

BEFORE THE WASHINGTON STATE UTILITIES AND  
TRANSPORTATION COMMISSION

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WASHINGTON UTILITIES AND	)	
TRANSPORTATION COMMISSION,	)	
	)	
Complainant,	)	
	)	DOCKET NOS.
-v-	)	UE-160228 & UG-160229
	)	(Consolidated)
AVISTA CORPORATION, D/B/A	)	
AVISTA UTILITIES,	)	
	)	
Respondent.	)	

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EVIDENTIARY HEARING, VOLUME V

PAGES 304 - 438

ADMINISTRATIVE LAW JUDGE DENNIS J. MOSS

9:09 a.m.

OCTOBER 13, 2016

Washington Utilities and Transportation Commission  
1300 South Evergreen Park Drive Southwest, Room 206  
Olympia, Washington 98504-7250

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EXAMINATION BY O'CONNELL / BALL 309

1 OLYMPIA, WASHINGTON; October 13, 2016

2 9:09 a.m.

3  
4 JUDGE MOSS: Let's be on the record.

5  
6 JASON BALL, witness herein, having been  
7 first duly sworn on oath,  
8 was examined and testified  
9 as follows:

10  
11 JUDGE MOSS: Your witness.

12 MR. O'CONNELL: Thank you, Your Honor.

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

14 BY MR. O'CONNELL:

15 Q Good morning, Mr. Ball.

16 A Good morning.

17 Q Would you please state your name for the  
18 record and spell it.

19 A Jason Ball, J-A-S-O-N, B-A-L-L.

20 Q Are you the same Mr. Ball who authored  
21 responsive testimony and admitted as Exhibits JLB-1T  
22 through JLB-4 on behalf of Staff?

23 A I am.

24 Q And are there any corrections that need to be  
25 made to any of those exhibits?

**EXAMINATION BY O'CONNELL / BALL****310**

1 A No.

2 Q Did you also author cross-answering testimony  
3 admitted as JLB-5T on behalf of Staff?

4 A I did.

5 Q Are there any corrections that need to be made  
6 to that exhibit?

7 A Yes, one. On page 6, Footnote 9, it should  
8 read Avista response to ICNU Data Request No. 41.

9 JUDGE MOSS: As opposed to?

10 MR. BALL: It currently reads ICNU  
11 response to UTC Staff Data Request No. 41.

12 JUDGE MOSS: Thank you. That will make  
13 it clear for the record.

14 BY MR. O'CONNELL:

15 Q Do you also recall responding on behalf of  
16 ICNU Data Request 17?

17 MR. MEYER: Excuse me. May I just  
18 interrupt? I'm told bridge is not on. The bridge  
19 line is not on.

20 JUDGE MOSS: Thank you for letting us  
21 know.

22 MR. O'CONNELL: Your Honor, when we  
23 have that, would you like me to start over, or do you  
24 believe we could continue?

25 JUDGE MOSS: No, there's no need for

EXAMINATION BY O'CONNELL / BALL 311

1 that. All the counsel are present, but thank you for  
2 offering.

3 Actually, why don't we proceed and hope they  
4 get the bridge line resolved while we go forward. I  
5 don't want to spend anymore time waiting.

6 BY MR. O'CONNELL:

7 **Q Mr. Ball, do you also recall responding on**  
8 **behalf of Staff to ICNU Data Request 17?**

9 A Yes.

10 **Q And has that data request been supplemented?**

11 A Yes.

12 **Q And you're aware that response has been**  
13 **admitted as Cross-Exhibit JLB-7CX; correct?**

14 A Correct.

15 **Q Are there any corrections that need to be made**  
16 **to that data request response and the cross-exhibit?**

17 A Yes. So this is page 2 of the cross-exhibit.  
18 In Section B, the paragraph that begins "It is  
19 difficult to estimate..." about halfway down there's  
20 a sentence that starts "The analysis provided in  
21 Mr. Ball's testimony uses three different allocators."  
22 It should read four different allocators.

23 **Q Is that the only correction?**

24 A That is the only correction.

25 MR. O'CONNELL: Mr. Ball is available



EXAMINATION BY COWELL / BALL

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1 for cross-examination and to respond to questions from  
2 the Bench, Your Honor.

3 JUDGE MOSS: Thank you very much.

4 And so we have questions from Mr. Cowell, I  
5 believe.

6 MR. COWELL: Yes. Thank you, Your  
7 Honor.

E X A M I N A T I O N

8  
9 BY MR. COWELL:

10 Q Good morning, Mr. Ball.

11 A Good morning.

12 Q Mr. Ball, you've testified in this case on  
13 demand response and demand-side management or DSM  
14 issues; right?

15 A Correct.

16 Q And you've been working as a member of the  
17 Commission Staff for three years; correct?

18 A Correct.

19 Q Now, as a foundational issue, the fact that  
20 you're employed by the Commission, in your opinion,  
21 should that give your testimony in this proceeding any  
22 more weight than the witnesses of other parties?

23 A I have provided testimony to the best of my  
24 knowledge, and I have provided testimony that I fully  
25 vetted and talked about with other members of Staff.

EXAMINATION BY COWELL / BALL

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1           **Q    Okay.  Just to repeat the question, should it**  
2 **have more weight than the witnesses of other parties,**  
3 **in your opinion?**

4           A    I think the Commission should determine what  
5 weight should be given to what parties.

6           **Q    Now, were you present or did you listen to**  
7 **ICNU's cross-examination of Mr. Ehrbar earlier in this**  
8 **hearing?**

9           A    Yes.

10          **Q    And would you consider yourself to have more,**  
11 **less, or relatively the same experience as Mr. Ehrbar**  
12 **on DSM issues?**

13                   MR. O'CONNELL:  Objection, relevance.

14                   MR. COWELL:  Your Honor, both witnesses  
15 have spoken to ICNU's proposal and DSM issues, so I  
16 believe it's relevant.

17                   JUDGE MOSS:  I think the witness's  
18 credentials are adequately covered by their prefiled  
19 direct testimonies, and we can decide for ourselves  
20 whether one has more experience or the other or if  
21 that's important.

22                   MR. COWELL:  Fair enough.  Thank you,  
23 Your Honor.

24                   JUDGE MOSS:  Thank you.

25

## EXAMINATION BY COWELL / BALL

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1 BY MR. COWELL:

2 Q Mr. Ball, you're aware that Mr. Ehrbar had  
3 testified it would be a reasonable option for the  
4 third energy block of Schedule 25 to pay for one-half  
5 of the present DSM rate; right?

6 A I'm aware of his testimony, and I believe  
7 that's what he did.

8 Q Do you agree that this would be a reasonable  
9 option?

10 A Absolutely not. I understand what  
11 Mr. Ehrbar's testimony to be is that he doesn't agree  
12 with ICNU's position, but he presents an alternative  
13 option as kind of a compromise. And that's perfectly  
14 acceptable. I don't believe that a compromise is  
15 necessary in this case.

16 Schedule 25 is benefiting, just like every  
17 other schedule is, from DSM benefits, and those  
18 benefits flow through to every single kilowatt hour.  
19 To divorce those kilowatt hours from the costs of  
20 paying for those benefits is a complete violation of  
21 the cost causation principle, and I think that should  
22 only be done when there's a clear and compelling  
23 policy reason, which I haven't seen in this case.

24 Q So in your response here orally -- and I think  
25 maybe the same could be said of your prefiled written

**EXAMINATION BY COWELL / BALL****315**

1 testimony -- you've used terms like "absolutely,  
2 completely."

3 Would it be fair to say that you believe  
4 there's absolutely no room for any adjustment in terms  
5 of DSM funding collection?

6 A I think that the current level of DSM funding  
7 collection is adequately designed and works to serve  
8 its purpose. I don't see a reason to change it based  
9 upon the evidence that's been presented by the other  
10 parties in this case.

11 Q But my question is: Would it be reasonable  
12 for the consideration of any possible changes?

13 A I believe the Commission can consider whatever  
14 changes it likes to consider, and I like to respond to  
15 the proposals presented by any of the parties. I'm  
16 not foreclosing that there could be changes in the  
17 future. I'm just saying that, based upon the evidence  
18 that has been presented, I haven't seen a reason why  
19 we should violate the cost causation principle.

20 JUDGE MOSS: Mr. Ball, please try to  
21 slow down just a little bit, if you would. Thank you.

22 MR. BALL: Of course.

23 Q Mr. Ball, would you dispute Mr. Ehrbar's  
24 testimony that only one customer is served in the  
25 third energy block of Schedule 25?

**EXAMINATION BY COWELL / BALL****316**

1           A     Actually, I would.  When I was reviewing the  
2 data -- some of the data requests, I do believe a  
3 couple other customers actually entered into that  
4 block, but very few.  And I would agree that the vast  
5 majority of that block is used to serve only one  
6 customer.

7           Q     Would it be fair to say that to the extent any  
8 other customers are being charged on the third energy  
9 block that would be less than 1 percent?

10          A     Yes.  That would probably be fair.

11          Q     Do you dispute Mr. Ehrbar's testimony that  
12 this one customer provides a significant amount of  
13 funding for Avista's DSM programs?

14          A     No, I do not dispute that.

15          Q     So I'd like to pose the same question that I  
16 asked Mr. Ehrbar earlier in this hearing.  Would it be  
17 equitable in your opinion to collect all DSM funding  
18 from a single rate schedule?

19          A     Can I just ask to clarify what you mean by a  
20 single rate schedule?  Do you mean that only one rate  
21 schedule pays all of DSM funding?

22          Q     For instance, if Schedule 91 were configured  
23 so that only Schedule 1 or only Schedule 25 paid all  
24 of the DSM funding and none of the other schedules  
25 contributed.

**EXAMINATION BY COWELL / BALL****317**

1           A    No.  I would not believe that's equitable  
2 because every kilowatt hour benefits from the DSM and  
3 conservation programs.

4           Q    Okay.  So on a conceptual level, at some point  
5 you believe it's possible for one rate schedule to be  
6 over-contributing to DSM funding while others are  
7 under-contributing; is that correct?

8           A    It's possible, yes; however, like I said,  
9 every kilowatt hours benefits from DSM and  
10 conservation funding.  And the more kilowatt hours you  
11 consume, the more benefit you consume.

12          Q    So in determining the equitable levels of DSM  
13 funding, do you believe the Commission should consider  
14 both direct and indirect customer benefits?

15          A    Yes.

16          Q    So an analysis that did not factor direct  
17 incentives paid through the DSM program, would that be  
18 appropriate in your view?

19          A    No.

20          Q    Mr. Ball, do you have a copy of Exhibit  
21 RRS-11C?  It's Mr. Stephens' exhibit with data  
22 responses.

23          A    No.  I don't have a copy of this exhibit.

24                   MR. COWELL:  Does Staff have an exhibit  
25 that --

EXAMINATION BY COWELL / BALL 318

1 JUDGE MOSS: Mr. Meyer, it looks like  
2 we may have to depend on you to help the witness.

3 MR. COWELL: I could give him my copy.  
4 I've also got it written out here.

5 JUDGE MOSS: All right. Why don't you  
6 do that.

7 MR. MEYER: I also have a copy.

8 JUDGE MOSS: It's all right. The  
9 witness has a copy. We can move forward.

10 CHAIRMAN DANNER: Would you repeat the  
11 exhibit.

12 MR. COWELL: Certainly, Chairman.

13 BY MR. COWELL:

14 Q So this is Exhibit RRS-11C, and, Mr. Ball,  
15 I've just handed you what's labeled as page 7 of that  
16 exhibit; is that correct?

17 A That's correct.

18 Q Now, Mr. Ehrbar had responded to ICNU Data  
19 Request 119 on this page; right?

20 A That appears to be what they're responding to.

21 Q And Mr. Ehrbar was explaining that the company  
22 designs its DSM program, including DSM funding, to be  
23 fair and reasonable stating that there can be a range  
24 of designs and outcomes that could be considered to  
25 meet those objectives based on specific circumstances.

**EXAMINATION BY COWELL / BALL****319**

1           **Have you seen this exhibit previously, this**  
2 **portion of the exhibit?**

3           A    Yes.

4           **Q    Okay.  And, again, to confirm, I don't get the**  
5 **sense that you would agree that there's a range of**  
6 **potential DSM funding outcomes that would be fair and**  
7 **reasonable based on your testimony; is that correct?**

8           A    I believe there is some variation that can be  
9 done in DSM funding.  I believe that the current form  
10 of DSM funding is more than adequate, and I have not  
11 seen any reason to change it based upon what has been  
12 presented in this case.  I'm not proposing to change  
13 it, and I am -- my analysis shows why the arguments  
14 that have been presented and why we should change it  
15 are not relevant.

16          **Q    Mr. Ball, you're also proposing a uniform**  
17 **percentage increase for electric rate spread in this**  
18 **proceeding; correct?**

19          A    That's correct.

20          **Q    And would you dispute Mr. Ehrbar's testimony**  
21 **that your proposed rate spread would move Schedule 25**  
22 **further away from unity based upon the company's**  
23 **electric cost of service results?**

24          A    I wouldn't dispute it, but one of the primary  
25 points I make in my testimony is the lack of precision



EXAMINATION BY COWELL / BALL

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1 that's surrounding the cost of service studies in this  
2 case. I've reviewed Mr. Ehrbar's cost of service  
3 study, one presented by the Company. And what I found  
4 was it to be directionally accurate, but that doesn't  
5 necessarily mean that I have faith that the final  
6 number results in is the true number for cost of  
7 service for those rate schedules.

8 And because I couldn't say definitively that  
9 that was the real cost of service to serve those rate  
10 schedules, I was uncomfortable saying that we should  
11 start moving parody around. What we need to do is  
12 institute a generic proceeding so that we can get a  
13 universal framework for setting principles of cost of  
14 service across all the IOUs. And then with that  
15 framework, we can then begin to identify how far off  
16 of parody certain rate classes are and try to move  
17 them closer to parody.

18 **Q But in this proceeding, Mr. Ball, you did not**  
19 **submit your own cost of service study; correct?**

20 A I did not.

21 **Q And to clarify, when you testify that Avista's**  
22 **electric cost of service study is directionally**  
23 **accurate, you said it was directionally accurate for**  
24 **the purposes of setting rates; correct?**

25 A Correct. That's what my testimony says.

EXAMINATION BY COWELL / BALL

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1           **Q**    Now, would you agree that, directionally  
2 speaking, the Company's electric cost of service shows  
3 residential customers well below unity?

4           A    I would agree that, directionally speaking, it  
5 shows they are below unity. The point of my word  
6 around precision and directional accuracy is you can't  
7 say how far below unity they are. You can just say  
8 that it shows they are below unity.

9           A    A metaphor here would be you can say that  
10 Spokane and New York City are both east of Olympia.  
11 That doesn't tell you how far apart they are, and  
12 that's really what we're dealing with here.

13           **Q**    Okay. Would you agree that your uniform  
14 percentage electric rate spread proposal does not move  
15 residential schedules as close to unity as the  
16 Company's rate spread?

17           A    I'm sorry. Could you repeat the question?

18           **Q**    Sure. Would you agree that your rate spread  
19 proposal, uniform percentage rate increase, does not  
20 move residential schedules as close to unity in  
21 comparison to the Company's rate spread proposal?

22           A    Based upon the Company's cost of service, yes,  
23 I would agree. However, I still have miss -- excuse  
24 me. I'm still concerned about the precision in that  
25 cost of service study. If we institute a generic

EXAMINATION BY COWELL / BALL

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1 proceeding, what we can do is then garner more  
2 precision around cost of service studies and determine  
3 where that parody is and where the cost individual  
4 customer classes are in relation to parody.

5 Q In this case, Mr. Ball, you're also  
6 recommending against a demand response program for the  
7 Company's largest Schedule 25 customer; right?

8 A That's correct.

9 Q And I had anticipated from the original  
10 witness order that I might be speaking with  
11 Mr. Hancock first, so I'm going to make a reference  
12 actually to something in this question to his  
13 testimony. But since we're in this order, I'm going  
14 to pose this question.

15 If I put together the results of all your  
16 industrial customer rate-related proposals in this  
17 proceeding, would it be accurate to characterize your  
18 recommendations as seemingly engineered to benefit  
19 residential customers at the expense of Schedule 25  
20 customers? And I'm drawing this "seemingly  
21 engineered" phrase which was used by Mr. Hancock.

22 MR. O'CONNELL: Objection. I think we  
23 need a little more foundation about Mr. Ball's  
24 understanding of the exact reference you're making,  
25 and I'm not sure that this is the correct witness to

EXAMINATION BY COWELL / BALL

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1 be posing that question to as you have already  
2 represented, Mr. Cowell.

3 MR. COWELL: Your Honor, this is a  
4 Staff witness, and, again, I would have been able to  
5 lay more of this foundation when what I supposed would  
6 have been the witness order, but Mr. Hancock, as a  
7 Staff witness, has testified that ICNU's witness has  
8 seemingly engineered his analysis in this case to  
9 produce predetermined results. And I think it's fair  
10 to ask a Staff witness the same question that's  
11 been -- the same characterization that's been posed to  
12 an ICNU witness.

13 JUDGE MOSS: Well, you have provided  
14 the context that we did not have a moment ago, and  
15 what you should do is ask the witness first if he's  
16 familiar with that testimony. And if he is, he might  
17 be able to response to your question.

18 MR. COWELL: Fair enough.

19 BY MR. COWELL:

20 **Q Mr. Ball, are you familiar with that**  
21 **phraseology and the characterization in Mr. Hancock's**  
22 **testimony?**

23 A Yes, I read the policy testimony.

24 **Q Okay. So given your familiarity with that**  
25 **characterization by a Staff witness, would you say**

**EXAMINATION BY COWELL / BALL****324**

1 **that your industrial customer rate design proposals**  
2 **are seemingly engineered to produce an outcome that**  
3 **benefits residential customers?**

4 A I would say they are not engineered to produce  
5 an outcome to benefit residential. Whether it seemed  
6 to be that way or not is irrelevant, but they're not  
7 engineered to do that.

