

Page 304

304

BEFORE THE WASHINGTON STATE UTILITIES AND
TRANSPORTATION COMMISSION

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

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

REPORTED BY: Nancy M. Kottenstette, RPR, CCR 3377

Page 305

305

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Page 306

306

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Page 307

307

INDEX OF EXAMINATION

	PAGE
JASON BALL	
EXAMINATION	
Questions By Mr. O'Connell:	309
Questions By Mr. Cowell:	312
Questions By Commissioner Rendahl:	331
Questions By Chairman Danner:	334
Questions By Mr. Brooks:	339
Questions By Mr. O'Connell:	340
Questions By Mr. Cowell:	342
ADRIEN M. MCKENZIE (via conference call)	
MICHAEL P. GORMAN (via conference call)	
DAVID PARCELL (via conference call)	
EXAMINATION	
Questions By Commissioner Jones:	346

Page 308

308

1 CHRISTOPHER SCOTT HANCOCK
 2 EXAMINATION
 3 Questions By Mr. Shearer: 377
 4 Questions By Mr. Meyer: 380
 5 Questions By Ms. Gafken: 382
 6 Questions By Mr. Cowell: 395
 7 Questions By Mr. Brooks: 409
 8 Questions By Commissioner Jones: 411
 9 Questions By Commissioner Rendahl: 419
 10 Questions By Mr. Meyer: 421
 11 Questions By Mr. Shearer: 429
 12
 13
 14
 15
 16
 17
 18
 19
 20
 21
 22
 23
 24
 25

Page 309

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?**

Page 310

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

Page 311

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

Page 312

EXAMINATION BY COWELL / BALL 312

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.
 8 E X A M I N A T I O N
 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.

Page 313

EXAMINATION BY COWELL / BALL 313

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

Page 314

EXAMINATION BY COWELL / BALL 314

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**

Page 315

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?**

Page 316	Page 318
EXAMINATION BY COWELL / BALL 316	EXAMINATION BY COWELL / BALL 318
<p>1 A Actually, I would. When I was reviewing the</p> <p>2 data -- some of the data requests, I do believe a</p> <p>3 couple other customers actually entered into that</p> <p>4 block, but very few. And I would agree that the vast</p> <p>5 majority of that block is used to serve only one</p> <p>6 customer.</p> <p>7 Q Would it be fair to say that to the extent any</p> <p>8 other customers are being charged on the third energy</p> <p>9 block that would be less than 1 percent?</p> <p>10 A Yes. That would probably be fair.</p> <p>11 Q Do you dispute Mr. Ehrbar's testimony that</p> <p>12 this one customer provides a significant amount of</p> <p>13 funding for Avista's DSM programs?</p> <p>14 A No, I do not dispute that.</p> <p>15 Q So I'd like to pose the same question that I</p> <p>16 asked Mr. Ehrbar earlier in this hearing. Would it be</p> <p>17 equitable in your opinion to collect all DSM funding</p> <p>18 from a single rate schedule?</p> <p>19 A Can I just ask to clarify what you mean by a</p> <p>20 single rate schedule? Do you mean that only one rate</p> <p>21 schedule pays all of DSM funding?</p> <p>22 Q For instance, if Schedule 91 were configured</p> <p>23 so that only Schedule 1 or only Schedule 25 paid all</p> <p>24 of the DSM funding and none of the other schedules</p> <p>25 contributed.</p>	<p>1 JUDGE MOSS: Mr. Meyer, it looks like</p> <p>2 we may have to depend on you to help the witness.</p> <p>3 MR. COWELL: I could give him my copy.</p> <p>4 I've also got it written out here.</p> <p>5 JUDGE MOSS: All right. Why don't you</p> <p>6 do that.</p> <p>7 MR. MEYER: I also have a copy.</p> <p>8 JUDGE MOSS: It's all right. The</p> <p>9 witness has a copy. We can move forward.</p> <p>10 CHAIRMAN DANNER: Would you repeat the</p> <p>11 exhibit.</p> <p>12 MR. COWELL: Certainly, Chairman.</p> <p>13 BY MR. COWELL:</p> <p>14 Q So this is Exhibit RRS-11C, and, Mr. Ball,</p> <p>15 I've just handed you what's labeled as page 7 of that</p> <p>16 exhibit; is that correct?</p> <p>17 A That's correct.</p> <p>18 Q Now, Mr. Ehrbar had responded to ICNU Data</p> <p>19 Request 119 on this page; right?</p> <p>20 A That appears to be what they're responding to.</p> <p>21 Q And Mr. Ehrbar was explaining that the company</p> <p>22 designs its DSM program, including DSM funding, to be</p> <p>23 fair and reasonable stating that there can be a range</p> <p>24 of designs and outcomes that could be considered to</p> <p>25 meet those objectives based on specific circumstances.</p>
Page 317	Page 319
EXAMINATION BY COWELL / BALL 317	EXAMINATION BY COWELL / BALL 319
<p>1 A No. I would not believe that's equitable</p> <p>2 because every kilowatt hour benefits from the DSM and</p> <p>3 conservation programs.</p> <p>4 Q Okay. So on a conceptual level, at some point</p> <p>5 you believe it's possible for one rate schedule to be</p> <p>6 over-contributing to DSM funding while others are</p> <p>7 under-contributing; is that correct?</p> <p>8 A It's possible, yes; however, like I said,</p> <p>9 every kilowatt hours benefits from DSM and</p> <p>10 conservation funding. And the more kilowatt hours you</p> <p>11 consume, the more benefit you consume.</p> <p>12 Q So in determining the equitable levels of DSM</p> <p>13 funding, do you believe the Commission should consider</p> <p>14 both direct and indirect customer benefits?</p> <p>15 A Yes.</p> <p>16 Q So an analysis that did not factor direct</p> <p>17 incentives paid through the DSM program, would that be</p> <p>18 appropriate in your view?</p> <p>19 A No.</p> <p>20 Q Mr. Ball, do you have a copy of Exhibit</p> <p>21 RRS-11C? It's Mr. Stephens' exhibit with data</p> <p>22 responses.</p> <p>23 A No. I don't have a copy of this exhibit.</p> <p>24 MR. COWELL: Does Staff have an exhibit</p> <p>25 that --</p>	<p>1 Have you seen this exhibit previously, this</p> <p>2 portion of the exhibit?</p> <p>3 A Yes.</p> <p>4 Q Okay. And, again, to confirm, I don't get the</p> <p>5 sense that you would agree that there's a range of</p> <p>6 potential DSM funding outcomes that would be fair and</p> <p>7 reasonable based on your testimony; is that correct?</p> <p>8 A I believe there is some variation that can be</p> <p>9 done in DSM funding. I believe that the current form</p> <p>10 of DSM funding is more than adequate, and I have not</p> <p>11 seen any reason to change it based upon what has been</p> <p>12 presented in this case. I'm not proposing to change</p> <p>13 it, and I am -- my analysis shows why the arguments</p> <p>14 that have been presented and why we should change it</p> <p>15 are not relevant.</p> <p>16 Q Mr. Ball, you're also proposing a uniform</p> <p>17 percentage increase for electric rate spread in this</p> <p>18 proceeding; correct?</p> <p>19 A That's correct.</p> <p>20 Q And would you dispute Mr. Ehrbar's testimony</p> <p>21 that your proposed rate spread would move Schedule 25</p> <p>22 further away from unity based upon the company's</p> <p>23 electric cost of service results?</p> <p>24 A I wouldn't dispute it, but one of the primary</p> <p>25 points I make in my testimony is the lack of precision</p>

