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BEFORE THE WASHINGTON UTILITIES AND

2

TRANSPORTATION COMMISSION

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4 WASHINGTON UTILITIES AND) Docket No. UE-991606
TRANSPORTATION COMMISSION,) Volume III
5 Complainant,) Pages 73-307
v.)
6 AVISTA CORPORATION,)
Respondent.)
7 _____)

8

9 A hearing in the above matter was
10 held on March 27, 2000, at 9:33 a.m., at 1300
11 Evergreen Park Drive Southwest, Olympia, Washington,
12 before Administrative Law Judges MARJORIE R. SCHAER
13 and KAREN CAILLE and CHAIRWOMAN MARILYN SHOWALTER,
14 COMMISSIONER RICHARD HEMSTAD and COMMISSIONER WILLIAM
15 R. GILLIS.

16

17 The parties were present as
18 follows:

19 AVISTA CORPORATION, by David J.
Meyer, Attorney at Law, E 1411 Mission Avenue, P.O.
20 Box 3727, Spokane, Washington 99220.

21 ICNU, by Brad Van Cleve, Attorney
at Law, 1300 S.W. Fifth Avenue, Suite 2915, Portland,
22 Oregon 97201.

23 THE COMMISSION, by Mary M.
Tennyson and Gregory Trautman, Assistant Attorneys
24 General, 1400 S. Evergreen Park Drive S.W., P.O. Box
40128, Olympia, Washington 98504-0128.

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1 PUBLIC COUNSEL, by Simon ffitch,
Attorney at Law, 900 Fourth Avenue, #2000, Seattle,
2 Washington 98164.

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24 Barbara L. Spurbeck, CSR

25 Court Reporter

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1 JUDGE SCHAER: Let's be on the record. We
2 are here this morning for a hearing in two
3 consolidated dockets. The first is WUTC versus
4 Avista Utilities, Docket Number UE-991606. This is a
5 filing by the electric arm of this company for an
6 annual increase in rates of \$26.3 million, or about a
7 10.4 percent increase in electric rates.

8 The second proceeding is WUTC versus Avista
9 Utilities, in Docket Number UG-991607, which is a
10 general rate filing by the gas arm of this company
11 seeking an annual increase of approximately \$4.9
12 million, or a 6.5 percent increase.

13 This hearing is being held before
14 Chairwoman Marilyn Showalter, Commissioner William
15 Gillis, and Commissioner Richard Hemstad. We're in
16 the Commission's Hearing Room 206 in the Commission
17 Headquarters building in Olympia, Washington. I'm
18 Marjorie Schaer, and Administrative Law Judge Karen
19 Caille and I are the Administrative Law Judges
20 assigned by the Commission to this proceeding.

21 I'd like to start by taking appearances
22 from all the parties, starting with the company,
23 please. Mr. Meyer.

24 MR. MEYER: Thank you, Your Honor.
25 Appearing on behalf of Avista Corporation, David

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1 Meyer. My relevant information has been already
2 provided for the record. Thank you.

3 JUDGE SCHAER: Okay. For Staff.

4 MS. TENNYSON: Appearing for Staff, I'm
5 Mary Tennyson, Senior Assistant Attorney General, and
6 --

7 MR. TRAUTMAN: Greg Trautman, Assistant
8 Attorney General.

9 JUDGE SCHAER: Thank you. For Public
10 Counsel.

11 MR. FFITCH: Simon ffitch, Assistant
12 Attorney General.

13 JUDGE SCHAER: And for Industrial Customers
14 of Northwest Utilities?

15 MR. VAN CLEVE: I'm Brad Van Cleve,
16 appearing for the Industrial Customers of Northwest
17 Utilities.

18 JUDGE SCHAER: Thank you. The purpose of
19 our hearings this week is to allow Avista to present
20 its case in chief and to allow cross-examination of
21 that case. Are there any preliminary matters before
22 we proceed?

23 MR. MEYER: None that I'm aware of, Your
24 Honor.

25 MS. TENNYSON: No, Your Honor.

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1 JUDGE SCHAER: Go ahead and call your first
2 witness, then, please, Mr. Meyer.

