

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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Page 646

1 BEFORE THE WASHINGTON
 2 UTILITIES AND TRANSPORTATION COMMISSION

4 WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,) DOCKETS UE-150204 and UG-150205 (Consolidated)
 5 Complainant,)
 6 vs.)
 7 AVISTA CORPORATION d/b/a)
 8 AVISTA UTILITIES,)
 9 Respondent.)

11 EVIDENTIARY HEARING, VOLUME VII
 12 Pages 646-747

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

16 December 6, 2019
 17 9:30 a.m.

18 Washington Utilities and Transportation Commission
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Page 648

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11 ALSO PRESENT:

12 ELIZABETH ANDREWS, Avista Witness
 CHRIS MCGUIRE, Staff Witness
 13 MARK THIES, Avista Witness

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Page 647

1 A P P E A R A N C E S
 2 COMMISSIONERS:

3 CHAIRMAN DANNER
 4 COMMISSIONER RENDHAL
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Page 649

1 EXAMINATION INDEX

2 ELIZABETH ANDREWS PAGE

3 By Mr. Meyer. 696, 718
 4 By Ms. Suetake. 698
 5 By Mr. Pepple. 704
 6 CHRIS MCGUIRE
 7 By Ms. Cameron-Rulkowski. 726
 8 By Mr. Meyer. 727

9

10 EXHIBIT INDEX

11 1 Multiparty Settlement Stipulation (14 pp.)
 (05/01/15)
 12 2 Joint Testimony in Support of Multiparty Settlement
 Stipulation (29 pp.) (07/24/15)
 13 3 Cover Letter Response to Bench Request No. 1
 (also revised Exh. Nos. CSH-2 and CSH-3) (4 pp.)
 14 (08/31/15)
 15 4C Response to Bench Request No. 2 with Attachment
 A (3 pp.) (09/24/15) (Confidential)
 16 5 Response to Bench Request No. 3 (pg.) (09/24/15)
 17 6 Public Comment Exhibit (CD) (10/19/15)
 18 7 Response to Bench Request No. 4 (2 pp.) (10/12/15)
 19 8 Response to Bench Request No. 5 (31 pp.) (10/12/15)
 20 9 Response to Bench Request No. 6 (2 pp.) (10/12/15)
 21 10 Response to Bench Request No. 7 (5 pp.) (10/12/15)
 22 11 Response to Bench Request No. 8 (7 pp.) (10/20/15)
 23 12C Response to Bench Request No. 9 (1 pg.) attached
 24 Exh. No. JLB-3 (7 pp.), Exh. No. JLB-2C (13 pp.),
 and electronic Excel files (10/20/15)
 25

(Confidential)

Page 650	Page 652
<p>1 EXHIBIT INDEX (Cont.)</p> <p>2 13 Response to Bench Request No. 10 (1 pg.) 3 attachments A (2 pp.), B (15 pp.), and C (6 pp.) (10/20/15)</p> <p>4 14 Response to Bench Request No. 11 (2 pp.) and 5 attachment A (1 pg.) (10/20/15)</p> <p>6 15 Response to Bench Request No. 12 (3 pp.) and 7 Attachments A (1 pg.) and B (15 pp.) (10/20/15)</p> <p>8 16 Response to Bench Request No. 13 (1 pg.) (10/26/15)</p> <p>9 17 Response to Bench Request No. 14 (5 pp.) (10/26/15)</p> <p>10 18 Response to Bench Request No. 15 (1 pg.) with 11 attachments A and B (in Excel), C (2 pp.), D 12 (2 pp.), and E (in Excel) (10/26/15)</p> <p>13 19 Response to Bench Request No. 16 (1 pp.) (10/29/15)</p> <p>14 20 Response to Bench Request No. 17 (1 pg.) and 15 attachments A (15 pp.) and B (15 pp.) (10/29/15)</p> <p>16 21 Response to Bench Request No. 18 (3 pp.) and 17 attachments A (2 pp.), B (4 pp.), C (5 pp.), D 18 (4 pp.), E (6 pp.), F and G (in Excel), and H 19 (2 pp.) (11/13/15)</p> <p>20 22 Reply to Avista's Response to Bench Request No. 18 21 (2 pp.) (11/16/15)</p> <p>22 23 Response to Bench Request No. 21 and Attachments 23 (1 page) (11/20/19): Attachment A; Attachment B; 24 Attachment C; Attachment D; Attachment E; 25 Attachment F; Attachment G; Attachment H; Attachment I; Attachment J; Attachment K; Attachment L; Attachment M; Attachment N; Attachment O; Attachment P; Attachment Q; Attachment R; Attachment S</p> <p>24 24 Public Comments (12/10/19): Matrix; Ott; Ingiosi</p> <p>25 SLM-1T Direct Testimony of Scott L. Morris (24 pp.) (02/09/15)</p> <p>SLM-2 Overview of Avista and its utility and subsidiary operations (2 pp.) (02/09/15)</p>	<p>1 EXHIBIT INDEX (Cont.)</p> <p>2 KON-6 Avista Response to Public Counsel and The 3 Energy Project Data Request No. 93 (2 pp.) (09/30/15)</p> <p>4 KON-7 Avista Response to Public Counsel and The 5 Energy Project Data Request No. 92 (1 pg.) (09/30/15)</p> <p>6 KON-8 Open Brief of Petitioner Public Counsel, 7 Thurston County Superior Court Cause No. 13-2-015760-2 (Consolidated) (34 pp.) (9/30/15)</p> <p>8 AMM-1T Direct Testimony of Adrien M. McKenzie (52 pp.) (02/09/15)</p> <p>9 AMM-2 Qualifications of Adrien M. McKenzie (5 pp.) 10 (02/09/15)</p> <p>11 AMM-3 Description of Quantitative Analyses for 12 capital market estimates of the cost of equity (39 pp.) (02/09/15)</p> <p>13 AMM-4 ROE Analyses: Checks of reasonableness (2 pp.) 14 (02/09/15)</p> <p>15 AMM-5 Capital Structure: Electric Group (1 pg.) 16 (02/09/15)</p> <p>17 AMM-6 DCF Model - Utility Group: Dividend Yield, 18 Growth Rates, and DCF Cost of Equity Estimates (3 pp.) (02/09/15)</p> <p>19 AMM-7 DCF Model - Utility Group: BR+SV Growth Rate 20 (2 pp.) (02/09/15)</p> <p>21 AMM-8 Empirical CAPM - Current Bond Yield: Utility 22 Group and Projected Bond Yield: Utility Group (2 pp.) (02/09/15)</p> <p>23 AMM-9 Electric Utility Risk Premium: Current Bond 24 Yield, Projected Bond Yield, Authorized Returns and Regression Results (4 pp.) (02/09/15)</p> <p>25 AMM-10 CAPM - Current Bond Yield: Utility Group, Projected Bond Yield (2 pp.) (02/09/15)</p> <p>AMM-11 Expected Earnings Approach - Utility Group (1 pg.) (02/09/15)</p>
Page 651	Page 653
<p>1 EXHIBIT INDEX (Cont.)</p> <p>2 SLM-3 Map of Avista electric and natural gas service 3 areas (1 pg.) (02/09/15)</p> <p>4 SLM-4 Various line graphs (4 pp.) (02/09/15)</p> <p>5 MTT-1T Direct Testimony of Mark T. Thies (30 pp.) 6 (02/09/15)</p> <p>7 MTT-2C Avista's credit ratings, embedded capital 8 structure as of December 31, 2014, and proposed 9 capital structure (6 pp.) (02/09/15) (Confidential)</p> <p>10 MTT-3C Avista's Interest Rate Risk Management Plan 11 (8 pp.) (2/9/15) (Confidential)</p> <p>12 MTT-4 Equity ratios and returns on equity approved 13 by various state regulatory commissions from 14 July 1, 2014, through December 31, 2014 15 (1 pg.) (2/9/15)</p> <p>16 MTT-5C Avista's planned capital expenditures and 17 long-term debt issuances by year (1 pg.) 18 (2/09/15) (Confidential)</p> <p>19 MTT-6T R Rebuttal Testimony of Mark T. Thies (19 pages) 20 (10/11/19) (revised 12/5/19)</p> <p>21 KON-1T Rebuttal Testimony of Kelly O. Norwood (51 pp.) 22 (9/04/15)</p> <p>23 KON-2 January 2014 Standard and Poor's Ratings 24 Services "Utility Regulatory Assessments for 25 U.S. Investor-Owned Utilities" (5 pp.) (9/04/15)</p> <p>KON-3 Tabulation of a Sample of Compliance and Reporting Requirements of Avista (15 pp.) (09/04/15)</p> <p>KON-4 Excerpt of Avista's 2014 Commission Basis Report (6 pp.) (9/30/15)</p> <p>KON-5 Avista's Response to Public Counsel Data Request No. 81 (1 pg.) (9/30/15)</p>	<p>1 EXHIBIT INDEX (Cont.)</p> <p>2 AMM-12 DCF Model - Non-Utility Group: Dividend Yield, 3 Growth Rates, and DCF Cost of Equity Estimates (3 pp.) (02/09/15)</p> <p>4 AMM-13 Regulatory Mechanism - Utility Group (1 pg.) 5 (02/09/15)</p> <p>6 EMA-1T Direct Testimony of Elizabeth M. Andrews 7 (39 pp.) (2/09/15)</p> <p>8 EMA-2 Electric Attrition Study (11 pp.) (2/09/15)</p> <p>9 EMA-3 Natural Gas Attrition Study (11 pp.) (2/09/15)</p> <p>10 EMA-4 NARUC Rate Case and Audit Manual (52 pp.) 11 (2/09/15)</p> <p>12 EMA-5T Rebuttal Testimony of Elizabeth M. Andrews 13 (38 pp.) (9/04/15) (revised 10/12/15)</p> <p>14 EMA-6 Revised Electric Attrition Study (13 pp.) 15 (9/14/15)</p> <p>16 EMA-7 Revised Natural Gas Attrition Study (13 pp.) 17 (9/04/15)</p> <p>18 EMA-8 Explanation of Electric and Natural Gas 19 Attrition Models (17 pp.) (9/14/15)</p> <p>20 EMA-9T R Direct Testimony of Elizabeth M. Andrews 21 (23 pages) (6/21/19)</p> <p>22 EMA-10R Thurston County Superior Court Order Granting 23 Motion to Remand (3 pages) (6/21/19)</p> <p>24 EMA-11R Pages 4-5 of Exh. EMA-6 (4 pages) (6/21/19)</p> <p>25 EMA-12R Exh. CMR-2 of Chris McGuire, Revised (2 pages) (6/21/19)</p> <p>EMA-13R Exh. No. JSS-5, Dockets UE-160228/UG-160229 of Jennifer S. Smith, Electric Pro Forma Study (15 pages) (6/21/19)</p> <p>EMA-14R Exh. No. JSS-6, Dockets UE-160228/UG-160229 of Jennifer S. Smith, Natural Gas Pro Forma Study (15 pages) (6/21/19)</p>