8 What we are presenting here are proposals --  
9 our analysis based upon the facts and the evidence we  
10 have seen on the record. Our recommendations are  
11 based not upon some kind of crusade, but rather on  
12 cost causation and the principles therein.

13 **Q So more generally speaking, am I correct in**  
14 **saying that you find it inappropriate for a party to**  
15 **conclude that you have engineered any of your**  
16 **proposals for a predetermined outcome?**

17 A No. I don't believe it's inappropriate to  
18 claim that in testimony, because I believe you can  
19 reach that conclusion based upon some of the proposals  
20 that have been presented in this case. What we --  
21 what -- I don't want to testify for Mr. Hancock, but  
22 as far as my testimony goes and my analysis goes, I  
23 present what I believe is the best and most fair way  
24 to look at and analyze the proposals in this case and  
25 what my review of those proposals concludes.

EXAMINATION BY COWELL / BALL

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1           **Q**    Now, Mr. Ball, are you familiar with  
2 **Ms. Knox's rebuttal testimony responding to your**  
3 **concerns about the precision of the Company's cost of**  
4 **service study?**

5           A    I am.

6           **Q**    Okay. Now, Ms. Knox testified that there was  
7 **no indication in your testimony that you had**  
8 **identified a problem with the mathematical precision**  
9 **of the Company's model. Would you dispute that?**

10          A    Mathematically, no. They calculated the  
11 numbers correct, and that's why, in my testimony, I  
12 say that you -- it would be okay to rely upon the cost  
13 of service study presented by the Company in setting  
14 rates, but it should be tempered by the other factors  
15 important in setting rate spread.

16                   JUDGE MOSS: Mr. Ball, I'm going to ask  
17 you to please moderate your pace for the sake of the  
18 court reporter.

19                   THE WITNESS: I apologize.

20                   JUDGE MOSS: Thank you. That's all  
21 right.

22 BY MR. COWELL:

23           **Q**    Mr. Ball, would you characterize your concern  
24 **with the precision of the Company's modeling is**  
25 **supported more by the objective facts in this case or**

**EXAMINATION BY COWELL / BALL****326**

1 **your subjective opinion?**

2 A I'm sorry. Can you ask that one more time?

3 **Q Sure. Now, let's back up a minute. I believe**  
4 **that in our previous question and answer, we just**  
5 **established that you didn't dispute Ms. Knox's**  
6 **testimony that you had not identified any problems**  
7 **with the mathematical precision of the Company's**  
8 **modeling; correct?**

9 A Correct.

10 **Q Now, given that testimony, would you**  
11 **characterize your concern with the precision of the**  
12 **Company's modeling is supported more by the objective**  
13 **facts in this case or your own subjective opinion?**

14 A Well, it's neither really. What it more has  
15 to do with is the principles of cost of service and  
16 how they should be applied to the IOUs in Washington  
17 and what Staff would recommend as a way to apply them.

18 The way we see to solve some of the problems  
19 and issues outstanding with cost of service is to  
20 institute a generic proceeding and analyze them all as  
21 one group and not have such a large amount of  
22 resources dedicated to analyzing different cost of  
23 service methodologies in every single case.

24 **Q Do you agree with Ms. Knox's testimony**  
25 **regarding your responding -- excuse me. To your**

**EXAMINATION BY COWELL / BALL****327**

1 **concerns over cost of service precision when she**  
2 **states that from the methodological standpoint**  
3 **precision and accuracy are in the eye of the beholder?**

4 A I can understand her viewpoint. I think that  
5 cost of service is one of those areas where we can get  
6 more into less eye of the beholder and more objective  
7 fact. I acknowledge there are differences across the  
8 different IOUs, and I'm not proposing a  
9 one-size-fits-all methodology here.

10 What we're proposing is a proceeding to  
11 investigate a framework of principles that can be  
12 applied to cost of service across the IOUs in  
13 Washington, and I think that's a very possible -- I  
14 think it's very possible to do that. I'm not talking  
15 about -- I'm not talking about instituting some kind  
16 of methodology that's good until the end of time.  
17 We're just talking about looking at and understanding  
18 the principles of cost of service as they apply and  
19 understanding the individual data for each of the  
20 service territories for each of the IOUs and putting  
21 them in to get individual results.

22 **Q And do you have any notion or idea of how long**  
23 **such a proceeding might take?**

24 A I have -- no, I mean, it could take -- it  
25 could take as long as the Commission would like it to



EXAMINATION BY COWELL / BALL

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1 take.

2 Q And you've reviewed Mr. Stephens's  
3 cross-answering testimony; correct?

4 A Correct.

5 Q And is it your understanding that ICNU is  
6 supportive of your proposal for a generic cost of  
7 service study?

8 A Yes.

9 Q But would it also be fair to say that ICNU  
10 does not oppose for stalling a specific rate spread  
11 decision in this case until the resolution of that  
12 generic proceeding?

13 A Yes. I believe that's a fair characterization  
14 of Mr. Stephens's testimony. And to be clear, I think  
15 he can arrive at that decision based upon his own set  
16 of principles. I arrived at my decision based upon  
17 the Company's cost of service study and balancing it  
18 with the other factors important in setting rate  
19 spread.

20 When I balance them all together and I said  
21 these are the things that are important when we're  
22 setting rate spread -- perceptions of equity,  
23 fairness, economic situations, service territory -- I  
24 came to the conclusion that the best way to handle it  
25 in this current case is to do an equal percentage

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1 application of any rate increase.

2 **Q But as you've said, you're not able to kind of**  
3 **put any kind of even ballpark figure on when such a**  
4 **generic proceeding might be resolved?**

5 A No, I can't do that.

6 **Q Until that time, there would be no specific**  
7 **resolution on rate spread issues for Avista?**

8 A No. There wouldn't be, and that would make  
9 sense given that the models themselves are lacking in  
10 precision. I mean, I am not saying -- going to sit  
11 here and say that we should engage in cross-class  
12 subsidization. We shouldn't, but we shouldn't also  
13 engage in setting and changing rate spread for the  
14 sake of changing rate spread when we don't know where  
15 that rate spread actually needs to go and what the  
16 true cost to serve individual classes are.

17 We have some information. We have a general  
18 idea, but I think we need to get more precise and get  
19 better results before we start making those kinds of  
20 decisions.

21 **Q Mr. Ball, if cross-class subsidization**  
22 **continues, what would be the long-term result, in your**  
23 **view, for those classes that are subsidizing other**  
24 **classes?**

25 A Well, when cross-class subsidization happens,

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1 what you end up with is one class underpaying its cost  
2 to serve and another class overpaying it. And that  
3 has happened in the past, and that has been shown to  
4 happen in other Company cases or in this Company's  
5 case and previous cases.

6 And I'm not disputing that cross-class  
7 subsidization can't exist. I'm disputing whether or  
8 not we can rely upon the results in this case to set a  
9 rate spread that fixes that.

10 **Q And in this case, directionally speaking,**  
11 **looking at the Company's electric cost of service**  
12 **study, is cross-class subsidization currently**  
13 **occurring?**

14 A Based upon the Company's cost of service  
15 study, yes.

16 MR. COWELL: Thank you, Mr. Ball. No  
17 further questions.

18 Thank you, Your Honor.

19 JUDGE MOSS: Thank you, Mr. Cowell, for  
20 keeping on schedule there.

21 Do we have questions from the Bench?

22 COMMISSIONER JONES: No.

23 COMMISSIONER RENDAHL: One.  
24  
25

EXAMINATION BY RENDAHL / BALL

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1 EXAMINATION

2 BY COMMISSIONER RENDAHL:

3 Q Good morning, Mr. Ball.

4 A Good morning.

5 Q So following up on the questions from  
6 Mr. Cowell, in your proposal to have a generic  
7 proceeding, is your vision -- so your vision is not  
8 that there will be one model for all companies to  
9 follow, one rule for all companies to follow; correct?

10 A No. We're looking to establish a framework  
11 that sets out the principles of cost of service and  
12 applies them consistently across all the IOUs. To set  
13 out this is the specific way you're going to --  
14 mathematical formula you will follow every single  
15 time, I don't think that's flexible enough. But we  
16 can identify a methodology or methodologies that work  
17 in the -- at the higher level and then allow some  
18 flexibility in how those methodologies are applied in  
19 real companies as well as the data that is used from  
20 those companies to work inside that methodology.

21 Q So you were here yesterday when Avista's  
22 witness Tara Knox was testifying; correct?

23 A Correct.

24 Q So she referenced the NARUC manual, which,  
25 obviously, has been around for some time and has not

**EXAMINATION BY RENDAHL / BALL****332**

1 **been updated. Do you think that that manual provides**  
2 **sufficient guidance, or is there more that we have**  
3 **learned on cost of service study methodologies since**  
4 **that time that would allow this commission to do**  
5 **something in Washington that would move us forward?**

6 A Both. I think the manual is a good place to  
7 start, but that manual was written for NARUC which is  
8 nationwide. And I think Washington is slightly  
9 smaller than the entirety of the United States, and,  
10 therefore, there are more similarities in Washington  
11 than there are when you're trying to write a manual  
12 that applies to things on the East Coast as well as  
13 the West Coast.

14 Q And do you think there's differentiation  
15 between electric and gas that should be considered or  
16 specific conditions that apply to utilities that are  
17 part of this methodology consideration you're talking  
18 about?

19 A Yes. I think gas and electric are two  
20 different ones, and I would imagine that whatever  
21 process we engage in would be -- I would hope it would  
22 be simultaneous tracks, but definitely would be one  
23 proceeding for gas and one proceeding for electric. I  
24 don't think we can combine the two universally.

25 Q Okay. And then moving to your discussion in

**EXAMINATION BY RENDAHL / BALL****333**

1 your testimony about the Company's cost of service  
2 study in this case, so in talking with -- in your  
3 questions in responding to questions from Mr. Cowell,  
4 you were talking about -- your testimony about the  
5 cost of service study being directionally accurate but  
6 that there is some subsidizing going on, particularly  
7 with the residential rate class being under unity.

8           Were you able to play around with the  
9 Company's model? Were you able to -- did you just  
10 review it, or did you manipulate the model at all?  
11 Did you have access to that?

12           A    Oh, yes. The Company gave me full access to  
13 their models along with a large amount of data to  
14 analyze in their cost of service, and I did. And I  
15 looked at quite a bit of it. I looked at how I would  
16 change it if I were to propose a cost of service  
17 study.

18           And what the conclusion I drew from that was  
19 any change that I would propose just in this case  
20 wouldn't necessarily be the change I would -- or the  
21 methodology I would propose for a universal cost of  
22 service proceeding.

23           And I felt like if we're going to go down the  
24 road of a generic proceeding where we have that  
25 universal framework that we should engage in that

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1 proceeding and not continue to fight out one-off small  
2 changes inside of a general rate case.

3 Q So there were some methodological -- some  
4 changes, let's say that. Some changes you could make  
5 in the model that would have adjusted the Company's  
6 cost of service study in this case to address some of  
7 the subsidizing issues that are present?

8 A I think that there are, yes, some changes that  
9 can be made that will address some of the  
10 subsidization, both classes that are being -- that are  
11 overpaying and classes that are underpaying. To the  
12 extent of the level of that change due to  
13 methodological change, I don't know. I didn't present  
14 it in this case. I just presented my recommendation  
15 for a generic.

16 COMMISSIONER RENDAHL: Okay. Thank  
17 you.

E X A M I N A T I O N

BY CHAIRMAN DANNER:

18 Q So you said that one of the shortcomings in  
19 the NARUC study is that it's a big country and the  
20 utilities have a lot of differences. Yesterday we  
21 heard Mr. Ehrbar talking about whether we have  
22 differences among the utilities in Washington as well.  
23 There are different peaks. There are unknowns, events  
24  
25

**EXAMINATION BY DANNER / BALL****335**

1 that could come down, and so they are not all one size  
2 fits all either.

3 How do you respond to that? Is Washington  
4 small enough and unified enough that a single  
5 methodology will work?

6 A I think that there are more similarities in  
7 Washington than there's not. Maybe I'm just being  
8 overly optimistic, but I think that the generic cost  
9 of service proceeding would produce fruit and would  
10 produce very useful information on how cost of service  
11 methodology should be applied universally to the IOUs  
12 in Washington.

13 Q Could it be done in a way that takes into  
14 account the differences among the utilities?

15 A Very much. I think that can be done actually  
16 far more easily than is being implied by other  
17 parties' testimony.

18 Q And then you also heard the concern that  
19 sometimes the UTC takes longer to complete a process  
20 than many stakeholders would like.

21 Is there a -- if we were to go ahead with a  
22 generic cost of service proceeding, is it possible to  
23 go ahead with that proceeding and make some kind of  
24 decision on the cost of service study that's in front  
25 of us, you know, and just the idea that this would be



**EXAMINATION BY DANNER / BALL****336**

1 **a stopgap as we deal with the larger picture? Do you**  
2 **see there's risks in doing that?**

3 A I think that that's well within the  
4 Commission's purview. There are other factors to be  
5 used in setting rate spread, and those are the factors  
6 I cite in my testimony -- perceptions of equity,  
7 fairness, economic vitality of the region.

8 When I balance the Company's cost of service  
9 study with those other factors and the proposed rate  
10 increases of this case, the conclusion I came to was  
11 an equal percentage rate increase was the most  
12 equitable and most fair.

13 **Q Even though their proposal, you said, is**  
14 **directionally going the right way?**

15 A Directionally accurate. Even though it's  
16 directionally accurate and even though it may indicate  
17 that certain classes deserve or should have a higher  
18 rate increase than other classes, even with that  
19 information, I balanced it with the other factors and  
20 said what do those other factors tell me.

21 And what they told me is an equal percentage  
22 rate increase is the most equitable in this situation.  
23 Let's say, though, generic takes five years to  
24 complete and we have three more rate cases -- I hope  
25 it doesn't take five years. And we have three more

EXAMINATION BY DANNER / BALL

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1 rate cases in the process --

2 **Q I don't know whether I should take offense to**  
3 **that hypothetical or not.**

4 A I don't imagine it would. I'm just putting it  
5 in examples. If we had three more rate cases in the  
6 meantime, that's a lot of rate cases to have an equal  
7 percentage rate increase just because we've got a  
8 generic going on in the background.

9 So I'm not saying that recommending the  
10 generic precludes doing some other rate spread. I'm  
11 saying that when I look at the cost of service study  
12 in this case and recommend the generic, I say the  
13 generic is the most important. And the other factors  
14 tell me that an equal percentage rate spread is the  
15 most fair outcome for this case.

16 **Q But you're also saying that it's directionally**  
17 **going -- the proposal directionally goes in the right**  
18 **way. And so if we were to act upon it or some variant**  
19 **of that, it would improve the disalignment to some**  
20 **degree, even if it's just as a stopgap measure, until**  
21 **we figure out a more generic methodology?**

22 A It certainly could. One of my only  
23 hesitations there is just the lack of precision. When  
24 we're talking about rate spread and applications of  
25 any rate increases across the customer classes, I'm

EXAMINATION BY DANNER / BALL

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1 less willing to engage in correcting cross-class  
2 subsidization when I'm less sure about the cost of  
3 service study results. Here I wasn't very sure about  
4 them. So I tempered that with the other factors, and  
5 I said, okay, we're looking at a pretty substantial  
6 rate increase.

7 And that -- and going down the avenue of  
8 increasing that rate increase for other classes may  
9 start to have an adverse impact. So when I balance  
10 them all out, in this case I came to the conclusion of  
11 an equal percentage. It could just very well be that  
12 in another -- in the next case they balance out  
13 differently based upon the circumstances of that case.

14 CHAIRMAN DANNER: All right. So thank  
15 you very much.

16 MR. O'CONNELL: Your Honor, may I  
17 conduct some very brief clarifying redirect?

18 JUDGE MOSS: Certainly, you may.

19 MR. BROOKS: Your Honor, before we get  
20 to redirect, could I ask one clarify question prompted  
21 by the Bench's questions?

22 JUDGE MOSS: We'll let you do that too.

23 MR. BROOKS: Thank you.  
24  
25

EXAMINATION BY BROOKS / BALL

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E X A M I N A T I O N

BY MR. BROOKS:

Q Mr. Ball, I'd like to get some clarity on just some of your answers about this dual nature of the generic proceeding versus the decision here. Let's assume this -- the worst-case scenario takes five years to do a generic proceeding -- no offense.

CHAIRMAN DANNER: Let's assume something less.

Q Lest say it take two years to do this generic proceeding. Your testimony is not that the Commission could not make an informed decision on a future filing during that time period. The Commission does not need to wait for that generic proceeding to make an informed decision; correct?

A Correct. And the Commission can -- the Commission always has the opportunity and the ability to make the decisions it feels are most fair and based upon the evidence presented in the record. I presented my recommendation based upon the circumstances in this case.

MR. BROOKS: Thank you. That's all I have.

MR. O'CONNELL: Thank you, Your Honor.

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E X A M I N A T I O N

BY MR. O'CONNELL:

**Q Mr. Ball, Mr. Cowell asked you about the rate spread issues presented in this case, and he asked you about the concern that if a -- if the cost of service issues are deferred to a generic proceeding that there may be no resolution in the rate spread for Avista, and in your response to that question, I wanted you to clarify whether you meant that rate spread would be in limbo until the generic proceeding?**

**A No. I did not mean that it would be in limbo. What I simply meant is that when you have a lack of certainty around the precision of cost of service studies, you should temper it with the other factors important in setting rate spread. Cost of service is used to set and inform rate spread and used to help us allocate the revenue to specific cost categories.**

**Q Thank you. And in your rate spread that you have proposed in this case, have you attempted to benefit any class over the other?**

**A No, I have not. What I have attempted to do is identify a rate spread that balances out the needs of all of the parties and all of the stakeholders as well as the public at large.**

**Q And about the uniform percentage increase that**

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1 you recommended on rate spread, Mr. Cowell asked you  
2 about comparing your rate spread to the Company's. I  
3 wanted to ask how much does your recommendation differ  
4 from the Company's as far as the resulting unity or  
5 parody ratios?