	Page 320		Page 322
<p style="text-align: center;">EXAMINATION BY COWELL / BALL 320</p> <p>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.</p>		<p style="text-align: center;">EXAMINATION BY COWELL / BALL 322</p> <p>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</p>	
<p style="text-align: center;">EXAMINATION BY COWELL / BALL 321</p> <p>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 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</p>		<p style="text-align: center;">EXAMINATION BY COWELL / BALL 323</p> <p>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</p>	

<p style="text-align: right;">Page 324</p> <p style="text-align: center;">EXAMINATION BY COWELL / BALL 324</p> <p>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.</p> <p style="text-align: right;">Page 325</p> <p style="text-align: center;">EXAMINATION BY COWELL / BALL 325</p> <p>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</p>	<p style="text-align: right;">Page 326</p> <p style="text-align: center;">EXAMINATION BY COWELL / BALL 326</p> <p>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</p> <p style="text-align: right;">Page 327</p> <p style="text-align: center;">EXAMINATION BY COWELL / BALL 327</p> <p>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</p>
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<p style="text-align: right;">Page 328</p> <p style="text-align: center;">EXAMINATION BY COWELL / BALL 328</p> <p>1 take.</p> <p>2 Q And you've reviewed Mr. Stephens's</p> <p>3 cross-answering testimony; correct?</p> <p>4 A Correct.</p> <p>5 Q And is it your understanding that ICNU is</p> <p>6 supportive of your proposal for a generic cost of</p> <p>7 service study?</p> <p>8 A Yes.</p> <p>9 Q But would it also be fair to say that ICNU</p> <p>10 does not oppose for stalling a specific rate spread</p> <p>11 decision in this case until the resolution of that</p> <p>12 generic proceeding?</p> <p>13 A Yes. I believe that's a fair characterization</p> <p>14 of Mr. Stephens's testimony. And to be clear, I think</p> <p>15 he can arrive at that decision based upon his own set</p> <p>16 of principles. I arrived at my decision based upon</p> <p>17 the Company's cost of service study and balancing it</p> <p>18 with the other factors important in setting rate</p> <p>19 spread.</p> <p>20 When I balance them all together and I said</p> <p>21 these are the things that are important when we're</p> <p>22 setting rate spread -- perceptions of equity,</p> <p>23 fairness, economic situations, service territory -- I</p> <p>24 came to the conclusion that the best way to handle it</p> <p>25 in this current case is to do an equal percentage</p>	<p style="text-align: right;">Page 330</p> <p style="text-align: center;">EXAMINATION BY COWELL / BALL 330</p> <p>1 what you end up with is one class underpaying its cost</p> <p>2 to serve and another class overpaying it. And that</p> <p>3 has happened in the past, and that has been shown to</p> <p>4 happen in other Company cases or in this Company's</p> <p>5 case and previous cases.</p> <p>6 And I'm not disputing that cross-class</p> <p>7 subsidization can't exist. I'm disputing whether or</p> <p>8 not we can rely upon the results in this case to set a</p> <p>9 rate spread that fixes that.</p> <p>10 Q And in this case, directionally speaking,</p> <p>11 looking at the Company's electric cost of service</p> <p>12 study, is cross-class subsidization currently</p> <p>13 occurring?</p> <p>14 A Based upon the Company's cost of service</p> <p>15 study, yes.</p> <p>16 MR. COWELL: Thank you, Mr. Ball. No</p> <p>17 further questions.</p> <p>18 Thank you, Your Honor.</p> <p>19 JUDGE MOSS: Thank you, Mr. Cowell, for</p> <p>20 keeping on schedule there.</p> <p>21 Do we have questions from the Bench?</p> <p>22 COMMISSIONER JONES: No.</p> <p>23 COMMISSIONER RENDAHL: One.</p>