Page 654	Page 656
<p>1 EXHIBIT INDEX (Cont.)</p> <p>2 EMA-15R Attrition Rate Base Calculation (6 pages) (6/21/19)</p> <p>3 EMA-16R 2016 Electric Commission Basis Report (6 pages) (6/21/19)</p> <p>4 EMA-17R 2016 Natural Gas Commission Basis Report (5 pages) (6/21/19)</p> <p>5 EMA-18R Exh. CSH-2, Dockets UE-160228/UG-160229, of Christopher S. Hancock, Electric Attrition Adjustment (2 pages) (6/21/19)</p> <p>6 EMA-19R Exh. BGM-13, Dockets UE-160228/UG-160229, of Bradley G. Mullins, Revenue Requirement Calculations (2 pages) (6/21/19)</p> <p>7 EMA-20T R Rebuttal Testimony of Elizabeth M. Andrews (65 pages) (10/11/19) (revised 12/5/19)</p> <p>8 EMA-21R Attrition Rate Base Calculation (4 pages) (10/11/19)</p> <p>9 EMA-22R Restatement of Exh. CRM-8 and Exh. CRM-9 (4 pages) (10/11/19)</p> <p>10 EMA-23R Electric and Natural Gas Summary Calculations (3 pages) (10/11/19)</p> <p>11 EMA-24R Avista Revised Staff Recalculation Model Exh. CRM-11 and CRM-12 (4 pages) (10/11/19)</p> <p>12 EMA-9 Avista Response to Staff's Data Request No. 142 (1 page) (9/30/15)</p> <p>13 EMA-10 Avista Response to Public Counsel Data Request No. 85 (1 page) (9/30/15)</p> <p>14 EMA-11 Avista Response to Public Counsel Data Request No. 87 with Attachment A (2 pages) (9/30/15)</p> <p>15 EMA-12 Avista Response to Staff's Data Request No. 149 with Attachment B (3 pp.) (9/30/15)</p> <p>16 EMA-13 Avista Supplemental Response to Public Counsel Data Request No. 49 (1 pg.) (9/30/15)</p>	<p>1 EXHIBIT INDEX (Cont.)</p> <p>2 DFK-12 Avista's Response to Public Counsel and The Energy Project Data Request No. 58 (2 pages) (9/30/15)</p> <p>3 DFK-13 Avista's Response to Staff Data Request No. 84 (2 pages) (9/30/15)</p> <p>4 DFK-14 Avista's Response to Public Counsel Data Request No. 62 (1 page) (9/30/15)</p> <p>5 SJK-1T Direct Testimony of Scott J. Kinney (20 pp.) (2/9/15)</p> <p>6 SJK-2 Avista's 2013 Electric Integrated Resource Plan and Appendices (CD) (2/9/15)</p> <p>7 SJK-3 2013 IRP Forecast of Avista's load and resource positions from 2014 through 2033 (3 pp.) (2/9/15)</p> <p>8 SJK-4C Avista's Energy Resources Risk Policy (33 pp.) (2/9/15) (Confidential)</p> <p>9 CGK-1T Direct Testimony of Clint G. Kalich (10 pp.) (2/9/15)</p> <p>10 CGK-2C Summary output from the Dispatch Model (3 pp.) (2/9/15) (Confidential)</p> <p>11 WGJ-1T Direct Testimony of William G. Johnson (16 pp.) (2/9/15)</p> <p>12 WGJ-2 Power Supply Pro Forma - Washington Jurisdiction, System Numbers - October 2013 through September 2014 Actual and 2016 Pro Forma (2 pp.) (2/9/15)</p> <p>13 WGJ-3 A brief description of each adjustment (6 pp.) (2/9/15)</p> <p>14 WGJ-4 Market Purchases and Sales, Plant Generation and Fuel Cost Summary, Washington Normalized January 2016-December 2016 (1 pg.) (2/9/15)</p> <p>15 WGJ-5 Pro Forma January 2016-December 2016, ERM Authorized Expense and Retail Sales, October 2013-September 2014 Historic Normalized Loads (1 page) (2/9/15)</p>
Page 655	Page 657
<p>1 EXHIBIT INDEX (Cont.)</p> <p>2 EMA-14 Avista Response to Public Counsel Data Request No. 98 (1 pg.) (9/30/15)</p> <p>3 EMA-15 Avista Response to Public Counsel Data Request No. 99 (1 page) (9/30/15)</p> <p>4 EMA-25R Avista Revised Response to AWEC Data Request No. 271 (2 pages) (10/21/19) (revised 12/4/19)</p> <p>5 DFK-1T Direct Testimony of Don F. Kopczynski (28 pp.) (02/09/15)</p> <p>6 DFK-2 Customer Usage: Washington Electric and Natural Gas as of September 30, 2014 (1 pg.) (2/9/15)</p> <p>7 DFK-3 Utility-Scale Smart Meter Deployments: Building Block of the Evolving Power Grid, IEI Report, September 2014 (16 pages) (2/9/15)</p> <p>8 DFK-4 2007 NARUC Resolution to eliminate regulatory barriers to the broad implementation of advanced metering infrastructure (2 pp.) (2/9/15)</p> <p>9 DFK-5 2015 Washington Advanced Metering Project - Business Case (23 pp.) (2/9/15)</p> <p>10 DFK-6 Avista's Two-Year Aldyl A Pipeline Replacement Plan (46 pp.) (2/9/15)</p> <p>11 DFK-7 Avista Response to Staff Data Request Nos. 70, 84, and 88 (4 pages) (09/30/15)</p> <p>12 DFK-8 Avista's Response to Public Counsel Data Request No. 67 (1 pg.) (9/30/15)</p> <p>13 DFK-9 Avista's Response to Public Counsel Data Request No. 53 (1 pg.) (9/30/15)</p> <p>14 DFK-10 Avista's Response to Public Counsel and The Energy Project Data Request No. 10 (10 pp.) (9/30/15)</p> <p>15 DFK-11 Avista's Response to Public Counsel and The Energy Project Data Request No. 57 (1 page) (9/30/15)</p>	<p>1 EXHIBIT INDEX (Cont.)</p> <p>2 JM-1T Direct Testimony of Jody Morehouse (11 pages) (2/9/15)</p> <p>3 JM-2 Avista's 2014 Natural Gas Integrated Resource Plan (CD) (2/9/15)</p> <p>4 BAC-1T Direct Testimony of Bryan A. Cox (33 pp.) (2/9/15)</p> <p>5 BAC-2 Transmission revenue and expense adjustments (1 pg.) (2/9/15)</p> <p>6 JMK-1T Direct Testimony of James M. Kensok (28 pp.) (2/9/15)</p> <p>7 JMK-2 Revised Timeline and Budget Forecast, Avista's Project Compass, June 2014 (15 pp.) (2/9/15) Attachment A on CD (6/26/15)</p> <p>8 JMK-3 Project Compass, Communications, Debbie Simock/Peggy Blowers (9 pages) (2/9/15)</p> <p>9 JMK-4 Project Compass Communication Timeline and Customer Communication Timeline (2 pages) (2/9/15)</p> <p>10 JMK-5 Direct mailing to Avista Customers explaining the Project Compass impact on bills and customer accounts (2 pp.) (2/9/15)</p> <p>11 JMK-6CT Rebuttal Testimony of James M. Kensok (29 pp.) (9/4/15) (Confidential)</p> <p>12 JMK-7C Overview of Project Compass (45 pp.) (CD containing Attachments 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18) (9/4/15) (Confidential)</p> <p>13 JMK-8C Summary of Contract and Spending Information for Contract Companies Supporting Project Compass (7 pp.) (9/4/15) (Confidential)</p> <p>14 JMK-9C The Company's Response to Staff DR No. 141C (Supplemental) (25 pp.) (9/4/15) (Confidential)</p> <p>15 JMK-10C Excerpt of The Company's Response to Staff DR No. 140C (44 pp.) (9/4/15) (Confidential)</p>

Page 658	Page 660
1	1
2	2
3	3
4	4
5	5
6	6
7	7
8	8
9	9
10	10
11	11
12	12
13	13
14	14
15	15
16	16
17	17
18	18
19	19
20	20
21	21
22	22
23	23
24	24
25	25
Page 659	Page 661
1	1
2	2
3	3
4	4
5	5
6	6
7	7
8	8
9	9
10	10
11	11
12	12
13	13
14	14
15	15
16	16
17	17
18	18
19	19
20	20
21	21
22	22
23	23
24	24
25	25