6 A Mr. Ehrbar actually talks about this in his  
7 rebuttal testimony, and under Staff's proposed  
8 relative ROR, the parody ratios appear to differ by  
9 three to five basis points at the outside.

10 Q What is the significance of that difference?

11 A Not very much. That's well within any -- well  
12 within the 10 percent on either side of parody that is  
13 generally considered acceptable by the Commission.

14 Q About the generic proceeding, what do you want  
15 the outcome of the generic proceeding to be?

16 A I'm looking for and hopeful that what we can  
17 get is a framework that applies the principles of cost  
18 of service and identifies what those principles are  
19 and use that in setting cost of service going forward.

20 One of the big things that I hope that a  
21 generic cost of service proceeding can do is alleviate  
22 some of the administrative burden of engaging in  
23 annual rate cases has. When every rate case -- and  
24 we're in a cycle of annual rate cases, and when every  
25 single one has three or four different cost of service

## EXAMINATION BY COWELL / BALL

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1 models that have to be individually analyzed, that's  
2 incredibly burdensome to the Commission. It's  
3 burdensome to Staff, the Interveners. It's a lot of  
4 work.

5 And this is one area where I think we can  
6 actually solve some of that work by having a generic  
7 getting it all together and deciding on certain  
8 principles and certain applications and methodology  
9 that will allow us to set it going forward within  
10 reason and alleviate the flexibility there.

11 MR. O'CONNELL: Thank you. I have no  
12 more questions, Your Honor.

13 JUDGE MOSS: Mr. Cowell, did you have  
14 something?

15 MR. COWELL: Your Honor, I'd like to  
16 ask one specific question that was raised on redirect.

17 JUDGE MOSS: Go ahead.

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

18  
19 BY MR. COWELL:

20 Q Mr. Ball, you specifically alluded to  
21 Mr. Ehrbar's rebuttal testimony; correct?

22 A Correct.

23 Q And could you just provide clarification.  
24 What did you mean by the 10 percent -- it fails me  
25 what exactly you said. But do you remember talking

**EXAMINATION BY COWELL / BALL****343**

1 **about the 10 percent acceptable margin?**

2 A Right. So when we're talking about getting  
3 classes to parody, the Commission -- historically, the  
4 Commission has said that if you're within 10 percent  
5 of parody, which is one point analysis, either  
6 somewhere between .9 and 1.1, if you're inside that  
7 range, then you're probably pretty close to what the  
8 cost to serve is for those rate classes.

9 That's been what they historically said. I  
10 think you can get better than 10 percent, but that's  
11 what's historically been said. In here what  
12 Mr. Ehrbar is pointing out is that there's a 3 to 5  
13 percentage point difference between my rate spread and  
14 the Company's proposed rate spread. I don't think  
15 that's really high, especially given the lack of  
16 precision around cost of service.

17 Q Now, when you say 3 to 5 percent, you mean in  
18 comparison of the Company's proposal and Staff's  
19 proposal; right? You're comparing those two together?

20 A Yes. And to be clear, when I say 3 to  
21 5 percent, I mean 3 to 5 percent of parody. If the  
22 Company's parody is .88, mine would be .85.

23 Q Correct. Now, would you agree that in  
24 Mr. Ehrbar's rebuttal testimony that you referred to  
25 that Avista's proposed rate of return would be .63 for



**EXAMINATION BY COWELL / BALL****344**

1 residential customers and yourself would be .61? And  
2 this is I'm looking at page 4, Table 3, of  
3 Mr. Ehrbar's rebuttal testimony.

4 A Yes. And it's a 2 percentage point gap. And  
5 like I said before, I don't see 2 percentage points  
6 being that incredibly relevant. What I do see being  
7 relevant is the lack of precision surrounding this  
8 entire cost of service study. If we're going to make  
9 decisions based upon 2 percentage points, then we need  
10 to make sure that we have the most precise cost of  
11 service study we can.

12 Q Sure. I'm just trying to clarify that we're  
13 not mixing and matching what we're discussing here in  
14 the sense that both would be well beyond 10 percent of  
15 parody or unity; correct?

16 A Correct.

17 MR. COWELL: Thank you. No further  
18 questions, Your Honor.

19 JUDGE MOSS: All right. Hopefully,  
20 this exhausts any questions we have for Mr. Ball.  
21 We've had several rounds here.

22 All right. Mr. Ball, thank you very much for  
23 your testimony, and you may step down from the witness  
24 stand.

25 All right. We have one more witness we'll

1 take up after the cost of capital witnesses who will  
2 appear by telephone at 10:00, and that's Mr. Hancock  
3 who I think is sitting in the back of the room.

4 So why don't we take a recess briefly. It's  
5 9:53. I do ask that everybody be promptly back at  
6 10:00 and ready to go with those witnesses.

7 (A break was taken from 9:54 a.m. to  
8 10:02 a.m.)

9 JUDGE MOSS: Let's go on the record.  
10 Now we're on the record. So I'm going to give the  
11 oath to all of you simultaneously, and then we'll take  
12 it from there.

13  
14 ADRIEN M. MCKENZIE, (via conference call),  
15 witness herein, having been  
16 first duly sworn on oath,  
17 was examined and testified  
18 as follows:

19  
20 MICHAEL P. GORMAN, (via conference call),  
21 witness herein, having been  
22 first duly sworn on oath,  
23 was examined and testified  
24 as follows:

25

1 DAVID PARCELL, (via conference call),  
2 witness herein, having been  
3 first duly sworn on oath,  
4 was examined and testified  
5 as follows:

6  
7 JUDGE MOSS: All right. Now we're all  
8 ready to go. So with that, I'll turn to Commissioner  
9 Jones.

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

11 BY COMMISSIONER JONES:

12 Q Good morning, gentlemen. This is Commissioner  
13 Jones. Thank you for participating by phone today.  
14 I'm going to start with some DCF analysis and move a  
15 little bit into comparable earnings and then end up  
16 with a risk premium analysis.

17 JUDGE MOSS: And let me interrupt just  
18 briefly. I apologize. I should say, for the sake of  
19 the court reporter, I'll ask whichever witness is  
20 speaking in response to a question, if you'll first  
21 identify yourself so that we'll have a clear record  
22 about who's speaking. Thank you. Sorry for the  
23 interruption, Commissioner Jones.

24 COMMISSIONER JONES: That's great.

25 Before I get to that, I would like to ask a

1     **foundational question on the embedded cost of debt.**  
2     **Have either of you -- have the three of you had a**  
3     **chance to review Ms. Andrews's rebuttal testimony in**  
4     **which the Company is -- put some evidence in the**  
5     **record on the embedded cost of debt?**

6             **Have you had a chance to review that? And if**  
7     **so, I'm going to ask a couple of questions on that**  
8     **first.**

9             MR. PARCELL: This is David Parcell. I  
10    have reviewed it.

11            COMMISSIONER JONES: Mr. Gorman?

12            MR. GORMAN: I didn't review it for  
13    this hearing, but I did review it when it was  
14    initially filed.

15            COMMISSIONER JONES: And, Mr. Gorman,  
16    you had no issue. I think it was on -- in your  
17    testimony. You just spent a short paragraph on it,  
18    and you just accepted the Company's embedded cost of  
19    debt at 5.51 percent; right?

20            MR. GORMAN: That's correct.

21            COMMISSIONER JONES: Mr. McKenzie?

22            MR. MCKENZIE: I have not reviewed that  
23    for the purpose of this hearing today.

24            COMMISSIONER JONES: I don't know if  
25    Mr. Thies is on the phone, the CFO of the Company, and

1 listening, but, anyway, I'll ask Mr. Parcell.

2 Mr. Parcell, in the last case for this that  
3 was litigated, 150204, the adjusted weighted average  
4 cost of debt was 5.203. If you could just -- I don't  
5 know if you've had a chance to review that.

6 MR. PARCELL: I have, yes.

7 COMMISSIONER JONES: In this case, it's  
8 going up about 40 basis points or 30 basis points to  
9 5.51, and then with the Andrews rebuttal, given a  
10 private placement of about 170 million in long-term  
11 debt and it's a 35-year tenure, it's going up again to  
12 5.59.

13 So, Mr. Parcell, my question is: The Fed  
14 hasn't changed its policies. The Company still has  
15 the same credit rating, BBB. Doesn't this seem a  
16 little bit counterintuitive that the embedded cost of  
17 debt is going up, not down?

18 MR. PARCELL: I missed part of the  
19 question. Occasionally, there's a beep that goes off.  
20 I think the phone is on or off, but I think I got the  
21 full gist of it.

22 There are really two ways I want to respond to  
23 your question. The first is from a general sense.  
24 Interest rates have come down since the last case, and  
25 they have come down since this case got started. For

1 example, the Company filed its application in, I  
2 believe, February, and, in all likelihood, the latest  
3 data available at that time when the application was  
4 filed would be December 2015.

5 Now, from just a generic standpoint, Avista's  
6 first mortgage bond or senior secured debt is single A  
7 rated. In December of 2015, according to Mergent,  
8 M-E-R-G-E-N-T, Bond Record, the average yield on  
9 long-term utility singly debt was 4.35 percent. In  
10 July, when the latest data available when I filed my  
11 testimony, that rate had fallen from 4.35 to  
12 3.57 percent. September, which is the latest data  
13 available, the average yield was 3.66 percent.

14 So from a general standpoint, interest rates  
15 have declined since the application was filed. And,  
16 furthermore, the same would be true if you compared  
17 2014 and '15, the date of the last case. So from a  
18 general concept, interest rates have climbed.

19 Now, the second way I'd like to answer this --  
20 this is more responsive to Ms. Andrews's testimony.  
21 In the Company's application, Exhibit MTT-2, page 3,  
22 that was an anticipation of a long-term what we call  
23 forecasted issuance through the date of 2046, issue  
24 date of 9/15/16, in other words, this month or last  
25 month. And that was anticipated to be \$150 million at

1 a yield maturity of 4.5627 -- about 4 1/2 percent.

2 When the application was filed when they  
3 developed the cost rate of 5.51 percent, it was  
4 anticipated that the Company was going to issue  
5 \$150,000,000 of --

6 THE REPORTER: 150 -- I can't hear.

7 JUDGE MOSS: Could you just say that  
8 last bit?

9 MR. PARCELL: Yes. When the  
10 application was filed, it was anticipated that Avista  
11 would issue \$150 million worth of bonds in September  
12 of 2016 at a cost of just over 4 1/2 percent,  
13 4.562 percent. And that's what's incorporated in the  
14 cost of debt they filed of 5.51 percent.

15 In Ms. Andrews's rebuttal testimony, she tells  
16 us what they actually did. The Company has, I'm going  
17 to use the phrase, made arrangements to issue  
18 \$175 million of debt in the latter part of this year,  
19 not through a public offering, but through a private  
20 placement offer. I think that would be issued in  
21 December of 2016.

22 Now, as I heard you ask the question whether  
23 or not, I did do some investigation, and what caught  
24 my attention is the cost of this debt is 5.63 percent.  
25 And I'm not privy to how it was determined, how they

1 arrived at it. I'm just comparing numbers for you.  
2 But they've arranged the debt at 5.63 percent in a  
3 private placement, which is about 200 basis points  
4 higher than yields right now.

5 I'm not trying to throw the Company under the  
6 bus here and say they did something wrong. I'm just  
7 saying that caught my eye.

8 COMMISSIONER JONES: Thank you,  
9 Mr. Parcell. It caught my eye too. That's why I'm  
10 asking the question.

11 And I think we did have a Bench request on  
12 this too to try to -- the Company is going to provide  
13 details on the all-in rate at 5.63, including the cost  
14 of hedges, obviously, the underwriting fees and all  
15 that. So I would hope that each cost of capital  
16 witness, if the Company still is insisting on this and  
17 include it in rates for this rate-effected period,  
18 that each of you would take a look at it in your  
19 briefs after this hearing. I know it's come up kind  
20 of suddenly, but it just seems counterintuitive to me  
21 that a 200-basis point difference for a 35-year first  
22 mortgage bond, which, by the way, it's fully secured  
23 at a BBB rating, would be at that rate.

24 JUDGE MOSS: Considering that request  
25 by Commissioner Jones, I will just remind everyone,



1 including the three witnesses now testifying, that  
2 whatever appears in the briefs, in terms of factual  
3 information, can only be that that was presented as  
4 evidence in this proceeding. So with that caution,  
5 you may respond.

6 COMMISSIONER JONES: Thank you, Judge.

7 JUDGE MOSS: Of course, I think it  
8 would be largely counsel that appears in briefs.

9 MR. MCKENZIE: May I respond briefly?

10 COMMISSIONER JONES: Judge, on that  
11 point, we did make a Bench request for the detail  
12 components of this private placement yesterday, did we  
13 not?

14 JUDGE MOSS: Yes. And those facts will  
15 be in the record. I'm not suggesting there are no  
16 facts in the record. I'm just cautioning that the  
17 argument and brief needs to be limited to those facts  
18 such as they are.

19 COMMISSIONER JONES: Understood.

20 Mr. Gorman or Mr. McKenzie, even though you  
21 haven't reviewed this material yet, is there anything  
22 you wish to say at this point before we get into ROE?

23 MR. MCKENZIE: This is Mr. McKenzie.  
24 I'd like to raise a couple of comments if I could.

25 COMMISSIONER JONES: Sure.

1                   MR. MCKENZIE: First off, Mr. Parcell  
2 noted that interest rates have declined since the  
3 Company filed its case. I would point out that the  
4 embedded cost of debt is a function of capital market  
5 conditions at the time the instruments are issued and  
6 not current capital market conditions.

7                   So if we look back to late last year, BBB bond  
8 yields were approximately 5.6 percent on average in  
9 both November and December of last year. And then  
10 bond yields, of course, are also a function of the  
11 specific provisions of the instrument.

12                   So to the extent that there are hedging  
13 provisions that would protect the Company in some ways  
14 or other provisions that distinguish these bonds from  
15 another yield that is considered within the bond yield  
16 average, we would expect there to be differences  
17 between those. I think that's important to note.

18                   COMMISSIONER JONES: Thank you.

19                   Okay. I'm moving on to DCF analysis and ROE  
20 issues now, and I'll direct my first question to  
21 Mr. Gorman and maybe Mr. Parcell followed by  
22 Mr. McKenzie if that's acceptable.

23                   Mr. Gorman, on page 51 of your testimony,  
24 MPG-1T, you adjust Mr. McKenzie's ROE analysis. So  
25 you might want to turn to that page or each of you.

1 MR. GORMAN: I'm there.

2 COMMISSIONER JONES: So in your  
3 adjusted results for Mr. McKenzie, could you go over  
4 at a high level this issue of the low-end outliers and  
5 other issues where you take issue because you --  
6 Mr. McKenzie's overall recommendation is 9.9 percent,  
7 and I think it's largely based on DCF, but also the  
8 other methods. And here in your adjustment, you bring  
9 it down to 8.8 percent; correct?

10 MR. GORMAN: That's correct.

11 COMMISSIONER JONES: So talk about the  
12 issue, please, of the -- why you think it's  
13 inappropriate for Mr. McKenzie to remove the eight  
14 low-end outliers.

15 MR. GORMAN: I think it's inappropriate  
16 because what you're attempting to do is measure the  
17 current market cost of equity for the proxy group  
18 based on market evidence with the expectation or with  
19 the finding that the proxy group reasonably  
20 approximates the investment risk of the subject  
21 company, in this case Avista.

22 When he adjusts this proxy group results, he  
23 takes out low-end estimates with no consideration or  
24 even discussion of the need to also remove high-end  
25 outlier estimates. By doing that, he's simply vising

1 his estimate of the proxy group DCF return by  
2 recognizing only DCF return estimates which he  
3 believes to be reasonable.

4 I think a more appropriate methodology for  
5 interpreting the results of your proxy group would be  
6 to look at the proxy group average and median to  
7 determine whether or not the average reasonably  
8 reflects the central tendencies of all the results  
9 within the group or whether or not it's more  
10 appropriately gauged by looking at the proxy group  
11 median.

12 To the extent there are outliers, either high  
13 end or low end, that would be most accurately captured  
14 by considering the proxy group median as opposed to  
15 the average to the extent outlier estimates skew the  
16 proxy group results.

17 COMMISSIONER JONES: Okay. Thank you.  
18 And we have your testimony in the record, Mr. Gorman,  
19 on pages 51 and 52. Thank you for that.

20 Mr. Parcell, do you have any comment before we  
21 ask -- before I ask Mr. McKenzie here?

22 MR. PARCELL: Yes, I do. I'll just  
23 briefly agree with the foundation information that  
24 Mr. Gorman just provided, the means, medians, etc.

25 I took a slightly different tack in my

1 testimony and my rebuttal of Mr. McKenzie, and what I  
2 did I said since Mr. McKenzie has relied upon the FERC  
3 DCF methodology as what was defined in Opinion 531, he  
4 has misinterpreted and misused it in that case.

5 They -- FERC uses a six-month average yields as DCF.  
6 And as DCF results reach each individual company, it  
7 then goes back and looks at the same six-month average  
8 of utility bond yields. And based on the six-month  
9 average, it takes 100 basis points to the six-month  
10 average of utility bond yields, and that becomes the  
11 low-end outlier.

12 For example, if the last six months had an  
13 average utility bond yield of 5.0 percent, then  
14 6.0 percent would be the low-end outlier. That's what  
15 I did in my response to Mr. McKenzie, and that's what  
16 he did not do. He added more than 100 basis points.  
17 Plus he uses forecasted bond yields and not historic.  
18 Again, I took this approach because he based his  
19 low-end outlier methodology on what FERC had done.  
20 I'm pointing out he did not interpret FERC correctly.