<p style="text-align: right;">Page 329</p> <p style="text-align: center;">EXAMINATION BY COWELL / BALL 329</p> <p>1 application of any rate increase.</p> <p>2 Q But as you've said, you're not able to kind of</p> <p>3 put any kind of even ballpark figure on when such a</p> <p>4 generic proceeding might be resolved?</p> <p>5 A No, I can't do that.</p> <p>6 Q Until that time, there would be no specific</p> <p>7 resolution on rate spread issues for Avista?</p> <p>8 A No. There wouldn't be, and that would make</p> <p>9 sense given that the models themselves are lacking in</p> <p>10 precision. I mean, I am not saying -- going to sit</p> <p>11 here and say that we should engage in cross-class</p> <p>12 subsidization. We shouldn't, but we shouldn't also</p> <p>13 engage in setting and changing rate spread for the</p> <p>14 sake of changing rate spread when we don't know where</p> <p>15 that rate spread actually needs to go and what the</p> <p>16 true cost to serve individual classes are.</p> <p>17 We have some information. We have a general</p> <p>18 idea, but I think we need to get more precise and get</p> <p>19 better results before we start making those kinds of</p> <p>20 decisions.</p> <p>21 Q Mr. Ball, if cross-class subsidization</p> <p>22 continues, what would be the long-term result, in your</p> <p>23 view, for those classes that are subsidizing other</p> <p>24 classes?</p> <p>25 A Well, when cross-class subsidization happens,</p>	<p style="text-align: right;">Page 331</p> <p style="text-align: center;">EXAMINATION BY RENDAHL / BALL 331</p> <p>1 EXAMINATION</p> <p>2 BY COMMISSIONER RENDAHL:</p> <p>3 Q Good morning, Mr. Ball.</p> <p>4 A Good morning.</p> <p>5 Q So following up on the questions from</p> <p>6 Mr. Cowell, in your proposal to have a generic</p> <p>7 proceeding, is your vision -- so your vision is not</p> <p>8 that there will be one model for all companies to</p> <p>9 follow, one rule for all companies to follow; correct?</p> <p>10 A No. We're looking to establish a framework</p> <p>11 that sets out the principles of cost of service and</p> <p>12 applies them consistently across all the IOUs. To set</p> <p>13 out this is the specific way you're going to --</p> <p>14 mathematical formula you will follow every single</p> <p>15 time, I don't think that's flexible enough. But we</p> <p>16 can identify a methodology or methodologies that work</p> <p>17 in the -- at the higher level and then allow some</p> <p>18 flexibility in how those methodologies are applied in</p> <p>19 real companies as well as the data that is used from</p> <p>20 those companies to work inside that methodology.</p> <p>21 Q So you were here yesterday when Avista's</p> <p>22 witness Tara Knox was testifying; correct?</p> <p>23 A Correct.</p> <p>24 Q So she referenced the NARUC manual, which,</p> <p>25 obviously, has been around for some time and has not</p>

Page 332

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**

Page 333

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

Page 334

EXAMINATION BY DANNER / BALL 334

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.
 18 **E X A M I N A T I O N**
 19 **BY CHAIRMAN DANNER:**
 20 **Q So you said that one of the shortcomings in**
 21 **the NARUC study is that it's a big country and the**
 22 **utilities have a lot of differences. Yesterday we**
 23 **heard Mr. Ehrbar talking about whether we have**
 24 **differences among the utilities in Washington as well.**
 25 **There are different peaks. There are unknowns, events**

Page 335

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**

Page 336	Page 338
<p>EXAMINATION BY DANNER / BALL 336</p> <p>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</p>	<p>EXAMINATION BY DANNER / BALL 338</p> <p>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.</p>
Page 337	Page 339
<p>EXAMINATION BY DANNER / BALL 337</p> <p>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</p>	<p>EXAMINATION BY BROOKS / BALL 339</p> <p>1 E X A M I N A T I O N 2 BY MR. BROOKS: 3 Q Mr. Ball, I'd like to get some clarity on just 4 some of your answers about this dual nature of the 5 generic proceeding versus the decision here. Let's 6 assume this -- the worst-case scenario takes five 7 years to do a generic proceeding -- no offense. 8 CHAIRMAN DANNER: Let's assume 9 something less. 10 Q Lest say it take two years to do this generic 11 proceeding. Your testimony is not that the Commission 12 could not make an informed decision on a future filing 13 during that time period. The Commission does not need 14 to wait for that generic proceeding to make an 15 informed decision; correct? 16 A Correct. And the Commission can -- the 17 Commission always has the opportunity and the ability 18 to make the decisions it feels are most fair and based 19 upon the evidence presented in the record. I 20 presented my recommendation based upon the 21 circumstances in this case. 22 MR. BROOKS: Thank you. That's all I 23 have. 24 MR. O'CONNELL: Thank you, Your Honor. 25</p>