Page 662	Page 664
1 EXHIBIT INDEX (Cont.)	1 EXHIBIT INDEX (Cont.)
2 PDE-5 The Company's Present Natural Gas Tariffs (12 pp.) (2/9/15)	2 JLB-8 Electric Revenue Requirement Tables (2 pages) (9/13/19)
3 PDE-6 Proposed Natural Gas Tariff Sheets (12 pp.) (2/9/15)	3 JLB-9 Natural Gas Revenue Requirement Tables (2 pp.) (9/13/19)
4 PDE-7 Proposed Natural Gas Revenue Increase by Schedule (3 pp.) (2/9/15)	4 JLB-10T Cross-Answering Testimony of Jason L. Ball (8 pages) (10/11/19)
5 PDE-8T Rebuttal Testimony of Patrick D. Ehrbar (10 pp.) (9/4/15)	5 CRM-1T Response Testimony of Chris R. McGuire (68 pp.) (7/27/15) (revised October 13, 2015)
6 PDE-9 Proposed Electric Change by Service Schedule and Present and Past Rate Components by Schedule (2 pp.) (9/4/15)	6 CRM-2 Staff Electric Attrition Study (11 pp.) (7/27/15) (revised October 13, 2015)
7 PDE-10 Proposed Natural Gas Increase by Service Schedule and Present and Proposed Rate Components by Schedule (2 pp.) (9/4/15)	7 CRM-3 Staff Natural Gas Attrition Study (12 pp.) (7/27/15) (revised October 13, 2015)
8 PDE-11C Responses to ICNU Data Request Nos. 268 & 269, including attachments (14 pp.) (9/30/15) (Confidential)	8 CRM-4 Avista Revised Electric Attrition Study (Provided as Attachment B to Avista Response to Staff Data Request No. 130) (14 pp.) (7/27/15)
9 PDE-12 The Company's Response to The Energy Project's Data Request No. EP-10 (2 pp.) (9/30/15)	9 CRM-5 Avista Revised Natural Gas Attrition Study (Provided as Attachment C to Avista Response to Staff Data Request No. 130) (13 pp.) (7/27/15)
10 PDE-13 The Company's Response to The Energy Project's Data Request No. EP-11 (1 pg.) (9/30/15), revised (10/11/15)	10 CRM-6 Excerpts of Historical Commission Orders on Attrition (30 pp.) (7/27/15)
11 DN-1T Response Testimony of Dave Nightingale (16 pp.) (7/27/15)	11 CRM-7T Testimony of Chris R. McGuire (29 pages) (9/13/19)
12 JMW-1T Response Testimony of Juliana M. Williams (14 pp.) (7/27/15)	12 CRM-8 Elec. Attrition Study - Revised Exh. EMA-6 (17 pages) (9/13/19)
13 JMW-2 Low Income Rate Assistance Program Multi-Year Funding Plan (2 pp.) (7/27/15)	13 CRM-9 Nat. Gas Attrition Study - Revised Exh. EMA-7 (14 pages) (9/13/19)
14 DR-1 Staff's Response to The Energy Project's Data Request (1 pg.) (9/30/15)	14 CRM-10 Technical Appendix A - Attrition Model Details (8 pages) (9/13/19)
15 CSH-1T Response Testimony of Christopher S. Hancock (33 pp.) (7/27/15)	15 CRM-11 Basic Elec. Attrition Model - Simplified Exh. CRM-8 (1 page) (9/13/19)
25	25
Page 663	Page 665
1 EXHIBIT INDEX (Cont.)	1 EXHIBIT INDEX (Cont.)
2 CSH-2 Electric Pro Forma Analysis (11 pp.) (7/27/15) Errata (1 pg.) (8/24/15) (revised 8/31/15) (Revised October 13, 2015)	2 CRM-12 Basic Nat. Gas Attrition Model - Simplified Exh. CRM-9 (1 page) (9/13/19)
3 CSH-3 Natural Gas Pro Forma Analysis (11 pp.) (7/27/15) (revised 8/31/15) (revised October 13, 2015)	3 CRM-13 Excerpt of Avista's 2018 Form 10-K (1 page) (9/13/19)
4 CSH-4 Avista Revised Electric Pro Forma Cross Check Study (11 pp.) (7/27/15)	4 CRM-14T Cross-Answering Testimony of Chris R. McGuire (15 pages) (10/11/19)
5 CSH-5 Avista Revised Natural Gas Pro Forma Cross Check Study (11 pp.) (7/27/15)	5 DCG-1CT Response Testimony of David C. Gomez (64 pp.) (7/27/15) (Confidential)
6 CSH-6 Major Electric ER Transfers as of June 30, 2015 (1 pg.) (7/27/15)	6 DCG-2 Avista's Washington-Allocated 2015 Pro Forma Capital (1 pg.) (7/27/15)
7 CSH-7 Major Natural Gas ER Transfers as of June 30, 2015 (1 pg.) (7/27/15)	7 DCG-3 Avista's 2015 Pro Forma Major Capital Additions - Company (1 pg.) (7/27/15)
8 CSH-8 Wood Pole Events Over Time (1 pg.) (7/27/15)	8 DCG-4 Avista's 2015 Pro Forma Major Capital Additions - Staff (1 pg.) (7/27/15)
9 CSH-9T Cross Answering Testimony of Christopher S. Hancock (5 pp.) (9/4/15)	9 DCG-5C Avista Supplemental Response to Staff DR 60C and Attachments (143 pp.) (7/27/15) (revised 8/5/15) (Confidential)
10 BTC-1T Response Testimony of Bradley T. Cebulko (8 pp.) (7/27/15)	10 DCG-6 Avista Response to Staff DR 134 and Attachment B (3 pp.) (7/27/15)
11 JLB-1T Response Testimony of Jason L. Ball (32 pp.) (7/27/15)	11 DCG-7 Avista Response to Staff DR 133 and Attachments A, B, C, and D (30 pp.) (7/27/15)
12 JLB-2C Electric Adjustments (12 pp.) (7/27/15) (Confidential)	12 DCG-8 Avista Response to Staff DR 179 (3 pp.) (7/27/15)
13 JLB-3 Gas Adjustments (7 pp.) (7/27/15)	13 DCG-9 Avista Response to Staff DR 183 (6 pp.) (7/27/15)
14 JLB-4C Colstrip & CS2 O&M (4 pp.) (7/27/15) (Confidential)	14 DCG-10 Avista Response to Staff DR 186 (2 pp.) (7/27/15)
15 JLB-5C Transmission Revenue & Expenses (6 pp.) (7/27/15) (Confidential)	15 DCG-11 Avista Supplemental Response to Staff DR 137 and Supplemental Attachment A (56 pp.) (7/27/15)
16 JLB-6C IS/IT Line Items (3 pp.) (7/27/15) (Confidential)	16 DCG-12 Avista Response to Staff DR 170 and Attachment C, Docket UE-140188 (78 pp.) (7/27/15)
17 JLB-7T Testimony of Jason L. Ball (8 pages) (9/13/19)	17
25	25