21 COMMISSIONER JONES: You've jumped  
22 ahead to my next question, Mr. Parcell. You must be  
23 very prescient. I was going to ask you about that  
24 FERC analysis, all three of you. Since you've jumped  
25 ahead, we'll combine the two.

1           So, Mr. McKenzie, the floor is yours. Please  
2 respond. But are you -- first, as a foundational  
3 question, are you aware of any UTC order in which we  
4 have referenced this low-end or the threshold DCF  
5 methodology that FERC uses that adds 100 basis points  
6 to the low end?

7           MR. MCKENZIE: No, I am not. My  
8 testimony is not based on a prior finding of the  
9 Commission.

10           COMMISSIONER JONES: With that out of  
11 the way, why did you use the FERC methodology? And  
12 you criticize -- in your rebuttal testimony on  
13 page 32, you criticize Mr. Parcell for his DCF  
14 analysis and use the FERC methodology as a guide.

15           MR. MCKENZIE: Well, first off, my  
16 testimony does not rely explicitly on the FERC  
17 methodology with respect to applying the DCF method,  
18 but with respect to the specific issue of evaluating  
19 numbers at the bottom end of the DCF range, I do cite  
20 to FERC. And that is one regulatory agency that has  
21 specifically cited the need to evaluate individual DCF  
22 cost of equity estimates against an objective  
23 benchmark, which bond yields provide.

24           Given risk-return tradeoffs, cost of equity  
25 estimates that don't exceed bond yields are clearly

1 illogical, and there's some threshold above which a  
2 cost of equity needs to be before it can be -- should  
3 be considered reasonable and considered within the  
4 analysis in arriving at a just and reasonable ROE.

5 Mr. Parcell references FERC policies regarding  
6 low-end outliers, and while he's partly correct, he's  
7 not entirely correct. FERC does not apply a  
8 bright-line test of 100 basis points over bond yields.  
9 That's a general guideline which they employ. They've  
10 eliminated numbers that have been above that test.

11 He is correct that I consider projected bond  
12 yields as well, but the fundamental thrust of my  
13 approach is, basically, to eliminate numbers which  
14 don't make economic sense and, therefore, shouldn't be  
15 considered in averaging or evaluating the DCF results,  
16 for example, one of the DCF cost of equity estimates  
17 produced in my analysis, 2.8 percent.

18 And I don't think either Mr. Parcell or  
19 Mr. Gorman or the Commission would consider that to be  
20 a logical outcome for an electric utility. So in that  
21 sense, it is appropriate to eliminate those types of  
22 estimates.

23 Mr. Gorman references the median, and while  
24 that is certainly a valid statistical measure, it does  
25 not necessarily correct for the fact that some numbers

1 are too low to be illogical. It's simply the middle  
2 number in a series. And to the extent that the data  
3 includes illogical values that aren't statistically  
4 relevant to the determination at hand, then those  
5 should be taken out.

6 I would also point out that the FERC  
7 methodology that Mr. Parcell very briefly discussed  
8 also recognizes that, given current capital market  
9 conditions, DCF numbers appear to be downward biased.  
10 And I did not apply the Commission's DCF approach, nor  
11 did I interpret my DCF analysis the way FERC does, but  
12 there are precedents.

13 In their most recent two orders setting  
14 precedence for electric utilities is to actually take  
15 a number from within the upper end of the DCF range  
16 based on the results of the same capital asset pricing  
17 model, the same risk premium approach, and the same  
18 comparable earnings approach that are presented in my  
19 testimony. Upon that basis, they move to the middle  
20 of the upper half of the DCF range to correct for  
21 this.

22 COMMISSIONER JONES: Mr. McKenzie, are  
23 you aware of any Commission order in the last five  
24 years in which we've cited or we've stated that the  
25 DCF methodology is downward biased?



1 MR. MCKENZIE: No, sir. I'm not.

2 COMMISSIONER JONES: I think there's  
3 ample evidence on the CAPM analysis, but I'm not aware  
4 of any such analysis.

5 Mr. Gorman, do you have any short comment on  
6 the FERC methodology and Order 531 on this -- the use  
7 of it on the low end before we move on?

8 MR. GORMAN: Well, I do. I think the  
9 FERC methodology, at least in the hearings I've  
10 been -- participated in, it's been a pretty clear  
11 bright line that the low-end estimate is about 100  
12 basis points over prevailing six-month average utility  
13 bond yields. It's not a wall, but it is a pretty  
14 bright line.

15 Probably more importantly, my perspective of  
16 the FERC methodology is that it focuses on low-end  
17 estimates rather than evaluating the most accurate  
18 estimate of what the proxy group tells you that the  
19 current market cost of equity is. By not evaluating  
20 the proxy group results from the standpoint of  
21 considering both the low-end estimates and high-end  
22 estimates, I believe that the FERC methodology has a  
23 tendency to overstate a fair rate of return.

24 I would also point out that I'm not aware of  
25 any regulatory commission describing a bias towards

1 the DCF return estimate. Most regulatory commissions  
2 recognize that market base models can produce results  
3 which are sometimes not useful in estimating what the  
4 fair rate of return is, but I'm not aware of any  
5 regulatory commission identifying or stating that the  
6 DCF return produces a biased result.

7 COMMISSIONER JONES: Moving on to the  
8 CE analysis or what I call comparable earnings  
9 analysis or, I think in this record, it's also called  
10 expected earnings, there were only two of you that  
11 performed the analysis, Mr. McKenzie and Mr. Parcell.  
12 Just one question on this more for Mr. McKenzie.

13 Avista is a publicly traded corporation. It's  
14 the only one left in the Northwest, so its stock is  
15 publicly traded. So, obviously, the issue of having  
16 equity, when they do issue new equity, above book  
17 value I think is an important consideration, at least  
18 to me, and I think to most analysts.

19 Mr. McKenzie, in your critique of  
20 Mr. Parcell's use of what is called MTB, market to  
21 book, you say such analysis is unreasonable and we  
22 should not give it any weight. So I'd like you to go  
23 first and tell us why you think the MTB, market to  
24 book, is not reasonable. Your estimates on expected  
25 earnings are at the high end, 10.7 percent, I think,

1 and Mr. Parcell's are 9.5 percent; right?

2 MR. MCKENZIE: Yes.

3 COMMISSIONER JONES: So, Mr. McKenzie,  
4 why don't you tell me why that is unreasonable.

5 MR. MCKENZIE: First off -- yes, sir.  
6 First off, it's important to note that the Commission  
7 and other regulatory commissions around the country do  
8 not regulate utility stock prices. Those are  
9 determined in the markets based on the expectations of  
10 investors. And market-to-book ratios for utilities  
11 stocks have been above one for probably more than a  
12 decade now. That's not a new feature of capital  
13 markets.

14 While they're above one, the market-to-books  
15 for utility stocks are not nearly as high as for other  
16 publicly traded firms, but the fundamental problem  
17 with Mr. Parcell's argument is a theoretical approach  
18 that is designed really at its heart to push the  
19 market to book down to 1.0 times, which, essentially,  
20 implies then that stock prices have to decline for  
21 that to happen. And that is not a logical result.

22 What it effectively does by adjusting --  
23 artificially adjusting down the expected earnings  
24 approach for this market-to-book adjustment is imply a  
25 return for Avista, in particular in this case, which

1 would not be commensurate with the book returns that  
2 are expected for other utilities. It implies,  
3 essentially, a return that would produce a lower stock  
4 price, which also implies capital losses for  
5 investors.

6 So that is both contrary to, I think, what  
7 investors' expectations are for Avista generally.  
8 It's, certainly, contrary to the expectations that are  
9 built into the DCF approaches that Mr. Parcell and  
10 Mr. Gorman and I have applied, and it also is contrary  
11 to the capital attractions standard that underlies a  
12 fair ROE.

13 So this type of adjustment is certainly  
14 sometimes proposed in utility rate cases. I'm not  
15 aware of another commission that's making a specific  
16 adjustment to any of the market-based approaches to  
17 recognize a theoretical construct that the  
18 market-to-book ratio should be less than what  
19 stockholders deem appropriate in the capital markets.

20 COMMISSIONER JONES: Okay. Thank you.

21 Mr. Parcell, just a short response because we  
22 have limited time here, and I want to move on.

23 MR. PARCELL: I can speak for hours,  
24 but I'll keep it very short.

25 The first thing I want to say is I have made

1 no such adjustment. On page 33 of my testimony where  
2 I show the prospective returns on equity, prospective  
3 returns on equity, both my proxy group and  
4 Mr. McKenzie's proxy group, the prospective returns on  
5 equity are in a range of 9.0 to 10.1, which happens to  
6 be my --

7 THE REPORTER: Happens to be what?

8 JUDGE MOSS: Mr. Parcell, we need you  
9 to repeat that last sentence, please.

10 MR. PARCELL: Yes. I have made no such  
11 adjustment, and I say so in my testimony. The  
12 respective returns on equity going forward from 2016  
13 to 2021 from my proxy group and Mr. McKenzie's proxy  
14 group fall within a range of 9.0 to 10.1 percent,  
15 which happens to be my comparable earnings  
16 recommendation. I have made no adjustments.

17 I also want to say very quickly that I've been  
18 doing this a long time. In fact, in late 1970s and  
19 early 1980s, utility market-to-book ratios were below  
20 one, and they were screaming like murder. I mean, it  
21 was just terrible. We could not function with  
22 market-to-books below one and, therefore, returns are  
23 going to have to be higher.

24 And then the opposite. They're higher, but  
25 I'm not making an adjustment at all. I am basing my

1 recommendation based on actual returns of equity, but  
2 I do observe that investors know that rate bases of  
3 market is not market to book, and the capital  
4 structure is book. And investors know the utilities  
5 rates are based upon book. I could say more, but I'll  
6 quit at that.

7 COMMISSIONER JONES: I know there's a  
8 lot in the academic literature on this, so I'm not  
9 going to ask you three gentlemen to propound on that  
10 anymore, but thank you.

11 Mr. Gorman, I have a question. If you could  
12 turn to page 7 of your testimony, let me know when  
13 you're there.

14 MR. GORMAN: I'm there. I'm sorry.

15 COMMISSIONER JONES: On lines 3 through  
16 6, you put a Moody's report that argues that lower  
17 authorized ROEs will not hurt near-term credit  
18 profiles, meaning the free cash flow, the debt to --  
19 EBIDTA, E-B-I-D-T-A, to debt and similar matrices.

20 Could you expound on that a little bit? And I  
21 don't think this is in the record, and I don't know if  
22 you have that if you could submit it for the record.  
23 It might be helpful.

24 MR. GORMAN: The Moody's report I'm  
25 quoting from?

1 COMMISSIONER JONES: Yes.

2 MR. GORMAN: I'd be happy to submit  
3 that.

4 There have been -- credit analysts, both  
5 Standard & Poor's, Moody's, and even Fitch, have  
6 commented on authorized returns on equity, and credit  
7 rating agencies prospective of regulatory decisions is  
8 that they be predictable and fair. Credit analysts  
9 want to have a sense of whether or not the authorized  
10 returns on equity are going to reflect changes in  
11 capital market costs of utility.

12 As capital market costs go up, they expect  
13 authorized returns on equity to go up. When they come  
14 down, they understand that the authorized returns on  
15 equity will come down. Along with declining  
16 authorized returns on equity, the utility's embedded  
17 cost of debt also decline. Consequently, a lower  
18 return on equity produces this same coverage of debt  
19 interest expense when capital market costs are low as  
20 it does when -- and authorized returns on equity are  
21 low as it does when authorized returns on equity are  
22 higher and embedded cost of debt and marginal cost of  
23 debt are higher.

24 JUDGE MOSS: Mr. Gorman, could I ask  
25 you to slow down just a bit.

1 MR. GORMAN: Sorry. The relationship  
2 of the authorized return on equity relative to the  
3 current market cost have capital, both equity and debt  
4 capital, which provide information to the utility or  
5 the credit analysts in assessing whether or not the  
6 operating income of proof for setting rates will  
7 provide adequate earnings and cash flow coverages of  
8 the utility's financial obligations. So it's a matter  
9 of being fair, and it's a matter of being predictable.

10 COMMISSIONER JONES: Okay.

11 JUDGE MOSS: Let me interject here that  
12 we will mark as Bench Request No. 9 the Moody's report  
13 noted by Mr. Gorman at MPG-1T, page 7, Footnote 1.

14 COMMISSIONER JONES: Thank you,  
15 Mr. Gorman. And I'm going wrap up now. I think we  
16 want to end this hearing by noon Pacific time,  
17 gentlemen. We have another Staff witness and some  
18 cross-examination left, so my last two questions are  
19 the risk premium analysis.

20 Mr. Gorman, for you, Mr. McKenzie rejects --  
21 and I think at the last hearing I asked you and  
22 Mr. Parcell a similar question. This inverse  
23 relationship between interest rates and the equity  
24 risk premium, which is essential to a risk premium  
25 result, we're still in an era of low interest rates.



1 And I don't know if each of you want to opine at all  
2 on what the Federal Reserve might do over the next  
3 18 months during rate-effected period of this case,  
4 but it seems to me that I'd like to have a little  
5 discussion of why you think the -- this inverse  
6 relationship between interest rates and the risk  
7 premium is something that is not based -- is not  
8 something that exists and something that we should not  
9 take into consideration when we look at the risk  
10 premium method. Mr. Gorman?

11 MR. GORMAN: I'm happy to. The issue I  
12 have with an inverse relationship is that it is not  
13 the only factor that is relevant in describing equity  
14 risk premiums based on current market conditions.  
15 There is a relationship between an equity risk premium  
16 and interest rate, but it's not the only relationship.  
17 The primary driver that explains an appropriate equity  
18 risk premium in the market today depends on the  
19 market's assessment of the investment risk of an  
20 equity security versus a debt security.

21 To the extent equity securities are perceived  
22 to be greater risk in the current marketplace than  
23 debt, then the equity risk premium will expand.  
24 Conversely, if equity risk appears to be lower than  
25 the average relative to debt securities, then the

1 equity risk premium will contract.

2 Nominal interest rates include factors that  
3 affect both the required equity return and the  
4 required bond return. One important factor is  
5 inflation. When inflation outlooks decrease as they  
6 have recently, then the expected return on equity and  
7 the expected return on debt will both reduce the  
8 required return expectations of investors.

9 So an interest rate can decline without an  
10 equity risk premium expanding if it's driven only by a  
11 reduction in expectations of outlooks for future  
12 inflation. So in order to assess an appropriate  
13 equity risk premium, it's more accurate to consider  
14 the relative risk of the industry relative to some  
15 benchmark to gauge the sense of the market's demands  
16 for assuming higher rates of return for assuming  
17 greater risk.

18 COMMISSIONER JONES: Thank you,  
19 Mr. Gorman.

20 MR. GORMAN: One of the relative  
21 spreads in treasury securities versus corporate bonds  
22 and utility bonds it is shown that there is an  
23 above-average risk premium in the market today, but  
24 that risk premium for utilities securities is lower  
25 than it is for greater risk corporate securities.

1                   COMMISSIONER JONES: So, Mr. Gorman, if  
2 we could shorten this a bit, we need to move on. Just  
3 to summarize, your position in this case is if we use  
4 a treasury yield for the risk premium analysis, you  
5 come up with an ROE of 9.5 percent. If we use a  
6 utility bond yield, it's 9.3 percent. And you just  
7 average those two, and your risk premium  
8 recommendation is 9.4 percent; right?

9                   MR. GORMAN: That's correct. And that  
10 does reflect an above-average risk premium based on  
11 observations of risk of equity investments versus debt  
12 investments.

13                   JUDGE MOSS: Mr. Parcell and  
14 Mr. McKenzie, quickly on this risk premium point of  
15 view, if you would, if you have any comments.

16                   MR. PARCELL: This is Dave Parcell. I  
17 didn't --

18                   JUDGE MOSS: Let's have Mr. Parcell  
19 first.

20                   THE REPORTER: Can you ask him to slow  
21 down, please.

22                   MR. PARCELL: I did not directly  
23 address the risk premium on methodology or the inverse  
24 relationships, so I won't comment there.

25                   The one thing I'll comment on very quickly is

1 that debt actions don't drive long-term interest  
2 rates. The Fed increase the short-term rate last  
3 December, and rates went down -- long-term rates went  
4 down for six straight months after that. So long-term  
5 rates are determined in the market, not the Fed, and  
6 that's all I'm going to say.

7 JUDGE MOSS: There's a bit of a  
8 challenge for the court reporter when we're doing  
9 telephonic testimony, so I'm just going to ask  
10 everyone to please, despite our perhaps eagerness to  
11 get to the end of the day, slow down your speech a bit  
12 so that the court reporter can have an easier time in  
13 the hearing room. Thank you very much, all of you.

14 COMMISSIONER JONES: Mr. McKenzie.

15 MR. MCKENZIE: Yes, this is  
16 Mr. McKenzie. I'll be very brief.

17 I don't agree with Mr. Gorman's portrayal of  
18 the inverse relationship. This relationship is  
19 supported in the financial literature in peer-reviewed  
20 articles both for utilities and for other industries,  
21 and it has been recognized by other regulators.

22 For example, the Mississippi Public Service  
23 Commission has a formula approach to determining ROE  
24 that is, in part, based on the DCF. It is also, in  
25 part, based on a risk premium approach that is

1 virtually identical to that that I've applied in my  
2 testimony which does incorporate an inverse  
3 relationship.

4 The inverse relationship -- Mr. Gorman brought  
5 up FERC earlier in his testimony and the FERC method,  
6 the risk premium study that FERC has accepted and has  
7 specifically, in fact, accepted the inverse  
8 relationship as indicative of how changes in capital  
9 market conditions impact the cost of equity, so I  
10 think it's well established that the relationships  
11 exist.

12 My analysis certainly establishes that on a  
13 highly statistically significant basis. That's not to  
14 say that other factors don't affect risk premiums. My  
15 study doesn't fully reflect 100 percent correlation  
16 between bond yields and risk premiums. It's part of  
17 what happens.

