management --

11 JUDGE MOSS: Let me interrupt here and

12 remind everyone that we need to have people talking

13 one at a time so the court reporter can get everything

14 down. It's nice to be conversational, but we can't

15 interrupt each other.

16 COMMISSIONER JONES: Thank you, Judge.

17 A So one thing that we've explained in this case

18 is that in recent years we've developed asset

19 management plans. We have those plans related to

20 transmission and distribution, and so what we were

21 doing now is systematically going through our system

22 to replace the assets and, basically, optimize the

23 useful life of them to optimize capital investment but

24 also O & M.

25 So we're spending a lot of money

0110

1 systematically going through our distribution system,

2 transmission system, and, again, this is really an

3 aging infrastructure and a reliability issue. As we

4 mentioned in our testimony, we believe our reliability

5 is at the right level; but in order to maintain that

6 reliability, we need to invest in our system in order

7 to preserve that. So there's a lot of money we're

8 investing related to, basically, our asset management

9 programs.

10 You've mentioned AMI. As we look forward for

11 '17 and '18, there's a significant amount of dollars

12 that are going into that system in '17 and '18.

13 Q Are there any specific issues in this case

14 related to the large outage in November of 2015 that

15 you experienced and that we were briefed on at the

16 Commission?

17 A We had a wind storm in November of '17.

18 MR. MEYER: Not '17.

19 A I'm sorry. I think it was November 17, so

20 thank you. November of 2015. Thank you.

21 MR. MEYER: Unless you're aware of

22 something I'm not.

23 MR. NORWOOD: No. Thank you.

24 A So in this case we incurred additional

25 expenses. I'll talk about expense and capital.

0111

1 Ms. Andrews removed the additional expense from this

2 case, and so that is not built into rates going

3 forward. But with regard to capital, we spent the

4 number that comes to mind is 20 to 25 million

5 rebuilding our system. So that is a capital addition

6 that is reflected in our rate -- in this rate case.

7 And, of course, that will be depreciated over the life

8 of those assets.

9 Q Would you talk a little bit about the process

10 in the company to approve the asset management program

11 and the metrics you use in the need to terminations?

12 I see the chief operating officer, Mr. Vermillion, is

13 in the audience.

14 A Yes.

15 Q I assume he is involved. Your CFO is

16 involved. You're involved. Describe that process, if

17 you would.

18 A And I'm going to tell you what I can.

19 Ms. Rosentrater is more directly involved in those

20 specific asset management plans, but each department

21 actually has asset management plans related to their

22 area of expertise. Each year they submit what they

23 need in terms of capital investment for their area of

24 responsibility.

25 We have what's called a capital planning

0112

1 group, CPG, and it's made up of directors for

2 generation, transmission, distribution, ISIT. And so

3 all the requests go into that group, and then they

4 prioritize what is going to be spent in the next year.

5 And they actually develop a five-year plan, but

6 because the requests in the past have been more than

7 what the board has limited the capital investment to

8 be, some of those projects are deferred to later

9 periods of time.

10 Q Thank you. Moving on to ROE and ROR for a

11 minute, could you turn to page 8 of your testimony.

12 A I'm there.

13 Q On lines 6 through 14, you have a description

14 of that. Let me see. Could you read lines 12 and 13

15 about your actual earned ROR?

16 A We know now after the fact that Avista earned

17 an ROR of 7.33 percent towards electric operations for

18 that 2015 rate year, which was almost identical to the

19 authorized ROR of 7.32 percent.

20 Q And is this based on the CBR, the Commission

21 Basis Report, numbers?

22 A It is.

23 Q So, Mr. Norwood, what's wrong with this

24 picture in terms of what the Commission authorized in

25 Order 05 and going forward? In this case you're

0113

1 asking for 7.68 percent or 7.64. I don't know, but

2 reading this, you seem to be fairly content with what

3 we did in Order 05 with our authorized ROR of

4 7.32 percent. Because you actually earned only one

5 basis point more. So what's wrong with that picture?

6 A I guess I don't see anything wrong with this

7 picture. The Commission in that order approved an ROR

8 at 7.32. At that point, the decision is made.

9 Commission deems that as being the right place. After

10 the fact, I think it is important to look at what was

11 the earned return after the fact compared to what was

12 ordered by the Commission. If the Commission had

13 given us a higher ROR, then we, likely, would have

14 earned closer to that.

15 Q Sure. And that translates, roughly, to a

16 9.5 percent ROE, does it not?

17 A That's correct.

18 Q Could you turn to page 13 of your testimony

19 where you get into the natural gas earnings that seem

20 to be a little bit higher. I just have one quick

21 question on that. Are you there? Can you see lines 1

22 through 10?

23 A I have that.

24 Q So why -- natural gas -- gas operations ROE

25 have been relatively low for 2012 to 2014, which you

0114

1 point out in your table.

2 A They have been.

3 Q I'm just a little perplexed as to why the ROE

4 for gas shot up to 10.2 percent?

5 A Yes. And I had the same questions. So I

6 asked Ms. Knox and Ms. Andrews to look at that, and

7 what they found in this particular instance is each

8 year at the end of the year, we look at our

9 allocations, not only between states, but between

10 jurisdictions, electric and natural gas.

11 So at the end of '15, the allocations actually

12 shifted costs away from gas to electric just a little

13 bit. And when you do that, then your expenses

14 actually go down when you're measuring the

15 after-the-fact results. So that's the primary reason

16 why this return is higher than what was authorized.

17 So the other thing to keep in mind with

18 natural gas is the rate base is very low. So it

19 doesn't take many dollars to shift the impact on ROE

20 changes. In fact, 10 basis points on ROE for the

21 natural gas business is about $145,000. It doesn't

22 take much movement to cause the ROE to move.

23 Q So it's both based on, to summarize, the

24 allocation between the three different jurisdictions

25 and the relatively small rate base for natural gas?

0115

1 A That's correct.

2 Q Turn to page 17 of your testimony, please.

3 This relates to load growth.

4 A I'm there.

5 Q Let me ask you this: Mr. Norwood, why did you

6 quote Mr. Hancock so much in your rebuttal testimony?

7 A I thought he did a great job on most of what

8 he recommended and what he did.

9 Q You have many quotes of Mr. Hancock. So in

10 lines 11 through 15, you say that revenue growth is

11 flat. And Mr. Hancock mentions this at length in his

12 testimony as well.

13 Do you happen to know, according to your last

14 IRP, what your load forecasts are for natural gas and

15 electricity for the rate-effected year?

16 A I don't, but Mr. Forsyth is a witness. He's

17 in the room. He's the one that actually does the load

18 forecast and the customer forecast, so he could give

19 you details of that.

20 Q Do you know if it's more or less than

21 1 percent?

22 A My understanding is it's -- I don't know for

23 sure, but I think the sales growth, I believe, is less

24 than 1 percent. Customer growth may be close to 1,

25 maybe slightly over, but I will defer to Dr. Forsyth.

