

Docket Nos. UE-150204 and UG-150205  
(Consolidated) - Vol. VII

WUTC v. Avista Corporation, d/b/a Avista  
Utilities

December 6, 2019



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BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION

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WASHINGTON UTILITIES AND ) DOCKETS UE-150204 and  
TRANSPORTATION COMMISSION,)UG-150205 (Consolidated)

)  
Complainant, )

vs. )

)  
AVISTA CORPORATION d/b/a )  
AVISTA UTILITIES, )

)  
Respondent. )

---

EVIDENTIARY HEARING, VOLUME VII

Pages 646-747

CHAIR DANNER, COMMISSIONER RENDHAL,  
COMMISSIONER BALASBAS, AND JUDGE NELLI DOROSHKIN

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December 6, 2019

9:30 a.m.

Washington Utilities and Transportation Commission  
621 Woodland Square Loop Southeast  
Lacey, Washington 98503

REPORTED BY: TAYLER GARLINGHOUSE, CCR 3358

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A P P E A R A N C E S

COMMISSIONERS:

CHAIRMAN DANNER  
COMMISSIONER RENDAHL  
COMMISSIONER BALASBAS

ADMINISTRATIVE LAW JUDGE:

NELLI DOROSHKIN

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A P P E A R A N C E S (Cont.)

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ALSO PRESENT:

ELIZABETH ANDREWS, Avista Witness  
CHRIS McGUIRE, Staff Witness  
MARK THIES, Avista Witness

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2	Joint Testimony in Support of Multiparty Settlement Stipulation (29 pp.) (07/24/15)
3	Cover Letter Response to Bench Request No. 1 (also revised Exh. Nos. CSH-2 and CSH-3) (4 pp.) (08/31/15)
4C	Response to Bench Request No. 2 with Attachment A (3 pp.) (09/24/15) (Confidential)
5	Response to Bench Request No. 3 (pg.) (09/24/15)
6	Public Comment Exhibit (CD) (10/19/15)
7	Response to Bench Request No. 4 (2 pp.) (10/12/15)
8	Response to Bench Request No. 5 (31 pp.) (10/12/15)
9	Response to Bench Request No. 6 (2 pp.) (10/12/15)
10	Response to Bench Request No. 7 (5 pp.) (10/12/15)
11	Response to Bench Request No. 8 (7 pp.) (10/20/15)
12C	Response to Bench Request No. 9 (1 pg.) attached Exh. No. JLB-3 (7 pp.), Exh. No. JLB-2C (13 pp.), and electronic Excel files (10/20/15)

(Confidential)

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4	14 Response to Bench Request No. 11 (2 pp.) and
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6	15 Response to Bench Request No. 12 (3 pp.) and
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7	16 Response to Bench Request No. 13 (1 pg.) (10/26/15)
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9	18 Response to Bench Request No. 15 (1 pg.) with
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11	19 Response to Bench Request No. 16 (1 pp.) (10/29/15)
12	20 Response to Bench Request No. 17 (1 pg.) and
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14	21 Response to Bench Request No. 18 (3 pp.) and
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16	22 Reply to Avista's Response to Bench Request No. 18
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18	23 Response to Bench Request No. 21 and Attachments
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20	Attachment C; Attachment D; Attachment E;
21	Attachment F; Attachment G; Attachment H;
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	Attachment O; Attachment P; Attachment Q;
	Attachment R; Attachment S
22	24 Public Comments (12/10/19): Matrix; Ott; Ingiosi
23	SLM-1T Direct Testimony of Scott L. Morris (24 pp.)
24	(02/09/15)
25	SLM-2 Overview of Avista and its utility and
	subsidiary operations (2 pp.) (02/09/15)

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2	SLM-3 Map of Avista electric and natural gas service areas (1 pg.) (02/09/15)
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4	SLM-4 Various line graphs (4 pp.) (02/09/15)
5	MTT-1T Direct Testimony of Mark T. Thies (30 pp.) (02/09/15)
6	MTT-2C Avista's credit ratings, embedded capital structure as of December 31, 2014, and proposed capital structure (6 pp.) (02/09/15) (Confidential)
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9	MTT-3C Avista's Interest Rate Risk Management Plan (8 pp.) (2/9/15) (Confidential)
10	MTT-4 Equity ratios and returns on equity approved by various state regulatory commissions from July 1, 2014, through December 31, 2014 (1 pg.) (2/9/15)
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13	MTT-5C Avista's planned capital expenditures and long-term debt issuances by year (1 pg.) (2/09/15) (Confidential)
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20	KON-3 Tabulation of a Sample of Compliance and Reporting Requirements of Avista (15 pp.) (09/04/15)
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11	AMM-3 Description of Quantitative Analyses for
12	capital market estimates of the cost of equity
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13	AMM-4 ROE Analyses: Checks of reasonableness (2 pp.)
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17	Growth Rates, and DCF Cost of Equity Estimates
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23	Yield, Projected Bond Yield, Authorized Returns
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9	EMA-4 NARUC Rate Case and Audit Manual (52 pp.)
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- EMA-16R 2016 Electric Commission Basis Report  
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- EMA-18R Exh. CSH-2, Dockets UE-160228/UG-160229, of  
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- EMA-10 Avista Response to Public Counsel Data Request  
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9	(02/09/15)
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11	Gas as of September 30, 2014 (1 pg.) (2/9/15)
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13	Block of the Evolving Power Grid, IEI Report,
14	September 2014 (16 pages) (2/9/15)
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16	barriers to the broad implementation of
17	advanced metering infrastructure (2 pp.)
18	(2/9/15)
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20	Business Case (23 pp.) (2/9/15)
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19	Jurisdiction, System Numbers - October 2013
20	through September 2014 Actual and 2016 Pro
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21	WGJ-3 A brief description of each adjustment (6 pp.)
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22	WGJ-4 Market Purchases and Sales, Plant Generation and
23	Fuel Cost Summary, Washington Normalized
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24	WGJ-5 Pro Forma January 2016-December 2016, ERM
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8	BAC-2 Transmission revenue and expense adjustments
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12	JMK-2 Revised Timeline and Budget Forecast, Avista's
13	Project Compass, June 2014 (15 pp.) (2/9/15)
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15	JMK-3 Project Compass, Communications, Debbie
16	Simock/Peggy Blowers (9 pages) (2/9/15)
17	JMK-4 Project Compass Communication Timeline and
18	Customer Communication Timeline (2 pages)
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20	JMK-5 Direct mailing to Avista Customers explaining
21	the Project Compass impact on bills and customer
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23	JMK-6CT Rebuttal Testimony of James M. Kensok (29 pp.)
24	(9/4/15) (Confidential)
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	containing Attachments 1, 2, 3, 4, 5, 6, 7, 8,
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17	KKS-1T Direct Testimony of Karen K. Schuh (31 pp.)
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19	KKS-2 Capital expenditures from 2005 through 2019
20	(1 pg.) (2/9/15)
21	KKS-3 Handy Whitman Cost Index, Published May 2013,
22	Transmission Equipment, Distribution
	Substations, Distribution Equipment (4 pp.)
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23	KKS-4 Avista Capital Additions Detail (System)
24	(Transfers to Plant) October-December 2014,
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3 including business cases (306 pp.) (2/9/15)
- 4 KKS-6T Rebuttal Testimony of Karen K. Schuh (22 pp.)  
5 (9/4/15)
- 6 KKS-7 Slides Prepared to Aid the Discussion of the  
7 Nine Mile Generation project (19 pp.)  
8 (9/4/15)
- 9 KKS-8 Company's Response to ICNU Data Request No.  
10 198 (1 pg.) (9/4/15)
- 11 KKS-9 Email Communication from Liz Andrew, Avista,  
12 to David Gomez, Commission Staff, carbon copy  
13 to David Machado, Avista and Dated  
14 July 14, 2015, Regarding DR 183 Attachment C  
15 (1 pg.) (9/4/15)
- 16 KKS-10 Report to Shareholders With a Chart of Capital  
17 Expenditures by Functional Group (2 pp.)  
18 (9/4/15)
- 19 KKS-11 2014 Capital Expenditure Final Report and 2015  
20 Capital Expenditures Plan Update, Filed on  
21 February 26, 2015 (38 pp.) (9/4/15)
- 22 KKS-12 Avista's Response to Public Counsel Data  
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24 (2 pp.) (9/30/15)
- 25 JSS-1T Direct Testimony of Jennifer S. Smith (54 pp.)  
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- JSS-2 Avista Pro Forma Cross Check for Electric  
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- JSS-3 Avista Pro Forma Cross Check for Natural Gas  
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- JSS-4T Rebuttal Testimony of Jennifer S. Smith  
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- JSS-5 Revised Pro Forma Electric Cross Check Study  
(10 pp.) (9/4/15)



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5	JSS-8 Avista's Response to Public Counsel Data Request No. 94 (2 pp.) (9/30/15)
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7	TLK-1T Direct Testimony of Tara L. Knox (14 pp.) (2/9/15)
8	TLK-2 Narrative of the Electric Cost of Service Study Process (9 pp.) (2/9/15)
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10	TLK-3 Electric Cost of Service Study Summary Results (4 pp.) (2/9/15)
11	JDM-1T Direct Testimony of Joseph D. Miller (22 pp.) (2/9/15)
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13	JDM-2 Narrative of the Natural Gas Cost of Service Study Process (9 pp.) (2/9/15)
14	JDM-3 Natural Gas Cost of Service Study Summary Results (4 pp.) (2/9/15)
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16	JDM-4TR Rebuttal Testimony of Joseph D. Miller (7 pages) (10/11/19)
17	JDM-5R Electric Changes by Service Schedule (2 pages) (10/11/19)
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19	JDM-6R Natural Gas Changes by Service Schedule (2 pp.) (10/11/19)
20	PDE-1T Direct Testimony of Patrick D. Ehrbar (38 pp.) (2/9/15)
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22	PDE-2 The Company's Present Electric Tariffs and Service Schedules (15 pp.) (2/9/15)
23	PDE-3 The Company's Proposed Electric Tariff Sheets (16 pp.) (2/9/15)
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12	PDE-11C Responses to ICNU Data Request Nos. 268 & 269, including attachments (14 pp.) (9/30/15), (Confidential)
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14	PDE-12 The Company's Response to The Energy Project's Data Request No. EP-10 (2 pp.) (9/30/15)
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16	PDE-13 The Company's Response to The Energy Project's Data Request No. EP-11 (1 pg.) (9/30/15), revised (10/1/15)
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18	DN-1T Response Testimony of Dave Nightingale (16 pp.) (7/27/15)
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22	DR-1 Staff's Response to The Energy Project's Data Request (1 pg.) (9/30/15)
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24	CSH-1T Response Testimony of Christopher S. Hancock (33 pp.) (7/27/15)
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4	CSH-3 Natural Gas Pro Forma Analysis (11 pp.)
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14	CRM-4 Avista Revised Electric Attrition Study
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18	CRM-5 Avista Revised Natural Gas Attrition Study
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18	8/5/15) (Confidential)
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21	DCG-7 Avista Response to Staff DR 133 and Attachments
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- 6 DCG-15C Avista Response to Staff DR 140 and Attachments  
7 B and C (3,188 pp.) (7/27/15) (See flash drive)  
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- 9 DCG-16C Avista Supplemental Response to Staff DR 141C  
10 and Attachment A - PCRs for Five Point and  
11 Ernst and Young (26 pp.) (7/27/15) (revised  
12 8/5/15) (Confidential)
- 13 DCG-17C Avista Supplemental Response to Staff DR 152C  
14 and Attachment A, and Supplemental Response  
15 Attachment A (12 pp.) (7/27/15) (Confidential)
- 16 DCG-18C Avista Supplemental Response to Staff DR 153C  
17 and Attachments A and B (20 pp.) (7/27/15)  
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- 19 DCG-19 Avista Response to Staff DR 154 (1 pg.)  
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- 21 DCG-20 Avista Compliance Filing in Dockets UE-140188  
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23 (40 pp.) (7/27/15), revised (304 pp.) (8/5/15)  
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- 25 DCG-21 Direct Testimony and Select Exhibits of Dave B.  
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- DCG-22 Avista witness Jennifer S. Smith workpaper in  
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- DCG-27 Docket UE-140188, Work papers of Elizabeth Andrews, Worksheet; WA CapX Additions 12.31.14 (26 pp.) (7/27/15)
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- DCG-29 Direct Testimony of Avista witness Heather L. Rosentrater, Exhibit No. \_\_\_ (HLR-1T) in UE-140188 and UG-140189 (consolidated) (36 pp.) (7/27/15)
- DCG-30 Direct Testimony of Avista witness Scott J. Kinney, Exhibit No. \_\_\_ (SJK-1T) in UE-120436 (43 pp.) (7/27/15)
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- DCG-32 Avista 2015-2017 Two-Year Plan for Managing Replacement of Select Pipe Natural Gas System (19 pp.) (7/27/15)
- DCG-33 Avista Response to Staff DR 143 with Supplemental Responses through July 10, 2015 (28 pp.) (7/27/15)
- BRA-1T Response Testimony of Barbara R. Alexander (51 pp.) (7/27/15)
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17	Poverty Served by Avista Utilities in
18	Washington State. By: Brian Kennedy, MS, D.
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1 LACEY, WASHINGTON; DECEMBER 6, 2019

2 9:30 A.M.