18 But to the extent we're looking to industry  
19 average benchmarks over a long time period which  
20 consider -- average out differences in risk  
21 perceptions that might be attributable to any single  
22 company, it provides a very sound basis to account for  
23 how changes in capital market conditions affect risk  
24 premiums and then the cost of equity.

25 JUDGE MOSS: And, Mr. McKenzie, just to

1 summarize for the record, your utility risk premium  
2 recommendations are either 10.70 percent or  
3 11.70 percent, which are significantly higher than  
4 Mr. Gorman's; right?

5 MR. MCKENZIE: Yes, that's correct.

6 COMMISSIONER JONES: Okay. Finally, my  
7 last question, for those of you who have been before  
8 me before, I usually ask this question, so I'll ask it  
9 again. We have a robust record. We have a lot of  
10 numbers, a lot of recommendations. We have four  
11 different methodologies. Which methodology should the  
12 Commission place more -- relatively more emphasis on  
13 as we deliberate and make our final decision? And  
14 I'll start with Mr. Gorman.

15 MR. GORMAN: Well, the results of my  
16 study are shown on page 45 of my testimony. The low  
17 end is my DCF result of 8.7 percent. I've noted that  
18 as one of the highest DCF returns. I found it  
19 appropriate based on my proxy group studies. The high  
20 end is based on my risk premium, which reflects an  
21 above-average risk premium in the marketplace today.  
22 The midpoint of that range is 9.1 percent.

23 I believe that it's reasonable to consider  
24 both the DCF and the risk premium methodology, and I  
25 believe the cap M analysis supports the midpoint of

1 that estimated range. I don't know if there's one  
2 methodology I would necessarily give more weight to in  
3 the current marketplace. I think it is appropriate to  
4 reflect proxy group studies of both DCF and risk  
5 premium analyses in measuring a fair return for Avista  
6 rather than selectively choosing the points within the  
7 studies and arriving at a return recommendation.

8 COMMISSIONER JONES: Thank you,  
9 Mr. Gorman.

10 Mr. Parcell? We'll go to Mr. McKenzie last.

11 MR. PARCELL: Okay. As I show on  
12 page 4 of my direct testimony, I look at three  
13 methods -- DCF, cap M, and comparable earnings -- but  
14 I only use my DCF and comparable earnings in making my  
15 ultimate recommendation. So my answer to your  
16 question is I focused on DCF and comparable earnings.

17 COMMISSIONER JONES: And, Mr. Parcell,  
18 that was short and sweet. Thank you.

19 And you think that we should not focus on any  
20 actions by the Federal Reserve or anticipated actions  
21 on interest rates over the next period but just --

22 MR. PARCELL: What would have happened  
23 if you would have done this in the last case? I  
24 realize the last case was settled. But suppose you  
25 had focused on Mr. McKenzie or his colleague,

1 Dr. Abrams's, predictions. At that point in time,  
2 there would be a significant increase in interest  
3 rates over the next two years. Look what would have  
4 happened to your judgment at that time if you had used  
5 that prediction. You would have been wrong. And  
6 ratepayers pay would have been based upon a faulty  
7 premise. So I think working on objective interest  
8 rates is very risky.

9 COMMISSIONER JONES: Thank you.

10 Mr. McKenzie, you're the last. You get the  
11 last word.

12 MR. MCKENZIE: Yes, sir. First, I  
13 would comment very briefly on the Federal Reserve. My  
14 testimony, my recommendation, is not based directly on  
15 forecasted interest rates. I think those are  
16 something that should be considered, and they were  
17 considered in my analysis.

18 Mr. Parcell suggested that the Federal Reserve  
19 doesn't have any impact on long-term rates, or that if  
20 they raise the interest rate, it doesn't have any  
21 impact on investors' expectations. I would point out  
22 that in September when folks thought the Fed was  
23 getting ready to move, the utilities stocks declined  
24 4 percent in one day. So there is definitely the  
25 potential for the Federal Reserve actions to have a



1 very direct impact on investors' expectations.

2 With respect to the methods considered in  
3 arriving at just and reasonable ROE, as Mr. Gorman  
4 stated, you know, I don't think there is a single  
5 method that is foolproof. And I think that all  
6 methods are at bottom subject to the means in which  
7 they are applied.

8 So while I would recognize that the DCF method  
9 is a widely accepted approach to estimate the cost of  
10 equity, I think in current times reliance on that  
11 method needs to be tempered, or at least when we're  
12 evaluating a DCF result, we need to be mindful of the  
13 implications of other methods and consider all the  
14 approaches in terms of arriving at a just and  
15 reasonable ROE.

16 COMMISSIONER JONES: Thank you,  
17 Mr. McKenzie. That's all I have. Thanks.

18 JUDGE MOSS: Ms. Rendahl, do you have  
19 any questions?

20 All right. Well, I would like to, again,  
21 extend the Commission's appreciation to the three of  
22 you for appearing by telephone today to answer these  
23 questions from the Bench. And as always, you've  
24 presented us with a solid body of evidence upon which  
25 the Commission can make a sound determination at the

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1 end of the day.

2 With that, I will say that the three of you  
3 are free to go about your business, and we look  
4 forward to seeing you the next time.

5 All right. With that, I think this would be a  
6 good time to give our beleaguered court reporter a  
7 15-minute break until 11:00, and then we will be back  
8 to have Mr. Hancock. So we're off the record.

9 (A break was taken from 10:47 a.m. to  
10 11:04 a.m.)

11 JUDGE MOSS: Mr. Hancock.

12  
13 CHRISTOPHER SCOTT HANCOCK, witness herein, having been  
14 first duly sworn on oath,  
15 was examined and testified  
16 as follows:

17  
18 JUDGE MOSS: Your witness, Mr. Shearer.

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

20 BY MR. SHEARER:

21 **Q Mr. Hancock, can you please state your name**  
22 **and spell your last name for the record.**

23 A My name is Christopher Scott Hancock,  
24 H-A-N-C-O-C-K.

25 **Q And are you the same Christopher Scott Hancock**

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1 who filed the now-admitted documents labeled CSH-1T  
2 through CSH-10T in this proceeding?

3 A Yes. That is me.

4 Q And do you have any revisions to those  
5 documents, Mr. Hancock?

6 A I have one revision. This revision is on my  
7 Exhibit CSH-5, page 11, and there are three instances  
8 on this page.

9 COMMISSIONER JONES: Mr. Hancock, the  
10 page numbers are upper right? Okay. Page 11. Okay.

11 A Yes, sir. This is CSH-5, page 11, and there  
12 are three instances of the word "distribution" on this  
13 page. They should be struck and replaced with the  
14 word "general."

15 MR. SHEARER: And I will ask for  
16 guidance from the Bench here. We also have a  
17 correction to one of the cross-exhibits. It's a data  
18 request response that Staff provided, and it came to  
19 Staff's attention that there was a mistake when it  
20 came in as a cross-exhibit.

21 JUDGE MOSS: Do you have multiple  
22 copies available?

23 MR. SHEARER: I do.

24 JUDGE MOSS: Why don't you have those  
25 distributed and put the corrected exhibit in the

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1 books.

2 MR. SHEARER: I'm handing you a redline  
3 version.

4 JUDGE MOSS: That's fine. What exhibit  
5 is this?

6 MR. MEYER: This is labeled in the  
7 exhibit list CSH-11CX. This would be the second page  
8 of that cross-exhibit. It's the Staff response to  
9 ICNU Data Request No. 3. I'll let Mr. Hancock point  
10 out the correction. Mr. Hancock.

11 MR. HANCOCK: Yes. In the response  
12 section on this document, Item B, there's a sentence  
13 that reads "Ultimately, the Commission used an  
14 escalation rate based on the average of a 2009 to 2014  
15 trend." That should read "...on the average of a 2007  
16 to '14 trend."

17 JUDGE MOSS: All right. Thank you.

18 MR. SHEARER: Your Honor, the witness  
19 is available for cross-examination.

20 JUDGE MOSS: All right. And we have  
21 cross indicated by four parties for you, Mr. Hancock.  
22 You set the record for this proceeding. We have  
23 Avista first, and I think it's appropriate that you go  
24 first.

25 MR. MEYER: I will and thank you.

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

1  
2 BY MR. MEYER:

3 Q Good morning, Mr. Hancock.

4 A Good morning, Mr. Meyer.

5 Q Have you read Company witness Karen Schuh's  
6 rebuttal testimony, Exhibit KKS-8T? And I'd ask you  
7 to --

8 A Yes, I have.

9 Q -- bring that in front of you, if you would.

10 A And this is KKS-6?

11 Q 8T.

12 A Thank you.

13 Q I'll direct your attention to page 13,  
14 Table 2, so if you'll just give us all a moment to get  
15 there.

16 COMMISSIONER RENDAHL: What page are we  
17 looking at?

18 MR. MEYER: Page 13 and it's Table 2 in  
19 particular there.

20 Q All right. And is it correct that that table,  
21 Table 2, shows the production plant additions per year  
22 for the period 2007 to 2015, which is the trend  
23 period; correct?

24 A It appears to show that, yes.

25 Q And does it also show as a footer to the

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1 bottom of the table that the average production plant  
2 additions per year is 15.9 million?

3 A It does read that.

4 Q Have you read the testimony of Company witness  
5 Andrews, her rebuttal testimony, Exhibit EMA-6T?  
6 That's the last bit of testimony I'll refer you to, so  
7 it's EMA-6T. It's Andrews's rebuttal.

8 A Yes, I have that.

9 Q And I would like to address everyone's  
10 attention to page 30, line 21, so just give us a  
11 moment.

12 CHAIRMAN DANNER: Mr. Meyer, why don't  
13 you give that to me again because I just got the  
14 binder out.

15 MR. MEYER: It is Witness Andrews's  
16 rebuttal testimony, Exhibit EMA-6T.

17 CHAIRMAN DANNER: I'm there.

18 MR. MEYER: And the page is page 30,  
19 line 21.

20 CHAIRMAN DANNER: Thank you.

21 MR. MEYER: Sorry for all the shuffling  
22 of books and papers, but it gets to the point. So I  
23 think everyone is there.

24 BY MR. MEYER:

25 Q At line 21 continuing to line 22, is it your

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1 understanding of Ms. Andrews's testimony that the  
2 Company has already transferred into service actual  
3 production plan of \$92 million for the first seven  
4 months of 2016?

5 A Yes. I understand that Ms. Andrews testified  
6 to that.

7 MR. MEYER: And that is all I have.  
8 Thank you.

9 JUDGE MOSS: That was a very short  
10 15 minutes. Thank you, Mr. Meyer.

11 All right. We'll next go to Public Counsel,  
12 Ms. Gafken.

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

13  
14 BY MS. GAFKEN:

15 Q Good morning, Mr. Hancock.

16 A Good morning, Ms. Gafken.

17 Q Would you please turn to your rebuttal  
18 testimony, which is Exhibit CSH-10T.

19 A Sure. One moment. I have some shuffling.

20 Q Sure.

21 A Ms. Gafken, did you say a page number?

22 Q I haven't yet. Would you please go to page 1,  
23 lines 13 to 15.

24 A I'm there.

25 Q Okay. There you testify that the Bureau of

**EXAMINATION BY GAFKEN / HANCOCK****383**

1 **Labor Statistics publishes a utility-specific**  
2 **inflation data; is that correct?**

3 A Yes. I was referring to two indices that the  
4 BLS produces. The first is the Employment Cost Index  
5 specific to utilities, and the second is the Producers  
6 Price Index specific to utilities.

7 Q Okay. And we will get into those in a bit.  
8 You state that the utility-specific data is a more  
9 reasonable gauge of the cost pressures facing Avista  
10 than general inflation; correct?

11 A By general inflation, are you referring to the  
12 Consumer Price Index for consumers that is the index  
13 that Mr. Watkins refers to?

14 Q Yes. That's correct. I wanted to refer back  
15 to your testimony, because I had a line reference.  
16 And I wanted to see if I was using your words or if I  
17 had translated it, and it looks like I had translated  
18 it in my question. Yes, that's precisely what I was  
19 referring to.

20 A Yes. I do believe it is more appropriate to  
21 use industry-specific indices of cost pressures with  
22 respect to Avista rather than an index that considers  
23 consumer prices.

24 Q And you are familiar with the Producers Price  
25 Index for the utility industry that's published by the



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1 **Bureau of Labor Statistics; correct?**

2 A Yes, ma'am.

3 **Q Would you please turn to Cross-Exhibit**  
4 **CSH-12CX.**

5 A Could you describe this document? The ones I  
6 have don't have the number listed on it.

7 **Q Yes.**

8 A I believe this is ICNU Request No. 5?

9 **Q No. So Cross-Exhibit -- mine also does not**  
10 **have numbers written on the top of them.**

11 **Cross-Exhibit CSH-12CX has databases, tables, and**  
12 **calculators by subject.**

13 A I do have that.

14 **Q Okay. Do you recognize the data in**  
15 **Cross-Exhibit CSH-12CX as the Producer Price Index for**  
16 **utility industry that's produced by the Bureau of**  
17 **Labor Statistics?**

18 A This does appear to be the same index that I  
19 used, yes.

20 **Q And there's two charts on page 1 of**  
21 **Exhibit CSH-12CX, and the top chart shows the annual**  
22 **PPI. And the bottom chart shows the 12-month**  
23 **percentage change; is that correct?**

24 A Yes.

25 **Q The base date for the PPI is December 2003, so**

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1 I want to establish kind of a base understanding of  
2 what this means. Does this mean that the PPI of 138.6  
3 in 2015 means that something that cost \$100 in 2003  
4 would then cost \$138.60 in 2015?

5 A That's partially accurate. More specifically  
6 in the basket of goods, so to speak, that comprises  
7 this index costs 38.6 percent more than it did in the  
8 base year.

9 Q Okay. Turning your attention to the bottom  
10 chart on page 1 of Cross-Exhibit CSH-12CX, the annual  
11 percentage change represents the annual inflation  
12 rate; is that correct?

13 A I believe what this represents is the change  
14 with respect to the preceding year.

15 Q Would you characterize that as an inflation  
16 rate? So the change between the years, would you  
17 characterize that as an inflation?

18 A Yes. I would characterize that as the  
19 year-to-year rise or fall in prices, which is  
20 inflation or deflation.

21 Q Okay. I'm going to use the term "inflation"  
22 just because it might be a little quicker --

23 A Sure.

24 Q -- than using the many words describing the  
25 rise and fall of the prices. So for shorthand, I'm

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1 going to use the term "inflation" in my questions but  
2 with that base understanding.

3 The annual inflation rates that are included  
4 in the bottom chart in Cross-Exhibit CSH-12CX, those  
5 inflation rates include the cost of fuel, don't they?

6 A I believe that is one of the many components  
7 comprising the Producers Price Index for utilities.

8 Q And we can see this if we look at, for  
9 example, the years 2008 and 2009. For the year 2008,  
10 that year shows a relatively high inflation --  
11 positive inflation rate of 7.5 percent; correct?

12 A Yes. That is relatively high in this data  
13 set, and, again, I'd emphasize that it is with respect  
14 to the preceding year.

15 Q Right. But then it's followed in 2009 with a  
16 negative inflation rate of 4.6 percent; correct?

17 A Yes.

18 Q Could you please turn to Cross-Exhibit  
19 CSH-13CX, and that's the Henry Hub spot prices chart.

20 A Okay. I have that.

21 Q So when you look at years 2008 and 2009, do  
22 you see the corresponding rise in gas prices in the  
23 year 2008 followed by a corresponding fall in prices  
24 in 2009?

25 A Yes, I do.

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1           **Q    And so that rise and fall in natural gas**  
2 **prices is then reflected in the inflation rates shown**  
3 **in Exhibit CSH-12CX; correct?**

4           A    I'm sorry. I want to make sure I understand  
5 your question. Could you repeat it again?

6           **Q    Sure. The rise and fall of the natural gas**  
7 **prices is then reflected in the PPI rates that we**  
8 **saw -- or the inflation rates that we saw in**  
9 **Cross-Exhibit CSH-12CX for the years 2008 and 2009; is**  
10 **that correct?**

11          A    I would say that between the years of 2008 to  
12 2009 both the commodity price of gas at this specific  
13 hub, Henry Hub, which is in Louisiana, fell as did the  
14 Producers Price Index for utilities.

15          **Q    And Avista has a purchase gas adjustment**  
16 **mechanism in place, does it not?**

17          A    Yes, it does.

18          **Q    Fuel costs are passed through to customers**  
19 **through the PGA; correct?**

20          A    Yes.

21          **Q    So fuel costs are not costs that are within**  
22 **Avista's control; correct?**

23          A    Correct.

24                   MS. GAFKEN: Cross-Exhibit CSH-13CX is  
25 a cross-exhibit that is not currently in the record.

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1 That was an exhibit that Staff was not certain whether  
2 they could stipulate to that exhibit, so I'd like to  
3 move at this time for the admission of Cross-Exhibit  
4 CSH-13CX.

5 JUDGE MOSS: Any objection?

6 MR. SHEARER: No, your Honor. We  
7 withdraw our objections.

8 JUDGE MOSS: Hearing no objection, the  
9 exhibit will be admitted as marked.

10 BY MS. GAFKEN:

11 Q Mr. Hancock, are you familiar with the  
12 Employment Security Department of Washington?

13 A I don't immediately recognize that name.

14 Q Are you aware that there would be an agency in  
15 the state of Washington that maintains median hourly  
16 wage information for the state of Washington?

17 A That seems likely to me, yes.

18 Q Would you please turn to Cross-Exhibit  
19 CSH-14CX, and that's the document that has median and  
20 hourly wages on the first page.

21 A I have that document.

22 Q On the top of the page in about the middle,  
23 middle of the top there, it says ESD WA GOV. And I'll  
24 represent to you that that stands for Employment  
25 Security Department of Washington.

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1 Under the heading "Median and Hourly Wages,"  
2 do you see the paragraph that begins "The median and  
3 hourly wages table"?