0116

1 Q Okay. I'll ask him. And, finally, I think

2 it's this -- on the role of attrition, this is not

3 geared to a specific page number, but I just want to

4 be clear that you support the way the Commission

5 ordered an attrition adjustment to be calculated in

6 Order 05, don't you?

7 A We support an attrition adjustment, but I

8 think, as I mentioned, I think it's important to --

9 let me step back. We've provided a modified test year

10 study, and Staff and Avista has concluded that's not

11 sufficient. So then we both moved on to attrition

12 analysis, and both Staff and Avista used the same

13 escalation period of '07 to '15. We both included

14 after-attrition adjustments.

15 So the point here is, yes, I believe

16 attrition, in this instance, is necessary, but, again,

17 we need to look at the after-the-fact results of that

18 to see when we're done with the analysis is it really

19 reflective of what's going to happen in the

20 rate-effected period.

21 Q Right. No. And I'm not trying to talk over

22 you, but I'm trying to get at the question of how you

23 calculated compared to -- both Staff and you run a

24 modified historical test year with pro forma capital

25 additions; right?

0117

1 A Yes.

2 Q And both Staff and you run an attrition

3 adjustment that complements that is added to as an

4 adjustment at the bottom once you calculate the

5 revenue deficiency. You do it the same way; right?

6 A In a very -- I would say a very similar way.

7 That's the same model and same escalation period as I

8 mentioned, but the major differences are Staff has a

9 different O & M escalator, which is one of the big

10 differences.

11 Q I know that. Yeah. I'm not asking that

12 question. So but some of the parties in this case --

13 I think I read some testimony that said you have to do

14 either/or. You have to do either a modified

15 historical test year with pro forma capital additions

16 or you do a broad attrition adjustment?

17 A Well, certainly, the Commission has the

18 discretion to use the tools in front of them. And so

19 in our view, the attrition analysis that we presented,

20 very similar to Staff, is the appropriate one to use

21 in this case.

22 Q And just, finally, why do you object to a more

23 granular look at O & M that Mr. Hancock does? You do

24 it -- maybe this is addressed more to Ms. Andrews.

25 You just are sticking to this position that you should

0118

1 do it on a broad company-wide O & M basis?

2 A Actually, in Ms. Andrews' response testimony,

3 she makes the point that we actually don't object to

4 looking at it more granular. In fact, Ms. Andrews

5 replicated Mr. Hancock's study where you take each of

6 the components that he isolated. If you do that, you

7 can look at the changes for each of those categories.

8 But then if you were to use the escalators

9 based on that trend for each of those categories, you

10 actually end up in the very same place. And

11 Ms. Andrews mentioned that in her response testimony

12 if we do our analysis the same way Mr. Hancock did, I

13 think she makes the point that the rate base number is

14 within, like, $55,000.

15 We're not opposed at all to looking at it more

16 granular. If you're going to do that, you need to

17 look at some of the data to see if it has, for

18 example, kink points that we talked about in the last

19 case and in this case to make sure you're using the

20 proper escalators. If you look at Mr. Hancock's study

21 and Ms. Andrews' study, one used more granular. One

22 used more of an aggregate, but they both ended up with

23 the same starting place before you apply your

24 escalators.

25 COMMISSIONER JONES: That's all I have.

0119

1 Thank you, Mr. Norwood.

2 E X A M I N A T I O N

3 BY CHAIRMAN DANNER:

4 Q I just want to clarify because it was my

5 understanding in the last case that the authorized ROR

6 was 7.29, not 7.32. Maybe we can take a look at that.

7 A Now that you say that, I believe that is

8 correct. It was a prior case, I believe, where there

9 was a 7.32.

10 CHAIRMAN DANNER: That's it.

11 E X A M I N A T I O N

12 BY JUDGE MOSS:

13 Q All right. Well, I won't prolong this for

14 you, Mr. Norwood. I just have a quick question. You

15 mentioned the 10 basis points on the gas side

16 represents, approximately, 145,000. What is it on the

17 electric side?

18 A On the electric side, it's 1.1 million.

19 That's a revenue requirement number in both cases.

20 JUDGE MOSS: Thank you.

21 COMMISSIONER JONES: Judge, just to be

22 clear there, that's ROE, not ROR.

23 MR. NORWOOD: Thank you. That's

24 correct. Return on equity.

25 JUDGE MOSS: Right. Thank you. I just

0120

1 wanted the comparable numbers.

2 Thank you very much, Mr. Norwood. I believe

3 that completes your examination today, so you may step

4 down subject to recall, if needed. Thank you very

5 much.

6 Let's take our morning break. We'll break

7 until 10:45, and we'll have Ms. Andrews when we come

8 back. So she should be perhaps ready with her books

9 and so forth.

10 (A break was taken from 10:35 a.m. to

11 10:49 a.m.)

12 JUDGE MOSS: All right. Let's be back

13 on the record. Ms. Andrews, welcome.

14

15 ELIZABETH M. ANDREWS, witness herein, having been

16 first duly sworn on oath,

17 was examined and testified

18 as follows:

19

20 JUDGE MOSS: Please be seated.

21 Mr. Meyer, your witness.

22 MR. MEYER: Thank you, Your Honor.

23 E X A M I N A T I O N

24 BY MR. MEYER:

25 Q Ms. Andrews, for the record, please state your

0121

1 name.

2 A Elizabeth M. Andrews.

3 Q And have you prepared and prefiled and have

4 had admitted Exhibits EMA-1T all the way through

5 EMA-11?

6 A Yes, I have.

7 Q And I understand that you previously provided

8 two corrected pages to that exhibit?

9 A Correct.

10 Q Do you have beyond that any other corrections?

11 A Just the two pages and then the additional on

12 AMI.

13 Q So no further edits?

14 A No.

15 MR. MEYER: So with that, the witness

16 is available.

17 JUDGE MOSS: Ms. Andrews, I'm going to

18 ask you to observe your counsel there whose mouth is

19 only inches from his microphone as is mine. And,

20 unfortunately, it's necessary, as they say in the

21 business, to swallow the mike. I'll ask you to do

22 that so it does pick up your voice clearly for those

23 who are listening on the bridge line and for the

24 benefit of those in the room as well.

25 MS. ANDREWS: Is that better?

0122

1 JUDGE MOSS: That's better. Thank you

2 very much. It's a little unnatural. All right.

3 MS. ANDREWS: I'm also so short. I can

4 barely reach the floor.

5 JUDGE MOSS: I understand completely.

6 I've shrunk quite a bit over the years. I'm getting

7 short myself.

8 All right. With that then, we'll go again

9 with Public Counsel, Ms. Gafken.

10 MS. GAFKEN: Thank you. And I think

11 the estimate on the sheet says 25 minutes. I'm not

12 going to take 25 minutes this morning.

13 JUDGE MOSS: I'll hold you to that.

14 E X A M I N A T I O N

15 BY MS. GAFKEN:

16 Q Good morning, Ms. Andrews.

17 A Good morning.

18 Q Would you please turn to your rebuttal

19 testimony, which is Exhibit EMA-6T, and turn to

20 page 50.

21 A I'm there.

22 Q I'd like to -- I'm sorry. Let me start that

23 again. I'd like you to turn to lines 1 and 2 on

24 page 50. There you state that Mr. Watkins expressed

25 that certain numbers included expenses when they

0123

1 actually included both expenses and capitalized labor

2 costs; correct?