Page 340

EXAMINATION BY O'CONNELL / BALL 340

1 EXAMINATION

2 BY MR. O'CONNELL:

3 **Q Mr. Ball, Mr. Cowell asked you about the rate**

4 **spread issues presented in this case, and he asked you**

5 **about the concern that if a -- if the cost of service**

6 **issues are deferred to a generic proceeding that there**

7 **may be no resolution in the rate spread for Avista,**

8 **and in your response to that question, I wanted you to**

9 **clarify whether you meant that rate spread would be in**

10 **limbo until the generic proceeding?**

11 A No. I did not mean that it would be in limbo.

12 What I simply meant is that when you have a lack of

13 certainty around the precision of cost of service

14 studies, you should temper it with the other factors

15 important in setting rate spread. Cost of service is

16 used to set and inform rate spread and used to help us

17 allocate the revenue to specific cost categories.

18 **Q Thank you. And in your rate spread that you**

19 **have proposed in this case, have you attempted to**

20 **benefit any class over the other?**

21 A No, I have not. What I have attempted to do

22 is identify a rate spread that balances out the needs

23 of all of the parties and all of the stakeholders as

24 well as the public at large.

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

Page 341

EXAMINATION BY O'CONNELL / BALL 341

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

Page 342

EXAMINATION BY COWELL / BALL 342

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.

EXAMINATION

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**

Page 343

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**

Page 344	Page 346
<p style="text-align: center;">EXAMINATION BY COWELL / BALL 344</p> <p>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.</p> <p>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.</p> <p>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?</p> <p>16 A Correct.</p> <p>17 MR. COWELL: Thank you. No further 18 questions, Your Honor.</p> <p>19 JUDGE MOSS: All right. Hopefully, 20 this exhausts any questions we have for Mr. Ball. 21 We've had several rounds here.</p> <p>22 All right. Mr. Ball, thank you very much for 23 your testimony, and you may step down from the witness 24 stand.</p> <p>25 All right. We have one more witness we'll</p>	<p style="text-align: center;">346</p> <p>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:</p> <p>6</p> <p>7 JUDGE MOSS: All right. Now we're all 8 ready to go. So with that, I'll turn to Commissioner 9 Jones.</p> <p>10 E X A M I N A T I O N 11 BY COMMISSIONER JONES:</p> <p>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.</p> <p>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.</p> <p>24 COMMISSIONER JONES: That's great. 25 Before I get to that, I would like to ask a</p>
<p style="text-align: center;">Page 345</p> <p style="text-align: center;">345</p> <p>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.</p> <p>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.</p> <p>7 (A break was taken from 9:54 a.m. to 8 10:02 a.m.)</p> <p>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.</p> <p>13</p> <p>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:</p> <p>19</p> <p>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:</p> <p>25</p>	<p style="text-align: center;">Page 347</p> <p>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?</p> <p>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.</p> <p>9 MR. PARCELL: This is David Parcell. I 10 have reviewed it.</p> <p>11 COMMISSIONER JONES: Mr. Gorman?</p> <p>12 MR. GORMAN: I didn't review it for 13 this hearing, but I did review it when it was 14 initially filed.</p> <p>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?</p> <p>20 MR. GORMAN: That's correct.</p> <p>21 COMMISSIONER JONES: Mr. McKenzie?</p> <p>22 MR. MCKENZIE: I have not reviewed that 23 for the purpose of this hearing today.</p> <p>24 COMMISSIONER JONES: I don't know if 25 Mr. Thies is on the phone, the CFO of the Company, and</p>

Page 348	Page 350
<p>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</p>	<p>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</p>
Page 349	Page 351
<p>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</p>	<p>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,</p>

Page 352	Page 354
<p>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.</p>	<p>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</p>
Page 353	Page 355
<p>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.</p>	<p>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</p>

Page 356	Page 358
<p>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.</p>	<p>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</p>
Page 357	Page 359
<p>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</p>	<p>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?</p>

Page 360	Page 362
<p>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</p>	<p>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</p>
Page 361	Page 363
<p>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,</p>	<p>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</p>

Page 364	Page 366
<p>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</p>	<p>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.</p>
Page 365	Page 367
<p>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?</p>	<p>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.</p>

Page 368	Page 370
<p>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?</p>	<p>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?</p>
<p>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.</p>	<p>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.</p>
<p>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</p>	<p>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</p>
Page 369	Page 371
<p>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.</p>	<p>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</p>
<p>10 So an interest rate can decline without an 11 equity risk premium expanding if it's driven only by a 12 reduction in expectations of outlooks for future 13 inflation. So in order to assess an appropriate 14 equity risk premium, it's more accurate to consider 15 the relative risk of the industry relative to some 16 benchmark to gauge the sense of the market's demands 17 for assuming higher rates of return for assuming 18 greater risk.</p>	<p>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.</p>
<p>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.</p>	<p>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</p>

Page 372	Page 374
<p>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</p>	<p>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,</p>
Page 373	Page 375
<p>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</p>	<p>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</p>

Page 376

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

Page 377

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**

Page 378

EXAMINATION BY SHEARER / HANCOCK 378
 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

Page 379

EXAMINATION BY SHEARER / HANCOCK 379
 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.