Page 666	Page 668
<p>1 EXHIBIT INDEX (Cont.)</p> <p>2 DCG-13 Avista Response to Staff DRs 100 to 103 and Attachment A to Response to DR 101, Docket UE-140188 (283 pp.) (7/27/15)</p> <p>3</p> <p>4 DCG-14 Avista Response to ICNU DR 6 and Attachment A (49 pp.) (7/27/15)</p> <p>5</p> <p>6 DCG-15C Avista Response to Staff DR 140 and Attachments B and C (3,188 pp.) (7/27/15) (See flash drive) (Confidential)</p> <p>7</p> <p>8 DCG-16C Avista Supplemental Response to Staff DR 141C and Attachment A - PCRs for Five Point and Ernst and Young (26 pp.) (7/27/15) (revised 8/5/15) (Confidential)</p> <p>9</p> <p>10 DCG-17C Avista Supplemental Response to Staff DR 152C and Attachment A, and Supplemental Response Attachment A (12 pp.) (7/27/15) (Confidential)</p> <p>11</p> <p>12 DCG-18C Avista Supplemental Response to Staff DR 153C and Attachments A and B (20 pp.) (7/27/15) (Confidential)</p> <p>13</p> <p>14 DCG-19 Avista Response to Staff DR 154 (1 pg.) (7/27/15)</p> <p>15</p> <p>16 DCG-20 Avista Compliance Filing in Dockets UE-140188 & UG-140189 (consolidated) of February 26, 2015 (40 pp.) (7/27/15), revised (304 pp.) (8/5/15) (CD)</p> <p>17</p> <p>18 DCG-21 Direct Testimony and Select Exhibits of Dave B. DeFelice in Dockets UE-140188 & UG-140189 (Consolidated) (7/27/15)</p> <p>19</p> <p>20 DCG-22 Avista witness Jennifer S. Smith workpaper in UE-150204 and UG-150205, 3) WA CapEx Additions 12.31.15 (27 pp.) (7/27/15)</p> <p>21</p> <p>22 DCG-23 Scott J. Kinney Exhibit No. ___ (SJK-1T) direct testimony in UE-140188 (27 pp.) (7/27/15)</p> <p>23</p> <p>24 DCG-24 Direct Testimony of Avista witness Scott J. Kinney, Before the Idaho Public Utilities Commission, Case No. AVU-E-15-05 (29 pp.) (7/27/15)</p> <p>25</p>	<p>1 EXHIBIT INDEX (Cont.)</p> <p>2 BRA-4 Avista Response to Staff Data Request No. 63, Attachment A (4 pp.) (7/27/15)</p> <p>3</p> <p>4 BRA-5 Avista Response to ICNU Data Request No. 200, Attachment ETD-37 (5 pp.) (7/27/15)</p> <p>5</p> <p>6 BRA-6 Avista Response to Public Counsel Data Request No. 65, Attachment A (6 pp.) (7/27/15)</p> <p>7</p> <p>8 BRA-7 Avista Response to Public Counsel Data Request No. 60 (1 pg.) (7/27/15)</p> <p>9</p> <p>10 BRA-8C Avista Confidential Response to Public Counsel Data Request No. 69C, Attachment A (1 pg.) (7/27/15) (Confidential)</p> <p>11</p> <p>12 BRA-9 Avista Response to Public Counsel Data Request No. 70 (1 pg.) (7/27/15)</p> <p>13</p> <p>14 BRA-10 Avista Response to Public Counsel/Energy Project Data Request No. 47 (1 pg.) (7/27/15)</p> <p>15</p> <p>16 BRA-11 Avista Response to Public Counsel/Energy Project Data Request No. 22 (1 pg.) (7/27/15)</p> <p>17</p> <p>18 BRA-12 Summary of Company Data Provided to Staff from Docket UE-131087 (4 pp.) (7/27/15)</p> <p>19</p> <p>20 BRA-13 Avista Response to Staff Data Request No. 114, Attachment A (7 pp.) (7/27/15)</p> <p>21</p> <p>22 BRA-14 Avista Response to Staff Data Request No. 109 (1 pg.) (7/27/15)</p> <p>23</p> <p>24 BRA-15 Avista Response to Staff Data Request No. 112, Attachment A (4 pp.) (7/27/15)</p> <p>25</p> <p>BRA-16 Avista Response to Public Counsel/Energy Project Data Request No. 1, Attachment C (74 pp.) (7/27/15)</p> <p>BRA-17 The Berkeley Report (130 pp.) (7/27/15)</p> <p>BRA-18 Avista Response to Public Counsel/Energy Project Data Request No. 44 (1 pg.) (7/27/15)</p>
Page 667	Page 669
<p>1 EXHIBIT INDEX (Cont.)</p> <p>2 DCG-25 Direct Testimony of Avista witness James M. Kensok, Before the Idaho Public Utilities Commission, Case No. AVU-E-15-05 (71 pp.) (7/27/15)</p> <p>3</p> <p>4 DCG-26 Direct Testimony of Avista witness Don F. Koczynski, Exhibit No. ___ (DFK-1T) in UE-140188 & UG-140189 (consolidated) (22 pp.) (7/27/15)</p> <p>5</p> <p>6 DCG-27 Docket UE-140188, Work papers of Elizabeth Andrews, Worksheet; WA CapX Additions 12.31.14 (26 pp.) (7/27/15)</p> <p>7</p> <p>8 DCG-28 Dockets UE-140188 and UE-120436, Work Papers of Elizabeth Andrews, Aldyl-A Allocations (19 pp.) (7/27/15)</p> <p>9</p> <p>10 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)</p> <p>11</p> <p>12 DCG-30 Direct Testimony of Avista witness Scott J. Kinney, Exhibit No. ___ (SJK-1T) in UE-120436 (43 pp.) (7/27/15)</p> <p>13</p> <p>14 DCG-31C UE-140188 Kensok, Exhibit No. ___ (JMK-2) with Attachment 10 and Confidential Attachment 15 (99 pp.) (7/27/15) (Confidential)</p> <p>15</p> <p>16 DCG-32 Avista 2015-2017 Two-Year Plan for Managing Replacement of Select Pipe Natural Gas System (19 pp.) (7/27/15)</p> <p>17</p> <p>18 DCG-33 Avista Response to Staff DR 143 with Supplemental Responses through July 10, 2015 (28 pp.) (7/27/15)</p> <p>19</p> <p>20 BRA-1T Response Testimony of Barbara R. Alexander (51 pp.) (7/27/15)</p> <p>21</p> <p>22 BRA-2 Credentials for Barbara R. Alexander (19 pp.) (7/27/15)</p> <p>23</p> <p>24 BRA-3 Supplemental Response to ICNU Data Request No. 76, Attachments A, B, and C (28 pp.) (7/27/15)</p> <p>25</p>	<p>1 EXHIBIT INDEX (Cont.)</p> <p>2 BRA-19 Avista Response to Public Counsel Data Request No. 57 (1 pg.) (7/27/15)</p> <p>3</p> <p>4 BRA-20 Avista Response to Public Counsel Data Request No. 52 (1 pg.) (7/27/15)</p> <p>5</p> <p>6 BRA-21 Public Counsel and The Energy Project's Response to Avista Data Request No. 1 (5 pp.) (9/30/15)</p> <p>7</p> <p>8 BRA-22 Public Counsel and The Energy Project's Response to Avista Data Request No. 2 (1 pg.) (9/30/15)</p> <p>9</p> <p>10 SMC-1T Response Joint Testimony of Shawn M. Collins and Stefanie A. Johnson (17 pp.) (7/27/15)</p> <p>11</p> <p>12 SMC-2 Estimated 2014-2015 Households Served Under LIRAP (1 pg.) (7/27/15)</p> <p>13</p> <p>14 SMC-3 Avista's Response to Public Counsel Data Request No. 79 (1 pg.) (7/27/15)</p> <p>15</p> <p>16 SMC-4 An Estimate of the Number of Households in Poverty Served by Avista Utilities in Washington State. By: Brian Kennedy, MS, D, Patrick Jones, Ph.D. May 2015 (33 pp.) (7/27/15)</p> <p>17</p> <p>18 SMC-5 Impact of 5-year funding plan on percent of eligible customers served (1 pg.) (7/27/15)</p> <p>19</p> <p>20 DMR-1CT Response Testimony of Donna M. Ramas (80 pp.) (7/27/15) (revised 10/5/15) (Confidential)</p> <p>21</p> <p>22 DMR-2 Summary of Public Counsel Electric Adjustments (11 pp.) (7/27/15)</p> <p>23</p> <p>24 DMR-3 Summary of Public Counsel Natural Gas Adjustments (9 pp.) (7/27/15) (revised 10/2/15)</p> <p>25</p> <p>DMR-4 Qualifications of Donna Ramas (5 pp.) (7/27/15)</p> <p>DMR-5 Response to Staff Data Request No. 130 & Attachment C (21 pp.) (7/27/15)</p> <p>DMR-6 Revised Response to Staff Data Request 130 and Revised Attachments A and B (36 pp.) (7/27/15)</p>

Page 670	Page 672
1 EXHIBIT INDEX (Cont.)	1 EXHIBIT INDEX (Cont.)
2 DMR-7 Response to Staff Data Request No. 131 & Attachment C (47 pp.) (7/27/15)	2 DMR-36 Avista's Response to Pub. Counsel's Data Request No. 103 (3 pages) (9/13/19)
3 DMR-8 Revised Response to Staff Data Request No. 131 and Revised Attachments A and B (61 pp.) (7/27/15)	3 DMR-37 WUTC Court of Appeals Brief (44 pp.) (9/13/19)
4	4 DMT-38T Cross-Answering Testimony of Donna M. Ramas (6 pp.) (10/11/19)
5 DMR-9 Response to Public Counsel Data Request No. 28 (1 pg.) (7/27/15)	5 GAW-1T Response Testimony of Glenn A. Watkins (4 pp.) (9/13/19)
6	6 GAW-2 CV of Glenn A. Watkins (3 pp.) (9/13/19)
7 DMR-10 Response to ICNU Data Request No. 29 and Attachment A (3 pp.) (7/27/15)	7 GAW-3 Example of Refund Mechanism Across Classes for Electric and Gas (2 pp.) (9/13/19)
8	8 GAW-4T Cross-Answering Testimony of Glenn A. Watkins (2 pp.) (10/11/19)
9 DMR-11 Response to Staff Data Request No. 148 (1 pg.) (7/27/15)	9 BGM-1CT Response Testimony of Bradley G. Mullins (45 pp.) (7/27/15) (Confidential)
10 DMR-12 Response to Public Counsel Data Request No. 10 (2 pp.) (7/27/15)	10 BGM-2 Qualification Statement of Bradley G. Mullins (3 pp.) (7/27/15)
11 DMR-13 Response to ICNU Data Request No. 31 (Excluding attachment) (3 pp.) (7/27/15)	11 BGM-3 Revenue Requirement Calculations (15 pp.) (7/27/15)
12	12 BGM-4C Responses to Data Requests (84 pp.) (7/27/15) (Confidential)
13 DMR-14 Response to Public Counsel Data Request No. 9 (1 pg.) (7/27/15)	13 BGM-5T Cross-Answering Testimony of Bradley G. Mullins (15 pp.) (9/4/15) (revised 9/11/15)
14 DMR-15 Response to Public Counsel Data Request No. 23 (Excluding attachment) (1 pg.) (7/27/15)	14 BGM-6 Updated Revenue Requirement Calculations (15 pp.) (9/4/15)
15	15 BGM-7T Response Testimony of Bradley G. Mullins (36 pp.) (9/13/19)
16 DMR-16 Response to Public Counsel Data Request No. 17 and Attachment A (excerpt of pages 1 and 46) (3 pp.) (7/27/15)	16 BGM-8 Regulatory Appearances of Bradley G. Mullins (5 pp.) (9/13/19)
17	17 BGM-9 Commission-Approved Electric Services Attrition Study (5 pp.) (9/13/19)
18 DMR-17 Response to ICNU Data Request No. 177 (non-confidential version) (excluding attachments) (1 pg.) (7/27/15)	18
19 DMR-18 Response to Staff Data Request No. 174 with Attachment A (5 pp.) (7/27/15)	19
20 DMR-19 Response to Staff Data Request No. 41 with Attachment A (2 pp.) (7/27/15)	20
21 DMR-20 Response to Staff Data Request No. 42 with Attachment A (2 pp.) (7/27/15)	21
22	22
23 DMR-21 Avista's Response to Staff Data Request No. 131 and Attachment D (17 pp.) (7/27/15)	23
24	24
25	25
Page 671	Page 673
1 EXHIBIT INDEX (Cont.)	1 EXHIBIT INDEX (Cont.)
2 DMR-22 Avista's First Revised Response to Staff Data Request No. 143 with Revised Attachments A and B (21 pp.) (7/27/15)	2 BGM-10 Commission-Approved Gas Services Attrition Study (5 pp.) (9/13/19)
3 DMR-23 Response to Public Counsel Data Request No. 32 with Attachment A (3 pp.) (7/27/15)	3 BGM-11 Elec. Attrition Study Excluding Amounts Attributable to Rate Base (5 pp.) (9/13/19)
4 DMR-24 Response to Public Counsel Data Request No. 51 (1 pg.) (7/27/15)	4 BGM-12 Gas Attrition Study Excluding Amounts Attributable to Rate Base (5 pp.) (9/13/19)
5	5 BGM-13 Electric Rate Base Comparison: Pro Forma Versus Attrition Study (2 pp.) (9/13/19)
6 DMR-25 Response to Public Counsel Data Request No. 49 (1 pg.) (7/27/15)	6 BGM-14 Gas Rate Base Comparison: Pro Forma Verus Attrition Study (2 pp.) (9/13/19)
7	7 BGM-15 Proposed Electric Service Refund Rates (1 pg.) (9/13/19)
8 DMR-26T Cross-Answering Testimony of Donna M. Ramas (18 pp.) (9/4/15)	8 BGM-16 Proposed Gas Service Refund Rates (1 pg.) (9/13/19)
9	9 BGM-17 Avista Responses to Data Requests (2 pp.) (9/13/19)
10 DMR-27T Response Testimony of Donna M. Ramas (30 pp.) (9/13/19)	10 MPG-1T Response Testimony of Michael P. Gorman (19 pp.) (7/27/15)
11 DMR-28 Calculation of Attrition Adjustment Caused by Escalation of Rate Base - Electric Operations (1 page) (9/13/19)	11 MPG-2 Qualifications of Michael P. Gorman (4 pp.) (7/27/15)
12	12 MPG-3 2016 Natural Gas Attrition Study, Calculation of General Revenue Requirement (3 pp.) (7/27/15)
13 DMR-29 Calculation of Attrition Adjustment Caused by Escalation of Rate Base - Natural Gas Operations (1 page) (9/13/19)	13
14	14
15 DMR-30 Calculation of Natural Gas Refund with Earnings Sharing Offset (1 pg.) (9/13/19)	15
16	16
17 DMR-31 Calculation of Refund Including Net Power Cost Update Correction - Electric Operations (1 pg.) (9/13/19)	17
18	18
19 DMR-32 Calculation of Refund Using Company Methodology - Electric Operations (1 pg.) (9/13/19)	19
20	20
21 DMR-33 Calculation of Refund Using Co. Methodology with Power Cost Update Correction - Elec. Ops. (1 pg.) (9/13/19)	21
22	22
23 DMR-34 Calculation of Refund Using Company Methodology - Natural Gas Operations (1 pg.) (9/13/19)	23
24	24
25 DMR-35 Published Opinion in Court of Appeals, 48982-1-II (31 pages) (9/13/19)	25