3 A Correct.

4 Q You go on to point to Avista's response to

5 Public Counsel Data Request No. 10, which was the

6 source of Mr. Watkins' table; correct?

7 A Correct.

8 Q Do you have a copy of Mr. Watkins' testimony

9 with you?

10 A Yes, I do.

11 Q Okay. Would you access his testimony, which

12 is Exhibit GAW-1T, and turn to page 15.

13 A Fifteen, page 15?

14 Q Page 15. And, let's see, lines 7 and 8.

15 A Yes.

16 Q There do you see that Table 11 provides

17 Avista's Washington electric operations total salary

18 and wages, including capitalized labor?

19 A Yes.

20 Q And on page 16 of Exhibit GAW-1T is Table 12,

21 which is the table that you were referring to in your

22 testimony; correct?

23 A Yes, I believe that's true.

24 Q And Table 12, the source of those

25 calculations, came from Table 11. Is that your

0124

1 understanding?

2 A That's my understanding.

3 Q Okay. And in the revised testimony that

4 Public Counsel filed, do you see the word "expenses"

5 has been stricken?

6 A Yes, I do.

7 Q That was a typo, but it was clear on

8 page 11 -- or I'm sorry. On page 15 that the

9 capitalized labor costs were included in those

10 numbers?

11 A Yes.

12 MR. MEYER: A little closer.

13 MS. ANDREWS: Sorry.

14 Q I have the same with these things.

15 And also Avista's response to Public Counsel

16 Data Request No. 10 is included as Mr. Watkins'

17 Exhibit GAW-8; correct?

18 A I believe so.

19 Q So that data request is in the record?

20 A Yes.

21 Q Would you please turn back to your rebuttal

22 testimony, Exhibit EMA-6T, and turn to page 51,

23 lines 21 to 22. There you state that there are

24 understandable circumstances driving the higher growth

25 and costs for the data evaluated by Mr. Watkins if

0125

1 only one were to ask; correct?

2 A Correct.

3 Q Are you familiar with the Commission's order

4 in Avista's last general rate case in Dockets

5 UE-150204 and UG-150205?

6 A Yes, I believe so.

7 Q Are you familiar with the Commission's Order

8 No. 5 from -- I'm sorry. That's the same question.

9 Are you familiar with the requirements set forth in

10 Order 5 that the utilities requesting an attrition

11 adjustment must demonstrate that the cause of the

12 mismatch between revenues, rate base, and expenses is

13 not within the utilities' control?

14 A Could you repeat that, please?

15 Q Sure. Are you familiar with the requirements

16 set forth in Order 5 that utilities requesting an

17 attrition adjustment must demonstrate that the cause

18 of the mismatch between revenues, rate base, and

19 expenses is not within the utilities' control?

20 A Yes, I am.

21 Q So it's fair to say, then, that the place to

22 explain the growth in Avista's cost is in Avista's

23 direct case; correct?

24 A Yes. And that's not exactly what I was

25 referring to when I was talking about this particular

0126

1 sentence. What I was referring to is Mr. Watkins

2 should have asked questions about really understanding

3 the data that he was using and that they -- the

4 underlying information, which was provided in our

5 case, would have explained things like storms, which

6 was described in our testimony, or other factors that

7 would be increasing labor expenses or O & M expenses.

8 Q And you did describe the November storm in

9 your rebuttal testimony.

10 A Correct.

11 Q And you do recall that we asked an informal

12 follow-up question in July on the labor costs?

13 A Yes.

14 MS. GAFKEN: Okay. I have no further

15 questions.

16 JUDGE MOSS: All right. Thank you.

17 You were good to your word, Ms. Gafken.

18 We have from -- the Northwest Industrial Gas

19 Users, apparently, have a couple of questions.

20 E X A M I N A T I O N

21 BY MR. BROOKS:

22 Q Good morning, Ms. Andrews.

23 A Good morning.

24 Q I'd like to start with your Rebuttal Exhibit

25 EMA-6T, and if you could, please turn to page 39.

0127

1 JUDGE MOSS: While you're doing that,

2 I'm going to ask that whoever is on the bridge line

3 please mute their phone.

4 A Yes, I'm there.

5 Q On line 6 you referred to this idea of a kink

6 point, and I wanted to explore that idea. And there's

7 a footnote that's Footnote 46. Could you please read

8 the first sentence of that footnote?

9 A Yes. It says a kink point is a point in which

10 the data in a series has a definite kink in the data

11 series up or down from previous data points that

12 should be recognized if a linear regression analysis

13 is used.

14 Q What is your definition of a definite kink?

15 A Well, I think if you look at some of the

16 specific granular areas that either Mr. Mullins or

17 Mr. Hancock had provided within their exhibits,

18 specifically Mr. Mullins with your witness, you can

19 see specific where the data pitches upward and changes

20 significantly from the previous years.

21 Q So if you take any given point, how long

22 before and after that point how much data do you need

23 to determine if a kink exists at that point?

24 A Well, this question may be better for

25 Dr. Forsyth who is a little bit more -- but you can

0128

1 tell within the data -- you can actually have even

2 more than one kink point. Dr. Forsyth can speak to

3 the fact that you can actually have multiple kink

4 points in a data series.

5 In the case of what Mr. Mullins had included

6 in his model, you can see in several instances -- and

7 both Dr. Forsyth and I speak to it as far as

8 determining the revenue requirements associated with

9 it -- you can see the data itself where it pitches up.

10 I think a few examples he gave showed a pitch-up in

11 2009, for example.

12 Q When you're looking at the data and you can

13 see this kink, is it visible looking just one year on

14 either side of a point?

15 A I think for me who's not a statistician for me

16 you can see -- specifically, Mr. Mullins you can

17 see -- you can visually see it, but Dr. Forsyth could

18 speak better to how you can actually look at the data.

19 Sometimes it's not as clear. But you can look at the

20 data and determine where those kink points exist.

21 Q I will ask him some questions. Since you

22 testified about there being a definite kink, I want to

23 explore that with you.

24 A That's fine.

25 Q What about if you look two years on the other

0129

1 side of a point, is it possible to see that much of

2 kink with that much information?

3 A Yes, you can -- as Mr. Mullins did use various

4 data periods, for Staff and Avista, we used 2007 to

5 '15. Because as we testified to last year, there was

6 definite kink points in that beyond 2007 with the

7 granular data that we used. And it is correct that as

8 you provide different granular data you might have

9 different kink points than that.

10 Q Sticking with page 39 -- and I'm looking at

11 line 9 now and the sentence that begins there -- you

12 testified that linear regression is used when

13 historical data, quote, appears linear; correct?

14 A Yes.

15 Q How do you determine when a data set appears

16 linear?

17 A Well, you would have to -- I mean, obviously,

18 appearance -- I used appearance for these -- both this

19 example and the next pages is talking about nonlinear

20 and the specific kink points. You also need to

21 analyze that data, which we did internally in our

22 company. I had Dr. Forsyth review our analysis to

23 make sure that the appropriate linear and nonlinear

24 analysis was done between both our electric and gas

25 models.

0130

1 Q Does the data appear linear only when all the

2 points actually fall on the line, or is there some

3 tolerance there?