Page 380

EXAMINATION BY MEYER / HANCOCK 380

1 EXAMINATION

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**

Page 381

EXAMINATION BY MEYER / HANCOCK 381

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**

Page 382

EXAMINATION BY GAFKEN / HANCOCK 382

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.

EXAMINATION

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**

Page 383

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**

Page 384

EXAMINATION BY GAFKEN / HANCOCK 384

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**

Page 385

EXAMINATION BY GAFKEN / HANCOCK 385

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**

Page 386

EXAMINATION BY GAFKEN / HANCOCK 386

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.

Page 387

EXAMINATION BY GAFKEN / HANCOCK 387

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.

Page 388

EXAMINATION BY GAFKEN / HANCOCK 388

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.**

Page 389

EXAMINATION BY GAFKEN / HANCOCK 389

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**

Page 390

EXAMINATION BY GAFKEN / HANCOCK 390

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?**

Page 391

EXAMINATION BY GAFKEN / HANCOCK 391

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.

Page 392

EXAMINATION BY GAFKEN / HANCOCK 392

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**

Page 393

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.

Page 394

EXAMINATION BY GAFKEN / HANCOCK 394

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.

Page 395

EXAMINATION BY COWELL / HANCOCK 395

1 MR. COWELL: Thank you, Your Honor.
 2 EXAMINATION
 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?**

Page 396

EXAMINATION BY COWELL / HANCOCK 396

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

Page 397

EXAMINATION BY COWELL / HANCOCK 397

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**

Page 398

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**

Page 399

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**

Page 400	Page 402
EXAMINATION BY COWELL / HANCOCK 400	EXAMINATION BY COWELL / HANCOCK 402
<p>1 escalation rates?</p> <p>2 A I would not agree with that, but I believe --</p> <p>3 I believe Mr. Mullins would believe that.</p> <p>4 Q Sorry. Say again.</p> <p>5 A I would not -- I do not believe that</p> <p>6 Mr. Mullins's approach was more detailed, as I think</p> <p>7 you put it, but I believe Mr. Mullins believes it's</p> <p>8 more detailed.</p> <p>9 Q Okay. If you'd please turn to page 5, staying</p> <p>10 here in your cross-answering testimony, and I'm</p> <p>11 looking here at lines 14 through 16. And here you</p> <p>12 testify that Mr. Mullins's attrition study is</p> <p>13 seemingly engineered to produce similar results to</p> <p>14 that of his more traditional revenue requirements</p> <p>15 study; right?</p> <p>16 A Yes, I did say that.</p> <p>17 Q So are you testifying that another witness in</p> <p>18 this case has seemingly engineered results to produce</p> <p>19 a predetermined outcome?</p> <p>20 A First, I'd like to state for the record that I</p> <p>21 was not impugning Mr. Mullins's integrity. Rather</p> <p>22 Mr. Mullins had made it clear through his testimony in</p> <p>23 this case and the previous case that he objects to the</p> <p>24 use of an attrition study to develop a revenue</p> <p>25 requirement.</p>	<p>1 reasonable to interpret that?</p> <p>2 MR. SHEARER: Objection, calls for</p> <p>3 speculation.</p> <p>4 MR. COWELL: Your Honor, earlier this</p> <p>5 witness responds to questions that I think this is</p> <p>6 what Mr. Mullins had meant, so he's already testified</p> <p>7 on what he thinks Mr. Mullins meant. And I'm just</p> <p>8 asking him if this would be a reasonable</p> <p>9 interpretation in this instance of what Mr. Mullins</p> <p>10 meant.</p> <p>11 JUDGE MOSS: The objection is</p> <p>12 overruled. You may answer if you're able to.</p> <p>13 A I've never characterized his attrition model</p> <p>14 as a cross-check to his traditional revenue</p> <p>15 requirement model. I'm not aware of anyone else</p> <p>16 making that specific claim either.</p> <p>17 Q And maybe to rephrase, because I don't want to</p> <p>18 be too technical, and the term cross-check, I know, is</p> <p>19 a term that the Company uses but just as a comparator</p> <p>20 perhaps?</p> <p>21 A I think people would be well within their</p> <p>22 rights to compare the two.</p> <p>23 Q All right. So I'll move on here, Mr. Hancock.</p> <p>24 You say in here right here on page 5 you testified</p> <p>25 that Mr. Mullins's attrition study is arbitrary;</p>
Page 401	Page 403
EXAMINATION BY COWELL / HANCOCK 401	EXAMINATION BY COWELL / HANCOCK 403
<p>1 Furthermore, Mr. Mullins says in his direct --</p> <p>2 or I'm sorry. In his responsive testimony on page 13</p> <p>3 on lines 3 to 5 that, quote, I believe these results</p> <p>4 to be more reasonable than the Company's due, in part,</p> <p>5 to the fact that they align more closely with results</p> <p>6 of the traditional revenue requirement model.</p> <p>7 So given Mr. Mullins's stated preference for</p> <p>8 the traditional revenue requirement approach and his</p> <p>9 assertion that his attrition study is reasonable</p> <p>10 because it reaches a very similar result to that of</p> <p>11 his traditional revenue requirement model, I thought</p> <p>12 it was appropriate to say it was seemingly engineered</p> <p>13 to produce results to that of his more traditional</p> <p>14 revenue requirement study.</p> <p>15 Q Now, the statement that you quoted from</p> <p>16 Mr. Mullins's testimony, would it be fair, in your</p> <p>17 opinion, to also interpret that as Mr. Mullins,</p> <p>18 essentially, providing a cross-check to attribute</p> <p>19 reasonableness of his attrition results based on a</p> <p>20 comparison to his traditional revenue requirement</p> <p>21 study?</p> <p>22 A Your contention is that Mr. Mullins's</p> <p>23 attrition study is a cross-check to his traditional</p> <p>24 revenue requirement?</p> <p>25 Q No. What I'm asking you is: Would it be</p>	<p>1 right?</p> <p>2 A Yes.</p> <p>3 Q Now, in your view, is arbitrary the same as</p> <p>4 mechanistic?</p> <p>5 A I believe in your -- bringing up the word</p> <p>6 mechanistic, you're referring to the testimony of</p> <p>7 Mr. Norwood?</p> <p>8 Q He did use that phrase, yes.</p> <p>9 A As the term was used in Mr. Norwood's</p> <p>10 testimony, it was unclear to me what exactly he meant.</p> <p>11 Q So I'm just asking you because you use the</p> <p>12 word arbitrary. I'm asking in your use of arbitrary</p> <p>13 here, can I equate that to mechanistic in your</p> <p>14 opinion?</p> <p>15 A No. I don't think that -- I don't think that</p> <p>16 you can equate those terms.</p> <p>17 Q Okay. Again, in your view, is arbitrary the</p> <p>18 same as subjective?</p> <p>19 A I use the term "arbitrary" to draw a</p> <p>20 distinction between Mr. Mullins's approach and my</p> <p>21 approach, which I believe is much more principled.</p> <p>22 Q Are you of the opinion that a witness's use of</p> <p>23 informed judgment is necessary in conducting an</p> <p>24 attrition study?</p> <p>25 A I believe it would be appropriate for a</p>