3 MR. MEYER: Thank you, I call to the stand
4 Mr. Thomas Matthews.
5 Whereupon,

6 THOMAS M. MATTHEWS,
7 having been first duly sworn, was called as a witness
8 herein and was examined and testified as follows:

9 JUDGE SCHAER: Thank you. Your witness is
10 sworn, Mr. Meyer. The following exhibits were
11 premarked in conjunction with Mr. Matthews'
12 testimony. The direct testimony of Thomas M.
13 Matthews, Exhibit T-1. Organization chart, Exhibit
14 2.

15 The proposed cross-examination exhibits are
16 1998 Avista Summary Annual Report, Exhibit 3; 1997
17 Avista Summary Annual Report, Exhibit 4; Avista 1998
18 SEC Form 10-K, Exhibit 5; Response to WUTC Data
19 Request No. 250, Exhibit 6.

20 Response to ICNU Data Request Number 9,
21 marked as Exhibit 7. Response to ICNU Data Request
22 Number 61 has been marked as Exhibit 8. The
23 Washington Water Power SEC Form 10-K for 1996, cover
24 and page one, Exhibit 9; The Washington Water Power
25 SEC Form 10-K for 1997, cover and page one, Exhibit

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1 10.

2 Exhibit 11 is an 11-23-99 Avista Press
3 Release; Exhibit 12, an 8-24-99 Press Release; and
4 Exhibit 13, Summary of Compensation Avista Proxy
5 Statement.

6 MR. MEYER: Thank you.

7 D I R E C T E X A M I N A T I O N

8 BY MR. MEYER:

9 Q. Mr. Matthews, for the record, would you
10 please state your name and your employer?

11 A. My name is Thomas M. Matthews. My employer
12 is Avista Corporation.

13 Q. And what is your position with Avista?

14 A. My position is Chairman of the Board, Chief
15 Executive Officer, and President.

16 Q. And have you caused to be prepared prefiled
17 direct testimony premarked as Exhibit T-1?

18 A. Yes, I have.

19 Q. And is the information contained therein
20 true and correct, to the best of your knowledge?

21 A. Yes, it is.

22 Q. Are you also sponsoring what has been
23 marked for identification as Exhibit Number 2?

24 A. Which is Number 2?

25 Q. That would be the org chart?

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1 A. Yes.

2 Q. Okay. And that was prepared by you or
3 under your direction and supervision; correct?

4 A. Correct. Yes, it was.

5 MR. MEYER: With that, Your Honor, I move
6 for the admission of Exhibits T-1 and 2.

7 JUDGE SCHAER: Any objection?

8 MS. TENNYSON: No.

9 JUDGE SCHAER: Those documents are
10 admitted.

11 MR. MEYER: With that, the witness is
12 available for cross.

13 JUDGE SCHAER: Okay. Before we proceed
14 with cross, I've heard several people joining us on
15 the conference bridge. If any of you are hoping to
16 appear in this proceeding, would you please so
17 indicate at this time? I'm hearing nothing. Thank
18 you. You're welcome to listen, of course, but I just
19 need to be clear on who is participating and who is
20 not.

21 Before Mr. Matthews assumed the stand, in a
22 prehearing conference last week and in discussions
23 this morning, several documents have been marked for
24 identification. Looking at those documents, we have
25 Staff exhibits which have been marked for

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1 identification as Exhibits 3 through 10, and as
2 Exhibit 12. Distributed this morning from Staff is a
3 complete replacement of Exhibit 3. It says Exhibit 3
4 at the bottom. What you will need to do is just
5 remove Exhibit 3 from your notebooks or wherever you
6 have them and replace them with this copy.

7 Then marked for identification as Exhibit
8 12 is an August 26th, 1999 press release, apparently,
9 or press statement. I'll have you identify this for
10 the witness, Ms. Tennyson.

11 MS. TENNYSON: Would you like me to do that
12 now?

13 JUDGE SCHAER: Those things marked for
14 identification, let's go ahead, please.

15 MS. TENNYSON: Certainly. This actually is
16 copies of several different press releases all
17 relating to the same subject. The first one, the
18 title on it, DJ Avista/S&P-2, the date on the top is
19 August 24th, 1999. The second page, the title on it
20 is Avista Ratings Downgraded by DCR, standing for
21 Duff and Phelps Credit Rating Company. That is two
22 pages. An identifying feature might be on the bottom
23 right-hand corner, that one has handwritten AV, Alpha
24 Victor, dash 673 and 674.