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4 P R O C E E D I N G S

5  
6 JUDGE DOROSHKIN: Let's be on the record.

7 Good morning, everyone. My name is Nelli Doroshkin, and

8 I am an administrative law judge with the Commission.

9 We're here today for a hearing in Dockets  
10 UE-150204 and UG-150205. This is the remand phase of  
11 the general rate proceeding of Avista Corporation. This  
12 case is on remand from the court of appeals with a  
13 direction to strike all portions of the attrition  
14 allowance attributing to Avista's rate base and  
15 recalculate Avista's rates without relying on rebates  
16 that are not used and useful.

17 So we will begin by taking short form  
18 appearances beginning with Avista.

19 MR. MEYER: Thank you, Your Honor. David  
20 Meyer for Avista.

21 MR. PEPPLER: Tyler Pepple for the Alliance  
22 of Western Energy Consumers.

23 MR. SWEETIN: Bob Sweetin for the Alliance  
24 of Western Energy Consumers.

25 MS. SUETAKE: Nina Suetake for Public

1 Counsel.

2 MS. CAMERON-RULKOWSKI: Jennifer  
3 Cameron-Rulkowski, Assistant Attorney General,  
4 representing Staff.

5 JUDGE DOROSHKIN: So we will address  
6 exhibits before the Commissioners join us. Yesterday  
7 Avista filed revisions to two exhibits, Exhibit EMA-20TR  
8 and Exhibit MTT-6TR. The deadline for filing exhibit  
9 errata was November 27th, but I will be waiving that  
10 deadline. Do any of the parties have any objections to  
11 the filed revisions?

12 MR. PEPPLER: No objection.

13 JUDGE DOROSHKIN: Then hearing none, do the  
14 parties stipulate to the admission of all the remand  
15 phase prefiled exhibits and testimony and the  
16 cross-examination exhibit that was filed?

17 MR. MEYER: Yes.

18 JUDGE DOROSHKIN: Okay. And this concludes  
19 the revisions that Avista filed yesterday.

20 MR. MEYER: Yes, I -- presumably the other  
21 parties would agree.

22 MR. PEPPLER: AWEC stipulates.

23 MS. SUETAKE: Yes, so does Public Counsel.

24 MS. CAMERON-RULKOWSKI: And Staff stipulates  
25 to the revised exhibits that were recently filed, and I

1 believe we already stipulated to the entry of the other  
2 exhibits.

3 JUDGE DOROSHKIN: That was before we went on  
4 the record.

5 So then I will provide a copy of the exhibit  
6 list to the court reporter at the conclusion of this  
7 hearing so they may be made part of the record.

8 Is there anything else to be addressed  
9 before the Commissioners join us?

10 MR. MEYER: No, Your Honor.

11 JUDGE DOROSHKIN: Okay. So this -- my  
12 understanding is that Avista will be waiving the  
13 cross-examination of witness Donna Ramas from Public  
14 Counsel?

15 MR. MEYER: That is correct.

16 JUDGE DOROSHKIN: Okay. So we will take a  
17 brief recess. After that, I will be joined by the  
18 Commissioners. Once we are joined by the Commissioners,  
19 we will begin with opening statements followed by  
20 cross-examination of the two witnesses in the submitted  
21 order of presentation, the questions from the Bench  
22 directed to the panel witnesses at the conclusion of  
23 their cross-examination and any redirect. And we will  
24 take a recess after the cross-examination of the Avista  
25 witness Andrews followed by any Bench questions to the



1 other witnesses at the conclusion of all  
2 cross-examination. So we are off the record.

3 (A break was taken from  
4 9:35 a.m. to 9:40 a.m.)

5 JUDGE DOROSHKIN: All right. We are back on  
6 the record following a short recess. I'm joined now by  
7 Chair Danner, Commissioner Rendahl, and Commissioner  
8 Balasbas.

9 The parties have stipulated to the admission  
10 of all the remand phase prefiled exhibits as revised  
11 including the cross-examination exhibit.

12 We -- with the Commissioners here, we will  
13 take short appearances again.

14 MR. MEYER: David Meyer for Avista.

15 MR. PEPPLER: Tyler Pepple for the Alliance  
16 of Western Energy Consumers.

17 MR. SWEETIN: Bob Sweetin for the Alliance  
18 of Western Energy Consumers.

19 MS. SUETAKE: Nina Suetake for Public  
20 Counsel.

21 MS. CAMERON-RULKOWSKI: Jennifer  
22 Cameron-Rulkowski, Assistant Attorney General,  
23 representing Commission Staff.

24 JUDGE DOROSHKIN: Okay. First we will have  
25 opening statements from all the parties and then we'll

1 follow the parties' agreed order of witnesses with the  
2 understanding that Avista has waived cross-examination  
3 of Public Counsel witness Donna Ramas, and then the  
4 Commissioners will present their questions to each of  
5 the three witnesses -- or the two witnesses will be  
6 cross-examined at the conclusion of the  
7 cross-examination of each witness.

8 We'll begin with opening statements.

9 MR. MEYER: Yes, Your Honor, may I proceed?

10 JUDGE DOROSHKIN: Yes.

11 MR. MEYER: All right. And I am David  
12 Meyer, and I'm offering some opening comments in this  
13 case. And I appreciate the opportunity, which we don't  
14 often take advantage of, to provide some introductory  
15 comments. My time is limited. I do not intend to give  
16 you a snapshot of every issue and every argument. That  
17 will come throughout today's session and in the  
18 posthearing briefs. But I would like to offer some  
19 perceptions and some context as you consider the  
20 evidence today and complete your deliberations.

21 It's been four years in the making to get  
22 here. What a journey that has been. It's -- it's been  
23 an odyssey of sorts, and I think all parties are perhaps  
24 relieved to know that we will have some finality at some  
25 point.

1           Now, if the dollars in this case weren't so  
2 staggering with some parties arguing for refunds in  
3 excess of 40 million, others in excess of 70 million, if  
4 the numbers weren't so staggering, this would be an  
5 interesting case, at least to the lawyers who argue.  
6 But unfortunately, given what's at stake, it's much more  
7 than just an exercise.

8           I will also say preliminarily that this is  
9 the type of case that, at least in my view, begged for  
10 settlement. And I want to assure the Commissioners that  
11 all parties participated earnestly and in good faith and  
12 worked hard to get there. They could not get there, but  
13 I want to thank the parties for their efforts along the  
14 way. As you can see, we are just too far apart on the  
15 issues, too far apart on the dollars.

16           Now, if I could argue this case just on the  
17 equities alone and put some snarly, difficult, tricky  
18 legal issues off to the side, I would love to do that,  
19 because I think that there's probably a fair amount of  
20 agreement that there are equities that one ought to keep  
21 in mind.

22           So what are those equities? Avista and I  
23 think the Commission, when it writes its orders, had  
24 been relying on 30-plus years of attrition precedent  
25 involving multiple cases and several utilities. And, in

1 fact, a prior version of attrition, a so-called K-factor  
2 case, was even appealed to Thurston County Superior  
3 Court by Public Counsel, and that appeal was rejected.

4 So it's no surprise that Avista brought to  
5 you in the 2015 rate case, an attrition case. There was  
6 plenty of precedent for it, and it is not surprising in  
7 my view that the Commission believed it had sufficient  
8 authority to embrace that precedent of over 30 years.

9 We believe that what was really at issue in the 25 --  
10 excuse me, 2015 rate case that triggered all of this was  
11 really a -- an issue of how to incorporate for the 2016  
12 test period a reasonable level of supportable rate base  
13 based on attrition adjustment.

14 Now, as we are at this point in the remand  
15 proceeding, when we began this process, we believe that  
16 what was at stake was approximately 2 million or so of  
17 electric revenue requirement associated with the 2015  
18 attrition rate base and another 2 or \$3 million of  
19 revenue requirement associated with the natural gas  
20 attrition rate base. Those are manageable numbers to  
21 deal with and to argue about, but this case has since  
22 morphed into something entirely different.

23 Claimed refunds now are in the amount of  
24 40-plus million or 70-plus million, well beyond the pale  
25 of reasonableness. And along the way, we're even being

1 asked -- well, the Commission is being asked to ignore  
2 the offsetting earnings sharing that occurred in the  
3 years '16, '17, and '18. Essentially a double-whammy.  
4 But most disturbing of all in my view, and this is my  
5 view, is that we have lost sight of the one thing that  
6 ever really mattered in the 2015 case, and that was to  
7 arrive at a level of used and useful plant in the 2016  
8 rate period.

9           And you know the supreme irony now? Supreme  
10 irony is that we now know, in fact, what the actual  
11 level of used and useful rate base was in that 2016  
12 period, and it was \$40 million higher than what was  
13 projected in the contested attrition rate base. And I  
14 know that because that was built into Staff's case in  
15 the subsequent case. They began with a proformed  
16 historical test period that was \$40 million higher, and  
17 in that case, they argued from there.

18           So we've -- we're in a strange position in  
19 this case, and I don't think that this is what  
20 reasonable regulation intended. But it may well be the  
21 result of a regulatory construct that isn't  
22 accomplishing what it was meant to do. And I know this  
23 Commission is well aware of that, and I know this  
24 Commission is trying to fix that, and we want to assist  
25 in every way possible.

1           So I talked about the equities, but of  
2 course we're here to deal with some of the legal  
3 constraints, wise or not. So what is the pathway  
4 forward? You have to decide something. And I would  
5 like to suggest, and the party has suggested a pathway  
6 forward for you. So what are some of the mileposts  
7 along the way of this pathway? One thing you do know is  
8 that the end result must be reasonable. Whatever trail  
9 you follow in this proceeding must produce a reasonable  
10 end result. The positions, the primary positions of all  
11 the other parties are unreasonable on their face  
12 producing an unreasonable, if not confiscatory, end  
13 result.

14           And how do we know? How do we know that?  
15 Well, we know that because you told us so. You told us  
16 so in this docket on reconsideration when you yourself  
17 declared that an 8.22 percent ROE would not produce a  
18 reasonable end result. And you will hear evidence today  
19 that the primary proposals of the parties will result in  
20 ROEs for the affected rate period that are at or below  
21 that unreasonable level. But nowhere in their prefiled  
22 testimony do those parties deign or bother to address  
23 the actual impact of what they're proposing, such as if  
24 it doesn't matter.

25           So what is the sweet spot? What's that

1 sweet spot for resolving this case and one that  
2 addresses the issues that remain on remand, one that  
3 produces an end result that is reasonable, what does  
4 that look like? We have proposed a, quote/unquote,  
5 compromise position. And in that compromise position,  
6 we're no longer arguing that, well, you ought to swap  
7 out actual 2016 rate base numbers, which I've already  
8 told you were much higher. What we're simply saying is  
9 let's -- let's begin with a proformed level of  
10 year-end -- or proformed level year-end numbers for  
11 2015. So we've -- we've addressed, no longer rely on,  
12 we've put to bed any further discussion about the  
13 attrition adjustment. Check that box, okay? That's  
14 step one.

15 Step two, we do not intend nor should you  
16 solve for the power cost alleged miscalculation. That  
17 is very apparently beyond the scope, beyond the pale of  
18 what the court remanded, and would be error of law were  
19 you to otherwise attempt to also adjust for that. And  
20 certainly we want to be done arguing over the law  
21 anymore in this docket.