Page 404

EXAMINATION BY COWELL / HANCOCK 404

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**

Page 405

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**

Page 406

EXAMINATION BY COWELL / HANCOCK 406

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.

Page 407

EXAMINATION BY COWELL / HANCOCK 407

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**

Page 408

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

Page 409

EXAMINATION BY BROOKS / HANCOCK 409

1 **EXAMINATION**
 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.

Page 410

EXAMINATION BY BROOKS / HANCOCK 410

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?**

Page 411

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.
 9 **EXAMINATION**
 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

Page 412

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

Page 413

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,

Page 414

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**

Page 415

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.

Page 416	Page 418
<p>EXAMINATION BY COMMISSIONER JONES / HANC 416</p> <p>1 And what I found is given the scrutiny the</p> <p>2 Company was under throughout this data or this time</p> <p>3 series and the strong statistical significance that I</p> <p>4 found in the categories that I escalated, I felt the</p> <p>5 results of that were a reasonable approximation of</p> <p>6 future used and useful and prudent investments. And</p> <p>7 they were reflective of conditions that were outside</p> <p>8 of the Company's control.</p> <p>9 Q My last question is this: Could you turn to</p> <p>10 page 20 of your testimony, lines 12 through 15. This</p> <p>11 is -- I think you were engaged in a colloquy with</p> <p>12 someone about how long attrition adjustments will</p> <p>13 last, so this addresses that question. Tell me when</p> <p>14 you're there.</p> <p>15 A I'm on page 20.</p> <p>16 COMMISSIONER JONES: So there you state</p> <p>17 that -- and, Counsel for the Company, Mr. Meyer, could</p> <p>18 you get MTT-5T in front of Mr. Hancock?</p> <p>19 MR. MEYER: MTT-5C, the confidential?</p> <p>20 COMMISSIONER JONES: Yes, the</p> <p>21 confidential one. I will not refer to confidential</p> <p>22 information.</p> <p>23 Q But my question is this -- I'm not going to be</p> <p>24 around here when these cases come before the</p> <p>25 Commission anymore, but you're asserting here that</p>	<p>EXAMINATION BY COMMISSIONER JONES / HANC 418</p> <p>1 smaller percentage of the existing rate base.</p> <p>2 So as a simple example, if we have \$50 million</p> <p>3 of rate-based growth on a \$500 million balance, that</p> <p>4 represents 10 percent; but in the subsequent year,</p> <p>5 \$50 million will represent a lower than 10 percent</p> <p>6 figure of the new balance of \$550 million.</p> <p>7 Q And you do have Mr. Thies's graph in front of</p> <p>8 you; right? Does that indicate any slowdown in</p> <p>9 capital expenditure growth over the next four years?</p> <p>10 A I would say that these figures seem to be very</p> <p>11 consistent over this time period.</p> <p>12 Q And consistently high level; right?</p> <p>13 A Yes.</p> <p>14 Q Okay. And I realize that capital</p> <p>15 expenditures, like the Spokane River projects in this</p> <p>16 case, are lumpy. We have a proposal for AMI that's</p> <p>17 lumpy. So capital expenditures are also quite lumpy,</p> <p>18 aren't they?</p> <p>19 A Sure, they are.</p> <p>20 Q But you can do a trending analysis. As you've</p> <p>21 done in your exhibit here and quite well, I think, you</p> <p>22 use statistics to do it, but the trending analysis</p> <p>23 should be combined with the Commission's consideration</p> <p>24 of other factors in deciding what to do, should it</p> <p>25 not?</p>
Page 417	Page 419
<p>EXAMINATION BY COMMISSIONER JONES / HANC 417</p> <p>1 rate-based growth will eventually decline in the</p> <p>2 coming years. A combination of the slowdown in</p> <p>3 rate-based growth and shift towards a filing date,</p> <p>4 etc., etc.</p> <p>5 What gives you confidence that rate-based</p> <p>6 growth is going to slow down? And I refer you to that</p> <p>7 MTT-5 that's in front of you now. That is a</p> <p>8 projection of capital expenditures and debt issuances</p> <p>9 of Avista Corporation over the next five years. To me</p> <p>10 it looks like it's going to stay at a pretty high</p> <p>11 level.</p> <p>12 So I would just ask you to respond to that.</p> <p>13 What gives you confidence that attrition adjustments,</p> <p>14 if we approve them here, won't be necessary into the</p> <p>15 far, far future?</p> <p>16 A I wasn't making the claim that attrition</p> <p>17 adjustments certainly won't be needed in the future.</p> <p>18 What I meant when I said rate-based growth will</p> <p>19 eventually decline in the coming years, I'm referring</p> <p>20 to -- we see -- generally speaking, we see a</p> <p>21 consistent amount of rate-based growth, but because</p> <p>22 the base level from which escalations are provided is</p> <p>23 also growing, it's growing at that same amount per</p> <p>24 year. The relatively stable amount of aggregate</p> <p>25 rate-based growth that occurs represents a smaller and</p>	<p>EXAMINATION BY COMMISSIONER RENDAHL / HANC 419</p> <p>1 A Certainly. And, in fact, I've made that</p> <p>2 consideration in my attrition study. Despite my</p> <p>3 reliance on the historical growth rates that the data</p> <p>4 series provides and has shown to be statistically</p> <p>5 significant, I've recognized that, for instance, the</p> <p>6 Spokane River projects are something that is not fully</p> <p>7 represented in the historical trend. And, indeed, in</p> <p>8 many months, they exceed what the historical trend</p> <p>9 would suggest. That's why I gave those projects pro</p> <p>10 forma treatment.</p> <p>11 In the future, if the Commission feels that</p> <p>12 the historical trend is not fully representative of</p> <p>13 the rate-based growth that the Commission -- or that</p> <p>14 the Company is likely to experience during the</p> <p>15 rate-effected period, then I think it would be</p> <p>16 appropriate for the Commission to take that into</p> <p>17 consideration.</p> <p>18 COMMISSIONER JONES: Thank you.</p> <p>19 E X A M I N A T I O N</p> <p>20 BY COMMISSIONER RENDAHL:</p> <p>21 Q Hello, Mr. Hancock.</p> <p>22 A Good afternoon, Commissioner Rendahl.</p> <p>23 Q In your response to your questions to</p> <p>24 Commissioner Jones, you mentioned that -- and I don't</p> <p>25 have -- I didn't write it down the whole reference,</p>