25 The next page is a Moody's Investor Service

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1 Credit Research Rating Review, dated August 17th,
2 1998, for the Washington Water Power Company, and
3 that is also two pages, numbered in the lower
4 right-hand corner AV-689 and 690.

5 JUDGE SCHAER: Okay. Go ahead with your
6 questioning, please, Ms. Tennyson.

7 MS. TENNYSON: Thank you.

8 C R O S S - E X A M I N A T I O N

9 BY MS. TENNYSON:

10 Q. Good morning Mr. Matthews.

11 A. Good morning.

12 Q. In your testimony, you state you're
13 providing an overview of the company and its various
14 lines of business to convey the overall strategic
15 direction of the company and its subsidiaries; is
16 that correct?

17 A. That's correct.

18 Q. And you took over as chief executive
19 officer of this company in 1998?

20 A. In mid-'98, I think July 1st.

21 Q. July 1st, thank you. Before joining
22 Avista, you spent most of your career working in
23 non-regulated companies; is that correct?

24 A. That's correct, but each of those companies
25 had a regulated portion. Some were

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1 federally-regulated interstate pipelines, some were
2 state-regulated gas LDCs, and some were
3 state-regulated intrastate pipelines.

4 Q. After you took over as the chief executive
5 officer for Avista, did the overall strategic
6 direction of the company change?

7 A. Yes, it did.

8 Q. And could you describe for us how that
9 changed?

10 A. I guess it changed in two ways. The first
11 way was changing some of the strategy of the
12 corporation as it related to the core of the company,
13 which is our state-regulated utility operations in
14 the five states that we operate, which dealt with the
15 fact that we needed revenue increases and dealt with
16 the fact that we're paying out too much in dividends.
17 Twelve of the last 13 years, we didn't earn our
18 dividends. We were paying out more dividends than we
19 were earning as a company.

20 So the restructuring began with financial
21 restructuring, cutting the dividend to shareholders,
22 and then embarking on a detailed analysis of the
23 operations of the company as to what could be done on
24 increases in revenue, reductions in cost,
25 outsourcing, restructuring, reorganization, changes

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1 in some of our operation structures, and in essence,
2 to get the Utility operations in a position so that
3 it could attempt to at least earn the returns that
4 the states set as targets we're allowed to return,
5 because our earnings were generally in the six
6 percent to six and a half percent returns. And my
7 target for regulated companies is try to always earn
8 something in the range of ten percent overall
9 returns, with a target of 12 percent or so in returns
10 of equity.

11 So we embarked on substantial
12 restructuring, reorganization, changes in operation,
13 changes in personnel, changes in approaches to rate
14 cases, et cetera.

15 Q. When you refer to the six percent return,
16 is that the company's overall earned return?

17 A. Yes.

18 Q. Could you refer to Exhibit 2? That's the
19 organizational chart that was presented with your
20 testimony.

21 A. Okay.

22 Q. And I would like you to also refer to
23 what's been marked for identification as Exhibit 5.
24 This is the company's form 10-K, and I'm referring to
25 page two.

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1 A. Okay.

2 Q. By page two, I mean the one that's actually
3 marked with Arabic numeral two, the organizational
4 chart, as opposed to the preliminary pages. Can you
5 compare these two organizational charts for us and --
6 to me, they appear to be very different in structure,
7 but I'd like you to describe how these are different,
8 if they are in your mind?

9 A. In reality, they're essentially the same
10 chart. One is laid out vertically and one is laid
11 out horizontally, you might say is the only
12 difference. And they're both shown as sort of how
13 the company operates, not the legal entities, you
14 might say. The Avista Corporation is the parent and
15 the Avista Corporation, you might say, is the Utility
16 corporation. The only structure that's unique is
17 that we do have, you might say, an internal holding
18 company, Avista Capital, that provides all the
19 financing and financial support for the nonregulated
20 opportunities.