22 Also, this pathway, this compromise position  
23 makes use of some, but not all, of the offset of  
24 earnings that were previously supplied. We're not  
25 asking you to offset every dollar, dollar for dollar, of

1 those returned earnings, just that portion that ties to  
2 the removed attrition rate base. Another attempt at  
3 compromise.

4 And lastly and very importantly, and this is  
5 such a key issue, it applies only to the 2016 rate  
6 period. It does not -- this may seem counterintuitive,  
7 but it does not and cannot bleed through to the rates in  
8 effect in 2017 and 2018, and you will see extensive  
9 briefing on this point.

10 This Commission heard the rate case after  
11 this challenge case, and that's a 2016 case resulting in  
12 2017 rates. That was a fully litigated case. It was  
13 based on a new updated test period, a test period that  
14 as I earlier mentioned began with proformed levels of  
15 rate base that exceeded by \$40 million the so-called  
16 attrition-adjusted rate base in the previous case. But  
17 you saw that case through to conclusion. You made a  
18 determination, but you had to make a determination on  
19 something, and that something was a fresh record. And  
20 you know what you didn't have in front of you in that  
21 case? You didn't have the 2015 rate case record in  
22 front of you. That was not part of the record. So you  
23 only could look at what was in front of you.

24 So you determined that the existing level of  
25 rates, existing level of rates given this fresh



1 evidence, was still sufficient. Some argued for a  
2 reduction, Avista argued for an increase, but you said,  
3 ah, offsetting one against the other, we still think  
4 that the existing level is sufficient. It was a  
5 reaffirmation of a level, but it was a determination.

6 This case would be different if you had  
7 simply rejected the filing at the outset and not held  
8 hearings and not made a determination. But once you  
9 went down that path, once you entertained new evidence,  
10 you had to decide the case on this new evidence, which  
11 did not have the 2015 levels of attrition rate base in  
12 it. So there is underlying that, a very strong legal  
13 concern that we have. Of course the Commission can only  
14 decide cases on the record before it.

15 So where does -- where does this compromise  
16 position lead you? It would produce an electric refund  
17 of approximately \$1.3 million and the gas refund of  
18 approximately \$1.58 million. That is a reasonable end  
19 result. That would still not take us to where we had  
20 been by way of our authorized rate of return, but it is  
21 a fair result.

22 Finally, my last point is this, whatever  
23 your decision, I ask you to follow, please follow the  
24 various proposals before you today to where they finally  
25 lead and don't stop short. Please follow them and ask

1 yourself as you did in Order 06, the reconsideration  
2 order, whether those proposals produce a reasonable end  
3 result. That is the objective of regulation. Thank  
4 you.

5 JUDGE DOROSHKIN: Thank you, Mr. Meyer.

6 Let's just go around the table and AWEC can  
7 present its opening statement.

8 MR. PEPPLER: Thank you, Your Honor. Good  
9 morning, Commissioners. Tyler Pepple for the Alliance  
10 of Western Energy Consumers. Through the testimony of  
11 Bradley Mullins, AWEC recommends the Commission order  
12 Avista to refund 57.8 million to its electric customers  
13 and 19.2 million to its gas customers. AWEC's  
14 recommendation is driven primarily by two decisions.

15 The first, of course, is the court of  
16 appeals order remanding the Commission's final order in  
17 this docket. Because that decision is the basis for  
18 this phase of the proceeding, it's worth revisiting  
19 precisely what the court of appeals required the  
20 Commission to do now. In its decision, the court stated  
21 because the projections of future rate base were not,  
22 quote/unquote, used and useful for service in  
23 Washington, we conclude that the WUTC may not base  
24 Avista's rates on them.

25 Accordingly, the UTC erred in calculating

1 Avista's electric and natural gas rates. The UTC order  
2 provided one lump sum attrition allowance -- excuse  
3 me -- without distinguishing what proportion -- what  
4 portion was for rate base and which was for O&M expense  
5 or other considerations. We strike all portions of the  
6 attrition allowance attributable to Avista's rate base  
7 and reverse and remand for the UTC to recalculate  
8 Avista's rates without relying on rate base that is not  
9 used and useful. That's the direction from the court.

10 The other decision guiding AWEC's position  
11 is this Commission's Order 06 in this docket denying  
12 reconsideration of its final order. There the  
13 Commission rejected parties' recommendations to reflect  
14 an adjustment to the power cost baseline in isolation  
15 finding in paragraph 16 that, quote, a change in any  
16 specific data or assumption used in the attrition model  
17 will invariably affect other data in the model and needs  
18 to be assessed logically on a holistic basis, not on a  
19 selective basis inside or outside of the model.

20 Avista's approach in this case, which simply  
21 removes the return on attrition-related rate base from  
22 the attrition model, does not assess all data on the --  
23 in the model on a holistic basis as the Commission found  
24 was the proper approach.

25 AWEC's approach by contrast does do this,

1 which necessitates accounting for all inputs into the  
2 model including power costs. Mr. Mullins testifies that  
3 if the -- quote, If the attrition allowance model is to  
4 be reopened to determine the portions attributable to  
5 rate base versus operating expenses or other  
6 considerations, then it is appropriate for the model  
7 also to be adjusted to consider the full impact of the  
8 power supply update. Without adjusting for the power  
9 supply update, a recalculation of the attrition  
10 adjustment, including pro forma additions, will yield an  
11 inaccurate result.

12 For this reason, power costs in this  
13 proceeding do, quote, rely on rate base, unquote,  
14 because absent addressing the proper level of power  
15 costs, the Commission would not be able to accurately  
16 ascertain the amounts attributable to rate base or the  
17 other various categories of revenue requirement.

18 Avista's approach also does not result in a  
19 recalculation of its rates without relying on rate base  
20 that is not used and useful as the court required.  
21 That's because Avista ignores escalation of depreciation  
22 expense in the attrition model. As Avista itself  
23 testifies, quote, Rate base are the investments made to  
24 serve customers. The Company is allowed to receive a  
25 return on rate base, rate of return, as well as the

1 return of rate base, depreciation, unquote.

2 Depreciation expense, in other words, is attributable to  
3 rate base.

4 Avista's approach addresses the first half  
5 of its rate base definition, but not the second half.

6 AWEC's approach addresses all of rate base by removing  
7 attrition-related depreciation expense as well.

8 Finally, AWEC's recommendation --  
9 recommended refund includes interest. Avista objects to  
10 including interest on the sole basis that it has not  
11 booked a liability associated with any refund. But  
12 Avista received revenue from customers that it  
13 ultimately was determined was not legally authorized to  
14 receive. Avista presumably made productive use of this  
15 revenue, which would have resulted in additional costs  
16 of the Company had it not received this revenue.  
17 Customers should be appropriately compensated.

18 Moreover, Avista does not just dispute the  
19 rate of return Mr. Mullins recommends, a pretax cost of  
20 capital rate of return, but appears not even to agree  
21 that a refund should reflect the time value of money.  
22 Rejecting any interest at all would devalue the refund  
23 owed to customers.

24 AWEC's refund amount is calculated over a  
25 2.3-year period similar to Staff and Public Counsel.

1 Now, you heard Mr. Meyer argue that an 11-month period  
2 is the appropriate, legally justifiable period. AWEC,  
3 Public Counsel, and Staff all disagree with that.

4 The -- the theory Avista relies on is that  
5 its rates were, quote/unquote, reexamined in the 2016  
6 rate case and the Commission, quote, relied on fresh  
7 data, unquote, to conclude that the Company's existing  
8 rates from the 2015 case were fair, just, and  
9 reasonable. In fact, the Commission found in the 2016  
10 rate case that, quote, The record in this proceeding  
11 does not support a determination by the Commission that  
12 Avista's current rates are not fair, just, reasonable,  
13 or sufficient, unquote.

14 Avista's 2015 rate case, therefore, were not  
15 re-examined, nor did the Commission rely on fresh data.  
16 They maintained existing rates from the 2015 attrition  
17 adjustment that has now been found to be unlawful.  
18 Avista's 2015 rates, therefore, were in effect until the  
19 effective date of its 2017 rate case, or 2.3 years, and  
20 the Commission's order refund amount must recognize this  
21 fact. Thank you.

22 JUDGE DOROSHKIN: Thank you.

23 Ms. Suetake?

24 MS. SUETAKE: Thank you, Your Honor. Good  
25 morning, Commissioners. Through the testimony of Public

1 Counsel's witness, Donna Ramas, Public Counsel  
2 recommends that the Commission refund to customers 36.2  
3 million for the electric revenue requirement and 4.9  
4 million for gas. Avista, through its -- in this  
5 litigation position, contends that no refund is owed to  
6 customers despite the fact that customers overpaid  
7 through its incorrectly calculated rates for over two  
8 years. To achieve this result, Avista essentially  
9 erases the error by comparing actual rate base for 2016  
10 contained in its Commission basis report to the amount  
11 contained in the contested attrition study.

12 The Commission's Order No. 5 in the original  
13 case and the court of appeals decision, however, was  
14 based on what was known and measurable at the time and  
15 in the record. Neither the Commission nor the court  
16 have relied on the actual 2016 rate base amounts  
17 contained in the CBR, and the CBR cannot be the basis of  
18 the recalculation of rates in this remanded -- remanded  
19 proceeding.

20 Avista's approach negates the fact that  
21 customers were actually overpaying through rates.  
22 Avista can now -- Avista cannot now simply pretend that  
23 it didn't happen by pointing to the fact that it  
24 actually spent more than it anticipated at the time.

25 Avista also achieves its zero refund

1 position by arguing that the power costs should not be  
2 included in this remand. While I will not go into all  
3 the arguments regarding power costs at this time, I will  
4 point out that the court reversed its order setting  
5 Avista rates -- reversed the order setting Avista's  
6 rates and remanded the proceeding back to this  
7 Commission to recalculate all of its rates. The court  
8 did not rule on the issue of power cost because it did  
9 not need to reach all of the issues that were raised in  
10 order to determine that the case needed to be remanded.

11 Avista also contends that any refund it  
12 returns must be offset by the amount refunded to  
13 Commission -- to customers through the decoupling  
14 earning sharing mechanism. While customers did benefit  
15 from earning sharing during the contested rate period,  
16 it must be recognized that Avista was overearning during  
17 the time period in part because of how the rates were  
18 calculated. Customers were overpaying and Avista was  
19 overearning. If the power costs are not updated in this  
20 proceeding, amounts refunded here should not be offset  
21 by amounts returned to customers through the earning  
22 sharing.

23 Avista shareholders benefitted as a result  
24 of how the rates were set, and they kept 50 percent of  
25 those overearnings as well as any amount overearned up



1 to that threshold. They should not now be additionally  
2 rewarded by being allowed to offset any refunds with  
3 earning sharing.

4 Finally, Avista argues that the time period  
5 to calculate any refunds should be limited to the  
6 11-month period; however, customers were, again,  
7 actually overpaying for their rates for 2.3 years.  
8 Avista argues that the rates were reset by its 2016 rate  
9 case, but the Commission rejected Avista's proposed  
10 revenue requirements, and, indeed, the Commission  
11 declined to apply any party's proposed revenue  
12 requirements. The Commission rejected the proposed  
13 tariffs and did not disturb the existing rates, which  
14 means the errors carried forward and ratepayers  
15 continued to overpay until the next rate case.

16 For these reasons and the reasons stated  
17 throughout Public Counsel's testimony, we urge the  
18 Commission to seriously consider the equity means that  
19 ratepayers should be refunded in the amounts that we  
20 have proposed. Thank you.

21 JUDGE DOROSHKIN: Thank you.

22 Ms. Cameron-Rulkowski?

23 MS. CAMERON-RULKOWSKI: Good morning, Chair  
24 Danner and Commissioners Rendahl and Balasbas and Judge  
25 Doroshkin. Mr. Pepple from AWEC has quoted important

1 provisions from the -- the decision of the court of  
2 appeals, and so I will quote a very small portion of  
3 that. The court of appeals in its conclusion remanded  
4 the case for the Commission to recalculate Avista's  
5 rates without relying on rate base that is not used and  
6 useful. That is exactly what Staff has done.

7 Staff went back to the Commission's final  
8 order, Order 5, in this case, looked at the order  
9 carefully, looked at what the Commission said, what the  
10 Commission's decision was, and what it said about each  
11 issue, and then Staff carefully incorporated the  
12 Commission's decisions into its analysis and  
13 recalculated Avista rates. And that's what Staff  
14 presented to the Commission.

