BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

DOCKET NO. UE-011514

SUPPLEMENTAL DIRECT TESTIMONY OF JON E. ELIASSEN
REPRESENTING AVISTA CORPORATION

Exhibit T-___ (JEE-T)

Q. Please state your name, employer, and business address.

A. My name is Jon E. Eliassen. I am employed as Senior Vice President and Chief Financial Officer of Avista Corporation at 1411 East Mission Avenue, Spokane, Washington.

Q. Have you previously filed direct testimony in this proceeding?

A. Yes.

Q. Could you please summarize your supplemental direct testimony?

A. Yes. In the Company's pre-filed direct testimony in this Docket, Mr. Norwood and Mr. Falkner addressed $39 million of "costs already absorbed" by the Company during the time extraordinary power supply situations began impacting the Company in May of 2000 and continuing through September 30, 2001. Whether by means of a cost of capital offset or by virtue of a more direct absorption of costs, the impact on shareholders and customers is the same -- namely that some of the costs have already been absorbed by shareholders, which results in lower costs to customers. Going forward, as the Commission examines future power cost recovery mechanisms, it is more appropriate to examine a specific cost of capital offset in that context -- not in the context of the determination of the prudence and recoverability of previously deferred costs.

Q. Please explain the costs already absorbed by the Company.

A. Mr. Norwood and Mr. Falkner explain in their pre-filed direct testimony in this Docket that the Company has already absorbed material increases in utility operating costs, over and above amounts deferred, that were necessary for carrying out its customer service obligations, starting with the initial extraordinary increases in power supply costs in 2000 and continuing through September 30, 2001.

Mr. Falkner prepared an analysis of the Company's actual utility earnings beginning in May 2000, the point in time when Avista began to experience a significant increase in costs associated with the combination of low hydroelectric conditions and unprecedented high wholesale market prices. The deferred accounting mechanism did not begin until July 2000, therefore, the Company absorbed the substantial increase in costs in May and June 2000.

The results of Mr. Falkner's analysis shows that the Company under-earned by approximately $39 million during the May 2000 through September 2001 period. Thus, the Company's shareholders have already absorbed $39 million of additional costs, separate and apart from the $198 million of deferred costs that are at issue in this proceeding. The deferred accounting mechanism was not designed to capture every variation in costs from those being recovered from customers in base retail rates, which has resulted in the Company absorbing some costs during the deferral period, in addition to the costs absorbed in May and June 2000.

Q. Should the Commission make a specific determination as to a cost of capital offset in this proceeding?

A. No. A determination of a specific cost of capital offset would be more appropriate in the context of an ongoing deferral (and recovery) mechanism, such as the power cost adjustment (PCA) proposed by the Company in the current Docket No. UE-011595. Authorized return levels are primarily determined through a comprehensive review of utility's results of operations and risk profile, which will be addressed in that Docket.

Q. Has there been a specific recommendation to this Commission regarding cost of capital offset for the deferral of certain ongoing utility operating operating costs?

A. Yes. In our recently filed general rate case (Docket No. UE-011595), we testified to a 50-basis reduction in the Company's authorized return on equity related to the adoption of a permanent power cost adjustment mechanism.

Q. Using the Company's recently filed pro forma results of operations in Docket No. UE-011595, what would be the reduction in revenue requirement associated with a 50 basis point reduction in the Company's return on equity?

A. A 50 basis point reduction in the Company's ROE in Docket No UE-011595 translates to approximately $2.4 million, annually.

Q. Does the Company have a specific cost of capital offset, or reduction in effect in its Idaho jurisdiction where it has had PCA since 1989?

A. No.

Q. Does the level of increased operating costs already absorbed by the Company between May of 2000 through September 2001 exceed the impact of 50-basis reduction in the Company's ROE in Docket No. UE-011595.

A. Yes. A 50 basis point reduction in ROE is approximately $2.4 million. As noted in Mr. Norwood and Mr. Falkner's testimony, the Company has already absorbed increased cash costs of approximately $39 million during the 17-month period, May 2000 through September 2001.

Q. Should the Commission make a specific determination for a cost of capital offset in this Avista prudence case?

A. No. A specific determination for a cost of capital offset for an ongoing deferral mechanism, such as the Company's proposed PCA in Docket No. UE-011595 should be made in association with a full review of all Company pro forma results of operations and an associated proposal for a representative return on equity. The Company has already made certain proposals in that regard in Docket No. UE-011595. Furthermore, the Company has already absorbed increased costs of approximately $39 million.

Q. Does that conclude your pre-filed supplemental direct testimony?

A. Yes, it does.