4 A I'm sure there's some tolerance, but

5 Dr. Forsyth would be better to answer that question.

6 Q I'd like to get your opinion on it. Is there

7 room for applying informed judgment about whether or

8 not the data set is linear or not?

9 A I think you could analyze the data. Like I

10 said, I had Dr. Forsyth analyze the specific data for

11 the linear models, and they did appear to be linear on

12 the electric side. And on the gas side, many of them

13 appeared nonlinear. That's why we went with that

14 approach.

15 You can look at some of the -- just going to

16 think about some of the disaggregated data that

17 Mr. Mullins used, you can see that there are many

18 categories that he -- cross categories that he

19 disaggregated. And you see points all over the place,

20 but what I would suggest is that what happens in many

21 of the instances of disaggregating the data is you

22 have multiple categories that either were not material

23 or the change was not material.

24 And so I think that they tended to just

25 distract from the true cost categories that are

0131

1 causing the growth in our costs. And so what you can

2 see on those cost categories that are really driving

3 our attrition increases or the need for attrition

4 tended to be linear and fairly close to the line, and

5 on the gas side, you can see this growth in expenses

6 over time.

7 Q Since you relied on Dr. Forsyth's statistical

8 analysis of whether or not something was linear, I'd

9 like to get back to just your view of it when you said

10 you reviewed, for example, Mr. Mullins' graphs. Did

11 you base this concept of linearity -- I don't know if

12 that's a word -- of it being linear, on that

13 statistical analysis or on your view of how the graph

14 looked, for example?

15 A I looked at it, but, like I said, I relied on

16 Dr. Forsyth to go through his analysis. And I relied

17 on -- that's why he sponsored testimony around linear

18 regression because he is a doctorate and has more

19 information on this than I do.

20 Q Thank you. Could you turn to page 40 of the

21 same testimony.

22 A Yes.

23 Q And I'm specifically looking at Figure 3. And

24 can you describe what this figure depicts?

25 A Yes. And as it says, it is a picture that is

0132

1 directly out of Dr. Forsyth's testimony. And so it

2 shows that from 2000 to 2009 it was fairly linear, and

3 then it pitches up. There's a direct kink point which

4 you can see within this data.

5 Q Does Avista's attrition analysis use a trend

6 line that starts in 2007, or does it evolve and

7 sometimes use a trend line that starts in 2009?

8 A No. We use 2007 to 2015 because our

9 aggregated data that is -- there is clearly a kink

10 point -- I mean, there's, clearly, a kink point

11 starting in 2007, and that's why we are using 2007 to

12 '15 consistent with the last year's case that the

13 Commission approved.

14 Q So if the data set did appear this way

15 because, for example, the Commission used the

16 disaggregated data, would Avista's trend line take

17 into account that kink point in 2009?

18 A Yes.

19 Q How so?

20 A Well, if you disaggregate the data, then you

21 would have to use -- you would have to recognize a

22 kink point, just as Dr. Forsyth explained in his

23 testimony, about where that kink point would exist.

24 Q Would Avista's attrition analysis then have to

25 be adjusted to capture this kink point since you did

0133

1 not disaggregate the data?

2 A No. Actually, you could -- you could do 2007

3 to '15 and you would just have to recognize the kink

4 point at the 2009 period if you disaggregated the

5 data.

6 Q My question is about under Avista's existing

7 model that does not disaggregate the data. How would

8 that kink point get captured?

9 A As I mentioned, as you disaggregate the data,

10 then there may be various -- the kink points may vary

11 between the years. But on an aggregated basis when

12 you look at our data, the kink point existed at 2007,

13 and that is what we reflected.

14 Q Still using this as an example, what would

15 happen to that trend line if you -- if it started at

16 the 2007 period instead of 2009? Would it be

17 shallower or steeper?

18 A Well, I was looking at it aggregated data --

19 I'm sorry. Yeah, aggregated data and at that

20 aggregated data because you have -- you have various

21 components that, like I said, may vary. In the

22 aggregate, the kink point existed 2007. So I wouldn't

23 reflect a kink point in '09, because that's not what

24 the aggregated data shows. If you're going to

25 disaggregate the data, you may very well have varying

0134

1 time periods. That's not what we did, and that's not

2 what I think is necessary.

3 Q I'd like to turn to page 45 of your testimony.

4 Beginning on page 9, you refer to the Commission's

5 order in Avista's prior rate case; correct?

6 A I'm sorry. You said beginning on page 9?

7 Q I'm sorry. Page 45, line 9.

8 A Okay. Sorry. Okay. Say that again.

9 Q On this line -- beginning on this line, you

10 refer to the Commission's order in Avista's prior rate

11 case.

12 A Correct.

13 Q What historical time period did the Commission

14 ultimately adopt as the basis for the attrition

15 analysis in that case?

16 A 2007 to 2014.

17 Q Is it true in that case that Avista on

18 rebuttal adopted Staff's attrition analysis with some

19 changes?

20 A Some changes, correct.

21 Q Was one of those changes that Staff had urged

22 the Commission to look at a 2009 to 2014 period,

23 whereas, Avista wanted to look at the 2007 to 2014

24 period?

25 A That's correct. And the Commission approved

0135

1 the 2007 to '14 time period.

2 Q Did the Commission have any evidence or

3 arguments in front of it other than those two

4 competing time periods, for example, that the

5 historical period should be longer and go back prior

6 to 2007?

7 A Well, Dr. Forsyth had included in testimony

8 discussing how the 2000 to 2007 time period used in

9 the aggregated basis had -- because of that kink

10 point, that that data period did not appear to be

11 relevant. That what was important is what were we

12 expecting to occur during the rate period and that

13 level of increase from '7 to '15, that level of slope

14 that was occurring, was what we were expecting to go

15 on a forward basis.

16 Q Did any other party offer a time frame or did

17 Avista advocate for a longer time frame than 2007?

18 A No. Because as I said, we had Dr. Forsyth's

19 testimony explaining that the 2007 to the 2014 time

20 period was the appropriate time frame.

21 MR. BROOKS: Thank you. That's all the

22 questions I have.

23 JUDGE MOSS: Thank you, Mr. Brooks.

24 And that completes examination by parties. Do

25 we have questions from the Bench? Commissioner Jones.

0136

1 E X A M I N A T I O N

2 BY COMMISSIONER JONES:

3 Q Just a couple, Ms. Andrews. So you heard my

4 exchange with Mr. Norwood over the application of

5 modified historical test year --

6 A Yes.

7 Q -- attrition adjustment.

8 Do you have anything to add that -- was that a

9 correct characterization of Staff's position and your

10 position?

11 A I'm having a little trouble recalling the

12 specific testimony. I'm sorry.

13 Q Okay. There is some testimony --

14 A I was paying attention.

15 Q Sorry. We're not supposed to talk over each

16 other.

17 There is some testimony in the case that says

18 either you use a modified historical test year with

19 pro forma capital additions or you use a broad

20 attrition adjustment.

21 A Yes, I understand.

22 Q Avista does not agree with that; right?

23 A Well, we provided both a modified historical

24 test period, but as we noted in testimony, it's not --

25 we recognize it is not sufficient to cover our costs,

0137

1 both in expense and capital, during a rate year. So

2 we also provided an attrition study to provide support

3 to this Commission on what level we do expect during

4 the rate year.