21 Q. And Avista Capital is -- is that separately
22 incorporated?

23 A. It's separately incorporated, and you might
24 denote it as a paper shell company.

25 Q. So does it have its own stock?

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1 A. It has its own stock, all the shares of
2 which are owned by Avista Corporation.

3 Q. And then, on the chart that's marked as
4 Exhibit 2, the one that you prepared for this
5 proceeding, that has Avista Utilities not a legal
6 entity --

7 JUDGE SCHAER: Excuse me, Counsel. I
8 believe that's Exhibit 5.

9 MS. TENNYSON: No, that's Exhibit 2.

10 JUDGE SCHAER: I'm sorry, thank you.

11 Q. What's that parenthetical reference meant
12 to tell us?

13 A. Just to show that that's an organizational
14 entity, not a legal corporation, because the legal
15 corporation that you might say owns our Utility
16 business is Avista Corporation at the parent level.

17 Q. There are -- we have two other exhibits
18 that have been marked for identification. One is
19 marked as Exhibit 9 and one is Exhibit 10. These are
20 the cover page and organizational chart from the 1996
21 and the 1997 Form 10-Ks filed by the company. Would
22 you refer to those?

23 A. Okay.

24 Q. Now, these are, again, a different
25 corporate structure. And what I'd like you to

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1 clarify for us is -- these were before you took over,
2 but how the company structure changed between here
3 and then the 1998 Form 10-K?

4 A. In essence, not much changed, except you
5 can see in late '97, as we communicated to the
6 Commission, we formed Avista Energy, which was sort
7 of a nonregulated trading marketing company.
8 Previously, that was all included under the commodity
9 trading side, as shown in the 1996 organization.

10 Q. Okay. And if I might ask, then, for the
11 1996 organizational structure, the top box is
12 Washington Water Power, the next one -- next level
13 down, starting from the left, is Energy Delivery, and
14 then to the right is Energy Trading and Market
15 Services. So at that time, those were all part of
16 the regulated operations?

17 A. That's correct.

18 Q. Okay. And then, going to the 1997 chart,
19 where are the regulated operations?

20 A. Everything denoted there is energy
21 delivery, and everything denoted as generation
22 resources. You can see that, on the right-hand, it's
23 called Avista Corp. That was the name at that time
24 of the internal holding company that's now called
25 Avista Capital. And so, in essence, when we changed

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1 the name of the corporation, we just adopted the
2 names that was already in place for all the
3 nonregulated subs.

4 Q. If we look at the most recent
5 organizational chart, the one you put in as Exhibit
6 Number 2, can you tell us -- I'm assuming that you
7 would fall within the top box, the Washington -- or
8 Avista Corp. Can you tell us individuals who might
9 be relegated to that box, as opposed to the ones
10 below?

11 A. Individuals in Avista Corp.? That would
12 include people like me, David Meyer, Gary Ely, Joann
13 Matheson, Terry Simms, Rob Fukai, David Brookart, Ron
14 Peterson, Christy Burmeister-Smith, Terry Simms, I
15 think that's all. I'd have to go back and look at my
16 names of officers.

17 MR. MEYER: Maybe Mr. Eliassen?

18 THE WITNESS: Mr. Eliassen, right.

19 MR. MEYER: If John is listening in, he'd
20 be greatly chagrined to be left out.

21 THE WITNESS: You always forget your
22 financial people.

23 JUDGE SCHAER: John, if you're listening
24 in, you better get your resume out.

25 THE WITNESS: So Avista Corporation level

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1 would be all of the named corporate officers that
2 would appear in our annual report as the named
3 corporate officers.

4 Q. Would Mr. Turner fall within this section,
5 or where would he be?

6 A. Yes, he would. Mr. Turner is unique, I
7 guess unique in several ways. He's unique in the
8 fact he is a corporate officer, as well as then a
9 subsidiary officer head, whereas most of the other --
10 I guess all of the other subsidiary heads shown on
11 the bottom, if they're head of that business unit,
12 they're not corporate officers. Mr. Turner is head
13 of Avista Utilities organization unit, as well as a
14 corporate officer.