4 A I do see that.

5 Q The last sentence in that paragraph indicates  
6 that the department, which I'm referring to the  
7 Employment Securities Department, uses the U.S.  
8 Personal Consumption Expenditure Implicit Price  
9 Deflator to convert nominal wage to constant dollars.  
10 Do you see that reference?

11 A Yes.

12 Q Are you familiar with the Personal Consumer  
13 Expenditure Implicit Price Deflator?

14 A I'm not intimately familiar with it. I am  
15 conceptually familiar with it. I believe that's the  
16 same tool that is used by many government agencies to  
17 measure general inflation.

18 Q Would you say that the price deflator tool is  
19 similar to CPI?

20 A I believe so. The deflator itself is a  
21 function of the Personal Consumption Expenditure  
22 measure, so I would clarify that the Personal  
23 Consumption Expenditure measure is more or less  
24 analogous to Consumer Price Index.

25 Q Would you please turn to Cross-Exhibit

## EXAMINATION BY GAFKEN / HANCOCK

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1 CSH-15CX, and I'm going to apologize ahead of time for  
2 the tiny type on this one. This is the chart that has  
3 the very tiny typeset on it.

4 A To clarify, this is the document titled Median  
5 Hourly Wage, Unadjusted, All Industries Except Federal  
6 Government?

7 Q Correct. So this chart also came from the  
8 Washington Security Department. They set the  
9 formatting of it. The calculation shown at the  
10 bottom, the very bottom there, those were placed there  
11 by Public Counsel, so it's doing the math showing the  
12 calculation change -- showing the annual percentage  
13 change for the counties listed of the annual  
14 average -- I'm sorry. The median salaries.

15 Would you accept the math, subject to check,  
16 shown at the bottom of the page there?

17 A Yes, I would.

18 Q Do you have a copy of Mr. Watkins's testimony?

19 A I do. Please give me a moment to find it.

20 Q Sure. And for the record, Mr. Watkins's  
21 testimony is found at Exhibit GAW-1T. And when you  
22 pull it out, I will refer you to page 5.

23 A I am there.

24 Q Table 1 on page 5 sets forth the inflation  
25 rates produced by both PPI and CPI measures; correct?

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1           A     Yes.  And I believe that this PPI reference  
2 here is the broad PPI rather than the utility-specific  
3 PPI.

4           **Q     The percentages shown in Table 1 are very**  
5 **similar to the percentages that are shown in**  
6 **Cross-Exhibit CSH-15CX; correct?**

7           A     Given the short amount of time that I've had  
8 to review this, I'll say it appears that way for now,  
9 yes.  I'd like to clarify something, Ms. Gafken.  The  
10 title of this table, I believe it's 15CX, reads  
11 "Median Hourly Wage, Unadjusted;" whereas, the other  
12 cross-exhibit document titled "Median Hourly Wages"  
13 refers to the adjustment by incorporating the Personal  
14 Consumption Expenditure Implicit Price Deflator.

15                     That creates some confusion to me as to  
16 whether or not this table has been -- is incorporating  
17 that deflator or not.  So I'm not sure if these are  
18 nominal wages or what's known in the economic jargon  
19 as real wages.

20           **Q     Would you agree that inflation has been very**  
21 **low generally over the last several years?**

22           A     There are many, many, many different ways to  
23 measure inflation, something that I spoke to in my  
24 testimony.  I would ask you to specify which measure  
25 of inflation you're referring to.



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1           **Q    Do you think that by any measure of inflation**  
2 **that we have experienced high inflation over the last**  
3 **ten years?**

4           A    The relevant measures of inflation in this  
5 docket are the general Producers Price Index and the  
6 Consumers Price Index, which were used by Mr. Watkins,  
7 and the Employment Cost Index specific to utilities  
8 and the Producers Price Index specific to utilities  
9 that I used. There are significant differences  
10 between the utility-specific indices and the more  
11 general Producers Price Index measure or Consumer  
12 Price Index measure.

13           The Producers Price Index, broadly speaking,  
14 the broad measure and the Consumer Price Index, in  
15 particular, have been -- have had, generally, fairly  
16 low rates of inflation.

17           **Q    Is there any reason to believe that the**  
18 **inflation in Avista's service territory is materially**  
19 **different than the inflation experienced in the rest**  
20 **of the nation?**

21           A    You're referring to the Consumer Price Index?

22           **Q    I'm referring to inflation as a general**  
23 **concept. Is the inflation that's being experienced in**  
24 **Avista's service territory different than the**  
25 **inflation that's being experienced in the rest of the**

**EXAMINATION BY GAFKEN / HANCOCK****393**

1 **nation as a general concept?**

2 A I believe that there are -- we probably could  
3 get measures of Consumer Price Index specific to the  
4 Spokane metro area, which could be used as a proxy for  
5 Avista service territory. And I would not expect to  
6 see them to divert wildly from the national measure.

7 **Q Would you agree that regardless of which**  
8 **measure of inflation you look at that Avista's costs**  
9 **have increased faster than inflation for several**  
10 **categories and one example of such category being**  
11 **wages?**

12 A Give me a moment. I'd like to refer to my  
13 initial testimony, because I think this could best  
14 answer your question.

15 So I'd like to direct you to my Exhibit  
16 CSH-1T, page 44, and I have a graphic here that has  
17 several different measures showing the growth in  
18 costs. I have a Producers Price Index specific to  
19 transmission, specific to generation, specific to  
20 distribution, specific to utilities. I also have the  
21 Employment Cost Index for utilities, and then I have  
22 as dashed lines measures per the Commission basis  
23 reports produced by the Company of the Company's  
24 natural gas operating expenses and electric operating  
25 expenses.

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1           And what I show here in this graph is that the  
2 Company's operating expenses in both services, in  
3 electric and natural gas, outpace the broad utility  
4 measures that I gathered from the Bureau of Labor  
5 Statistics.

6           **Q    Are transmission and generation costs, costs**  
7 **that are outside of Avista's control, or are those**  
8 **costs within Avista's control?**

9           A    I suppose that's ultimately a matter of  
10 degree, but, generally speaking, I would say that  
11 those costs are largely out of the Company's control.

12           **Q    But going back to my earlier question, so it**  
13 **is fair to say, then, that Avista's costs are**  
14 **outpacing all of the measures of inflation?**

15           A    The measures of inflation that I've produced  
16 here as well as the measures that Mr. Watkins used  
17 that I disagree with, but, nonetheless, the Company's  
18 operating expenses in both services outpace all of the  
19 measures of inflation that have been presented in this  
20 case.

21                       MS. GAFKEN:   Thank you, Mr. Hancock.  
22 That concludes my cross-examination.

23                       JUDGE MOSS:   All right.  Thank you,  
24 Ms. Gafken.

25                       Mr. Cowell.

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1 MR. COWELL: Thank you, Your Honor.

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

3 BY MR. COWELL:

4 Q Good morning, Mr. Hancock.

5 A Good morning.

6 Q Mr. Hancock, I'd like to start, please, with  
7 your response testimony, CSH-1T, and page 19, please.

8 A I'm there.

9 Q Okay. Now, you're posed with the question of  
10 how long attrition should be a salient concern for  
11 Avista. And the first part of your response is that  
12 the phenomenon of attrition will remain a threat so  
13 long as the conditions agitating towards attrition  
14 remain present; right?

15 A Yes.

16 Q Now, next page, please, page 20, beginning  
17 line 3, you then cite to the Commission's Order 05 in  
18 the last general rate case in testifying that the  
19 Company's current environment of low revenue growth in  
20 your understanding is the new normal; right?

21 A Yes. I was referring to a -- some of the  
22 Commission's writing in Order 5.

23 Q Right. If I were to put these two parts of  
24 your answer together, would it be fair to characterize  
25 your position as attrition is the new normal?

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1           A    No.  I would not agree with that  
2    characterization.

3           **Q    Okay.  Could you say that the consideration of**  
4    **attrition adjustments may be a regular feature in**  
5    **Avista rate cases in the years to come according to**  
6    **your answer here in this portion of testimony?**

7           A    The question is, just so I understand, whether  
8    or not attrition will be a consideration in the future  
9    for this Company?

10          **Q    Yes.**

11          A    I believe attrition will be a consideration in  
12    rate cases presented -- or in any rate case if a party  
13    raises the issue, and the Company has stated through  
14    its testimony that it believes some of the conditions  
15    that create the threat of attrition will continue  
16    forward into at least 2019, I believe.  So I would  
17    expect the Company in rate cases up to and perhaps  
18    beyond that date to make an attrition claim.

19          **Q    And to clarify with an earlier part of your**  
20    **answer, are you speaking simply in the context of**  
21    **Avista or for other electric utilities regulated in**  
22    **Washington?**

23          A    Specific to Avista.  I expect the Company to  
24    make claims of attrition at least through 2019.

25    Generally speaking, attrition will be a consideration

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1 in any case in which any party raises the matter.

2 Q Thank you. Now, would it be accurate to say  
3 that the direct acceptance of attrition adjustments  
4 before this Commission is a new phenomenon?

5 A I believe Mr. McGuire in the last rate case  
6 demonstrated that attrition adjustments were  
7 considered in the '70s in the face of a high inflation  
8 environment. So the inflation -- I'm sorry. The  
9 attrition treatment granted by the Commission in the  
10 most recent rate case was not unprecedented.

11 Q Okay. Let me maybe rephrase this. A new  
12 phenomenon within the last 20 years?

13 A I would agree with that.

14 Q In your view, Mr. Hancock, is the performance  
15 of an attrition study and the application of its  
16 attrition methodology before the Commission more of an  
17 established science or continuing work in progress?

18 A I believe we are continuing to refine the  
19 matter.

20 Q Prior to this case, how many attrition studies  
21 had you performed for Staff?

22 A This is the first attrition study that I've  
23 performed.

24 Q Having gone through this process in this case,  
25 would you think it wise to discourage innovation or

**EXAMINATION BY COWELL / HANCOCK****398**

1 **refinement in the performance of attrition studies in**  
2 **future Commission cases or in this case?**

3 A No. I think that it would be wise to refine  
4 this process.

5 Q Could you please turn to page 7 of your  
6 cross-answering testimony, CSH-10T, and page 7  
7 beginning on line 13, please.

8 A I'm sorry. I might have misheard you. Do you  
9 want me on page 10 or page 7 of my cross-answering  
10 testimony?

11 Q If you could, please turn to -- actually, I'm  
12 sorry. Page 6. Page 6 of your cross-answering  
13 testimony.

14 A I'm there.

15 Q Now, if I could direct your attention to  
16 page -- excuse me. Line 13, you state that a trend in  
17 Mr. Mullins's attrition model is much like beauty in  
18 that it is in the eye of the beholder.

19 Now, do you mean to state here that  
20 Mr. Mullins's approach is subjective?

21 A I would characterize it this way: I believe  
22 Mr. Mullins's approach was much more subjective than  
23 my approach.

24 Q Okay. So you anticipated my next question.  
25 But to confirm, your attrition analysis does contain a

**EXAMINATION BY COWELL / HANCOCK****399**

1 **degree of subjectivity; correct?**

2 A There are two areas in my attrition study  
3 where I think it would be fair to say that I made  
4 subjective judgments. The first area would be in the  
5 development of an O & M escalation rate, and the  
6 second would be in my application of a pro forma  
7 adjustment to the attrition study which other parties  
8 have referred to as an after-attrition adjustment.

9 Q Okay. And so I'd like to ask a question about  
10 the escalation rate here. If we could turn to page 8  
11 of your cross-answering testimony and line 11, you  
12 describe --

13 CHAIRMAN DANNER: Hang on a second. Do  
14 you know what --

15 MR. COWELL: Sorry. This is  
16 cross-answering testimony, CSH-10T, and I'm on page 8,  
17 line 11.

18 CHAIRMAN DANNER: Got it.

19 Q You describe Mr. Mullins's removal of abnormal  
20 and major projects in the development of escalation  
21 rates as a messy and fraught task; right?

22 A Yes.

23 Q Now, would it be fair to restate your messy  
24 and fraught characterization of Mr. Mullins's approach  
25 as more detailed and intensive than your approach in



**EXAMINATION BY COWELL / HANCOCK****400**

1 **escalation rates?**

2 A I would not agree with that, but I believe --  
3 I believe Mr. Mullins would believe that.

4 **Q Sorry. Say again.**

5 A I would not -- I do not believe that  
6 Mr. Mullins's approach was more detailed, as I think  
7 you put it, but I believe Mr. Mullins believes it's  
8 more detailed.

9 **Q Okay. If you'd please turn to page 5, staying**  
10 **here in your cross-answering testimony, and I'm**  
11 **looking here at lines 14 through 16. And here you**  
12 **testify that Mr. Mullins's attrition study is**  
13 **seemingly engineered to produce similar results to**  
14 **that of his more traditional revenue requirements**  
15 **study; right?**

16 A Yes, I did say that.

17 **Q So are you testifying that another witness in**  
18 **this case has seemingly engineered results to produce**  
19 **a predetermined outcome?**

20 A First, I'd like to state for the record that I  
21 was not impugning Mr. Mullins's integrity. Rather  
22 Mr. Mullins had made it clear through his testimony in  
23 this case and the previous case that he objects to the  
24 use of an attrition study to develop a revenue  
25 requirement.

## EXAMINATION BY COWELL / HANCOCK 401

1           Furthermore, Mr. Mullins says in his direct --  
2           or I'm sorry. In his responsive testimony on page 13  
3           on lines 3 to 5 that, quote, I believe these results  
4           to be more reasonable than the Company's due, in part,  
5           to the fact that they align more closely with results  
6           of the traditional revenue requirement model.

7           So given Mr. Mullins's stated preference for  
8           the traditional revenue requirement approach and his  
9           assertion that his attrition study is reasonable  
10          because it reaches a very similar result to that of  
11          his traditional revenue requirement model, I thought  
12          it was appropriate to say it was seemingly engineered  
13          to produce results to that of his more traditional  
14          revenue requirement study.

15           **Q    Now, the statement that you quoted from**  
16           **Mr. Mullins's testimony, would it be fair, in your**  
17           **opinion, to also interpret that as Mr. Mullins,**  
18           **essentially, providing a cross-check to attribute**  
19           **reasonableness of his attrition results based on a**  
20           **comparison to his traditional revenue requirement**  
21           **study?**

22           A    Your contention is that Mr. Mullins's  
23           attrition study is a cross-check to his traditional  
24           revenue requirement?

25           **Q    No. What I'm asking you is: Would it be**

**EXAMINATION BY COWELL / HANCOCK****402**

1 **reasonable to interpret that?**

2 MR. SHEARER: Objection, calls for  
3 speculation.

4 MR. COWELL: Your Honor, earlier this  
5 witness responds to questions that I think this is  
6 what Mr. Mullins had meant, so he's already testified  
7 on what he thinks Mr. Mullins meant. And I'm just  
8 asking him if this would be a reasonable  
9 interpretation in this instance of what Mr. Mullins  
10 meant.

11 JUDGE MOSS: The objection is  
12 overruled. You may answer if you're able to.

13 A I've never characterized his attrition model  
14 as a cross-check to his traditional revenue  
15 requirement model. I'm not aware of anyone else  
16 making that specific claim either.

17 Q And maybe to rephrase, because I don't want to  
18 be too technical, and the term cross-check, I know, is  
19 a term that the Company uses but just as a comparator  
20 perhaps?

21 A I think people would be well within their  
22 rights to compare the two.

23 Q All right. So I'll move on here, Mr. Hancock.  
24 You say in here right here on page 5 you testified  
25 that Mr. Mullins's attrition study is arbitrary;

**EXAMINATION BY COWELL / HANCOCK****403**

1 **right?**

2 A Yes.

3 **Q Now, in your view, is arbitrary the same as**  
4 **mechanistic?**

5 A I believe in your -- bringing up the word  
6 mechanistic, you're referring to the testimony of  
7 Mr. Norwood?

8 **Q He did use that phrase, yes.**

9 A As the term was used in Mr. Norwood's  
10 testimony, it was unclear to me what exactly he meant.

11 **Q So I'm just asking you because you use the**  
12 **word arbitrary. I'm asking in your use of arbitrary**  
13 **here, can I equate that to mechanistic in your**  
14 **opinion?**

15 A No. I don't think that -- I don't think that  
16 you can equate those terms.

17 **Q Okay. Again, in your view, is arbitrary the**  
18 **same as subjective?**

19 A I use the term "arbitrary" to draw a  
20 distinction between Mr. Mullins's approach and my  
21 approach, which I believe is much more principled.

22 **Q Are you of the opinion that a witness's use of**  
23 **informed judgment is necessary in conducting an**  
24 **attrition study?**

25 A I believe it would be appropriate for a

EXAMINATION BY COWELL / HANCOCK

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1 witness to use his informed judgment, yes.

2 Q So to confirm, did you use informed judgment  
3 in your attrition study?

4 A Yes.

5 Q If you'd please turn to Cross-Exhibit  
6 CSH-11CX.

7 A Could you give me the title of this document?

8 Q Sure. This is ICNU's lone cross-exhibit to  
9 you, and it contains three data requests and responses  
10 from Staff that you had prepared.

11 A And to clarify, these are ICNU Data  
12 Requests 2, 3, and 5?

13 Q Two, three, and five, yes.

14 A I have those.

15 Q So I'm looking at page 1, and this is Staff's  
16 response to ICNU Data Request 2 that you prepared;  
17 right?

18 A Yes.

19 Q In this response, you quoted Commission  
20 Order 05 from the Company's last general rate case  
21 Docket UE-150204 in several places; right?

22 A Yes, I have.

23 Q Now, in the very last quote, bottom of the  
24 page here, you note the Commission's argument --  
25 excuse me. Agreement with the Company's time period

**EXAMINATION BY COWELL / HANCOCK****405**

1 rather than that of Staff and the Commission's  
2 recognition of the use of informed judgment in  
3 determining which time period may best represent  
4 future costs and revenue with an attrition study; is  
5 that accurate?