Page 674	Page 676
<p>1 LACEY, WASHINGTON; DECEMBER 6, 2019</p> <p>2 9:30 A.M.</p> <p>3 --o0o--</p> <p>4 P R O C E E D I N G S</p> <p>5</p> <p>6 JUDGE DOROSHKIN: Let's be on the record.</p> <p>7 Good morning, everyone. My name is Nelli Doroshkin, and</p> <p>8 I am an administrative law judge with the Commission.</p> <p>9 We're here today for a hearing in Dockets</p> <p>10 UE-150204 and UG-150205. This is the remand phase of</p> <p>11 the general rate proceeding of Avista Corporation. This</p> <p>12 case is on remand from the court of appeals with a</p> <p>13 direction to strike all portions of the attrition</p> <p>14 allowance attributing to Avista's rate base and</p> <p>15 recalculate Avista's rates without relying on rebates</p> <p>16 that are not used and useful.</p> <p>17 So we will begin by taking short form</p> <p>18 appearances beginning with Avista.</p> <p>19 MR. MEYER: Thank you, Your Honor. David</p> <p>20 Meyer for Avista.</p> <p>21 MR. PEPPLER: Tyler Pepple for the Alliance</p> <p>22 of Western Energy Consumers.</p> <p>23 MR. SWEETIN: Bob Sweetin for the Alliance</p> <p>24 of Western Energy Consumers.</p> <p>25 MS. SUETAKE: Nina Suetake for Public</p>	<p>1 believe we already stipulated to the entry of the other</p> <p>2 exhibits.</p> <p>3 JUDGE DOROSHKIN: That was before we went on</p> <p>4 the record.</p> <p>5 So then I will provide a copy of the exhibit</p> <p>6 list to the court reporter at the conclusion of this</p> <p>7 hearing so they may be made part of the record.</p> <p>8 Is there anything else to be addressed</p> <p>9 before the Commissioners join us?</p> <p>10 MR. MEYER: No, Your Honor.</p> <p>11 JUDGE DOROSHKIN: Okay. So this -- my</p> <p>12 understanding is that Avista will be waiving the</p> <p>13 cross-examination of witness Donna Ramas from Public</p> <p>14 Counsel?</p> <p>15 MR. MEYER: That is correct.</p> <p>16 JUDGE DOROSHKIN: Okay. So we will take a</p> <p>17 brief recess. After that, I will be joined by the</p> <p>18 Commissioners. Once we are joined by the Commissioners,</p> <p>19 we will begin with opening statements followed by</p> <p>20 cross-examination of the two witnesses in the submitted</p> <p>21 order of presentation, the questions from the Bench</p> <p>22 directed to the panel witnesses at the conclusion of</p> <p>23 their cross-examination and any redirect. And we will</p> <p>24 take a recess after the cross-examination of the Avista</p> <p>25 witness Andrews followed by any Bench questions to the</p>
Page 675	Page 677
<p>1 Counsel.</p> <p>2 MS. CAMERON-RULKOWSKI: Jennifer</p> <p>3 Cameron-Rulkowski, Assistant Attorney General,</p> <p>4 representing Staff.</p> <p>5 JUDGE DOROSHKIN: So we will address</p> <p>6 exhibits before the Commissioners join us. Yesterday</p> <p>7 Avista filed revisions to two exhibits, Exhibit EMA-20TR</p> <p>8 and Exhibit MTT-6TR. The deadline for filing exhibit</p> <p>9 errata was November 27th, but I will be waiving that</p> <p>10 deadline. Do any of the parties have any objections to</p> <p>11 the filed revisions?</p> <p>12 MR. PEPPLER: No objection.</p> <p>13 JUDGE DOROSHKIN: Then hearing none, do the</p> <p>14 parties stipulate to the admission of all the remand</p> <p>15 phase prefiled exhibits and testimony and the</p> <p>16 cross-examination exhibit that was filed?</p> <p>17 MR. MEYER: Yes.</p> <p>18 JUDGE DOROSHKIN: Okay. And this concludes</p> <p>19 the revisions that Avista filed yesterday.</p> <p>20 MR. MEYER: Yes, I -- presumably the other</p> <p>21 parties would agree.</p> <p>22 MR. PEPPLER: AWEC stipulates.</p> <p>23 MS. SUETAKE: Yes, so does Public Counsel.</p> <p>24 MS. CAMERON-RULKOWSKI: And Staff stipulates</p> <p>25 to the revised exhibits that were recently filed, and I</p>	<p>1 other witnesses at the conclusion of all</p> <p>2 cross-examination. So we are off the record.</p> <p>3 (A break was taken from</p> <p>4 9:35 a.m. to 9:40 a.m.)</p> <p>5 JUDGE DOROSHKIN: All right. We are back on</p> <p>6 the record following a short recess. I'm joined now by</p> <p>7 Chair Danner, Commissioner Rendahl, and Commissioner</p> <p>8 Balasbas.</p> <p>9 The parties have stipulated to the admission</p> <p>10 of all the remand phase prefiled exhibits as revised</p> <p>11 including the cross-examination exhibit.</p> <p>12 We -- with the Commissioners here, we will</p> <p>13 take short appearances again.</p> <p>14 MR. MEYER: David Meyer for Avista.</p> <p>15 MR. PEPPLER: Tyler Pepple for the Alliance</p> <p>16 of Western Energy Consumers.</p> <p>17 MR. SWEETIN: Bob Sweetin for the Alliance</p> <p>18 of Western Energy Consumers.</p> <p>19 MS. SUETAKE: Nina Suetake for Public</p> <p>20 Counsel.</p> <p>21 MS. CAMERON-RULKOWSKI: Jennifer</p> <p>22 Cameron-Rulkowski, Assistant Attorney General,</p> <p>23 representing Commission Staff.</p> <p>24 JUDGE DOROSHKIN: Okay. First we will have</p> <p>25 opening statements from all the parties and then we'll</p>