15 Staff also tried to look at different  
16 options and has provided testimony on those different  
17 options. And those are -- those are in the testimony of  
18 Mr. McGuire and then some issues elaborated on by  
19 Mr. Ball.

20 When Staff -- when Staff looked at how to do  
21 these calculations, Staff made a different decision than  
22 Avista and went back to the data that was available to  
23 the Commission at the time. And Staff's calculation of  
24 the rates is based -- is based on that data, and Staff  
25 doesn't believe that later data should be incorporated

1 into the calculation.

2 Like the other noncompany parties, Staff  
3 looked at -- carefully at the order in the Avista 2016  
4 rate case, and it's pretty clear that the Commission did  
5 not set rates in that order, which means that these same  
6 rates persisted for 2.3 years, and not for the 11 months  
7 that Avista is arguing.

8 One important difference in Staff's case is  
9 that Staff declined to look back to the past and  
10 speculate about how Avista would have run its business.  
11 So in -- in this case, there's -- Mr. Meyer made some  
12 complaint about the parties not addressing the -- well,  
13 presumably the rates of return; however, Staff views  
14 these rates of return as entirely speculative because we  
15 simply do not know how the Company would have run its  
16 business under -- under different rates.

17 And along those lines, Staff also views the  
18 cal- -- views the application of earning sharings to be  
19 also speculative because we simply don't know what the  
20 earnings would have been. It's not an accurate  
21 calculation. And moreover, refunds are not accounted  
22 for in those -- in earning sharing, and they -- they --  
23 earning sharing does not need to be -- does not need to  
24 be considered in whatever the refunds may end up being  
25 in this case.

## EXAMINATION OF ANDREWS / MEYER

1 Staff looked at how any potential refunds  
2 that are ordered should be passed back. Because we  
3 don't know what the amount would be, we didn't want to  
4 make a specific recommendation, but the general  
5 framework would be that the larger the refund, then the  
6 more extended the period over which they should be  
7 passed back. And that's considering fairness to -- to  
8 the Company and the ratepayers, balancing the interest  
9 of those two. And the refund that Staff calculated is  
10 approximately \$36 million for electric and approximately  
11 \$7 million for gas, and this is calculated over a period  
12 of 2.3 years. And that concludes my opening statement.  
13 Thank you.

14 JUDGE DOROSHKIN: Thank you.

15 So we will call Avista witness, Elizabeth  
16 Andrews, please.

17 MR. MEYER: Thank you.

18 JUDGE DOROSHKIN: Before you take a seat,  
19 Ms. Andrews, if you could raise your right hand.

20 (Elizabeth Andrews sworn.)

21 THE WITNESS: Good morning.

22

23 EXAMINATION

24 BY MR. MEYER:

25 Q. Good morning, Ms. Andrews.

**EXAMINATION OF ANDREWS / MEYER**

1 A. Good morning.

2 **Q. Since all of your exhibits have been by**  
3 **stipulation entered into the record, there's no need for**  
4 **me to lay a foundation and ask you the typical**  
5 **questions.**

6 I will ask just one, though, and that is, I  
7 realized that the parties and the Commission have  
8 received revised pages that, based on earlier  
9 stipulations, found their way into your exhibit; is that  
10 correct?

11 A. Yes.

12 **Q. Beyond that, do you have any other changes or**  
13 **corrections?**

14 A. No, I do not.

15 MR. MEYER: Okay. With that, she is  
16 available for cross.

17 JUDGE DOROSHKIN: Oh, yes, turn on your  
18 microphone.

19 THE WITNESS: Oh, sorry, thank you.

20 JUDGE DOROSHKIN: Thank you.

21 Ms. Suetake?

22 MS. SUETAKE: Thank you.

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EXAMINATION OF ANDREWS / SUETAKE

EXAMINATION

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BY MS. SUETAKE:

**Q. Good morning.**

A. Good morning.

**Q. Do you have a copy of your rebuttal testimony in front of you?**

A. I do.

**Q. Could you please turn to pages 53 and 54?**

A. Yes, I'm there.

**Q. Is it correct that in this section you're addressing the impacts of the various party positions on the revenue returns earned by Avista?**

A. Yes, I am.

**Q. Can you please turn to table No. 20 on page 54?**

A. Yes.

**Q. Is it correct that this table shows the earned return incorporating parties' positions?**

A. Yes.

**Q. So and it shows this year-by-year impact; is that correct?**

A. Correct.

**Q. Okay. If the Commission orders refunds in this case, will the Company file revised financial statements for 2016, '17, or '18 at the Securities and Exchange Commission?**

**EXAMINATION OF ANDREWS / SUETAKE**

1 A. No, we're not -- no, it will not.

2 **Q. Okay. And if the Commission orders refunds in**  
3 **this case, will the Company report to shareholders that**  
4 **the net operating income reported in those three years**  
5 **was incorrect or needs to be revised?**

6 A. No, but the -- the reason why we took this  
7 approach is because I felt this was probably a better  
8 way than to present to the Commission that the parties'  
9 positions would result in anywhere from 300 to 600 based  
10 upon reductions in whatever year we recorded.

11 **Q. Okay. So then similarly, if the Commission**  
12 **orders refunds, will the Company report to shareholders**  
13 **that the earnings per share reported in those three**  
14 **years in those financial statements need to be revised?**

15 A. No, we will not have to revise them. We will  
16 report it all in -- record it all in one year.

17 **Q. That was my next question actually.**  
18 **So it's correct that you would be reporting it**  
19 **all -- recording it all in one year?**

20 A. Correct.

21 **Q. And then if we could turn to page 48 of your**  
22 **rebuttal testimony, please. And if you could look at**  
23 **lines 3 and 4, the question that says, (as read) If this**  
24 **Commission were to order refunds for the approximate**  
25 **2.3-year period as proposed by parties, how should**

**EXAMINATION OF ANDREWS / SUETAKE**

1 **earning sharing amounts be applied; do you see that?**

2 A. I do.

3 **Q. Okay. So in answer to that question, is it**  
4 **correct that table 17 in your testimony provides the**  
5 **total earning sharing refunds for 2016 to 2018 as well**  
6 **as the total annual and prorated earning sharing amounts**  
7 **for the 2016 year -- rate year as well as the '16 to '18**  
8 **rate periods? So you -- is it correct that it provides**  
9 **both just the short period and the long period for the**  
10 **years?**

11 A. Yes, for informational purposes, we did provide  
12 both the -- we provided '16 through '18 for information  
13 purposes, but you know our position is '16 only.

14 **Q. Then on line 3 of this table, is it correct that**  
15 **line 3 says you -- is it correct that you prorate the**  
16 **portion of earnings sharing offset that would be applied**  
17 **to the 2016 rate effective period?**

18 A. We -- for the earning sharing, we actually in --  
19 in -- for our rebuttal position actually adjusted it  
20 twice. We didn't include the total earning sharing that  
21 actually occurred in 2016, we only attributed the rate  
22 base portion, and we prorated it to be 11 months in  
23 2016.

24 **Q. Okay. And so the 92.6 percent is the**  
25 **11-month --**



**EXAMINATION OF ANDREWS / SUETAKE**

1 A. Approximately 11 months, yeah.

2 **Q. Okay. So is it correct that that assumes a**  
3 **period from January 11th, 2016, to December 15th, 2016?**

4 A. It does.

5 **Q. Okay, it does.**

6 **So if we -- so do you agree that if the**  
7 **Commission determines the rate effective period is**  
8 **January 11th, 2016, to April 30th, 2018, the pro-rata**  
9 **factor applied to 2016, the year 2016, should be revised**  
10 **to extend through December 31st? So you would have to**  
11 **add December 16th through December 31st?**

12 A. In effect, the total 2.76 I think incorporates  
13 all of that.

14 **Q. Could you have a copy of your Exhibit 23R in**  
15 **front of you?**

16 A. I do.

17 **Q. Okay.**

18 A. Yes, I do.

19 **Q. Could you briefly describe the purpose of this**  
20 **exhibit?**

21 A. So this exhibit was to walk through the steps  
22 of -- of number one, calculating what the overall rate  
23 base impact was comparing the attrition study rate base  
24 level approved versus the pro forma rate base level  
25 approved, get a level of additional rate base, attrition

**EXAMINATION OF ANDREWS / SUETAKE**

1 rate base, the revenue requirement for that rate base,  
2 and then we've prorated that for 11 months. That's in  
3 the first box.

4 This second box, table 2, explains the total  
5 earning sharing for 2016. So for in this case, the  
6 total earnings that were refunded to customers during  
7 that time period was 2.6 million. We then adjusted the  
8 over -- the total over -- or the total sharing, earning  
9 sharing that were paid to customers, we reduced that to  
10 take into effect the rate base, the attrition rate base  
11 amount, so therefore, in effect, reduce the earning  
12 sharing that we're saying that we should -- that should  
13 be applied to whatever refund.

14 And then the bottom -- the bottom portion  
15 calculates the -- the actual once you've considered the  
16 earning sharing, what the level would be that you would  
17 return to customers. And so we start with '16, but we  
18 also provided '17 and '18. So in this case, we had '16,  
19 provided the -- the full year of '17, and then three  
20 months of -- of 2018.

21 **Q. Okay. Thank you.**

22 **Is it -- do you see that there are several**  
23 **references throughout this exhibit of the time period of**  
24 **January 11th, 2016, through December 15th of 2016?**  
25 **Again, that 11-month time period?**

**EXAMINATION OF ANDREWS / SUETAKE**

1 A. I do. I guess I do see your point that perhaps  
2 instead of the 1.326, it might be maybe 1.375 -- I mean,  
3 there might be a tiny bit -- not even a -- less than a  
4 hundred thousand.

5 **Q. Okay. Right, so --**

6 A. I see your point.

7 **Q. Right. So, yeah, would you agree that all of**  
8 **these numbers would have to be slightly adjusted in the**  
9 **two thousand -- for the total numbers to include that**  
10 **15-day time period?**

11 A. I see what you mean that that 3.7 would probably  
12 have to be -- maybe it's 3.8.

13 **Q. Okay. So would you agree that would be the same**  
14 **for all of these calculations that use that?**

15 A. Only in probably the total column because --

16 **Q. Right.**

17 A. -- the '16 column stands at the 11 months from  
18 what we are proposing, but you're correct, the total  
19 sharing column of 3.7, I should have included the  
20 incremental portion.

21 **Q. Right, okay.**

22 MS. SUETAKE: Thank you. That was -- that  
23 is all my questions.

24 JUDGE DOROSHKIN: And then AWEC, is it  
25 Mr. Pepple or Mr. Sweetin?

## EXAMINATION OF ANDREWS / PEPPLER

1 MR. PEPPLER: I'll be conducting the  
2 questioning. We have a -- as you -- one cross-exhibit  
3 stipulated into the record. I would propose to hand it  
4 out now for efficiency purposes if that's okay. Are  
5 there any -- does the Commission need any copies? We  
6 have extras if so.

## EXAMINATION

7  
8  
9 BY MR. PEPPLER:

10 **Q. Ms. Andrews -- Andrews, when -- can you turn to**  
11 **page 37 of your rebuttal testimony, please?**

12 A. I'm there.

13 **Q. Okay. I'm looking at lines 8 through 10. There**  
14 **you testify that the court specifically referenced**  
15 **attrition rate base, which in this context refers to the**  
16 **escalated net plant after 80 FIT balances that are**  
17 **separate and distinct in the approved attrition studies;**  
18 **do you see that?**

19 A. Correct.

20 **Q. And I just noticed that you -- you put quotation**  
21 **marks around net plant after 80 FIT. Are you quoting**  
22 **the court's decision there?**

23 A. No, I'm just quoting the -- the title of that  
24 particular field, that particular -- you know, there was  
25 multiple -- as this mentioned, there was four and five

## EXAMINATION OF ANDREWS / PEPPL

1 different items that were escalated. That's just the  
2 title of one of them.

3 **Q. Okay. So to the best of your knowledge, the**  
4 **court did not specifically reference attrition rate base**  
5 **as net plant after 80 FIT?**

6 A. No, they just specifically said rate base. But  
7 in the utility business, typically rate base is --  
8 includes accumulated depreciation accumulated for income  
9 taxes.