5 So I believe, in a way, they complement each

6 other. Because you can see that using a modified

7 historical test period isn't sufficient, and so I look

8 as the attrition adjustment -- or the attrition study

9 as -- you know, I believe last -- I believe in the

10 prior case the Commission approved an attrition

11 allowance.

12 And so they looked at the modified historical

13 test period, came up with a result, and then there was

14 an attrition allowance that adjusted from there to the

15 revenue requirement approved by this Commission, and I

16 think we're taking the same approach, both the Staff

17 and I.

18 Q So, again, my question to Mr. Norwood and to

19 you is more the way you calculate modified historical

20 test period as a complement with an attrition

21 adjustment.

22 Ms. Swan does it in her adjustment,

23 adjustment 4.8, in her attachment, and I think you do

24 it in your analysis. You do it the same way; right?

25 A We do. Yes, we do.

0138

1 Q And just I'd like to get a sense of the bottom

2 nine numbers on rebuttal just so I'm clear. Turn to

3 page 10, please. I'd like to first go to electric

4 revenue requirement.

5 A You said page 11?

6 Q No. Ten, Table 4.

7 A Okay. Yes, I'm there.

8 Q So just so I understand what your final ask of

9 the Commission is, you're asking in revenue

10 requirement 40,101,000 in 2017, 10,485,000 in 2018,

11 for a total of 55,086,000?

12 A Actually, we are asking 38.568, so our direct

13 case was slightly lower than this.

14 Q I know that, yeah.

15 A So what we're actually asking for -- and we do

16 state here -- does it say it? Updated revenue

17 requirement is provided for informational purposes

18 more from the standpoint of the total. And the

19 Company is not requesting a higher increase than what

20 we had originally filed.

21 Q So what are you asking for, electric, please?

22 Give me a number.

23 A So we are asking for 38,568,000.

24 Q 38,568,000.

25 A So if you actually want to go up to the Avista

0139

1 filed at the very top line --

2 Q Where is that?

3 A -- line 3 of that table --

4 Q There it is.

5 A -- that's really what we're asking for. We

6 have made adjustments, and we would hope that they

7 would be reflected as you make your decision --

8 Q Yes.

9 A -- probably downward.

10 Q And you heard me ask some questions on your

11 Item Sub C on the update cost of debt, so I think that

12 is an issue in play. But your ask is that number --

13 that line Avista filed on top, so 38,568,000 plus

14 10,301,000 for a total of 48,869,000 over the

15 18 months?

16 A Yes. We do believe that we have supported a

17 higher level, but, obviously, we cannot ask, without

18 resetting the clock, a higher amount.

19 Q Good. And let's go to the gas page. Where is

20 that?

21 A That's page --

22 Q Let me see.

23 A Page 15.

24 Q Okay.

25 A Table 5.

0140

1 Q I want to be clear on this. So you are asking

2 for -- I know you're asking for certain adjustments on

3 rebuttal, but your ask is Avista filed 4,397,000 plus

4 941,000 for a total of 5,338,000?

5 A That's correct.

6 COMMISSIONER JONES: Okay. Thank you.

7 That's all I have, Judge.

8 JUDGE MOSS: Thank you. Nothing

9 further from the Bench?

10 Ms. Andrews, that was mercifully short from

11 your perspective, I'm sure.

12 MS. ANDREWS: I'm totally fine with

13 that.

14 JUDGE MOSS: We appreciate your

15 testimony today, and we will let you step down from

16 the witness stand there subject to recall, if needed.

17 And I believe our next witness is Forsyth,

18 Dr. Forsyth.

19

20 GRANT DOUGLAS FORSYTH, witness herein, having been

21 first duly sworn on oath,

22 was examined and testified

23 as follows:

24

25 JUDGE MOSS: Mr. Meyer.

0141

1 While Mr. Meyer is finding the place there,

2 Dr. Forsyth, I just have to ask is "kink point" a

3 technical term in the statistics world?

4 DR. FORSYTH: It was the term that I

5 came up with that would least confuse people from the

6 statistical world.

7 JUDGE MOSS: Thank you very much. I

8 didn't remember learning it in statistics. I was just

9 curious.

10 DR. FORSYTH: I'm aware that not

11 everybody loves what I do.

12 JUDGE MOSS: Nor what I do.

13 Mr. Meyer, are you ready now?

14 MR. MEYER: I am. Thank you.

15 JUDGE MOSS: Please proceed.

16 E X A M I N A T I O N

17 BY MR. MEYER:

18 Q Dr. Forsyth, for the record, please state your

19 name.

20 A Grant Douglas Forsyth.

21 Q And have you prepared two exhibits marked as

22 GDF-1T and GDF-2 that were prepared by you and

23 admitted into the record?

24 A I have --

25 Q GDF-1T and GDF-2?

0142

1 A Yes, that's correct.

2 Q You have a slight revision to one of those?

3 A Yes, if I can call the attention to everybody

4 to GDF-1T, page 10, Table No. 2.

5 Q Let's let everybody get there. All right.

6 A All right. Table No. 2 the -- if you look at

7 the first column in Table No. 2, it says Mullins gas

8 expenditure category. It should be gas and electric.

9 It's a combined. It includes an analysis or examples

10 from both Mr. Mullins' gas and electric analysis.

11 Q Do those complete your corrections?

12 A That is correct.

13 MR. MEYER: Thank you, Dr. Forsyth. He

14 is available.

15 JUDGE MOSS: All right. Very good.

16 Ms. Gafken.

17 E X A M I N A T I O N

18 BY MS. GAFKEN:

19 Q Good morning, Dr. Forsyth.

20 A Good morning.

21 Q Would you please turn to your rebuttal

22 testimony, which is Exhibit GDF-1T, and turn to

23 page 14, line 23.

24 A Just to confirm, GDF-1T, page 14, line 23?

25 Q Correct.

0143

1 A Okay.

2 Q There you state that Mr. Watkins refers to the

3 Customer Price Index for all urban customers; correct?

4 A Consumer Price Index, that's correct.

5 Q By urban, are you referring to the

6 metropolitan statistical areas?

7 A That's correct. So the way the Consumer Price

8 Index is calculated is it is a collection of prices

9 from urban areas across the United States. So it

10 represents the prices being paid by urban consumers.

11 Q And, again, the urban consumers in

12 metropolitan statistical areas?

13 A Yeah. Predominantly, the price collections

14 will be coming from metropolitan areas.

15 Q Do you know what the percentage of the

16 American public is covered in the metropolitan

17 statistical area and thus included in the Consumer

18 Price Index?

19 A I do not know that number.

20 Q Would you please turn to Cross-Exhibit

21 GDF-3CX.

22 A Yes. I'm there.

23 Q Do you recognize Cross-Exhibit GDF-3CX as a

24 depiction of metropolitan statistical areas in the

25 state of Washington?

0144

1 A Yes. And, for clarification, both

2 metropolitan and the distinction also between

3 micropolitan, so it includes both.

4 Q Okay. Right. Is Spokane in a metropolitan

5 statistical area?