6 A I would agree that that is what this quote  
7 reads. If I had Order 5 in front of me, I would turn  
8 to this specific reference and see the context of the  
9 phrase "the use of informed judgment" because I'd like  
10 to know whether or not the Commission was referring to  
11 the Commission's judgment or the judgment of analysts  
12 and witnesses to the case.

13 Q Sure. And that's in the record. I'll move on  
14 to another point here, but you specifically pointed  
15 out the singular form of time period used by the  
16 Commission here; right?

17 A Correct.

18 Q So would it be accurate to say that you placed  
19 special emphasis on whether the Commission used a  
20 singular or plural form in support of your testimony?

21 A The Commission's use of and the Commission's  
22 interest in the use of a single time period was an  
23 influence in my decision to restrict my attrition  
24 study to the use of a single time period.

25 Q So staying on this same page, if you look up a

## EXAMINATION BY COWELL / HANCOCK

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1 bit -- and I'm looking at the middle quote here. You  
2 quoted the Commission's order describing Staff's  
3 methodology in the last general rate case as a sound  
4 methodology. Do you see?

5 A Yes, I do.

6 Q Would you agree that there's a difference  
7 between the Commission's description of a sound  
8 methodology rather than if the Commission had said the  
9 sound methodology?

10 A I recognize that distinction.

11 Q Again, staying on this page, above all these  
12 quotes, just above that, you responded that the  
13 Commission approved the methodologies adopted by Staff  
14 and Avista in the previous rate case. Do you see  
15 that?

16 A Yes.

17 Q So you acknowledge the approval of more than a  
18 singular methodology related to attrition in the past  
19 rate case; right?

20 A Yes. The two attrition studies referred to  
21 here had their differences, so that's in -- well, for  
22 instance, Staff initially used a 2009 to '14 period,  
23 whereas Avista used 2007 to '14 period. That's  
24 distinguishing them and in a sense being two different  
25 methodologies.

EXAMINATION BY COWELL / HANCOCK

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1 Q And to clarify, you used the word "study" in  
2 your response; but in this particular response, the  
3 data request, you use the term "methodologies"; right?

4 A I did.

5 Q Now, if you would please keep your place here  
6 because we'll turn back to it, but I'd like you to go  
7 back right now to your cross-answering testimony  
8 again, CSH-10T, page 5, and beginning line 18, you  
9 testify that Mr. Mullins's attrition study in this  
10 case is not consistent with the basic methodology  
11 approved in the Commission's Order 05 in the last rate  
12 case; right?

13 A I did.

14 Q So here you're alleging a singular basic  
15 methodology approved by the Commission in the last  
16 rate case; correct?

17 A Yes. And I'd like to expand on that. As I  
18 note further in my answer to this question, I state  
19 that the extrapolating that is done within the  
20 attrition study was appropriate if the data was drawn  
21 from a consistent period of time.

22 Q If you'd please now turn back to your  
23 Cross-Exhibit 11CX, page 3, please.

24 A This is Data Request No. 5.

25 Q Correct. And you prepared this response to



**EXAMINATION BY COWELL / HANCOCK****408**

1 the data request; right?

2 A Correct.

3 Q And you confirmed here that Staff does not  
4 understand the Commission to have approved only a  
5 single attrition study methodology in the last rate  
6 case to the exclusion of any methodological variance;  
7 correct?

8 A I believe the Commission left the door open to  
9 consider improvements to the general premise  
10 underlying the attrition studies that were used in the  
11 previous rate case.

12 MR. COWELL: Thank you, Mr. Hancock.

13 I have no further questions, Your Honor.

14 JUDGE MOSS: Thank you very much.

15 I think we'll just take a five-minute break  
16 before moving on to Mr. Brooks and questions from the  
17 Bench. I'm expecting we'll probably go another 20,  
18 30 minutes with all that to do, so we'll take a  
19 five-minute break.

20 (A break was taken from 11:54 a.m. to  
21 11:59 a.m.)

22 JUDGE MOSS: All right. I think we're  
23 ready to be on the record here, and, Mr. Brooks, it's  
24 your turn.

25

## EXAMINATION BY BROOKS / HANCOCK

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

1  
2 BY MR. BROOKS:

3 Q Good morning, Mr. Hancock. I just have a  
4 couple questions for you to follow up on the  
5 cross-examination that has already occurred this  
6 morning.

7 I believe you established that in the last  
8 Avista rate case the two competing models in front of  
9 the Commission between Staff and Avista were largely  
10 the same, but one difference was the time periods that  
11 the trends were based on; is that correct?

12 A Yes. And I clarified that they were the most  
13 similar upon the Company's acceptance of Staff's  
14 responsive testimony. So in the Company's initial  
15 filing, I believe they used compound growth rates, and  
16 Mr. McGuire testified to using growth rates developed  
17 from regression analysis. And upon rebuttal, the  
18 Company adopted that approach.

19 Q I'd like to turn back to your cross-answering  
20 testimony CSH-10T and on page 5 towards the bottom on  
21 line 20 which you discussed with Mr. Cowell and then  
22 on to the next page where you spoke about one of the  
23 premises of the model being a consistent time period.  
24 Do you recall that line of questioning?

25 A Yes, I do.

EXAMINATION BY BROOKS / HANCOCK

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1 Q When you refer to a consistent time period, do  
2 you mean that across all cost categories or across all  
3 categories that the trend line was beginning in the  
4 same year?

5 A Yes. That is what I was referring to.

6 Q And was that true for both the Company's  
7 proposal in the last rate case and for Staff's  
8 proposal in the last rate case?

9 A I believe that's the case, yes.

10 Q Was there any party in that case that  
11 presented evidence or argument to the Commission that  
12 the Commission should use time periods that were not  
13 consistent?

14 A I don't recall any party making that claim,  
15 no.

16 Q One last question. The answers you've given,  
17 both in your testimony and in -- in your written  
18 testimony and oral testimony today, they address both  
19 the electric side and the gas side without  
20 distinction; correct?

21 A So far we've been speaking in a more general  
22 term. We haven't had the opportunity to address the  
23 distinction between natural gas and electric.

24 Q Specifically with this historical time period,  
25 that holds true?

**EXAMINATION BY COMMISSIONER JONES / HANC 411**

1           A    I think -- I'd say in natural gas and  
2 electric, we were using the same time periods.

3                   MR. BROOKS: Thank you. That's all I  
4 have.

5                   JUDGE MOSS: Thank you. Do we have  
6 questions from the Bench?

7                   COMMISSIONER JONES: I have a few for  
8 Mr. Hancock.

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

9  
10 BY COMMISSIONER JONES:

11           **Q    Good afternoon, Mr. Hancock, not good morning.**  
12 **This won't take long.**

13           A    Okay.

14           **Q    First of all, why did you bring in an external**  
15 **data source in your blended approach, namely, the ECI**  
16 **and the PPI utilities? What was the basic reason for**  
17 **that instead of just using Avista historical data for**  
18 **the O & M escalator?**

19           A    I had a few reasons. First, Order 5, I  
20 believe, placed an emphasis on historical data. It  
21 did not specify Avista's historical data, although, of  
22 course, Avista's historical data is relevant.

23                   Second, these two measures are broad measures  
24 of prices facing utility industries, and while I will  
25 concede that they are not perfect, I was challenged to

EXAMINATION BY COMMISSIONER JONES / HANC 412

1 find any better measures. These are produced by one  
2 of the best statistical agencies in the world. It's  
3 highly thought of. So I felt that these were  
4 appropriate measures of costs facing the utility  
5 industry as a whole, and I thought that that was  
6 relevant information to consider.

7 Q Second line of questioning is on load growth.  
8 I think in your testimony, CSH-1T, in quite a few  
9 places, you talk about flat load growth, paltry load  
10 growth, few customer additions.

11 Now, you were in the hearing room yesterday,  
12 were you not, when I questioned Dr. Forsyth on this?

13 A Yes, sir.

14 Q Was there anything that you heard in  
15 Dr. Forsyth's answer to me that would cause you to  
16 change your analysis on this paltry or flat load  
17 growth that you mention in your testimony?

18 A Nothing that Dr. Forsyth testified to caught  
19 my ear as unusual. I'd like to take the opportunity  
20 to state or reemphasize my belief that load growth  
21 isn't the major driver of low revenue growth to the  
22 Company. It is my belief, because such a large  
23 portion of this Company's sales are under schedules  
24 that are decoupled, that what is really relevant,  
25 because we use a revenue per customer approach, that

EXAMINATION BY COMMISSIONER JONES / HANC 413

1 customer growth, which is also low, is relevant.

2 Q And I think I'm looking at my notes from  
3 yesterday, Mr. Hancock. I think he said on the  
4 electric side customer growth is 1.0 to 1.1 percent,  
5 the central range. And then on the natural gas side,  
6 he did mention our new line extension policy, but he  
7 said something like 1.1 to 1.2 percent.

8 So does that fit within your definition of  
9 flat or very low load growth or customer growth?

10 A Yes, sir. I believe that those rates are low  
11 enough to label them as to be flat.

12 Q Could you turn to page 3 of your testimony,  
13 please, and lines 14 through 16. This is in your  
14 summary statement. Tell me when you're there.

15 A Okay. I'm having to play musical binders  
16 here.

17 MR. MEYER: What page were you at?

18 COMMISSIONER JONES: Page 3, Counsel.

19 MR. MEYER: Of the cross-answering?

20 COMMISSIONER JONES: No, not  
21 cross-answering, CSH-1T, not his cross-answering.

22 MR. MEYER: Thank you.

23 BY COMMISSIONER JONES:

24 Q Are you there?

25 A I'm working my way there. Okay. I'm there,

EXAMINATION BY COMMISSIONER JONES / HANC 414

1 Commissioner.

2 Q So I want to just make sure I understand the  
3 approach that you took in this case and your  
4 conclusion that attrition is necessary. Ms. Huang did  
5 a modified historical test year. You ran an attrition  
6 analysis, a full-blown attrition analysis, I would  
7 characterize it. And then you used attrition as a  
8 complement to that modified historical test year  
9 approach and take the difference. And that became  
10 your attrition adjustment. I'm oversimplifying your  
11 approach. But is that roughly accurate?

12 A Yes, sir.

13 Q But at the basis of that is your conclusion  
14 that Avista will likely experience attrition for this  
15 rate-effected period meaning that rate-based revenue  
16 growth and expenses do not match?

17 A Absent an attrition allowance, I believe the  
18 Company would experience attrition, yes.

19 Q And the other issue is beyond the control.  
20 Beyond the control of the Company has been used a lot.  
21 And do you think that is -- it has objective elements  
22 as well as subjective elements in it in the way the  
23 Commission should look at beyond the control of?

24 For example, clean power plant or there's an  
25 environmental order utility has to follow that I would

**EXAMINATION BY COMMISSIONER JONES / HANC 415**

1 argue is that's kind of beyond the control. That's  
2 pretty clear. But there are some things in the  
3 utility industry -- and I think you address it in your  
4 testimony. There's load growth. There's technology.  
5 There's all sorts of things that could happen perhaps  
6 beyond the control of the utility.

7 Can you -- I know it's not an artfully phrased  
8 question, but could you address that at a high level?

9 A Sure. I do agree that determining what is and  
10 is not beyond the Company's control is a very complex  
11 question. Within the context of my attrition study, I  
12 started with a data set of 2007 to 2015 from  
13 Commission basis reports that the Company presents to  
14 this Commission every year. And under a large portion  
15 of that time period, this Company has been in for  
16 frequent rate cases.

17 So the Company's operations have been subject  
18 to intense scrutiny by the Commission and by the  
19 parties in this case. And the operations of the  
20 Company have been deemed -- or the operations of the  
21 Company are as reflective of the orders that this  
22 Commission has issued; furthermore, I emphasize the  
23 use of statistical significance in my attrition study.  
24 And that's a future that only my attrition study has  
25 amongst the other ones presented in this docket.



EXAMINATION BY COMMISSIONER JONES / HANC 416

1           And what I found is given the scrutiny the  
2 Company was under throughout this data or this time  
3 series and the strong statistical significance that I  
4 found in the categories that I escalated, I felt the  
5 results of that were a reasonable approximation of  
6 future used and useful and prudent investments. And  
7 they were reflective of conditions that were outside  
8 of the Company's control.

9           **Q My last question is this: Could you turn to**  
10 **page 20 of your testimony, lines 12 through 15. This**  
11 **is -- I think you were engaged in a colloquy with**  
12 **someone about how long attrition adjustments will**  
13 **last, so this addresses that question. Tell me when**  
14 **you're there.**

15           A I'm on page 20.

16                   COMMISSIONER JONES: So there you state  
17 that -- and, Counsel for the Company, Mr. Meyer, could  
18 you get MTT-5T in front of Mr. Hancock?

19                   MR. MEYER: MTT-5C, the confidential?

20                   COMMISSIONER JONES: Yes, the  
21 confidential one. I will not refer to confidential  
22 information.

23           **Q But my question is this -- I'm not going to be**  
24 **around here when these cases come before the**  
25 **Commission anymore, but you're asserting here that**

**EXAMINATION BY COMMISSIONER JONES / HANC 417**

1 rate-based growth will eventually decline in the  
2 coming years. A combination of the slowdown in  
3 rate-based growth and shift towards a filing date,  
4 etc., etc.

5 What gives you confidence that rate-based  
6 growth is going to slow down? And I refer you to that  
7 MTT-5 that's in front of you now. That is a  
8 projection of capital expenditures and debt issuances  
9 of Avista Corporation over the next five years. To me  
10 it looks like it's going to stay at a pretty high  
11 level.

12 So I would just ask you to respond to that.  
13 What gives you confidence that attrition adjustments,  
14 if we approve them here, won't be necessary into the  
15 far, far future?

16 A I wasn't making the claim that attrition  
17 adjustments certainly won't be needed in the future.  
18 What I meant when I said rate-based growth will  
19 eventually decline in the coming years, I'm referring  
20 to -- we see -- generally speaking, we see a  
21 consistent amount of rate-based growth, but because  
22 the base level from which escalations are provided is  
23 also growing, it's growing at that same amount per  
24 year. The relatively stable amount of aggregate  
25 rate-based growth that occurs represents a smaller and

EXAMINATION BY COMMISSIONER JONES / HANC 418

1 smaller percentage of the existing rate base.

2 So as a simple example, if we have \$50 million  
3 of rate-based growth on a \$500 million balance, that  
4 represents 10 percent; but in the subsequent year,  
5 \$50 million will represent a lower than 10 percent  
6 figure of the new balance of \$550 million.

7 Q And you do have Mr. Thies's graph in front of  
8 you; right? Does that indicate any slowdown in  
9 capital expenditure growth over the next four years?

10 A I would say that these figures seem to be very  
11 consistent over this time period.

12 Q And consistently high level; right?

13 A Yes.

14 Q Okay. And I realize that capital  
15 expenditures, like the Spokane River projects in this  
16 case, are lumpy. We have a proposal for AMI that's  
17 lumpy. So capital expenditures are also quite lumpy,  
18 aren't they?

19 A Sure, they are.

20 Q But you can do a trending analysis. As you've  
21 done in your exhibit here and quite well, I think, you  
22 use statistics to do it, but the trending analysis  
23 should be combined with the Commission's consideration  
24 of other factors in deciding what to do, should it  
25 not?

**EXAMINATION BY COMMISSIONER RENDAHL / HANC 419**

1 A Certainly. And, in fact, I've made that  
2 consideration in my attrition study. Despite my  
3 reliance on the historical growth rates that the data  
4 series provides and has shown to be statistically  
5 significant, I've recognized that, for instance, the  
6 Spokane River projects are something that is not fully  
7 represented in the historical trend. And, indeed, in  
8 many months, they exceed what the historical trend  
9 would suggest. That's why I gave those projects pro  
10 forma treatment.

11 In the future, if the Commission feels that  
12 the historical trend is not fully representative of  
13 the rate-based growth that the Commission -- or that  
14 the Company is likely to experience during the  
15 rate-effected period, then I think it would be  
16 appropriate for the Commission to take that into  
17 consideration.

18 COMMISSIONER JONES: Thank you.

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

19  
20 BY COMMISSIONER RENDAHL:

21 **Q Hello, Mr. Hancock.**

22 **A Good afternoon, Commissioner Rendahl.**

23 **Q In your response to your questions to**  
24 **Commissioner Jones, you mentioned that -- and I don't**  
25 **have -- I didn't write it down the whole reference,**

**EXAMINATION BY COMMISSIONER RENDAHL / HANC 420**

1 but you made reference to in terms of attrition as  
2 providing a guide to what -- I don't know if guide is  
3 the right word, but allow for future used and useful  
4 and prudent investments. And used and useful and  
5 prudent are usually considered as an after-the-fact  
6 evaluation.

7 So how do you -- can you explain what you  
8 meant by that and the terms used and useful and  
9 prudent in looking at future investments?

10 A Sure. And I thank you for bringing that issue  
11 up. I was not making the claim that future rate-based  
12 balances that are included in my attrition study were  
13 definitely used and useful. Of course, they're  
14 considering a future period, so we cannot say that  
15 they're used and useful.

16 What I was getting at is that they were --  
17 they're figures that are produced by applying an  
18 escalation factor that is derived from a line of best  
19 fit that has been shown to be highly statistically  
20 significant when fitted to the data or the historical  
21 period, which is 2007 to 2015. So that is to say that  
22 given the strength of this relationship of rate-based  
23 growth, with time we can expect to see a future  
24 rate-based balance that is quite close to what the  
25 attrition study produces.

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1           **Q**    **Essentially assuming that there would be --**  
2           **those investments would be seen as used and useful and**  
3           **prudent at a future point?**

4           A    Yes, ma'am, and assuming that this historical  
5           relationship holds true in the future.

6           **Q**    **So if those -- if the Commission allows the**  
7           **attrition adjustment for those investments, how then**  
8           **do we do a prudence review or a determined used and**  
9           **useful if the Commission has already granted the**  
10          **investment?**

11          A    I'm not making a claim to the used and  
12          usefulness or the prudence of the escalated rate-based  
13          balances. I'm simply contending that such balances  
14          would be consistent with the -- with the relationship  
15          of rate-based growth over time that we found.