10 **Q. Okay. And so my understanding of how you**  
11 **identified the revenue requirement impact of removing**  
12 **attrition rate base as you define it, is that you**  
13 **essentially removed the return on the attrition rate**  
14 **base; is that more or less accurate?**

15 A. We removed the -- we -- we adjusted the -- the  
16 rate base portion to a 0 percent.

17 **Q. Right. Which from a revenue requirement**  
18 **perspective --**

19 A. Correct, and determined revenue requirement on  
20 that balance.

21 **Q. Okay. And in this section of your rebuttal**  
22 **testimony, you specifically object to Mr. Mullins also**  
23 **removing attrition-related depreciation expense; is that**  
24 **correct?**

25 A. I do. I do not believe that that's what the

**EXAMINATION OF ANDREWS / PEPPL**

1 court of -- court of appeals remanded back to this  
2 Commission when they said remove or restate rate base.  
3 They're -- when the attrition model is calculated, and  
4 this was done by all of the parties when we've done  
5 attrition analysis in the '15 rate case, the rate base  
6 portion is escalated very distinct and separate from the  
7 depreciation expense. So when changes are made, they  
8 are based on historical data from the individual  
9 components. There isn't a connection between the two  
10 when you're doing those escalations.

11 And even, for example, this Commission when, in  
12 the 2015 order, ordered a 0 percent escalation for  
13 distribution plant, did not also explain that they felt  
14 the depreciation expense on that distribution plant  
15 should also be zeroed out. And I don't believe any  
16 party in that case took that -- took that direction.

17 **Q. Right.**

18 **So I guess if I understand, you're -- you're**  
19 **essentially saying that depreciation -- the escalation**  
20 **of depreciation expense in the attrition model was**  
21 **calculated separately from the escalation of rate base?**

22 A. Correct.

23 **Q. Of plant and service I should say.**

24 A. Correct.

25 **Q. Okay. So can you turn to your direct testimony**

**EXAMINATION OF ANDREWS / PEPPL**

1 **in this case, which is EMA-9T, and I'm looking at page**

2 **9.**

3 A. Let me find it. Sorry.

4 **Q. And are --**

5 A. I'm at 9. I don't know what page yet.

6 **Q. I'm sorry, page 9.**

7 A. Oh, I'm sorry.

8 **Q. And I'm looking at lines 1 through 3, after the**  
9 **sentence, "No, it is not," can you just read the next**  
10 **two sentences there?**

11 A. (As read) Rate base are the investments made to  
12 serve customers. The Company is allowed to receive a  
13 return on rate base rate of return as well as the return  
14 of rate base depreciation.

15 **Q. Okay. So leaving aside the question of whether**  
16 **depreciation expense was separately calculated in the**  
17 **attrition model from plant and service, you would agree**  
18 **generally speaking that depreciation expense and rate**  
19 **base are related?**

20 A. Well, I would agree that when you calculate a  
21 revenue requirement, you first pick up -- you first  
22 include the expenses, depreciation, and taxes, and your  
23 determination of revenue requirement, which depreciation  
24 is a return of that plant. But rate base is a function  
25 of the rate base times its return in order to determine

**EXAMINATION OF ANDREWS / PEPPL**

1 what is included in a revenue requirement. So I -- I  
2 believe that with the court of appeals remanding back  
3 the rate base, they specifically mentioned expenses,  
4 that that was not -- that the escalation of expenses  
5 were fine, but it was the used and useful plant that  
6 they had their concern with that didn't meet the law  
7 that they remanded back to this Commission.

8 **Q. So what is your understanding for why there is**  
9 **an escalation of depreciation expense -- expense in the**  
10 **attrition model?**

11 A. There is an escalation of depreciation expense  
12 because we know that our annual depreciation expense in  
13 the outer years due to new investment will increase.  
14 But that's no different than we also know that operating  
15 expenses will change because we have investment, we know  
16 property taxes will change because we have new  
17 investment. So you could pretty much tie our entire  
18 business to the increase investment that we have. So  
19 does that mean that we should have zeroed out all of our  
20 expenses? I just don't think it works that way. I  
21 truly think that they're separate and distinct, and  
22 that's what this Commission remanded back.

23 **Q. Okay. But perhaps a distinguishing factor would**  
24 **be that depreciation, as you testified, is a return of**  
25 **rate base?**



**EXAMINATION OF ANDREWS / PEPPL**

1 A. That's true.

2 **Q. Okay. And then if you could go back to your**  
3 **rebuttal testimony on page 38.**

4 A. I'm there.

5 **Q. Okay. And looking at lines 3 through 10, you**  
6 **testify that Mr. Mullins overstated the adjustment**  
7 **related to removing depreciation expense by applying the**  
8 **revenue growth factor to pro forma rate base?**

9 A. That's correct.

10 **Q. Okay. And you say that that's -- that**  
11 **overstates his adjustment by 2.5 million; is that**  
12 **correct?**

13 A. Correct.

14 **Q. Do you know approximately how that 2.5 million**  
15 **would be allocated between electric and gas?**

16 A. Not -- not offhand. I -- I can't --

17 **Q. Do you have a ballpark --**

18 A. -- it's -- if I had to guess, I'd say it's  
19 probably 80/20, 88 percent electric -- but I don't -- I  
20 don't know.

21 **Q. Okay.**

22 A. Unfortunately. I'm sorry, from the time I did  
23 that, I don't recall the...

24 **Q. Okay. Fair enough.**

25 **Okay. And then going down to the next Q and A**

**EXAMINATION OF ANDREWS / PEPPL**

1 **on that same page, page 38.**

2 A. And -- and I do want to clarify, that's just the  
3 error of how we calculated it, not the total change in  
4 depreciation that I assume he was making.

5 **Q. Correct.**

6 A. Sorry.

7 **Q. So line 11 on page 38, you also object to**  
8 **Mr. Mullins' proposal to include interest on the**  
9 **over-collected amount; is that correct?**

10 A. I do.

11 **Q. Okay. So what did Avista just generally**  
12 **speaking, you don't have to give me every detail, but**  
13 **general speaking, what did Avista do with the revenue it**  
14 **collected from its 2015 rates?**

15 A. Well, those revenues were used, of course, to  
16 run the business, to operate the business, and to the  
17 extent that there were amounts that were owed  
18 shareholders or shareholders portion would have been  
19 probably paid out in dividends or invested back into the  
20 business.

21 **Q. Okay. And I guess if you didn't have that**  
22 **additional revenue, in order to achieve the same**  
23 **results, you would have had to presumably borrow money**  
24 **or issue equity to get the same level of revenue to**  
25 **operate the business and that kind of -- how -- how**

**EXAMINATION OF ANDREWS / PEPPL**

1 **would it -- how would you fund -- how would you operate**  
2 **the business in the absence of those revenues?**

3 A. Well, we -- we -- the way we fund our business  
4 is almost 50/50 around whether it be debt or whether it  
5 be equity. So that's how we would get our funds and  
6 that's how we run our business.

7 **Q. Okay. And that would have represented a cost to**  
8 **Avista if you had issued more -- issued more debt?**

9 A. Issued more debt.

10 **Q. Okay. And in your -- in your objection to**  
11 **Mr. Mullins' interest proposal, are you -- is it your**  
12 **testimony that no interest rate at all should apply or**  
13 **simply that Mr. Mullins' proposed interest rate is**  
14 **incorrect?**

15 A. Well, in a way both, because no interest should  
16 apply until we actually have liability. That's how  
17 the -- that's how it typically works. When we have a  
18 liability that's owed and the Commission has ordered  
19 that we would owe refunds to customers, that is the  
20 point in time we would begin to accrue interest. So for  
21 approximately the last four years, we do not -- we have  
22 not had a liability on our books. And so until we do,  
23 we don't typically record interest, and typically we  
24 would not record interest until the Commission has  
25 actually ordered it so...

## EXAMINATION OF ANDREWS / PEPPL

1     **Q. Okay. So even if the Commission found that the**  
2     **rates set in the 2015 rate case resulted in customers**  
3     **overpaying and a refund is owing, would your position be**  
4     **that the refund amount should not even reflect the time**  
5     **value of money?**

6     A. It was not owed to customers during the last  
7     four years, because in the last four years, we had an  
8     order from the Commission that stipulated what our  
9     revenues were to be starting in 2015. So at that time,  
10    we collected from customers what we were ordered to  
11    collect from customers. So the revenues we collected  
12    were as approved.

13         Once this Commission decides that we do owe  
14    refunds, then that is the time period that we would  
15    begin accruing interest. It's really no different than  
16    collecting money for our purchase gas adjustments,  
17    for -- for example. We track the difference. We don't  
18    actually accrue interest until the Commission approves  
19    whatever level of -- of purchase gas adjustment we have.  
20    So if we assume that we owe customers, once the  
21    Commission approves it, so even though we have a  
22    deferral balance, once the Commission actually blesses  
23    that balance, that's when the interest begins to accrue  
24    at the FERC interest rate.

25    **Q. Okay. And -- but I guess -- I guess my question**

**EXAMINATION OF ANDREWS / PEPPL**

1 **is sort of a little bit different. I mean, I understand**  
2 **what the sort of standard practice is, but the -- the**  
3 **value -- the cost of money, was it different in 2015**  
4 **than it is today, I guess?**

5 A. It may be, but under the PGA example for -- we  
6 would start deferring in January, but until the  
7 Commission actually approves that balance, we don't  
8 start accruing interest January 1 of the year, we start  
9 accruing interest once the Commission approves that  
10 balance.

11 **Q. Okay. So another argument that you make and**  
12 **that Mr. Meyer hit on in his opening statement is that**  
13 **AWEC's and the other parties' proposed refunds would not**  
14 **result in a reasonable end result; is that right?**

15 A. That's correct.

16 **Q. Okay. So can you turn to page 29 of your**  
17 **rebuttal testimony?**

18 A. I'm there.

19 **Q. Okay. So I'm looking at lines 10 through 13.**

20 A. I'm there.

21 **Q. Okay. And you testify that the refunds of the**  
22 **magnitude proposed by the parties would cause Avista to**  
23 **be prejudiced, perhaps seriously prejudiced, with**  
24 **resulting ROEs lower than the 8.22 percent identified in**  
25 **Order 6 as being insufficient to produce a reasonable**

**EXAMINATION OF ANDREWS / PEPPL**

1 **result; is that right?**

2 A. Right. That 8.22 was in direct relationship to  
3 the 19.6 million that had been proposed in that  
4 proceeding.

5 **Q. Okay. So can you then turn to page 5 of your**  
6 **rebuttal testimony.**

7 A. Okay. I'm there.

8 **Q. Okay. And at line 3 here, you identify an**  
9 **alternative recommendation from Staff that uses end of**  
10 **period 2015 rate base, and you say is the only**  
11 **acceptable model to use if the Commission finds itself**  
12 **persuaded by the parties that a recalculation of the**  
13 **attrition allowance adjustment is necessary; is that**  
14 **right?**

15 A. Right, assuming 11 months is considered and the  
16 earning sharing is considered.

17 **Q. Okay. So I guess to just be clear on that, so**  
18 **if you look on footnote 6, which is at the end of this**  
19 **paragraph at the bottom, you note that for information**  
20 **purposes only, if the refunds are ordered over 2.3**  
21 **years, the refund is 10.7 million on the electric side**  
22 **and zero on the gas side --**

23 A. Correct, yes.

24 **Q. -- if you cite to EMA-24R?**

25 A. Yes.

## EXAMINATION OF ANDREWS / PEPPLA

1 **Q. Yeah, okay.**

2 **So can you turn to that exhibit, please?**

3 A. I'm there.

4 **Q. Okay. And I'm just going down on column C on**  
5 **page 1 of this exhibit, at the bottom, the number is**  
6 **14,568,000, and I -- I take that to be what the refund**  
7 **would be over a 2.3-year period before earning sharing;**  
8 **is that correct?**

9 A. That's correct.

10 **Q. Okay. And then the 10.669 going over in that**  
11 **row, that's after earning sharing?**

12 A. That's correct.

13 **Q. Okay. And on the gas side, on page 2, the same**  
14 **column, it's 723,000 over the 2.3-year period without**  
15 **earning sharing and zero with earning sharing?**

16 A. That's correct.

17 **Q. Okay. So can you turn to the cross exhibit that**  
18 **AWEC submitted. It's been marked as EMA-16. And -- and**  
19 **in this, this is a data request that AWEC sent to the**  
20 **Company where Avista was asked to present what the ROE**  
21 **impact would be from these refund calculations in**  
22 **EMA-24R without earning sharing; is that accurate?**

23 A. With and without earning sharing.

24 **Q. Correct, with and -- over the 2.3-year period?**

25 A. Yes.

## EXAMINATION OF ANDREWS / PEPPLA

1 **Q. Okay. And so then -- and then page 2 shows the**  
2 **combined ROE impact for electric and natural gas; is**  
3 **that right?**

4 A. Yes.

5 **Q. Okay. And both with and without earning**  
6 **sharing, you would agree that all of those ROEs are**  
7 **above the 8.22 percent that you identified as**  
8 **essentially not a reasonable end result?**

9 A. Well, for 2016, I would say yes, it is above an  
10 NOE, and that's why we had stated for various reasons  
11 for this Commission to have a pathway to complete this  
12 case that maybe resolve many issues in this case that  
13 would be acceptable to the Company. The '17 and '18,  
14 however, are not acceptable more based on the fact that  
15 it should not be more than 11 months and for -- the  
16 other portion should include earning sharing.