6 A It is.

7 Q Okay.

8 A And for the record, that area has recently

9 changed. It used to be just Spokane, the county of

10 Spokane. And just recently we have been added to

11 Stephens and Pend Oreille as the new definition of the

12 Spokane/Spokane Valley metropolitan statistical area.

13 Q So that larger green area is a new drawing of

14 the metropolitan statistical area?

15 A That's correct. Up until, I believe it was,

16 perhaps last year, it was just Spokane County; but

17 because of worker flows, it now includes Stevens and

18 Pend Oreille as part of that MSA.

19 MS. GAFKEN: Okay. Thank you. I have

20 no further questions.

21 JUDGE MOSS: Thank you, Ms. Gafken.

22 I think we do have some questions from the

23 Northwest Industrial Gas Users again, Mr. Brooks.

24 MR. BROOKS: Before we begin, Your

25 Honor, I just wanted to alert you -- and I've talked

0145

1 to Mr. Meyer about it -- that some of my questions are

2 going to be referencing an exhibit that's not in

3 Dr. Forsyth's testimony but was Mr. Mullins's

4 testimony. And it is Exhibit BGM-4 that he refers to

5 in his testimony.

6 JUDGE MOSS: Do you have a copy of that

7 with you, Dr. Forsyth?

8 DR. FORSYTH: I do.

9 JUDGE MOSS: Then we should be able to

10 proceed smoothly.

11 MR. BROOKS: Thank you.

12 E X A M I N A T I O N

13 BY MR. BROOKS:

14 Q We will not begin there however. Dr. Forsyth,

15 could you turn to your testimony, which is GDF-1T, and

16 specifically on page 6.

17 A Yes.

18 Q Referring to line 19, which is just beneath

19 the figure, here you explain why kink points are

20 meaningful. Could you please read those two lines.

21 A Yes. Starting at line 19?

22 Q Correct.

23 A The regression line is insufficient for

24 explaining the pre or post kink trend. Regardless of

25 the time period under analysis, sharp changes in

0146

1 growth need to be controlled for to accurately

2 describe expenditure trends.

3 Q Does Avista's attrition analysis consider any

4 sharp changes in growth that have occurred since 2007?

5 And I mean consider or reflect.

6 A Well, the original analysis that was done in

7 the previous rate case, the majority of kink points

8 occurred in that 2007 time period. So there's a

9 little bit of a distinction between what was done

10 previously and what was done in this rate case in

11 terms of my rebuttal testimony because of the

12 disaggregation that occurred by both Staff and

13 Mr. Mullins. And so as Ms. Andrews pointed out, it

14 tends to shift the kink points around a little bit

15 when you're disaggregating that data into more

16 categories.

17 Q For Avista's attrition analysis and not

18 responding to the other parties' attrition analyses,

19 does Avista's attrition analysis do that?

20 A No. I believe it starts all in 2007 as I

21 recall.

22 Q Thank you. Could you please turn to page 7 of

23 your testimony.

24 A Yes.

25 Q I'd like to walk through the example here from

0147

1 Mr. Mullins's testimony that you've highlighted in

2 Figure 3.

3 A Yes.

4 Q Where is the kink point on this graph?

5 A I estimate it to be at 2009 via statistical

6 analysis.

7 Q And using that statistical analysis, do you

8 need a certain number of years before and after that

9 point to understand if a kink point has occurred?

10 A The kink point would be measured through a

11 shift coefficient in the regression analysis, and you

12 would identify it by the strength of the statistical

13 test on that shift coefficient.

14 Q Is that strength stronger if you have more

15 data on either side of the point?

16 A The statistical test is adjusted for the

17 sample size, so there is a sample size adjustment for

18 the statistical test. So in my particular case -- and

19 I believe the regression analysis that is described in

20 Figure No. 3 is actually discussed in my Exhibit

21 GDF-2.

22 Q Would you be comfortable applying that

23 analysis in determining that there was a kink if there

24 were only three years of data, so one year and a year

25 on either side of it?

0148

1 A It would depend on the strength of the test.

2 In other words, I would need to look at what we call

3 the T statistic, how large is that T statistic. And

4 if you go to, if I may, GDF page 2 of 2 -- this is

5 GDF-2, page 2. If you look at Table 1(a), if you go

6 down to what's called the year dummy and it has an

7 alpha 3 beside it --

8 Q Was there a comma after that "year"?

9 A Sorry. Statistical talk here.

10 As applied, just for background, dummy is a 01

11 variable, but it's being used to adjust the slope for

12 the time period under analysis. You can see the

13 T statistic is 22.76. Anything over a value of two,

14 we would consider statistically significant.

15 Q So it would be possible with three years to

16 get a value that is over two?

17 A It would be difficult, because, again, this

18 statistical test is adjusted for the sample size. And

19 so the smaller your sample size, the higher the

20 threshold. So for the type of -- the amount of data

21 that we have available for the current analysis that

22 was done using Table 1(a), roughly, a value greater

23 than two. Now, as your sample size shrinks, the

24 threshold becomes a little bit higher for determining

25 statistical significance.

0149

1 Q Is the opposite true then that as your sample

2 increases the threshold gets smaller --

3 A Yes.

4 Q -- and it's easier to achieve?

5 A Yes. But the amount that it declines as your

6 sample size gets larger doesn't decline very much.

7 There's a certain point where you've reached that

8 statistical efficiency level.

9 Q Can you give a generic assessment of how many

10 years you need to maybe likely get over that point on

11 a regular basis?

12 A No. I would have to consider the specific

13 data set before I could comment on that.

14 Q Thank you.

15 Would you agree that the primary driver of

16 Avista's request for an attrition adjustment is an

17 increase in the rate of plant additions?

18 A I didn't precisely look at that. That would

19 be a question for Ms. Andrews.

20 Q Could you turn to page 4 of your testimony.

21 A Yes.

22 Q Beginning on line 6, you describe your

23 testimony in the prior 2015 rate case; is that

24 correct?

25 A Yes.

0150

1 Q And the footnote that occurs on line 9 that is

2 at the bottom of the page, you referenced how the

3 Commission viewed your testimony; correct?

4 A I'll need to review this footnote. Just a

5 minute.

6 Yes. And just for a reference, the original

7 attrition methodology suggested by the Company was not

8 regression analysis. There was a compounding approach

9 originally suggested, and as I recall, we adopted

10 Staff's recommendation of a regression approach.

11 Q So I'd like to refer to the portion of that

12 footnote that says that the kink point in 2007 that is

13 showing an increase in the rate of plant additions and

14 that that was the basis for the kink point in your

15 testimony?

16 A Yes. But it was -- it wasn't the only data

17 series I looked at. I looked at the other series as

18 well. Now, keep in mind, this was the more aggregated

19 series. The disaggregated series we've been

20 discussing in the other testimony, and 2007 seemed to

21 be an approximate location for the kink points in that

22 aggregated series.

23 Q And that was based on the -- largely based,

24 though, on the increase in the rate of plant

25 additions?

0151

1 A Not only. I mean, I did consider each series

2 individually, and so on average, 2007 appeared to be a

3 switch point for the Company's expenditure behavior.