Page 420

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.

Page 421

EXAMINATION BY MEYER / HANCOCK 421

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**

Page 422

EXAMINATION BY MEYER / HANCOCK 422

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.

Page 423

EXAMINATION BY MEYER / HANCOCK 423

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

Page 424

EXAMINATION BY MEYER / HANCOCK 424

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**

Page 425

EXAMINATION BY MEYER / HANCOCK 425

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?**

Page 426

EXAMINATION BY MEYER / HANCOCK 426

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**

Page 427

EXAMINATION BY MEYER / HANCOCK 427

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**

Page 428

EXAMINATION BY MEYER / HANCOCK 428

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.

Page 429

EXAMINATION BY SHEARER / HANCOCK 429

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.

Page 430

EXAMINATION BY SHEARER / HANCOCK 430

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

Page 431

EXAMINATION BY SHEARER / HANCOCK 431

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

Page 432	Page 434
EXAMINATION BY SHEARER / HANCOCK 432	EXAMINATION BY SHEARER / HANCOCK 434
<p>1 future rate-based balances by looking at the matter in</p> <p>2 a more granular way. As I stated before, the Company</p> <p>3 uses -- they escalate at plant -- they find how that</p> <p>4 plant grows over the historical period. Whereas I've</p> <p>5 looked at, for example, in the electric study,</p> <p>6 production plant, transmission plant, distribution</p> <p>7 plant, general plant, intangible plant.</p> <p>8 And, ultimately, we do arrive at fairly</p> <p>9 similar figures, but I've taken the due diligence of</p> <p>10 ensuring that I'm using statistically significant --</p> <p>11 or escalation factors that were developed from</p> <p>12 statistically significant lines of best fit. So I</p> <p>13 have -- while we have similar results in some ways, I</p> <p>14 have more confidence in how I arrived at my results.</p> <p>15 MR. SHEARER: Thank you, Mr. Hancock.</p> <p>16 I have no further redirect, Your Honor.</p> <p>17 JUDGE MOSS: All right. It appears</p> <p>18 that we are at the end of your cross-examination,</p> <p>19 Mr. Hancock. We appreciate you being here today and</p> <p>20 giving your testimony. You may step down while we</p> <p>21 finish this proceeding up.</p> <p>22 MR. HANCOCK: Thank you, Judge.</p> <p>23 JUDGE MOSS: So we are at the end of</p> <p>24 our hearing, I believe. Does anybody have any</p> <p>25 business that we have not -- that we have failed to</p>	<p>1 addressed and just -- as I've started this process of</p> <p>2 working on a draft, I mean, I'm well past 80 pages</p> <p>3 even, but I realize there are limits. So with your</p> <p>4 indulgence, may we have 80 pages?</p> <p>5 JUDGE MOSS: I'll hear from the other</p> <p>6 parties if they have any opinions on this.</p> <p>7 MS. CAMERON-RULKOWSKI: Staff doesn't</p> <p>8 anticipate requiring more than 60 pages, and Staff</p> <p>9 also addresses, I would say, most of the issues that</p> <p>10 the Company is addressing as well. Twenty extra pages</p> <p>11 seems a little much.</p> <p>12 JUDGE MOSS: Anybody else want to be</p> <p>13 heard on this? I'm going to give you -- Ms. Gafken?</p> <p>14 MS. GAFKEN: It's probably no surprise,</p> <p>15 but Public Counsel does not anticipate using more than</p> <p>16 the 60. We will address more than the topics that we</p> <p>17 presented testimony on, but we won't go beyond the</p> <p>18 60 pages.</p> <p>19 JUDGE MOSS: All right. I'll say two</p> <p>20 things. One, Mr. Meyer, I'll give you the benefit of</p> <p>21 consulting with the Commissioners on this. Because if</p> <p>22 it were simply up to me, I'd say no. On the other</p> <p>23 hand, I wouldn't mind shortening the other parties.</p> <p>24 MR. MEYER: There's a thought. I</p> <p>25 hadn't considered that.</p>