17 **Q. Okay. But my question was, if I look at 2016**  
18 **and I look without earning sharing on page 2, 8.9 is**  
19 **obviously higher than 8.22, right?**

20 A. It is higher than 8.22, but our reason for  
21 saying that that is not acceptable is that we -- without  
22 taking into consideration earning sharing, to be honest,  
23 as an accountant, it makes absolutely no sense to me  
24 that this Commission would ignore moneys that have  
25 already been refunded to customers.



**EXAMINATION OF ANDREWS / PEPPL**

1 **Q. Got it.**

2 **My only question is about what the re- -- what**  
3 **the end result is of both of these numbers. Surely --**  
4 **and earning sharing 9.2 also above the 8 point -- and**  
5 **same for the other ones across, 9 and 8.8 and 9 and 9?**

6 A. I realize that, it's just that the 8.22 was  
7 unreasonable for one reason; the 8 and 9 percent here is  
8 unreasonable for a different reason.

9 **Q. Well, maybe we can let the Commission make that**  
10 **decision.**

11 A. Well, you asked for my opinion, that's my  
12 opinion.

13 **Q. Correct, okay.**

14 **And I guess I -- I know you testified to this,**  
15 **but to be clear, if the Commission does consider earning**  
16 **sharing in the determination of a refund, Avista agrees**  
17 **that the impact of earning sharing should not apply to**  
18 **those customers that are not subject to the decoupling**  
19 **mechanism and did not actually receive any earning**  
20 **sharing?**

21 A. That's correct, and Mr. Miller's testimony  
22 outlined how that could be accomplished so that those  
23 customers that did not already receive refunds get their  
24 full amount.

25 **Q. Okay.**

**EXAMINATION OF ANDREWS / MEYER**

1 MR. PEPPLER: Thanks. No more questions.

2 JUDGE DOROSHKIN: Mr. Meyer, do you have any  
3 redirect?

4 MR. MEYER: I -- I -- I do. Might I wait  
5 until the Commissioners ask questions so I don't -- so  
6 it doesn't trigger anything more that I want to do? I'm  
7 happy to go now, but I would prefer to wait if you don't  
8 mind.

9 JUDGE DOROSHKIN: We would prefer that you  
10 go now.

11 MR. MEYER: Okay. That's fair.

12

13 EXAMINATION

14 BY MR. MEYER:

15 **Q. So you were asked by Public Counsel a series of**  
16 **questions about when the impact on the books of the**  
17 **Company would be felt when the Commission issues its**  
18 **refund order, correct?**

19 A. That's correct.

20 **Q. And I believe it was your testimony that it --**  
21 **it was your belief that the Company would not go back**  
22 **and restate prior earnings on its books for the years**  
23 **'16, '17 and '18; is that your belief?**

24 A. Yes, from an accounting perspective, that's not  
25 appropriate.

## EXAMINATION OF ANDREWS / MEYER

1 **Q. Okay. Now, that's from an accounting**  
2 **standpoint, but is there still going to be an impact**  
3 **felt at some time, namely 2020 if that's the year in**  
4 **which the Commission decides this case?**

5 A. That's correct.

6 **Q. And so if the Commission were to adopt a 40- or**  
7 **a \$70 million refund, would that essentially be a hit to**  
8 **earnings in 2020 of that magnitude?**

9 A. Yes, the magnitude of the parties that range  
10 anywhere from 40 million to the 74 million would --  
11 would hit the Company with over 300 to 600 basis points  
12 earnings hit, which would result in somewhere between a  
13 3.5 percent ROE or a 6 percent ROE.

14 **Q. In your belief, is -- is it your belief that the**  
15 **Company could manage its way out of that hole in 2020?**

16 A. No, no way to manage our case out of that -- or  
17 our -- no. Sorry.

18 **Q. Okay. And, in fact, as you go back and you**  
19 **restate as you've done in your rebuttal testimony the**  
20 **effective ROEs for '16, '17, and '18, which were,**  
21 **depending on the proposal, in the 8-plus percent range.**

22 A. Correct.

23 **Q. Is there any way for the Company to go back in**  
24 **time and manage its way out of those returns?**

25 A. No, that -- that's partly why we provided --

**EXAMINATION OF ANDREWS / MEYER**

1 presented this case the way we have is that no matter  
2 what this Commission decides, we no longer have that  
3 opportunity to manage our way out of any reduction in  
4 those previous years. This is four years later. If we  
5 had known at the time -- if the Commission had actually  
6 approved revenues that were anywhere in this ballpark or  
7 even what the -- what the Company had proposed, we might  
8 have had an opportunity to manage our costs and do  
9 something differently. We can't do that four years  
10 later so...

11 **Q. Does this essentially lock in an unreasonable**  
12 **result for '16, '17, and '18?**

13 A. Well, it certainly presents itself to be un- --  
14 based on what the parties have proposed, is unreasonable  
15 no matter how you look at it. Whether you look at it,  
16 whether you can go back and -- and argue which years it  
17 applies to or whether you look forward, none of them are  
18 reasonable.

19 **Q. In Public Counsel's line of questioning, it**  
20 **presupposed, did it not, that one could reconstruct the**  
21 **years '16, '17, and '18 by stripping out any attrition**  
22 **rate base, correct?**

23 A. I'm sorry, will you repeat that?

24 **Q. Didn't Public Counsel essentially inquire as --**  
25 **as to whether the effect would be to strip out from rate**

**EXAMINATION OF ANDREWS / MEYER**

1 **base any attrition rate base for the years '16, '17, and**  
2 **'18?**

3 A. Well, I -- I believe that's what their proposals  
4 are is that you -- all of our proposals, that you are in  
5 effect -- in effect removing the attrition rate base.

6 **Q. Did Public Counsel or any other party swap out**  
7 **any other levels of used and useful plant or substitute**  
8 **any other levels of actually used and useful plant in**  
9 **the process?**

10 A. No, they did not, and we do believe it's  
11 appropriate to at least use end of period '15 rate base  
12 that is known, was known prior to rates going into  
13 effect, we know those balances now, so...

14 **Q. Did the -- was there anything in your reading of**  
15 **the court's opinion that would prevent this Commission**  
16 **from after stripping out the attrition rate base from**  
17 **substituting other levels of used and useful rate base**  
18 **in their analysis?**

19 A. No, the court of appeals just simply said to  
20 restate the -- the Company's rates by excluding anything  
21 associated with attrition rate base.

22 MR. MEYER: Okay. Thank you. That's all I  
23 had.

24 JUDGE DOROSHKIN: So we will take a brief  
25 recess. We will be back at 11 o'clock, then.

1 (A break was taken from  
2 10:45 a.m. to 11:00 a.m.)

3 JUDGE DOROSHKIN: We are back on the record.  
4 Ms. Andrews, if you could please take a seat  
5 at the witness stand.

6 MS. ANDREWS: Here?

7 JUDGE DOROSHKIN: That's fine. If you can  
8 turn on the microphone, please. We have a few questions  
9 from the Bench, and you may be excused after that.

10 COMMISSIONER RENDAHL: Good morning,  
11 Ms. Andrews.

12 MS. ANDREWS: Good morning.

13 COMMISSIONER RENDAHL: So I just have one  
14 question, and it's really kind of a follow-up with  
15 Ms. Suetake's question about the dates.

16 So in your testimony, you use a 2.26 number.

17 MS. ANDREWS: Yeah.

18 COMMISSIONER RENDAHL: If we go beyond the  
19 11 months and other parties use 2.6, is the -- I mean,  
20 2.3, excuse me -- is the 2.26 without the two weeks that  
21 we're talking about or is the difference between 2.26  
22 and 2.3 a rounding issue?

23 MS. ANDREWS: It's a rounding issue.

24 COMMISSIONER RENDAHL: Okay.

25 MS. ANDREWS: It -- it really is.

1 COMMISSIONER RENDAHL: Okay. And so what is  
2 the number of days that you're calculating in that?

3 MS. ANDREWS: Oh, gosh.

4 COMMISSIONER RENDAHL: Or if you need to,  
5 you can respond to that in a bench request response.

6 MS. ANDREWS: I think -- I think I have it.  
7 I can look. I thought -- I know that for year one, we  
8 had 338 days, which is how we came up with 92.6 for year  
9 one. And then for the additional, we basically used  
10 four-twelfths, I used four-twelfths because it's January  
11 through April for the 2018 time period. I just use  
12 four-twelfths.

13 COMMISSIONER RENDAHL: Okay. That was  
14 really all was just clarifying the difference between  
15 those two numbers. Thank you.

16 COMMISSIONER BALASBAS: Good morning,  
17 Ms. Andrews.

18 MS. ANDREWS: Good morning.

19 COMMISSIONER BALASBAS: So how would -- how  
20 would -- how would Avista calculate the earning sharing  
21 mechanism for decoupling purposes going forward based on  
22 whatever amount or time period that this Commission  
23 orders for this case? In other words, how would -- how  
24 would whatever amount and time period we determine in  
25 this case affect the decoupling earning sharing

1 mechanism going forward?

2 MS. ANDREWS: It would have no impact on the  
3 earning sharing going forward for -- because each -- if  
4 I'm understanding your -- your question, and you each --  
5 for each year, we would recalculate the decoupling and  
6 any earning sharing independently of what happens here.

7 COMMISSIONER BALASBAS: Okay. So whatever  
8 we decide to order here would not impact, say, next  
9 year's, 2020's, or twenty -- or -- and that decoupling  
10 calculation for -- for whatever is collected?

11 MS. ANDREWS: Correct. Typically, even the  
12 earning sharing that we refund to customers are excluded  
13 from the calculations. So if we overearned, we would --  
14 whatever we give back to customers comes out of it.

15 COMMISSIONER BALASBAS: Okay.

16 MS. ANDREWS: Does that make sense? I don't  
17 know if I'm answering -- but it would not have an impact  
18 on --

19 COMMISSIONER BALASBAS: I think -- I think I  
20 understand that, but it would -- but the amount of  
21 refund would impact earnings for the Company, though, in  
22 the time period that we determine?

23 MS. ANDREWS: It would --

24 COMMISSIONER BALASBAS: Would it impact the  
25 overall Company's -- and I -- and I can pose that



1 question at a later time.

2 MS. ANDREWS: Okay. I think I understand  
3 your question. So it's if this Commission were to agree  
4 with Avista and revise electric 1.3 million, the  
5 question is, of our earnings, would we be including that  
6 amount in our twenty -- and technically, depending on  
7 when this order is approved, it could either occur in  
8 '19 or '20. And so it could have an impact, but I'm not  
9 sure under this circumstance if this is an ordered  
10 refund, if you would include it in your earning's  
11 calculation or not.

12 COMMISSIONER BALASBAS: Okay. I -- I will  
13 at a later -- at a later time, I will have some  
14 questions for Mr. Thies, and so I will ask that question  
15 at that time.

16 MR. MEYER: And we do as well have in  
17 attendance Mr. Ehrbar who knows a lot about decoupling,  
18 so he's available to testify.