15 Q. Okay. One of our data requests, which was
16 filed or served on the company later in the process,
17 and in fact, I think it's due sometime this week, we
18 did request a copy of an organizational chart with
19 names and positions on it. Would you be able to
20 provide that to us for inclusion in the record here?

21 MR. MEYER: I understand that is being
22 worked on now, and perhaps within this week we can
23 have that ready for admission into evidence. But we
24 don't have it at this particular time.

25 MS. TENNYSON: Okay. Thank you very much.

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1 Q. Would you agree that the chief executive
2 officer of a corporation speaks for the company on
3 company matters?

4 A. Yes.

5 Q. And Avista Corporation is a publicly-traded
6 company listed on the New York Stock Exchange; is
7 that correct?

8 A. That's correct.

9 Q. Is the board of directors responsible for
10 the entire operations of Avista Corp.?

11 A. From a governing standpoint, the board of
12 directors is responsible for the entire operations of
13 Avista Corp. From a time commitment standpoint, you
14 might say, the various -- the board and their
15 committees focuses on the core businesses in a
16 fashion that they think is most important at the
17 time.

18 Q. Is Avista Capital publicly-traded?

19 A. No, it is not.

20 Q. And I think you refer to that as a
21 wholly-owned subsidiary?

22 A. Well, it is an internal holding company. I
23 guess we'd call it a subsidiary, but it's basically a
24 holding company for debt.

25 Q. So does Avista Capital operate as a legal

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1 entity with its own stock and debt?

2 A. Yes.

3 Q. And who owns the stock?

4 A. The parent, Avista Corporation.

5 Q. So then, the board of directors of Avista
6 Corporation is ultimately responsible for the
7 investment in Avista Capital; would that be correct?

8 A. Generally not. Avista Capital has a
9 separate board of directors, all internal, and that
10 board of directors makes decisions about Avista
11 Capital. So the board of directors of Avista
12 Corporation, from their governance obligations under
13 the FCC rules, is generally responsible for the
14 direction that Avista Capital's going into, but they
15 don't have the same sort of governance obligations
16 that they do in Avista Corporation.

17 Q. Are you on the board of Avista Capital?

18 A. Yes, I am.

19 Q. Could you tell us who else sits on the
20 board of Avista Capital?

21 A. As I recall, it's Mr. Meyer, Mr. Eliassen,
22 Mr. Ely, and I think Mrs. Simms.

23 Q. By Mr. Meyer, we're not referring to Mr.
24 David Meyer, who's here, are we?

25 A. Yes, we are.

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1 Q. I noticed in reading some of the things,
2 there was another Mr. Meyer involved in some of the
3 operations, so I wanted to clarify which one we're
4 talking about.

5 A. I think that would be Lloyd Meyers, with an
6 S, who's in our Avista Power unit.

7 Q. Okay. Could you refer to what's been
8 marked as Exhibit 6? This is the company's response
9 to the Staff's Data Request Number 250.

10 A. Okay.

11 Q. I'm referring to this and the attached
12 listing. Now, these are the directors of which of
13 the corporations that we're talking about?

14 A. These are directors of the parent, Avista
15 Corporation, or, in 1998, it would have been
16 Washington Water Power.

17 Q. And in this case, would it be fair to say
18 the response here is indicating that the board of
19 director fees for these directors are not charged or
20 allocated to Avista Capital at all?

21 A. To my knowledge, during the test period,
22 they were not.

23 Q. Has that changed at this point?

24 A. That will be changing in the future as they
25 spend time in those areas. Like I said, what we try

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1 to do is sort of make a subjective look and have the
2 director tell us where they're spending their time
3 and interest and effort.

4 Q. You don't have them file time records, do
5 you?

6 A. No.

7 Q. How do you get that information from them?

8 A. They just have to give us their best
9 judgment on where they're spending their time.

10 Q. Now, you were the chief executive officer
11 of Avista at the time that the company changed the
12 name of the Utility operations from Washington Water
13 Power Company to Avista Corporation; is that correct?

14 A. That's correct, changed the name of the
15 parent company to Avista Corporation.

16 Q. So prior to that time, we had Washington
17 Water Power Company in the top box, and then below
18 that was Avista Corporation and the Utility
19 operations; correct?