Page 433	Page 435
EXAMINATION BY SHEARER / HANCOCK 433	EXAMINATION BY SHEARER / HANCOCK 435
<p>1 take care of that we need to take care of? And I see</p> <p>2 that Mr. Meyer does.</p> <p>3 MR. MEYER: I have one last item.</p> <p>4 Briefing, Commission rules provide for 60 pages, and,</p> <p>5 ordinarily, you know, we try -- or at least parties</p> <p>6 try and stay within that limit. I think we need more</p> <p>7 pages, to be honest with you. And just if I could</p> <p>8 expand on that.</p> <p>9 JUDGE MOSS: You'll need to persuade</p> <p>10 me. I have to read them all.</p> <p>11 MR. MEYER: I know, I know. And it's a</p> <p>12 tough sell. I haven't always been successful in doing</p> <p>13 that, but I think all parties would benefit by more</p> <p>14 pages. But the Company, in particular, because it is</p> <p>15 in a position of really responding to all issues, its</p> <p>16 case is not just about AMI or two or three other</p> <p>17 issues, not that I'm suggesting any other party is so</p> <p>18 limited, but not every party has a keen interest in</p> <p>19 every issue.</p> <p>20 So, obviously, they can devote these precious</p> <p>21 briefing pages to what interests them the most. I</p> <p>22 have to cover quite a bit of ground, and so I would</p> <p>23 ask that an additional 20 pages, from 60 to 80 pages,</p> <p>24 be allowed. I think it would be -- especially given</p> <p>25 all of the cost of capital issues that need to be</p>	<p>1 JUDGE MOSS: My point simply is, of</p> <p>2 course -- and I don't think ICNU or NWIGU will take</p> <p>3 any exception to my observation that you are focused</p> <p>4 on a rather more discrete set of issues in the case</p> <p>5 and not need 60 pages to pursue those issues relative</p> <p>6 to the Company and the Staff, in particular, who will</p> <p>7 be covering pretty much every issue in the case.</p> <p>8 But, again, I will not simply make the</p> <p>9 decision. I'm the crusty old guy here. I've heard</p> <p>10 this argument before, as you know, and I have rejected</p> <p>11 it before. But I will consult briefly with the</p> <p>12 Commissioners and see what their preference is. That</p> <p>13 will ultimately decide the day, and I can shrug off</p> <p>14 responsibility.</p> <p>15 MR. MEYER: That's what I would do.</p> <p>16 JUDGE MOSS: Mr. Cowell, do you wish to</p> <p>17 be heard?</p> <p>18 MR. COWELL: Yes. Thank you, Your</p> <p>19 Honor. I do not anticipate probably even approaching</p> <p>20 60 pages, but I do want to -- with something that you</p> <p>21 said, ICNU would have a concern about different page</p> <p>22 limitations for the Company as with other parties --</p> <p>23 JUDGE MOSS: I wasn't going to order</p> <p>24 that.</p> <p>25 MR. COWELL: -- as a matter of</p>

Page 436

EXAMINATION BY SHEARER / HANCOCK 436

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

Page 438

EXAMINATION BY SHEARER / HANCOCK 438

C E R T I F I C A T E

STATE OF WASHINGTON

COUNTY OF KING

I, Nancy M. Kottenstette, a Certified

Shorthand Reporter in and for the State of Washington,

do hereby certify that the foregoing transcript of the

proceedings on October 13, 2016, is true and accurate

to the best of my knowledge, skill, and ability.

I do further certify that I am a disinterested

person in this cause of action; that I am not a

relative of the attorneys for any of the parties.

IN WITNESS WHEREOF, I have hereunto set my

hand and seal this 24th day of October, 2016.

~~Nancy M. Kottenstette, RPR, CCR~~

Page 437

EXAMINATION BY SHEARER / HANCOCK 437

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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~~Nancy M. Kottenstette, RPR, CCR~~