19 MS. ANDREWS: Because that would be more --  
20 I think that would be more appropriate for the  
21 calculation in decoupling, not -- I don't think  
22 Mr. Thies would necessarily know that answer. He might  
23 still tell you how it's going to impact our earnings,  
24 but I mean, how it actually flows through the decoupling  
25 mechanism to determine earning sharing, I'm not -- I'm

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1 not for sure that Mr. Thies --

2 COMMISSIONER BALASBAS: And actually --  
3 actually, I think that is actually my question --

4 MS. ANDREWS: Right.

5 COMMISSIONER BALASBAS: -- for whatever  
6 refund amount and time period we determine in this case,  
7 how that would impact the calculation of the decoupling  
8 earning sharing mechanism going forward, and if that is  
9 a question appropriate for Mr. Ehrbar, then I'm happy to  
10 pose that to him either now or --

11 MS. ANDREWS: You're welcome.

12 JUDGE DOROSHKIN: That's all the Bench  
13 questions. So you are excused now, Ms. Andrews.

14 MS. ANDREWS: Thank you.

15 JUDGE DOROSHKIN: I will call Mr. McGuire  
16 for Staff. Mr. McGuire, if you can remain standing and  
17 raise your right hand.

18 (Chris McGuire sworn.)

19 JUDGE DOROSHKIN: Thank you. You may sit.

20

## 21 EXAMINATION

22 BY MS. CAMERON-RULKOWSKI:

23 **Q. Good morning, Mr. McGuire.**

24 A. Good morning.

25 **Q. Please state your full name.**

**EXAMINATION OF MCGUIRE / MEYER**

1 A. My name is Chris R. McGuire.

2 **Q. And where are you employed, Mr. McGuire?**

3 A. I'm employed at the Utilities and Transportation  
4 Commission in the energy regulation section of the  
5 regulatory services division.

6 **Q. And what's your position within that division?**

7 A. I am the assistant director of energy  
8 regulation.

9 **Q. And are you the same Mr. McGuire who filed**  
10 **response testimony on September 13th and cross-answering**  
11 **testimony on October 11th on behalf of Commission Staff?**

12 A. I am.

13 **Q. Thank you.**

14 MS. CAMERON-RULKOWSKI: Mr. McGuire is  
15 available for cross-examination and questions from the  
16 Bench.

17 JUDGE DOROSHKIN: Mr. Meyer?

18 MR. MEYER: Thank you. During the break, I  
19 was able to -- good news, I think for all -- shorten my  
20 cross. It certainly will be less painful for me so...

21

22 EXAMINATION

23 BY MR. MEYER:

24 **Q. Are you generally familiar with the Staff's case**  
25 **in the 2016 filing? So not -- not this docket, but the**

**EXAMINATION OF MCGUIRE / MEYER**

1 **subsequent docket, generally familiar?**

2 A. Generally familiar, yes.

3 **Q. Okay. And subject to check, did Staff in that**

4 **2016 case sponsor testimony that began with a proformed**

5 **2015 historical test period electric rate base of 1.38**

6 **billion, again, subject to check?**

7 A. Sure, subject to check.

8 **Q. All right. And, again, subject to check, would**

9 **you agree that that beginning point was approximately**

10 **\$40 million above --**

11 MS. CAMERON-RULKOWSKI: Objection. I'm not  
12 sure where these questions are leading. We're talking  
13 about a different case that I'm not sure that's relevant  
14 to this case, and my witness has nothing in front of him  
15 in order to answer these questions.

16 JUDGE DOROSHKIN: Mr. Meyer?

17 MR. MEYER: Surely. Well, we've --

18 actually, there have been a number of exchanges about  
19 the carryover or the -- the bleeding through, if you  
20 will, into the 2016 case. And this is merely meant to  
21 emphasize the point that the beginning point in a  
22 subsequent 2016 case for Staff is based on proformed  
23 historical test period \$40 million higher than --

24 MS. CAMERON-RULKOWSKI: Please don't  
25 testify, Mr. Meyer.

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1 MR. MEYER: I'm restating what's been  
2 already put on the record.

3 BY MR. MEYER:

4 **Q. So I can direct you, if you'd like, to an**  
5 **exhibit in this case, and would you turn to Exhibit**  
6 **EMA-18, please? That's in this case.**

7 A. It does not look like I have that in front of  
8 me. Can I see it?

9 **Q. I've got extra copies. I understand. Not a**  
10 **problem. And I'll distribute them to everyone, of**  
11 **course. Unless you've found them already in your own**  
12 **book.**

13 MR. MEYER: Anyone need an extra? Extras?  
14 Extras? Does the Bench have what it needs? All right.

15 CHAIR DANNER: This is this testimony of  
16 Mr. Hancock?

17 MR. MEYER: Yes.

18 So I have provided the witness with what  
19 purports to be the testimony of Mr. Christopher Hancock  
20 in the 2016 rate case docket.

21 BY MR. MEYER:

22 **Q. Do you recognize this as such?**

23 A. I do.

24 **Q. And would you turn to -- and this appears as**  
25 **Exhibit No. EMA-18 in this docket. Turn to page 2 of**

**EXAMINATION OF MCGUIRE / MEYER**

1 **that, please.**

2 A. I'm there.

3 **Q. And do you see in the lower right-hand corner a**  
4 **number that's boxed in for emphasis?**

5 A. I do.

6 **Q. And what is that number, please?**

7 MS. CAMERON-RULKOWSKI: I'm going to object  
8 again. This is outside the scope of what Mr. McGuire  
9 actually testified on in this case, and he's being asked  
10 a question about another witness's testimony. But  
11 primarily, the objection is that it is simply outside  
12 the scope of his testimony.

13 JUDGE DOROSHKIN: Mr. Meyer, you may respond  
14 briefly.

15 MR. MEYER: Sure. This -- it's to establish  
16 what there shouldn't be a lot of fussing about, is  
17 what -- where was the ending point of the attrition rate  
18 case, where did that end up and off, if you will, and  
19 when did the 2016 case begin with what levels of rate  
20 base. So you have --

21 JUDGE DOROSHKIN: Mr. Meyer, if you can  
22 please limit your questions to those that are necessary.

23 MR. MEYER: Okay. I will ask that question  
24 in that form.

25 BY MR. MEYER:

## EXAMINATION OF MCGUIRE / MEYER

1 **Q. What was the difference, if any, between the**  
2 **level of overall attrition-adjusted rate base in the**  
3 **2015 case and the proposed level in the 2016 case by**  
4 **Staff of its historic proformed rate base?**

5 A. So just so I'm understanding your question, are  
6 you asking me to compare the number in the 2016 general  
7 rate case that Staff testified to to the number that the  
8 Company in this docket testified to as being the rate  
9 year rate base that was used and useful?

10 **Q. Is there any dispute in this docket about what**  
11 **the -- the slice of the pie representing attrition --**  
12 **the attrition adjustment in the 2015 case is, how big**  
13 **that is? Is there any -- is there any argument?**  
14 **That's -- that's --**

15 A. Is there an argument about how -- how big the  
16 attrition adjustment ought to be?

17 **Q. No, not ought to be, how big the attrition slice**  
18 **of the pie was, attrition rate base slice of the pie was**  
19 **in the 2015 case. We can argue about what to do with**  
20 **it, but was there any disagreement with that slice of**  
21 **the pie?**

22 A. Can you please clarify when you say the  
23 "attrition slice of the pie," are you talking about the  
24 attrition rate base, are you talking about the attrition  
25 allowance, what do you mean?

**EXAMINATION OF MCGUIRE / MEYER**

1 **Q. Okay. Let me take one more try at this, because**  
2 **it's really -- it's an attempt to compare across time**  
3 **two numbers. Okay.**

4 **JUDGE DOROSHKIN: One more try.**

5 **MR. MEYER: Okay. That's fair.**

6 **BY MR. MEYER:**

7 **Q. So the -- the -- would you agree that the level**  
8 **proposed by Staff in the 2016 rate case as a starting**  
9 **point for its analysis was represented rate base that**  
10 **was \$40 million higher than the overall level of**  
11 **adjusted -- attrition-adjusted rate base in the previous**  
12 **case, yes or no? You don't have to agree with it, but**  
13 **would you agree to that subject to check?**

14 **A. Subject to check, that is -- yes.**

15 **Q. Okay. That's all I was trying to establish.**  
16 **Let's move on.**

17 **Now, isn't it true that among the alternatives**  
18 **presented by you in this case, is an alternative -- it's**  
19 **not your primary alternative or recommendation, but it**  
20 **is an alternative that relies on end of period 2015 rate**  
21 **base without any additional attrition adjustment?**

22 **A. Yeah, that's one of the alternatives that I have**  
23 **presented to the Commission here.**

24 **Q. And, in fact, is that your alternative that**  
25 **appears in table 4 and 5, electric and gas respectively,**



**EXAMINATION OF MCGUIRE / MEYER**

1 **of your Exhibit CRM-7T at page 16? And you don't**  
2 **necessarily need to turn there, but I just -- for the**  
3 **record, I'm trying to pinpoint that. So it's CRM-7T,**  
4 **page 16, tables 4 and 5.**

5 A. These tables capture more than that. These --  
6 these tables capture a number of different options, but  
7 the alternative that I'm presenting is reflected in the  
8 upper left-hand corner of each of those tables.

9 **Q. Yes, and it is -- again, so we're clear, is it**  
10 **an alternative that relies on an end of period 2015 rate**  
11 **base?**

12 A. It is. I think it's important here to point out  
13 to the Commission that there's -- these tables that I  
14 present in my testimony are meant to give the Commission  
15 a number of options. The Commission has at least four  
16 different legal decisions that it has to make, which I  
17 can't really help with. I can only help present the  
18 revenue requirement effects of those different options  
19 that the Commission has before it.

20 THE WITNESS: And these tables that  
21 Mr. Meyer has pointed out has included options that  
22 address rate base that wasn't available to the  
23 Commission. That information was not available to the  
24 Commission when it made its decision in these dockets;  
25 however, the Commission could choose to use information

**EXAMINATION OF MCGUIRE / MEYER**

1 that is now available. The Commission could choose to  
2 use the Company's AMA 2016 rate base if it wants to if  
3 it feels that that's the legally correct answer.

4 I suggest in my testimony that that is not,  
5 but if the Commission were to choose to use actual used  
6 and useful rate base, it should use the number that  
7 existed at the time the Commission issued its order in  
8 these dockets. The used and useful rate base at EOP  
9 2015 was I believe six days before the Commission issued  
10 its final order in these dockets. This rate base was in  
11 service when the Commission issued its final order,  
12 Order 5, in these dockets.

13 BY MR. MEYER:

14 **Q. So -- thank you.**

15 **So if -- and I have some more questions about**  
16 **this alternative, but if the Commission were to adopt,**  
17 **say, this alternative as a starting point, would this in**  
18 **the very least dispose of the one legal issue relating**  
19 **to removing the attrition rate base from the case as**  
20 **directed by the court?**

21 A. It would resolve that issue, and it would dispel  
22 any notion that there's an issue associated with a power  
23 cost error at the same time.

24 **Q. That's what I was going to.**

25 **So now, you understand that there has been some**

**EXAMINATION OF MCGUIRE / MEYER**

1 **disagreement among the parties about how one would rerun**  
2 **the revenue requirements model or even if one could**  
3 **rerun the revenue requirements model; do you recall that**  
4 **disagreement?**

5 A. Yes, I do.

6 **Q. Okay. So but giving your approach the benefit**  
7 **of the doubt, which does rerun that model, I think you**  
8 **just said, did I get this right, that that would also**  
9 **have the effect of resolving any power cost, alleged**  
10 **power cost adjustment error?**

11 A. It would dispel the notion that there was any  
12 error at all, yes.

13 **Q. And I understand from your --**

14 A. But, Mr. Meyer, let me clarify one thing. When  
15 you asked this question, you characterized the  
16 recalculation as a rerunning of the revenue requirement  
17 model. That's not exactly what we've done. It's a --  
18 it's a rerunning of the attrition model. The revenue  
19 requirement calculation is separate and distinct, and  
20 there is a line item in the revenue requirement  
21 calculation that says attrition allowance. So these are  
22 different calculations. One leads into the other.

23 **Q. I appreciate that clarification. Thank you.**

24 **Okay. So let's take this a step at a time.**

25 **So this alternative, which I think you recognize**

**EXAMINATION OF MCGUIRE / MEYER**

1 by now, the Company believes may have some merit, some  
2 merit, checks two of the boxes on legal issues, does it  
3 not? Does it check the box on resolving the attrition  
4 rate base legal issue and does it check the box on any  
5 alleged power cost adjustment concerns?