16                   COMMISSIONER RENDAHL: Thank you.

17                   JUDGE MOSS: Did the Bench questions  
18          cause anybody to want to ask anything else?

19                   MR. MEYER: I do have a follow-up if I  
20          may.

21                   JUDGE MOSS: Yes, you may.

22                   MR. MEYER: Thank you.

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

24          BY MR. MEYER:

25          **Q**    **Just following on that last series of**

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1 questions, would you agree that as part of your  
2 attrition adjustment, as part of the Company's  
3 attrition adjustment, both parties arrived at an  
4 overall level of plant that is reflected in the  
5 revenue requirement; is that correct?

6 A On rebuttal, the Company provided an attrition  
7 study that incorporated the full 2015 commission basis  
8 report, and that is consistent with what I used in the  
9 attrition study.

10 Furthermore, prior to the application of any  
11 pro forma adjustment to the attrition study or what  
12 the Company calls the after-attrition adjustments, you  
13 reach a level of plant that is very similar to one  
14 another. And that is because net plant after DFIT is  
15 an aggregate of the subcomponents that I've trended  
16 and found a statistically significant relationship  
17 with.

18 But I would -- the value added and the -- I  
19 believe the term earlier today and in previous -- the  
20 previous day was disaggregation. The benefit of me  
21 evaluating the subcomponents individually is that it  
22 provides the Commission better insight as to not only  
23 the fact that rate base is growing or net plant is  
24 growing but what types of plant are growing and what  
25 rates are those specific type of plant growing at.

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1           And that may be useful if -- in the last case,  
2 the Commission chose to, quote, zero out the  
3 distribution escalator, and that meant the remaining  
4 types of plants were being escalated at the same rate  
5 that net plant as a whole was found to be growing. If  
6 the Commission were to take that same step in this  
7 case, what would remain is that the escalation factors  
8 apply to, say, transmission plant would be the most  
9 appropriate escalator for transmission plant  
10 specifically rather than that plant as a whole.

11           **Q    That wasn't quite where I was going, so let me**  
12 **approach it somewhat differently here.**

13           **When the Commission, even under traditional**  
14 **pro forma historical rate-making or through the use of**  
15 **adopted attrition studies, decides on the implicit or**  
16 **actually the explicit level of rate base, does the**  
17 **Commission make in its order thousands -- perhaps**  
18 **thousands of different determinations of individual**  
19 **plant items, each one of them being used and useful or**  
20 **not used and useful? Or, or does the Commission,**  
21 **regardless of the approach it uses, arrive at an**  
22 **overall level of rate base for rate-making purposes?**

23           **A    The Commission uses an overall level.**  
24 However, I don't agree with the characterization that  
25 the -- while the attrition study does estimate future



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1 levels of rate base or plant, the ultimate goal of the  
2 attrition adjustment is to find a revenue deficiency.

3 So, yes, the attrition study does consider  
4 future rate base levels, but the essence of the matter  
5 is a revenue feeder. But to your point, we're not  
6 considering specific thousands -- many thousands of  
7 specific plant additions.

8 Q And we don't do that under traditional  
9 rate-making -- strike that. We don't do that under  
10 pro forma historical rate-making when the Commission  
11 has used this order, and we don't do that under an  
12 attrition approach, do we?

13 A I would agree with that.

14 Q Okay. So if I were to look, for example --  
15 and I can take the Company study or I can take your  
16 study -- your attrition study -- I'll direct your  
17 attention to your Exhibit CH-2, page 1 of 1, and  
18 CSH-3, page 1 of 1.

19 A Okay. I have those sheets.

20 Q Would you kindly turn to line 49 of both  
21 exhibits, please. Actually, 49 of the first exhibit,  
22 that's the electric. Do you have that in front of  
23 you?

24 A Yes, sir.

25 Q And that reflects for both the year 2017 in

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1 Column A and 2018, Column B, an overall level of total  
2 rate base included within your attrition study;  
3 correct?

4 A Column A refers to the 12 months ending  
5 December 2017. Column B refers to the 12 months  
6 ending June 2018.

7 Q And if, correspondingly, we look at your  
8 Exhibit CSH-3, page 1 of 1, and look at line 47, the  
9 total rate base for natural gas for 2017 and 2018 is  
10 reflected in Columns A and B; correct?

11 A Yes. These are estimates produced by the  
12 attrition study.

13 Q And if we wanted to go back and examine the  
14 Company's attrition study results -- okay. Would you  
15 go to Ms. Andrews's Exhibit EMA-2 and EMA-3, please.

16 A I'm there.

17 Q All right. I'll let the -- everyone else  
18 catch up.

19 COMMISSIONER JONES: EMA-2 and EMA-3?

20 MR. MEYER: Correct. Sorry to take you  
21 through this drill.

22 Q Okay. So EMA-2 is for the Company's electric  
23 attrition study, and EMA-3 reflects results for the  
24 gas attrition study. Do you understand that to be  
25 true?

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1           A    I'd add that these are the electric and  
2 natural gas studies for the calendar year 2017.

3           Q    That is correct. And I won't take you through  
4 the 18 results, but I'll just direct your attention to  
5 line 1 of EMA-2. It is entitled 2017 rate base; is  
6 that correct?

7                   JUDGE MOSS: You're on page 1 of the  
8 exhibit?

9                   MR. MEYER: Page 1 of 13 of  
10 Exhibit EMA-2.

11           Does that show attrition study results for  
12 2017 rate base of 1.475 billion essentially?

13           A    Yes.

14           Q    All right. And not to belabor this, but same  
15 thing with respect to the gas study results on EMA-3,  
16 page 1 of 13, line 1, 2017 rate base of, roughly,  
17 300 million; correct?

18           A    Correct.

19           Q    So just to connect the dots, both you and the  
20 Company in their attrition studies developed an  
21 overall level of rate base based on trending analysis;  
22 is that correct?

23           A    That's correct.

24           Q    All right. And would you agree that the  
25 Commission has a number of tools or techniques at its

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1 disposal for arriving at the overall level of rate  
2 base for rate-making purposes?

3 A Yes, it does.

4 Q And in the past, among those tools or  
5 techniques were historical test periods, pro forma  
6 historical test periods, year-end rate base, and some  
7 jurisdictions have even used projected test periods.

8 Am I correct? Those are all tools or techniques that  
9 can be considered?

10 A So I would agree with all of that except I do  
11 not wish to comment on any actions taken by  
12 commissions other than this one.

13 Q That's fair. But this Commission has in the  
14 past entertained the use of a variety of different  
15 tools for assessing the overall level of rate base;  
16 isn't that correct?

17 A That's correct.

18 Q And isn't -- doesn't this Commission have  
19 discretion to decide on which tool or technique it  
20 believes in its informed judgment best reflects the  
21 overall level of rate base that will be in effect  
22 during the rate-effected period?

23 A Yes. And my advice is, is that mine is the  
24 best.

25 Q And we think you're mostly right but not

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1 entirely right. Okay. So but the -- whichever  
2 technique that it employs, the Commission employs, its  
3 objective is to arrive, for rate-making purposes, at  
4 an overall level of rate base that will reflect plant  
5 that will be in service and used and useful during the  
6 rate-effected period; is that correct?

7 A The level of rate base is useful in  
8 considering the development of a revenue requirement  
9 figure that will make the Company have a fair  
10 opportunity at achieving its authorized rate of return  
11 during the rate-effected period.

12 **Q Which is constitutionally required?**

13 A I'm not an attorney, so I don't wish to speak  
14 to the constitutionality. But I do understand a lot  
15 of our framework is developed from supreme court  
16 cases, such as Hope and Bloomfield I believe it's  
17 called.

18 MR. MEYER: That's fair enough. Thank  
19 you very much.

20 JUDGE MOSS: Are you finished?

21 MR. MEYER: I am.

22 JUDGE MOSS: Any redirect?

23 MR. SHEARER: Just some very brief  
24 redirect, Your Honor. We'll get out of here quickly.  
25 I promise.

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1 JUDGE MOSS: I'm not in a hurry.

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

3 BY MR. SHEARER:

4 Q Mr. Hancock, you were questioned extensively  
5 by Public Counsel about the various indices used in  
6 escalation factors. Do you recall that conversation?

7 A Yes. Public Counsel was interested in  
8 different measures of inflation.

9 Q And differences between CPI and ECI and PPI.  
10 Can you please explain your conclusion why you  
11 concluded indices you used in your analysis were the  
12 best source of data?

13 A Sure. The two measures that I use, again, are  
14 the Employment Cost Index specific to utilities and  
15 the Producers Price Index specific to utilities. As  
16 the names imply, I believe those are the most  
17 appropriate measures for comparing an individual  
18 utility's cost pressures too.

19 The Consumer Price Index is inappropriate  
20 because it's for urban consumers. It's for people  
21 that are buying cigarettes and T-shirts and paying  
22 college tuition and things like that. And that's  
23 not -- there are more appropriate measures for  
24 comparing utility costs, and I believe those are the  
25 two that I've used.

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1 Q Thank you. You were also questioned about  
2 your agreement or lack thereof with Mr. Mullins's  
3 analysis by the ICNU attorney. Do you recall that  
4 conversation?

5 A Yes.

6 Q Can you clarify whether or not you agree with  
7 Mr. Mullins?

8 A No. I don't agree with Mr. Mullins's end  
9 results, and that's ultimately what matters.

10 Q Is your opinion in that vein based at all on  
11 the UTC's discretion or authority in adopting  
12 different studies or in any way based on the  
13 terminology used in various witness testimony?

14 A I'm sorry. Can you rephrase that?

15 Q Is that -- your opinion that you disagree with  
16 him -- that's been made clear -- is that at all based  
17 on the UTC's discretion or authority in choosing  
18 attrition studies or whether or not it has such  
19 authority?

20 A Mr. Mullins's approach was very different from  
21 mine, and I tried to take past Commission opinions and  
22 guidance into consideration in development of my  
23 attrition study. And from there I tried to improve  
24 things. So, yes, Mr. Mullins's approach and my  
25 approach are, I think, quite different, and that's why

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1 they reach very different results.

2 Q Are those distinctions based at all on various  
3 terminologies used in witness testimony? Are they  
4 dependent on any of the various terminology that's  
5 used in the different witness testimony?

6 A Do you have a specific terminology in mind?

7 Q I'm referring to the terminology Mr. Cowell  
8 cited, seemingly engineered. There's a whole list of  
9 words that you guys went through. Do the conceptual  
10 distinctions between your testimonies at all rely on  
11 that terminology?

12 A So the development of my attrition study  
13 doesn't depend on how I commented on Mr. Mullins's  
14 testimony. I had a -- I had some principles that I  
15 set forth prior to conducting my attrition study, and  
16 I followed those through.

17 Q Let's move on. We had a fairly extensive  
18 conversation about rate-based projections between the  
19 Bench and Mr. Meyer. Can you just explain your  
20 conclusion that your plant projections are accurate?  
21 And you alluded to it at the end when you said yours  
22 is the best. I'll give you an opportunity to explain  
23 why.

24 A Right. As I've stated before, I approached  
25 the manner of developing future -- or estimates of



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1 future rate-based balances by looking at the matter in  
2 a more granular way. As I stated before, the Company  
3 uses -- they escalate at plant -- they find how that  
4 plant grows over the historical period. Whereas I've  
5 looked at, for example, in the electric study,  
6 production plant, transmission plant, distribution  
7 plant, general plant, intangible plant.

8 And, ultimately, we do arrive at fairly  
9 similar figures, but I've taken the due diligence of  
10 ensuring that I'm using statistically significant --  
11 or escalation factors that were developed from  
12 statistically significant lines of best fit. So I  
13 have -- while we have similar results in some ways, I  
14 have more confidence in how I arrived at my results.

15 MR. SHEARER: Thank you, Mr. Hancock.  
16 I have no further redirect, Your Honor.

17 JUDGE MOSS: All right. It appears  
18 that we are at the end of your cross-examination,  
19 Mr. Hancock. We appreciate you being here today and  
20 giving your testimony. You may step down while we  
21 finish this proceeding up.

22 MR. HANCOCK: Thank you, Judge.

23 JUDGE MOSS: So we are at the end of  
24 our hearing, I believe. Does anybody have any  
25 business that we have not -- that we have failed to

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1 take care of that we need to take care of? And I see  
2 that Mr. Meyer does.

3 MR. MEYER: I have one last item.  
4 Briefing, Commission rules provide for 60 pages, and,  
5 ordinarily, you know, we try -- or at least parties  
6 try and stay within that limit. I think we need more  
7 pages, to be honest with you. And just if I could  
8 expand on that.

9 JUDGE MOSS: You'll need to persuade  
10 me. I have to read them all.

11 MR. MEYER: I know, I know. And it's a  
12 tough sell. I haven't always been successful in doing  
13 that, but I think all parties would benefit by more  
14 pages. But the Company, in particular, because it is  
15 in a position of really responding to all issues, its  
16 case is not just about AMI or two or three other  
17 issues, not that I'm suggesting any other party is so  
18 limited, but not every party has a keen interest in  
19 every issue.

20 So, obviously, they can devote these precious  
21 briefing pages to what interests them the most. I  
22 have to cover quite a bit of ground, and so I would  
23 ask that an additional 20 pages, from 60 to 80 pages,  
24 be allowed. I think it would be -- especially given  
25 all of the cost of capital issues that need to be

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1 addressed and just -- as I've started this process of  
2 working on a draft, I mean, I'm well past 80 pages  
3 even, but I realize there are limits. So with your  
4 indulgence, may we have 80 pages?

5 JUDGE MOSS: I'll hear from the other  
6 parties if they have any opinions on this.

7 MS. CAMERON-RULKOWSKI: Staff doesn't  
8 anticipate requiring more than 60 pages, and Staff  
9 also addresses, I would say, most of the issues that  
10 the Company is addressing as well. Twenty extra pages  
11 seems a little much.

12 JUDGE MOSS: Anybody else want to be  
13 heard on this? I'm going to give you -- Ms. Gafken?

14 MS. GAFKEN: It's probably no surprise,  
15 but Public Counsel does not anticipate using more than  
16 the 60. We will address more than the topics that we  
17 presented testimony on, but we won't go beyond the  
18 60 pages.

19 JUDGE MOSS: All right. I'll say two  
20 things. One, Mr. Meyer, I'll give you the benefit of  
21 consulting with the Commissioners on this. Because if  
22 it were simply up to me, I'd say no. On the other  
23 hand, I wouldn't mind shortening the other parties.

24 MR. MEYER: There's a thought. I  
25 hadn't considered that.

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1 JUDGE MOSS: My point simply is, of  
2 course -- and I don't think ICNU or NWIGU will take  
3 any exception to my observation that you are focused  
4 on a rather more discrete set of issues in the case  
5 and not need 60 pages to pursue those issues relative  
6 to the Company and the Staff, in particular, who will  
7 be covering pretty much every issue in the case.

8 But, again, I will not simply make the  
9 decision. I'm the crusty old guy here. I've heard  
10 this argument before, as you know, and I have rejected  
11 it before. But I will consult briefly with the  
12 Commissioners and see what their preference is. That  
13 will ultimately decide the day, and I can shrug off  
14 responsibility.

15 MR. MEYER: That's what I would do.

16 JUDGE MOSS: Mr. Cowell, do you wish to  
17 be heard?

18 MR. COWELL: Yes. Thank you, Your  
19 Honor. I do not anticipate probably even approaching  
20 60 pages, but I do want to -- with something that you  
21 said, ICNU would have a concern about different page  
22 limitations for the Company as with other parties --

23 JUDGE MOSS: I wasn't going to order  
24 that.

25 MR. COWELL: -- as a matter of

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1 practice.

2 JUDGE MOSS: I was just commenting.  
3 Give us a minute.

4 (A break was taken from 12:41 p.m. to  
5 12:44 p.m.)

6 JUDGE MOSS: Back on the record.

7 Mr. Meyer, it will not come as a great  
8 surprise and I hope not disappointment to know that we  
9 are not feeling your pain, and, therefore, we're going  
10 to keep the briefing limit at 60 pages. I will say  
11 this that I do encourage parties who are briefing  
12 fewer issues to try to keep their briefs a bit  
13 shorter. I think it's appropriate.

14 I want to say, too, we have a very full record  
15 here, and myself and the policy advisers who are  
16 working on the case, we spend a great deal of time  
17 distilling that record and helping the Commissioners.  
18 They also have very thoroughly studied the record. I  
19 think we really have the material we need. When you  
20 make out your arguments, we'll look beyond them to the  
21 record itself. And I think we'll do very well with  
22 60-page briefs. Thank you.

23 MR. MEYER: Fair enough. Thank you.

24 JUDGE MOSS: Any other business?

25 Well, I want to thank you all. I think you

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1 did an excellent job in this hearing. I thought the  
2 cross-examination was of appropriate length and focus.  
3 And as usual, it was a pleasure having you all before  
4 us. Thank you.

5 (The proceedings concluded at  
6 12:45 p.m.)

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8 \* \* \* \* \*

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## C E R T I F I C A T E

1  
2  
3 STATE OF WASHINGTON

4 COUNTY OF KING  
5

6 I, Nancy M. Kottenstette, a Certified  
7 Shorthand Reporter in and for the State of Washington,  
8 do hereby certify that the foregoing transcript of the  
9 proceedings on October 13, 2016, is true and accurate  
10 to the best of my knowledge, skill, and ability.

11 I do further certify that I am a disinterested  
12 person in this cause of action; that I am not a  
13 relative of the attorneys for any of the parties.

14 IN WITNESS WHEREOF, I have hereunto set my  
15 hand and seal this 24th day of October, 2016.  
16  
17

18 \_\_\_\_\_  
19 Nancy M. Kottenstette, RPR, CCR  
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