Page 678	Page 680
<p>1 follow the parties' agreed order of witnesses with the</p> <p>2 understanding that Avista has waived cross-examination</p> <p>3 of Public Counsel witness Donna Ramas, and then the</p> <p>4 Commissioners will present their questions to each of</p> <p>5 the three witnesses -- or the two witnesses will be</p> <p>6 cross-examined at the conclusion of the</p> <p>7 cross-examination of each witness.</p> <p>8 We'll begin with opening statements.</p> <p>9 MR. MEYER: Yes, Your Honor, may I proceed?</p> <p>10 JUDGE DOROSHKIN: Yes.</p> <p>11 MR. MEYER: All right. And I am David</p> <p>12 Meyer, and I'm offering some opening comments in this</p> <p>13 case. And I appreciate the opportunity, which we don't</p> <p>14 often take advantage of, to provide some introductory</p> <p>15 comments. My time is limited. I do not intend to give</p> <p>16 you a snapshot of every issue and every argument. That</p> <p>17 will come throughout today's session and in the</p> <p>18 posthearing briefs. But I would like to offer some</p> <p>19 perceptions and some context as you consider the</p> <p>20 evidence today and complete your deliberations.</p> <p>21 It's been four years in the making to get</p> <p>22 here. What a journey that has been. It's -- it's been</p> <p>23 an odyssey of sorts, and I think all parties are perhaps</p> <p>24 relieved to know that we will have some finality at some</p> <p>25 point.</p>	<p>1 fact, a prior version of attrition, a so-called K-factor</p> <p>2 case, was even appealed to Thurston County Superior</p> <p>3 Court by Public Counsel, and that appeal was rejected.</p> <p>4 So it's no surprise that Avista brought to</p> <p>5 you in the 2015 rate case, an attrition case. There was</p> <p>6 plenty of precedent for it, and it is not surprising in</p> <p>7 my view that the Commission believed it had sufficient</p> <p>8 authority to embrace that precedent of over 30 years.</p> <p>9 We believe that what was really at issue in the 25 --</p> <p>10 excuse me, 2015 rate case that triggered all of this was</p> <p>11 really a -- an issue of how to incorporate for the 2016</p> <p>12 test period a reasonable level of supportable rate base</p> <p>13 based on attrition adjustment.</p> <p>14 Now, as we are at this point in the remand</p> <p>15 proceeding, when we began this process, we believe that</p> <p>16 what was at stake was approximately 2 million or so of</p> <p>17 electric revenue requirement associated with the 2015</p> <p>18 attrition rate base and another 2 or \$3 million of</p> <p>19 revenue requirement associated with the natural gas</p> <p>20 attrition rate base. Those are manageable numbers to</p> <p>21 deal with and to argue about, but this case has since</p> <p>22 morphed into something entirely different.</p> <p>23 Claimed refunds now are in the amount of</p> <p>24 40-plus million or 70-plus million, well beyond the pale</p> <p>25 of reasonableness. And along the way, we're even being</p>
Page 679	Page 681
<p>1 Now, if the dollars in this case weren't so</p> <p>2 staggering with some parties arguing for refunds in</p> <p>3 excess of 40 million, others in excess of 70 million, if</p> <p>4 the numbers weren't so staggering, this would be an</p> <p>5 interesting case, at least to the lawyers who argue.</p> <p>6 But unfortunately, given what's at stake, it's much more</p> <p>7 than just an exercise.</p> <p>8 I will also say preliminarily that this is</p> <p>9 the type of case that, at least in my view, begged for</p> <p>10 settlement. And I want to assure the Commissioners that</p> <p>11 all parties participated earnestly and in good faith and</p> <p>12 worked hard to get there. They could not get there, but</p> <p>13 I want to thank the parties for their efforts along the</p> <p>14 way. As you can see, we are just too far apart on the</p> <p>15 issues, too far apart on the dollars.</p> <p>16 Now, if I could argue this case just on the</p> <p>17 equities alone and put some snarly, difficult, tricky</p> <p>18 legal issues off to the side, I would love to do that,</p> <p>19 because I think that there's probably a fair amount of</p> <p>20 agreement that there are equities that one ought to keep</p> <p>21 in mind.</p> <p>22 So what are those equities? Avista and I</p> <p>23 think the Commission, when it writes its orders, had</p> <p>24 been relying on 30-plus years of attrition precedent</p> <p>25 involving multiple cases and several utilities. And, in</p>	<p>1 asked -- well, the Commission is being asked to ignore</p> <p>2 the offsetting earnings sharing that occurred in the</p> <p>3 years '16, '17, and '18. Essentially a double-whammy.</p> <p>4 But most disturbing of all in my view, and this is my</p> <p>5 view, is that we have lost sight of the one thing that</p> <p>6 ever really mattered in the 2015 case, and that was to</p> <p>7 arrive at a level of used and useful plant in the 2016</p> <p>8 rate period.</p> <p>9 And you know the supreme irony now? Supreme</p> <p>10 irony is that we now know, in fact, what the actual</p> <p>11 level of used and useful rate base was in that 2016</p> <p>12 period, and it was \$40 million higher than what was</p> <p>13 projected in the contested attrition rate base. And I</p> <p>14 know that because that was built into Staff's case in</p> <p>15 the subsequent case. They began with a proformed</p> <p>16 historical test period that was \$40 million higher, and</p> <p>17 in that case, they argued from there.</p> <p>18 So we've -- we're in a strange position in</p> <p>19 this case, and I don't think that this is what</p> <p>20 reasonable regulation intended. But it may well be the</p> <p>21 result of a regulatory construct that isn't</p> <p>22 accomplishing what it was meant to do. And I know this</p> <p>23 Commission is well aware of that, and I know this</p> <p>24 Commission is trying to fix that, and we want to assist</p> <p>25 in every way possible.</p>

Page 682	Page 684
<p>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.</p> <p>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.</p> <p>25 So what is the sweet spot? What's that</p>	<p>1 those returned earnings, just that portion that ties to 2 the removed attrition rate base. Another attempt at 3 compromise.</p> <p>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.</p> <p>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.</p> <p>24 So you determined that the existing level of 25 rates, existing level of rates given this fresh</p>
Page 683	Page 685
<p>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.</p> <p>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.</p> <p>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</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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</p>

Page 686	Page 688
<p>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.</p> <p>5 JUDGE DOROSHKIN: Thank you, Mr. Meyer. 6 Let's just go around the table and AWEC can 7 present its opening statement.</p> <p>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</p>	<p>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.</p> <p>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.</p> <p>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</p>
Page 687	Page 689
<p>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.</p> <p>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.</p> <p>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,</p>	<p>1 return of rate base, depreciation, unquote. 2 Depreciation expense, in other words, is attributable to 3 rate base.</p> <p>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.</p> <p>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.</p> <p>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.</p>

Page 690	Page 692
<p>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</p>	<p>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</p>
Page 691	Page 693
<p>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</p>	<p>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</p>

Page 694	Page 696
<p>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</p>	<p style="text-align: center;">EXAMINATION OF ANDREWS / MEYER</p> <p>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.</p>
Page 695	Page 697
<p>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.</p>	<p style="text-align: center;">EXAMINATION OF ANDREWS / MEYER</p> <p>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. 23 ///// 24 ///// 25 /////</p>

Page 698

EXAMINATION OF ANDREWS / SUETAKE

1 EXAMINATION

2 BY MS. SUETAKE:

3 **Q. Good morning.**

4 A. Good morning.

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

6 **front of you?**

7 A. I do.

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

9 A. Yes, I'm there.

10 **Q. Is it correct that in this section you're**

11 **addressing the impacts of the various party positions on**

12 **the revenue returns earned by Avista?**

13 A. Yes, I am.

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

15 A. Yes.

16 **Q. Is it correct that this table shows the earned**

17 **return incorporating parties' positions?**

18 A. Yes.

19 **Q. So and it shows this year-by-year impact; is**

20 **that correct?**

21 A. Correct.

22 **Q. Okay. If the Commission orders refunds in this**

23 **case, will the Company file revised financial statements**

24 **for 2016, '17, or '18 at the Securities and Exchange**

25 **Commission?**

Page 699

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**

Page 700

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 --**

Page 701

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

Page 702	Page 704
EXAMINATION OF ANDREWS / SUETAKE	EXAMINATION OF ANDREWS / PEPPL
<p>1 rate base, the revenue requirement for that rate base,</p> <p>2 and then we've prorated that for 11 months. That's in</p> <p>3 the first box.</p> <p>4 This second box, table 2, explains the total</p> <p>5 earning sharing for 2016. So for in this case, the</p> <p>6 total earnings that were refunded to customers during</p> <p>7 that time period was 2.6 million. We then adjusted the</p> <p>8 over -- the total over -- or the total sharing, earning</p> <p>9 sharing that were paid to customers, we reduced that to</p> <p>10 take into effect the rate base, the attrition rate base</p> <p>11 amount, so therefore, in effect, reduce the earning</p> <p>12 sharing that we're saying that we should -- that should</p> <p>13 be applied to whatever refund.</p> <p>14 And then the bottom -- the bottom portion</p> <p>15 calculates the -- the actual once you've considered the</p> <p>16 earning sharing, what the level would be that you would</p> <p>17 return to customers. And so we start with '16, but we</p> <p>18 also provided '17 and '18. So in this case, we had '16,</p> <p>19 provided the -- the full year of '17, and then three</p> <p>20 months of -- of 2018.</p> <p>21 Q. Okay. Thank you.</p> <p>22 Is it -- do you see that there are several</p> <p>23 references throughout this exhibit of the time period of</p> <p>24 January 11th, 2016, through December 15th of 2016?</p> <p>25 Again, that 11-month time period?</p>	<p>1 MR. PEPPL: I'll be conducting the</p> <p>2 questioning. We have a -- as you -- one cross-exhibit</p> <p>3 stipulated into the record. I would propose to hand it</p> <p>4 out now for efficiency purposes if that's okay. Are</p> <p>5 there any -- does the Commission need any copies? We</p> <p>6 have extras if so.</p> <p>7</p> <p style="text-align: center;">8 EXAMINATION</p> <p>9 BY MR. PEPPL:</p> <p>10 Q. Ms. Andrews -- Andrews, when -- can you turn to</p> <p>11 page 37 of your rebuttal testimony, please?</p> <p>12 A. I'm there.</p> <p>13 Q. Okay. I'm looking at lines 8 through 10. There</p> <p>14 you testify that the court specifically referenced</p> <p>15 attrition rate base, which in this context refers to the</p> <p>16 escalated net plant after 80 FIT balances that are</p> <p>17 separate and distinct in the approved attrition studies;</p> <p>18 do you see that?</p> <p>19 A. Correct.</p> <p>20 Q. And I just noticed that you -- you put quotation</p> <p>21 marks around net plant after 80 FIT. Are you quoting</p> <p>22 the court's decision there?</p> <p>23 A. No, I'm just quoting the -- the title of that</p> <p>24 particular field, that particular -- you know, there was</p> <p>25 multiple -- as this mentioned, there was four and five</p>
Page 703	Page 705
EXAMINATION OF ANDREWS / SUETAKE	EXAMINATION OF ANDREWS / PEPPL
<p>1 A. I do. I guess I do see your point that perhaps</p> <p>2 instead of the 1.326, it might be maybe 1.375 -- I mean,</p> <p>3 there might be a tiny bit -- not even a -- less than a</p> <p>4 hundred thousand.</p> <p>5 Q. Okay. Right, so --</p> <p>6 A. I see your point.</p> <p>7 Q. Right. So, yeah, would you agree that all of</p> <p>8 these numbers would have to be slightly adjusted in the</p> <p>9 two thousand -- for the total numbers to include that</p> <p>10 15-day time period?</p> <p>11 A. I see what you mean that that 3.7 would probably</p> <p>12 have to be -- maybe it's 3.8.</p> <p>13 Q. Okay. So would you agree that would be the same</p> <p>14 for all of these calculations that use that?</p> <p>15 A. Only in probably the total column because --</p> <p>16 Q. Right.</p> <p>17 A. -- the '16 column stands at the 11 months from</p> <p>18 what we are proposing, but you're correct, the total</p> <p>19 sharing column of 3.7, I should have included the</p> <p>20 incremental portion.</p> <p>21 Q. Right, okay.</p> <p>22 MS. SUETAKE: Thank you. That was -- that</p> <p>23 is all my questions.</p> <p>24 JUDGE DOROSHKIN: And then AWEC, is it</p> <p>25 Mr. Pepple or Mr. Sweetin?</p>	<p>1 different items that were escalated. That's just the</p> <p>2 title of one of them.</p> <p>3 Q. Okay. So to the best of your knowledge, the</p> <p>4 court did not specifically reference attrition rate base</p> <p>5 as net plant after 80 FIT?</p> <p>6 A. No, they just specifically said rate base. But</p> <p>7 in the utility business, typically rate base is --</p> <p>8 includes accumulated depreciation accumulated for income</p> <p>9 taxes.</p> <p>10 Q. Okay. And so my understanding of how you</p> <p>11 identified the revenue requirement impact of removing</p> <p>12 attrition rate base as you define it, is that you</p> <p>13 essentially removed the return on the attrition rate</p> <p>14 base; is that more or less accurate?</p> <p>15 A. We removed the -- we -- we adjusted the -- the</p> <p>16 rate base portion to a 0 percent.</p> <p>17 Q. Right. Which from a revenue requirement</p> <p>18 perspective --</p> <p>19 A. Correct, and determined revenue requirement on</p> <p>20 that balance.</p> <p>21 Q. Okay. And in this section of your rebuttal</p> <p>22 testimony, you specifically object to Mr. Mullins also</p> <p>23 removing attrition-related depreciation expense; is that</p> <p>24 correct?</p> <p>25 A. I do. I do not believe that that's what the</p>