6 A. Yes, it does.

7 Q. Okay. So we've got two of the boxes checked.  
8 Now, you understand that two more boxes remain to be  
9 checked, and there is -- is there still remaining  
10 disagreement between what you understand to be the  
11 Company position and this alternative position with  
12 respect to number one, the use of earnings offsets, and  
13 number two, the remand period, shorter or longer?

14 A. Yes, there are still disagreements.

15 Q. And -- okay.

16 So would Staff -- let me just ask you directly.  
17 Would Staff support -- support this alternative as a  
18 reasonable resolution -- and I know it's just an  
19 alternative, but would Staff support this alternative as  
20 a reasonable resolution recognizing that the earning  
21 sharing and time period still remain at issue?

22 A. The recommendation that I made in my testimony,  
23 my primary recommendation is my recommendation. And  
24 whether or not I would support an alternative that's  
25 presented in my testimony is moot. Because of what

## EXAMINATION OF MCGUIRE / MEYER

1 you're asking is, if the Commission accepts this  
2 alternative, would I accept the Commission's  
3 determination, yes.

4 **Q. Well, that's not quite what I asked. I asked if**  
5 **you would support this alternative as a reasonable**  
6 **resolution assuming that -- or recognizing that there**  
7 **still remain two issues that I've described?**

8 A. No.

9 **Q. You would not?**

10 A. No, I would not because what you're asking me to  
11 do is undermine my own primary position that I've  
12 offered in this case, and I'm supporting that position.  
13 Do I think that the end result of a Commission  
14 determination that arrived at these numbers is  
15 reasonable? I would say yes. This would seem like a  
16 reasonable end result given the facts in the case and  
17 the Commission's determination with respect to certain  
18 legal questions. This is a reasonable place that I  
19 could see the Commission landing. It's not what I'm  
20 recommending, but I don't -- I don't see this to be  
21 unreasonable.

22 MR. MEYER: Thank you. That's all I have.

23 JUDGE DOROSHKIN: Any redirect?

24 MS. CAMERON-RULKOWSKI: No redirect, Your  
25 Honor.

1 JUDGE DOROSHKIN: Okay. We do have at least  
2 one question from the Bench.

3 COMMISSIONER BALASBAS: Thank you.

4 Good morning, Mr. McGuire.

5 MR. McGUIRE: Good morning, Commissioner.

6 COMMISSIONER BALASBAS: So I will ask the  
7 same question that I asked Ms. Andrews regarding the  
8 calculation of the decoupling mechanism. So whatever  
9 this -- whatever the Commission determines to be the  
10 refund amount and time period in this case, in Staff's  
11 view, how would you expect to see that affect the  
12 calculation of the decoupling earning sharing amount  
13 going forward?

14 MR. McGUIRE: Going forward. First let me  
15 just point out that Staff witness, Jason Ball, is our  
16 identified witness on this issue, and he has spent by  
17 far the most amount of time on this issue. So it may  
18 be -- it may be easier to ask him. I -- I will respond  
19 to your question, but you may get a more detailed answer  
20 from him.

21 My response is that the Company's actual  
22 earnings that it -- that it earns in the real world, not  
23 in this one, will be affected by the fact that it has a  
24 new liability that it must pay out. It will affect its  
25 actual earnings. But in this world, in the regulatory

1 world, when the Company presents its earnings annually,  
2 it's not going to offset those earnings with a passback  
3 of amounts owed to ratepayers. It's not -- it's simply  
4 not incorporated into the formula or the calculation.  
5 We would not see it at all.

6 COMMISSIONER BALASBAS: Okay. Actually,  
7 that answers my question. Thank you.

8 JUDGE DOROSHKIN: Thank you. Then you are  
9 excused.

10 So we will call Avista witness Thies to the  
11 stand, please.

12 (Mark Thies sworn.)

13 JUDGE DOROSHKIN: Thank you. You may sit.  
14 Please also give your name and your position with the  
15 Company.

16 MR. THIES: My name is Mark Thies, and I am  
17 executive vice president, chief financial officer, and  
18 treasurer of Avista Corp.

19 JUDGE DOROSHKIN: Just one Bench question  
20 for Mr. Thies.

21 COMMISSIONER BALASBAS: Good morning,  
22 Mr. Thies.

23 MR. THIES: Good morning, Commissioner.

24 COMMISSIONER BALASBAS: So I have a couple  
25 of questions related to the impact of any Commission

1 decision here in this case as well as the contingent  
2 liability that you mentioned in your testimony that  
3 Avista recorded in September of 2019.

4 MR. THIES: Okay.

5 COMMISSIONER BALASBAS: I so will start with  
6 the contingent liability question.

7 So you testified that in September of this  
8 year, Avista recorded a \$2.9 million contingent  
9 liability on your financial reports to the SCC; is that  
10 correct?

11 MR. THIES: Yes.

12 COMMISSIONER BALASBAS: And does that amount  
13 then represent what Avista expects to pay out in refunds  
14 from the Commission's decision in this case?

15 MR. THIES: So that was the position that we  
16 took as a compromised position, and once we took that  
17 position as part of our discussions and said that that  
18 was what we would be willing to take to pay out -- we  
19 will pay out what the Commission orders to pay out, but  
20 as a -- as a compromise position in the settlement  
21 discussions, we offered that and the accounting rules  
22 require us to record that as a contingent liability.

23 COMMISSIONER BALASBAS: So for -- so for  
24 cash flow purposes then, does Avista assume that that --  
25 that \$3 million recorded contingent liability has



1 already been considered in the Company's cash flows  
2 going forward?

3 MR. THIES: At this point, no, because it's  
4 a contingent liability, it's a noncash liability at this  
5 point. Whatever the Commission determines is a -- is a  
6 liability that we owe and then determines the timing of  
7 the repayment of that liability. Whatever that  
8 liability would be, would then be included in our  
9 forecast of cash flows. At this point, it's a noncash  
10 item.

11 COMMISSIONER BALASBAS: Okay. So -- so  
12 depending on the amount of -- of -- that this Commission  
13 determines in this case and the timing of that, how  
14 would Avista record that amount? So say, for example,  
15 if the Commission ordered an amount -- a refunded amount  
16 over a two-year period, would -- would that -- would  
17 that refund amount then affect earning for the Company  
18 over a two-year period or would you record all that in a  
19 single-year period?

20 MR. THIES: No. My -- my understanding of  
21 the accounting is we would record whatever the  
22 Commission orders in total immediately as a -- as a  
23 contingent liability. The cash impacts of that on  
24 our -- on the Company's cash flows would be over the  
25 period ordered to refund, but the -- the earnings impact

1 would be in the period -- in the period that the order  
2 was received, we would record that amount in our -- in  
3 our earnings.

4 COMMISSIONER BALASBAS: Okay. So that  
5 would -- so for your earnings reporting purposes, that  
6 would be a single-year impact regardless of the time  
7 period that we ordered for the cash payouts of the  
8 refund?

9 MR. THIES: Yes.

10 COMMISSIONER BALASBAS: Okay.

11 CHAIRMAN DANNER: Excuse me. And that's a  
12 standard practice, that's not by choice of the Company?

13 MR. THIES: No, that's an accounting --  
14 that's the -- following the accounting rules.

15 COMMISSIONER BALASBAS: So, Mr. Thies, can  
16 you talk about based on the range of refund amounts  
17 proposed by the other parties in this case, how -- and,  
18 for example, if the Commission ordered that the refund  
19 amount be passed back over a one-year period, how would  
20 that impact the cash flows of the Company and how  
21 would -- how could that potentially then affect the  
22 operations of the Company?

23 MR. THIES: Well, the cash flows of the  
24 Company would be impacted by the amount that we would  
25 have to refund over that period. So if it's a one-year

1 period and, for example, I don't -- you could pick a  
2 number, whatever number you selected, we would have to  
3 raise that capital. And, again, we -- we tend to raise  
4 the capital, as Ms. Andrews said, consistent with our --  
5 with our capitalization authorized by the Commission, 48  
6 and a half percent equity and -- and the 51 and a half  
7 percent debt.

8           So that is generally how I would expect that  
9 would raise the capital. Practically we could -- we  
10 could use our credit facility, our short-term credit  
11 facility to fund our operations in the interim, but --  
12 but eventually we would raise that capital consistent  
13 with our capital structure.

14           COMMISSIONER BALASBAS: So regardless of  
15 whatever method you choose to cover that cash flow for  
16 the refund period, whether that's the credit facility  
17 and/or the mix of debt and equity, that amount -- that  
18 amount that you would use would have an effect or would  
19 cost ratepayers in terms of the cost of that either  
20 credit facility or additional debt or equity by the  
21 Company?

22           MR. THIES: Well, it would -- it would cost  
23 both the ratepayers and share- -- there's an increase  
24 cost of debt to manage that, and -- and -- and that  
25 would be to -- to manage our business. But then the

1 equity would dilute our existing shareholders, so there  
2 would be a cost related to the shareholders as well, not  
3 just the customers.

4 COMMISSIONER BALASBAS: And then my last  
5 question, Mr. Thies, is, if the -- if the Commission  
6 ordered refunds in the amount somewhere near the ranges  
7 proposed by the parties here in this case, in your  
8 opinion, how do you believe the investor community would  
9 react to those refund amounts?

10 MR. THIES: We saw and I believe in my  
11 testimony there was a -- there was a -- from a -- from  
12 Chris Ellinghouse, a research analyst, that suggested  
13 that that would be a negative impact to shareholders.  
14 And in the discussing the -- the alternatives as we've  
15 talked to shareholders, I believe it would be viewed --  
16 I believe it would be viewed negatively from  
17 shareholders because it's a -- it would require  
18 additional equity to be raised, which dilutes the  
19 existing shareholders' ownership of the Company.

20 COMMISSIONER BALASBAS: Actually, I'm sorry,  
21 I do have one more question.

22 So would you agree with Ms. Andrews' earlier  
23 statement in her response to questions that if the  
24 Commission ordered refund amounts in the ranges proposed  
25 by the parties here today, that that would have a 300 to

1 600 basis point impact on Avista's ROE?

2 MR. THIES: Yes, subject to check, I would  
3 agree that that would be a significant impact to our ROE  
4 in the year that we booked it, again, as she described,  
5 whether it's '19 or '20 depending on the timing of the  
6 order.

7 COMMISSIONER BALASBAS: Okay. Thank you.  
8 That's all I have.

9 JUDGE DOROSHKIN: You are excused.

10 MR. THIES: Thank you.

11 JUDGE DOROSHKIN: That concludes Bench  
12 questions and cross-examination. Before we conclude  
13 here, though, we find that it would aid in the  
14 development of the record here to have one round of  
15 limited briefing available to all parties. Briefs will  
16 be no longer than 20 pages and will be due on January  
17 8th of 2020. Parties should specifically address in  
18 filed briefs the time period of the rates subject to  
19 refund under the remand order. That is, from how long  
20 the rates set by Order 05 were in effect, whether it's  
21 11 months, three years, et cetera.

22 Is there anything else anyone would like  
23 addressed?

24 MS. SUETAKE: Yes, Your Honor. I believe  
25 Public Counsel was notified that there have been a few

1 public comments that were sent in on this proceeding.

2 At what -- when do you want those packaged and sent into  
3 the Commission -- filed with the Commission?

4 JUDGE DOROSHKIN: When can we have them?

5 MS. SUETAKE: Probably Wednesday of next  
6 week.

7 JUDGE DOROSHKIN: That's fine. Wednesday is  
8 fine.

9 MS. SUETAKE: Thank you.

10 MR. PEPPLER: Your Honor, one -- one  
11 clarification on the briefing. Is -- is the Commission  
12 asking for briefing only on that issue or for the  
13 parties to just focus on that issue?

14 JUDGE DOROSHKIN: It should be addressed,  
15 the briefs may address anything relative to the case.

16 Is that it?

17 MR. MEYER: Nothing else from the Company.

18 Thank you. Thank you for your attention.

19 JUDGE DOROSHKIN: Then hearing nothing, we  
20 are adjourned.

21 (Adjourned at 11:40 a.m.)  
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C E R T I F I C A T E

STATE OF WASHINGTON

COUNTY OF THURSTON

I, Tayler Garlinghouse, a Certified Shorthand Reporter in and for the State of Washington, do hereby certify that the foregoing transcript is true and accurate to the best of my knowledge, skill and ability.

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Tayler Garlinghouse, CCR 3358