4 Q Were you in the room earlier when Mr. Norwood

5 was being questioned and he talked about the driver of

6 attritions and -- of attrition and the aging

7 infrastructure and reliability?

8 A Yes.

9 Q Was his answer incomplete?

10 A No, I don't think it was incomplete.

11 Q Did you review all of Mr. Mullins's testimony?

12 A I focused primarily on the testimony related

13 to the regression analysis, because that was where my

14 technical expertise was needed.

15 Q This is where I want to refer to BGM-4, and

16 this is an exhibit to Mr. Mullins's testimony that you

17 then cited in your testimony; is that correct?

18 A I'm going to have to just -- let me write this

19 down. Would you repeat that again?

20 Q It is BGM-4, and the specific graph that I

21 believe you put into your testimony is from page 15 of

22 that exhibit.

23 A Oh, yes. Right. So this is -- yes, okay.

24 Q Maybe it's page 16.

25 A Well, I have BGM-4 here, page 15 of 19 of

0152

1 this.

2 Q Yes. That's the one.

3 A Okay.

4 Q If you were to accept the idea of

5 disaggregating data and some of these costs, would you

6 agree that there was a kink point that existed here in

7 2009?

8 A Yes. And for the record, I believe this is

9 the same series that we have just been discussing in

10 my testimony.

11 Q Thank you. Could you turn the page to page 16

12 on that same testimony of Mr. Mullins.

13 A Yes.

14 Q When you viewed this data, did you see a kink

15 point in that?

16 A No. This is -- this is what we would refer to

17 as a step, which is slightly different than a kink

18 point. This gets into a technical detail.

19 So in the context of my testimony, a kink

20 point is a change in slope. This is what I would

21 describe as a step in expenditures. Okay. So it's a

22 little bit different.

23 Now, you would still handle it with what we

24 call dummy variables, but what you would show is,

25 effectively, an expenditure, a regression, that's got

0153

1 a dummy variable for, let's say, the 2009-forward

2 period, which would control for that step up.

3 Q Is a step a sharp change in the expense or the

4 data that you're looking at?

5 A Yes. But it's -- it can be -- in this

6 particular case, it's a one-time step based on the

7 available data.

8 Q Could you please turn to page 10 back on your

9 testimony.

10 A Okay.

11 Q On line 5 you speak to the Commission's

12 decision in Avista's prior rate case; correct?

13 A That's correct.

14 Q What historical time period did the Commission

15 ultimately adopt as the basis for the escalation

16 factors in that case?

17 A 2007 to '14 or '13. I can't remember what the

18 end year was off the top of my head.

19 Q It began in 2007?

20 A Yes.

21 Q Do you know -- do you recall if Avista in that

22 case had adopted Staff's proposal and on rebuttal

23 adopted the same attrition model with some slight

24 changes?

25 A As I recall, there was -- we adopted the

0154

1 regression approach. And as I recall, there may have

2 been a difference between the 2007-forward period and

3 what Staff had provided, but I can't recall precisely.

4 Q Do you know if any other parties presented

5 evidence or argument to the Commission that the data

6 set should go prior to 2007?

7 A There may have been, but I cannot recall

8 precisely.

9 MR. BROOKS: Thank you. That's all the

10 questions I have.

11 JUDGE MOSS: Thank you, Mr. Brooks.

12 All right. That completes the questions from

13 the parties. Do we have anything from the Bench for

14 Dr. Forsyth?

15 COMMISSIONER JONES: Yes, Judge.

16 JUDGE MOSS: Commissioner Jones.

17 E X A M I N A T I O N

18 BY COMMISSIONER JONES:

19 Q Good morning, Dr. Forsyth.

20 A Good morning.

21 Q Good to see you again.

22 A Thank you.

23 Q Since I'm from the Spokane area, I have to ask

24 you a question about this MSA, the metropolitan

25 statistical area. My recollection was that

0155

1 Coeur d'Alene, Idaho, was going to be included by the

2 Bureau of Census or not at some point. What happened

3 with that?

4 A Well, the story is somewhat complicated. Now,

5 I will say that if you go to someplace like the Bureau

6 of Labor Statistics, you can get Spokane and Kootenai,

7 which is in Idaho, Kootenai County. They do have it

8 as a combined statistical area, which is a special

9 designation. But there was, I believe, if I recall

10 correctly, some political resistance to Kootenai being

11 absorbed into the Spokane MSA area.

12 Q I'm familiar with that political controversy.

13 Some people like the borders drawn at state lines.

14 So when did -- in response to a question

15 earlier, I think, from Ms. Gafken, you said

16 Pend Oreille and Stevens Counties were included in the

17 MSA for Spokane. When did that occur?

18 A That would have, I think, come fully into play

19 this year in 2016.

20 Q And what is the population density and the per

21 capita income in Stevens and Pend Oreille compared to

22 Spokane? I think population density is quite a bit

23 less, and the rates of poverty are quite a bit higher

24 or higher than in Spokane County; right?

25 A That's correct. So Spokane -- I mean, Stevens

0156

1 and Pend Oreille Counties are quite rural. Even

2 though they are now part of our MSA, if you were to

3 travel through these counties, you would see quite

4 distinctly they're very rural. And, yes, they tend to

5 have a lower income level as well.

6 Q Okay. Kink points, thank you, Judge Moss, for

7 asking that question. I think it clarifies the record

8 or muddies it. I did not take statistics in college,

9 but I found your analysis interesting. And I think I

10 understand it.

11 My last questions regard your analysis versus

12 Mr. Hancock's electric attrition and natural gas

13 attrition model analysis. On page 3 of your

14 testimony, lines 9 through 10, can you go to page 3

15 just so we're following your record here?

16 A Okay. So I am at page 3 of my testimony.

17 Q Yeah. Lines 9 through 10, there you state you

18 agree, generally, with Mr. Hancock's O & M trended

19 analysis except -- and you think his -- excuse me.

20 Strike that.

21 You found his electric analysis to be

22 reasonable, but you have a difference on O & M trended

23 analysis; right?

24 A Correct. And I believe, if I remember

25 correctly, this is connected to the use of a weighted

0157

1 average for O & M.

2 Q Yes. He used a 50/50, 50 percent/50 percent,

3 weighted average. And what did you use?

4 A It was also 50/50 but with company-specific

5 data only.

6 Q So you did not use what he used, the ECI, the

7 Employment Cost Index, from the Bureau of Labor

8 Statistics; right?

9 A Yes. And if I remember correctly, it was a

10 combination of the Employment Cost Index and also the

11 PPI for utilities, which is a Producer Price Index.

12 Q Other than that, you found his electric

13 attrition analysis reasonable?

14 A That's correct.

15 Q And he used linear regression analysis; right?

16 A Yes. As I recall, predominantly, yes.

17 Q Let's move to natural gas. What about the

18 natural gas analysis? He used -- what is it called?

19 Polynomial or quadratic analysis? And you used linear

20 regression analysis; is that correct?

21 A No. I believe on the gas side, there was the

22 potential -- I need to look just for a minute.

23 Q Yeah. I think that could be page 11 of your

24 testimony you talk about his inconsistency of

25 application for Mr. Hancock.