<p>Page 706</p> <p>EXAMINATION OF ANDREWS / PEPPL</p> <p>1 court of -- court of appeals remanded back to this</p> <p>2 Commission when they said remove or restate rate base.</p> <p>3 They're -- when the attrition model is calculated, and</p> <p>4 this was done by all of the parties when we've done</p> <p>5 attrition analysis in the '15 rate case, the rate base</p> <p>6 portion is escalated very distinct and separate from the</p> <p>7 depreciation expense. So when changes are made, they</p> <p>8 are based on historical data from the individual</p> <p>9 components. There isn't a connection between the two</p> <p>10 when you're doing those escalations.</p> <p>11 And even, for example, this Commission when, in</p> <p>12 the 2015 order, ordered a 0 percent escalation for</p> <p>13 distribution plant, did not also explain that they felt</p> <p>14 the depreciation expense on that distribution plant</p> <p>15 should also be zeroed out. And I don't believe any</p> <p>16 party in that case took that -- took that direction.</p> <p>17 Q. Right.</p> <p>18 So I guess if I understand, you're -- you're</p> <p>19 essentially saying that depreciation -- the escalation</p> <p>20 of depreciation expense in the attrition model was</p> <p>21 calculated separately from the escalation of rate base?</p> <p>22 A. Correct.</p> <p>23 Q. Of plant and service I should say.</p> <p>24 A. Correct.</p> <p>25 Q. Okay. So can you turn to your direct testimony</p>	<p>Page 708</p> <p>EXAMINATION OF ANDREWS / PEPPL</p> <p>1 what is included in a revenue requirement. So I -- I</p> <p>2 believe that with the court of appeals remanding back</p> <p>3 the rate base, they specifically mentioned expenses,</p> <p>4 that that was not -- that the escalation of expenses</p> <p>5 were fine, but it was the used and useful plant that</p> <p>6 they had their concern with that didn't meet the law</p> <p>7 that they remanded back to this Commission.</p> <p>8 Q. So what is your understanding for why there is</p> <p>9 an escalation of depreciation expense -- expense in the</p> <p>10 attrition model?</p> <p>11 A. There is an escalation of depreciation expense</p> <p>12 because we know that our annual depreciation expense in</p> <p>13 the outer years due to new investment will increase.</p> <p>14 But that's no different than we also know that operating</p> <p>15 expenses will change because we have investment, we know</p> <p>16 property taxes will change because we have new</p> <p>17 investment. So you could pretty much tie our entire</p> <p>18 business to the increase investment that we have. So</p> <p>19 does that mean that we should have zeroed out all of our</p> <p>20 expenses? I just don't think it works that way. I</p> <p>21 truly think that they're separate and distinct, and</p> <p>22 that's what this Commission remanded back.</p> <p>23 Q. Okay. But perhaps a distinguishing factor would</p> <p>24 be that depreciation, as you testified, is a return of</p> <p>25 rate base?</p>
<p>Page 707</p> <p>EXAMINATION OF ANDREWS / PEPPL</p> <p>1 in this case, which is EMA-9T, and I'm looking at page</p> <p>2 9.</p> <p>3 A. Let me find it. Sorry.</p> <p>4 Q. And are --</p> <p>5 A. I'm at 9. I don't know what page yet.</p> <p>6 Q. I'm sorry, page 9.</p> <p>7 A. Oh, I'm sorry.</p> <p>8 Q. And I'm looking at lines 1 through 3, after the</p> <p>9 sentence, "No, it is not," can you just read the next</p> <p>10 two sentences there?</p> <p>11 A. (As read) Rate base are the investments made to</p> <p>12 serve customers. The Company is allowed to receive a</p> <p>13 return on rate base rate of return as well as the return</p> <p>14 of rate base depreciation.</p> <p>15 Q. Okay. So leaving aside the question of whether</p> <p>16 depreciation expense was separately calculated in the</p> <p>17 attrition model from plant and service, you would agree</p> <p>18 generally speaking that depreciation expense and rate</p> <p>19 base are related?</p> <p>20 A. Well, I would agree that when you calculate a</p> <p>21 revenue requirement, you first pick up -- you first</p> <p>22 include the expenses, depreciation, and taxes, and your</p> <p>23 determination of revenue requirement, which depreciation</p> <p>24 is a return of that plant. But rate base is a function</p> <p>25 of the rate base times its return in order to determine</p>	<p>Page 709</p> <p>EXAMINATION OF ANDREWS / PEPPL</p> <p>1 A. That's true.</p> <p>2 Q. Okay. And then if you could go back to your</p> <p>3 rebuttal testimony on page 38.</p> <p>4 A. I'm there.</p> <p>5 Q. Okay. And looking at lines 3 through 10, you</p> <p>6 testify that Mr. Mullins overstated the adjustment</p> <p>7 related to removing depreciation expense by applying the</p> <p>8 revenue growth factor to pro forma rate base?</p> <p>9 A. That's correct.</p> <p>10 Q. Okay. And you say that that's -- that</p> <p>11 overstates his adjustment by 2.5 million; is that</p> <p>12 correct?</p> <p>13 A. Correct.</p> <p>14 Q. Do you know approximately how that 2.5 million</p> <p>15 would be allocated between electric and gas?</p> <p>16 A. Not -- not offhand. I -- I can't --</p> <p>17 Q. Do you have a ballpark --</p> <p>18 A. -- it's -- if I had to guess, I'd say it's</p> <p>19 probably 80/20, 88 percent electric -- but I don't -- I</p> <p>20 don't know.</p> <p>21 Q. Okay.</p> <p>22 A. Unfortunately. I'm sorry, from the time I did</p> <p>23 that, I don't recall the...</p> <p>24 Q. Okay. Fair enough.</p> <p>25 Okay. And then going down to the next Q and A</p>

Page 710	Page 712
EXAMINATION OF ANDREWS / PEPPL	EXAMINATION OF ANDREWS / PEPPL
<p>1 on that same page, page 38.</p> <p>2 A. And -- and I do want to clarify, that's just the</p> <p>3 error of how we calculated it, not the total change in</p> <p>4 depreciation that I assume he was making.</p> <p>5 Q. Correct.</p> <p>6 A. Sorry.</p> <p>7 Q. So line 11 on page 38, you also object to</p> <p>8 Mr. Mullins' proposal to include interest on the</p> <p>9 over-collected amount; is that correct?</p> <p>10 A. I do.</p> <p>11 Q. Okay. So what did Avista just generally</p> <p>12 speaking, you don't have to give me every detail, but</p> <p>13 general speaking, what did Avista do with the revenue it</p> <p>14 collected from its 2015 rates?</p> <p>15 A. Well, those revenues were used, of course, to</p> <p>16 run the business, to operate the business, and to the</p> <p>17 extent that there were amounts that were owed</p> <p>18 shareholders or shareholders portion would have been</p> <p>19 probably paid out in dividends or invested back into the</p> <p>20 business.</p> <p>21 Q. Okay. And I guess if you didn't have that</p> <p>22 additional revenue, in order to achieve the same</p> <p>23 results, you would have had to presumably borrow money</p> <p>24 or issue equity to get the same level of revenue to</p> <p>25 operate the business and that kind of -- how -- how</p>	<p>1 Q. Okay. So even if the Commission found that the</p> <p>2 rates set in the 2015 rate case resulted in customers</p> <p>3 overpaying and a refund is owing, would your position be</p> <p>4 that the refund amount should not even reflect the time</p> <p>5 value of money?</p> <p>6 A. It was not owed to customers during the last</p> <p>7 four years, because in the last four years, we had an</p> <p>8 order from the Commission that stipulated what our</p> <p>9 revenues were to be starting in 2015. So at that time,</p> <p>10 we collected from customers what we were ordered to</p> <p>11 collect from customers. So the revenues we collected</p> <p>12 were as approved.</p> <p>13 Once this Commission decides that we do owe</p> <p>14 refunds, then that is the time period that we would</p> <p>15 begin accruing interest. It's really no different than</p> <p>16 collecting money for our purchase gas adjustments,</p> <p>17 for -- for example. We track the difference. We don't</p> <p>18 actually accrue interest until the Commission approves</p> <p>19 whatever level of -- of purchase gas adjustment we have.</p> <p>20 So if we assume that we owe customers, once the</p> <p>21 Commission approves it, so even though we have a</p> <p>22 deferral balance, once the Commission actually blesses</p> <p>23 that balance, that's when the interest begins to accrue</p> <p>24 at the FERC interest rate.</p> <p>25 Q. Okay. And -- but I guess -- I guess my question</p>
Page 711	Page 713
EXAMINATION OF ANDREWS / PEPPL	EXAMINATION OF ANDREWS / PEPPL
<p>1 would it -- how would you fund -- how would you operate</p> <p>2 the business in the absence of those revenues?</p> <p>3 A. Well, we -- we -- the way we fund our business</p> <p>4 is almost 50/50 around whether it be debt or whether it</p> <p>5 be equity. So that's how we would get our funds and</p> <p>6 that's how we run our business.</p> <p>7 Q. Okay. And that would have represented a cost to</p> <p>8 Avista if you had issued more -- issued more debt?</p> <p>9 A. Issued more debt.</p> <p>10 Q. Okay. And in your -- in your objection to</p> <p>11 Mr. Mullins' interest proposal, are you -- is it your</p> <p>12 testimony that no interest rate at all should apply or</p> <p>13 simply that Mr. Mullins' proposed interest rate is</p> <p>14 incorrect?</p> <p>15 A. Well, in a way both, because no interest should</p> <p>16 apply until we actually have liability. That's how</p> <p>17 the -- that's how it typically works. When we have a</p> <p>18 liability that's owed and the Commission has ordered</p> <p>19 that we would owe refunds to customers, that is the</p> <p>20 point in time we would begin to accrue interest. So for</p> <p>21 approximately the last four years, we do not -- we have</p> <p>22 not had a liability on our books. And so until we do,</p> <p>23 we don't typically record interest, and typically we</p> <p>24 would not record interest until the Commission has</p> <p>25 actually ordered it so...</p>	<p>1 is sort of a little bit different. I mean, I understand</p> <p>2 what the sort of standard practice is, but the -- the</p> <p>3 value -- the cost of money, was it different in 2015</p> <p>4 than it is today, I guess?</p> <p>5 A. It may be, but under the PGA example for -- we</p> <p>6 would start deferring in January, but until the</p> <p>7 Commission actually approves that balance, we don't</p> <p>8 start accruing interest January 1 of the year, we start</p> <p>9 accruing interest once the Commission approves that</p> <p>10 balance.</p> <p>11 Q. Okay. So another argument that you make and</p> <p>12 that Mr. Meyer hit on in his opening statement is that</p> <p>13 AWEC's and the other parties' proposed refunds would not</p> <p>14 result in a reasonable end result; is that right?</p> <p>15 A. That's correct.</p> <p>16 Q. Okay. So can you turn to page 29 of your</p> <p>17 rebuttal testimony?</p> <p>18 A. I'm there.</p> <p>19 Q. Okay. So I'm looking at lines 10 through 13.</p> <p>20 A. I'm there.</p> <p>21 Q. Okay. And you testify that the refunds of the</p> <p>22 magnitude proposed by the parties would cause Avista to</p> <p>23 be prejudiced, perhaps seriously prejudiced, with</p> <p>24 resulting ROEs lower than the 8.22 percent identified in</p> <p>25 Order 6 as being insufficient to produce a reasonable</p>