0158

1 A Yes. There were -- in several instances,

2 Mr. Hancock would apply linear regression to data to

3 me was not clearly linear, meaning that a linear line

4 was perhaps not completely the appropriate

5 specification for explaining the behavior of the data.

6 So in some cases, perhaps a nonlinear line

7 would have been a better fit for the data or perhaps

8 the use, again, of a kink point to take into account a

9 shift in the pattern of growth.

10 Q So I'm trying to -- I think I'm coming to an

11 understanding of your differences with Mr. Hancock,

12 which you get into on page 11, lines 11 through 21,

13 but it's -- your disagreements with Mr. Hancock's

14 analysis relate more to the inconsistency --

15 A That's right.

16 Q -- of his approach of linear and nonlinear?

17 A That's correct.

18 Q Lastly, you heard my questions on load growth?

19 A Yes.

20 Q I don't have the IRP in front of me,

21 unfortunately, and I don't recall my last review of

22 that. But do you have some numbers both on housing

23 starts, the number of now -- I do admit we just

24 changed our line extension policy on natural gas. It

25 could change, but this is historical data. Do you

0159

1 have some information, high-level, for load growth and

2 therms and kilowatt hours and housing starts?

3 A So this would be -- these numbers I'm about to

4 give you would be what I would consider systemwide, so

5 system for electric, systemwide for all our service

6 area, and the same for gas.

7 And so right now customer growth is probably,

8 on the electric side, around 1 to 1.1 percent per

9 year.

10 Q Okay.

11 A And that number will track very closely with

12 population growth, which is probably one of the key

13 drivers in my forecast model that we use for the

14 revenue and earnings model at Avista.

15 Q And by population growth, what's the data

16 source for that? Is that the Bureau of Census or what

17 data source do you use for population growth?

18 A For the historical data, I will use -- yes,

19 from the U.S. Census. Sometimes I will pull the data

20 from the Bureau of Economic Analysis, but they are

21 pulling their population data from the U.S. Census.

22 So it almost always tracks back to the U.S. Census.

23 Q So you don't use the state OFM data?

24 A Sometimes I will. For this reason is because

25 of the delay in release of the U.S. Census data. I

0160

1 will sometimes use the OFM data to fill in maybe the

2 most recent year to fill in the numbers I need to do

3 the forecast, so I will refer to them periodically.

4 Q Okay. That's electric side. What about the

5 gas side, therm use?

6 A So --

7 Q Systemwide is fine.

8 A So for the electric load growth is in the

9 neighborhood of .6 to .7 percent.

10 Q Excuse me. .6 to .7?

11 A Yeah. That's the electric load growth.

12 Q So on that point, you're a statistician.

13 Mr. Hancock I don't know if -- I think he studies

14 statistics. I don't know about Mr. Norwood.

15 But in their testimonies, they talk about flat

16 load growth for electric. Is that close enough?

17 A Yeah.

18 Q Flat?

19 A It's pretty low. And, remember, these numbers

20 are based on -- partly, it's recent history of growth,

21 but, partly, it's also what my forecast model says.

22 And there's a statistical variance in there. It could

23 be as low as zero and maybe as high as .8 percent, so

24 I'm trying to give you kind of the central range.

25 Q Thank you. Okay. For natural gas?

0161

1 A For gas customer growth is right now around

2 1.3 percent. Now, an important feature of gas for

3 customer growth is that it will often exceed

4 population growth by a small spread. The reason for

5 that is you have households that have not had gas

6 deciding to retrofit with gas, and that will give you

7 some customer growth above population growth. And

8 that goes into play with the new extension here.

9 Q Got it. Those are all the questions, Doctor.

10 Do you want to say --

11 A On gas load growth --

12 Q I'm sorry. Load growth.

13 A -- it's probably in the neighborhood of, I

14 want to say, 1 to 1.2 percent load growth, and that is

15 systemwide.

16 Q So that includes southern Oregon, Idaho, and

17 your service territory in Washington?

18 A That's correct.

19 COMMISSIONER JONES: Thank you. That's

20 all I have.

21 E X A M I N A T I O N

22 BY CHAIRMAN DANNER:

23 Q Good morning.

24 A Good morning.

25 Q Dr. Forsyth, I wanted to ask you: You take

0162

1 issue with Mr. Watkins' use of the Producer Price

2 Index and the Consumer Price Index, and I want to just

3 ask you briefly about that. Indices are

4 approximations. Of course, you know, just like when

5 Adrian McKenzie uses a proxy group, it's an

6 approximation. And here what your objections are,

7 well, PPI, for example, it's not just the utility

8 services that Avista provides, but also has steam,

9 water, and sewage.

10 So the question I have is: Are they really

11 going to be that different? They are -- they're all

12 utilities. I mean, are they going to come out with

13 different results if you take one out, or are they

14 going to be close enough?

15 A Well, that's the uncertainty, and that's the

16 discomfort. Because we don't actually -- I don't

17 personally have any knowledge as to whether or not

18 that is a good -- I mean, in other words, if you take

19 them out or put them in, will it make a big

20 difference? That's the problem. We don't know. We

21 don't have good evidence as to that fact.

22 So because I don't know exactly how a sewage

23 utility or a water utility is going to behave, I can't

24 be sure that it doesn't matter that they're left in.

25 Q And there's no -- there's no discussion by --

0163

1 when they're putting the PPI together, they,

2 obviously, group these because they think they are

3 like industries?

4 A Right. But even in the case of the PPI, they

5 do have a PPI connected to generation distribution and

6 transmission. The problem is that includes all types

7 of utilities, not just fully integrated utilities like

8 Avista. It would include also distribution-only

9 companies or transmission-only companies. Again, it's

10 a mix of companies that we cannot be sure that are

11 really like Avista.

12 Q All right. But you don't know that they're

13 far apart either?

14 A Correct.

15 Q You're just saying as an approximation we

16 don't know if it's a close approximation or too far

17 away?

18 A That's correct.

19 Q So with regard to the Consumer Price Index, it

20 sounds like your concern is that it's urban, so it's

21 not including the rural areas, even though the MSA now

22 includes those rural areas?

23 A Yeah. I would say that's one concern, but I

24 think the bigger concern simply reflects it's a

25 business-to-consumer price index. It's measuring

0164

1 prices business-to-consumer transactions, not

2 business-to-business transactions, and they can be

3 quite different.

4 Q Well, how different can they be? They're all

5 made of the same commodities, and they're all made of

6 the same components. I mean --

7 A Actually, if you were to -- you know, if you

8 look at over time the Producer Price Index and the

9 Consumer Price Index, there are periods where they

10 behave not necessarily that similar.

11 Q And so the inclusion of the services that are

12 purchased by businesses, you think, skews this down?

13 Skews it up?

14 A Not sure.

15 Q Okay. So you just say don't use indices at

16 all? We need to find absolute data here?

17 A I would say company-specific data is going to

18 be more representative of what's really happening to

19 Avista than these indexes.

20 Q And wouldn't it be strange if the

21 company-specific data were to be substantially

22 different than these indices? Wouldn't you expect

23 them to be consistent?

24 A Not necessarily. I mean, I think it would

25 depend on the company -- what the company is

0165

1 individually going through at that time. It may be

2

3 aggregate sense.

4

5

6