Page 714	Page 716
EXAMINATION OF ANDREWS / PEPPL	EXAMINATION OF ANDREWS / PEPPL
<p>1 result; is that right?</p> <p>2 A. Right. That 8.22 was in direct relationship to</p> <p>3 the 19.6 million that had been proposed in that</p> <p>4 proceeding.</p> <p>5 Q. Okay. So can you then turn to page 5 of your</p> <p>6 rebuttal testimony.</p> <p>7 A. Okay. I'm there.</p> <p>8 Q. Okay. And at line 3 here, you identify an</p> <p>9 alternative recommendation from Staff that uses end of</p> <p>10 period 2015 rate base, and you say is the only</p> <p>11 acceptable model to use if the Commission finds itself</p> <p>12 persuaded by the parties that a recalculation of the</p> <p>13 attrition allowance adjustment is necessary; is that</p> <p>14 right?</p> <p>15 A. Right, assuming 11 months is considered and the</p> <p>16 earning sharing is considered.</p> <p>17 Q. Okay. So I guess to just be clear on that, so</p> <p>18 if you look on footnote 6, which is at the end of this</p> <p>19 paragraph at the bottom, you note that for information</p> <p>20 purposes only, if the refunds are ordered over 2.3</p> <p>21 years, the refund is 10.7 million on the electric side</p> <p>22 and zero on the gas side --</p> <p>23 A. Correct, yes.</p> <p>24 Q. -- if you cite to EMA-24R?</p> <p>25 A. Yes.</p>	<p>1 Q. Okay. And so then -- and then page 2 shows the</p> <p>2 combined ROE impact for electric and natural gas; is</p> <p>3 that right?</p> <p>4 A. Yes.</p> <p>5 Q. Okay. And both with and without earning</p> <p>6 sharing, you would agree that all of those ROEs are</p> <p>7 above the 8.22 percent that you identified as</p> <p>8 essentially not a reasonable end result?</p> <p>9 A. Well, for 2016, I would say yes, it is above an</p> <p>10 NOE, and that's why we had stated for various reasons</p> <p>11 for this Commission to have a pathway to complete this</p> <p>12 case that maybe resolve many issues in this case that</p> <p>13 would be acceptable to the Company. The '17 and '18,</p> <p>14 however, are not acceptable more based on the fact that</p> <p>15 it should not be more than 11 months and for -- the</p> <p>16 other portion should include earning sharing.</p> <p>17 Q. Okay. But my question was, if I look at 2016</p> <p>18 and I look without earning sharing on page 2, 8.9 is</p> <p>19 obviously higher than 8.22, right?</p> <p>20 A. It is higher than 8.22, but our reason for</p> <p>21 saying that that is not acceptable is that we -- without</p> <p>22 taking into consideration earning sharing, to be honest,</p> <p>23 as an accountant, it makes absolutely no sense to me</p> <p>24 that this Commission would ignore moneys that have</p> <p>25 already been refunded to customers.</p>
Page 715	Page 717
EXAMINATION OF ANDREWS / PEPPL	EXAMINATION OF ANDREWS / PEPPL
<p>1 Q. Yeah, okay.</p> <p>2 So can you turn to that exhibit, please?</p> <p>3 A. I'm there.</p> <p>4 Q. Okay. And I'm just going down on column C on</p> <p>5 page 1 of this exhibit, at the bottom, the number is</p> <p>6 14,568,000, and I -- I take that to be what the refund</p> <p>7 would be over a 2.3-year period before earning sharing;</p> <p>8 is that correct?</p> <p>9 A. That's correct.</p> <p>10 Q. Okay. And then the 10.669 going over in that</p> <p>11 row, that's after earning sharing?</p> <p>12 A. That's correct.</p> <p>13 Q. Okay. And on the gas side, on page 2, the same</p> <p>14 column, it's 723,000 over the 2.3-year period without</p> <p>15 earning sharing and zero with earning sharing?</p> <p>16 A. That's correct.</p> <p>17 Q. Okay. So can you turn to the cross exhibit that</p> <p>18 AWEC submitted. It's been marked as EMA-16. And -- and</p> <p>19 in this, this is a data request that AWEC sent to the</p> <p>20 Company where Avista was asked to present what the ROE</p> <p>21 impact would be from these refund calculations in</p> <p>22 EMA-24R without earning sharing; is that accurate?</p> <p>23 A. With and without earning sharing.</p> <p>24 Q. Correct, with and -- over the 2.3-year period?</p> <p>25 A. Yes.</p>	<p>1 Q. Got it.</p> <p>2 My only question is about what the re- -- what</p> <p>3 the end result is of both of these numbers. Surely --</p> <p>4 and earning sharing 9.2 also above the 8 point -- and</p> <p>5 same for the other ones across, 9 and 8.8 and 9 and 9?</p> <p>6 A. I realize that, it's just that the 8.22 was</p> <p>7 unreasonable for one reason; the 8 and 9 percent here is</p> <p>8 unreasonable for a different reason.</p> <p>9 Q. Well, maybe we can let the Commission make that</p> <p>10 decision.</p> <p>11 A. Well, you asked for my opinion, that's my</p> <p>12 opinion.</p> <p>13 Q. Correct, okay.</p> <p>14 And I guess I -- I know you testified to this,</p> <p>15 but to be clear, if the Commission does consider earning</p> <p>16 sharing in the determination of a refund, Avista agrees</p> <p>17 that the impact of earning sharing should not apply to</p> <p>18 those customers that are not subject to the decoupling</p> <p>19 mechanism and did not actually receive any earning</p> <p>20 sharing?</p> <p>21 A. That's correct, and Mr. Miller's testimony</p> <p>22 outlined how that could be accomplished so that those</p> <p>23 customers that did not already receive refunds get their</p> <p>24 full amount.</p> <p>25 Q. Okay.</p>

Page 718

EXAMINATION OF ANDREWS / MEYER

1 MR. PEPPE: 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

E X A M I N A T I O N

13 BY MR. MEYER:

14 **Q. So you were asked by Public Counsel a series of**

15 **questions about when the impact on the books of the**

16 **Company would be felt when the Commission issues its**

17 **refund order, correct?**

18

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.

Page 719

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 --

Page 720

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**

Page 721

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.

Page 722	Page 724
<p>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.</p>	<p>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</p>
Page 723	Page 725
<p>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</p>	<p>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</p>

Page 726

EXAMINATION OF MCGUIRE / CAMERON-RULKOWSKI

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

EXAMINATION

21 BY MS. CAMERON-RULKOWSKI:

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

23 A. Good morning.

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

25

Page 727

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

EXAMINATION

22 BY MR. MEYER:

23 **Q. Are you generally familiar with the Staff's case**

24 **in the 2016 filing? So not -- not this docket, but the**

25

Page 728

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.

Page 729

EXAMINATION OF MCGUIRE / MEYER

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**

Page 730

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:

Page 731

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?

Page 732

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,**

Page 733

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

Page 734

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**

Page 735

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**

Page 736

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

Page 737

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.

Page 738	Page 740
<p>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</p>	<p>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</p>
Page 739	Page 741
<p>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</p>	<p>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</p>

Page 742	Page 744
<p>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</p>	<p>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</p>
Page 743	Page 745
<p>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</p>	<p>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</p>

Page 746

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. PEPPE: 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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Page 747

1 CERTIFICATE
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3 STATE OF WASHINGTON
4 COUNTY OF THURSTON
5
6 I, Tayler Garlinghouse, a Certified Shorthand
7 Reporter in and for the State of Washington, do hereby
8 certify that the foregoing transcript is true and
9 accurate to the best of my knowledge, skill and ability.
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12 _____
13 Tayler Garlinghouse, CCR 3358
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