20 A. That's correct.

21 Q. Okay. How was the decision to change the
22 name to -- including the Avista Utilities, how were
23 these decisions made to change the corporate --
24 overall corporate name?

25 A. It was a decision that, you know, I and the

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1 board made to try to provide better name identity
2 across the whole corporation. And we had different
3 names for different parts of the company, even for
4 our different Utility operations, and we thought to
5 get the -- you might say the power of the name, as
6 companies change and as companies restructure, but
7 also to allow us to merge call centers, merge
8 operation centers and things such as that under one
9 name, and then also take advantage of the knowledge
10 and the reputation that the Avista name was getting
11 on Wall Street through some of our subsidiary
12 operations, that it appeared the best and quickest
13 thing to do was to adopt the Avista name that had
14 existed for a couple years at the subsidiary level
15 just as the name for the whole corporation and allow
16 for us to get the efficiencies and synergies across
17 the whole company and eliminate the multiple names of
18 the multiple utility operations.

19 Q. You referred to multiple names for the
20 multiple utility operations. I'm familiar with the
21 name Washington Water Power Company. What other
22 names of utility operations did you have?

23 A. We had our WP Natural Gas operations in
24 Oregon, we had WP Natural Gas operations in
25 California, we had different call centers that were

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1 under the WPNG name, some call centers under the
2 Washington Water Power name. And I guess those were
3 the main ones. We had some of the operations that
4 were under WIDCO names.

5 Q. So the name change, then, changed this name
6 for all of the operations in all of the states that
7 the company operates in?

8 A. That's correct.

9 Q. Okay. Who was responsible for implementing
10 the name change?

11 A. Our internal corporate communications group
12 was responsible for implementing that. The people
13 that handle all the things such as our community
14 relations, public relations, PR work. That was -- it
15 was their job.

16 Q. And where would those people be placed on
17 your organizational chart?

18 A. They are a part of -- well, in 1998, they
19 were at the Washington Water Power level, probably
20 two-thirds of them. One-third of them were within
21 the utility operations itself.

22 Q. So this group that you referred to, would
23 they be the ones making decisions about advertising
24 and promotion of the new name?

25 A. To a certain extent, yes. Much of their

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1 effort is just renaming, like the time and effort
2 they had to do to change the signs, like you have to
3 do on all your facilities, change the signs on the
4 trucks, the DOT makes you replace the signs
5 periodically. So most of their time and effort was
6 spent, you know, a lot of the utility operations was
7 just doing the stuff they were going to do anyway,
8 but instead of replacing the WPNG names and the WPNG
9 signs and the WWP signs, they replaced them all with
10 Avista, all the trucks and facilities and the
11 pipeline route markers, which you have to change and
12 update periodically.

13 And then any of the community activities
14 that we do, the press, public relations work we do,
15 anything we do and that we're requested to do with
16 the legislature, as we come into hearings and things
17 that deal with workmen's comp or pipeline safety,
18 those sort of issues, they just used their time and
19 effort to do it under the Avista name and begin to
20 change the name in that way.

21 Q. You indicated that this resources group did
22 some of the -- had some of the responsibility or made
23 some of the decisions about advertising and promotion
24 of the new name. Who else may have been involved in
25 that?

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1 A. Of course, I was involved to it. But
2 basically, I looked at Rob Fukai, who is our vice
3 president, heads that area, and the corporate
4 communications group that reports to him. And then
5 there was -- there were one or two outside firms that
6 were used to make the signs for the trucks, make the
7 signs for the, you know, pipeline markers, make some
8 of the materials to communicate with our customers,
9 both retail and commercial, and some of that, you
10 might say, was promotional in nature, but it was more
11 communicating the name change.

12 Q. Now, the company was asked to provide, in
13 the course of this case, to provide a complete
14 explanation of the benefits of the name change to the
15 retail customers of Avista. Are you familiar with
16 the response the company provided?

17 A. Yes, I am.

18 Q. And I'm referring at this point to what's
19 been marked as Exhibit 8. We have discussed -- and
20 we won't offer this at this point, but this is just
21 for your information. What I'd like to have you tell
22 me is do you agree with this explanation of the
23 benefits of the name change to the retail customers?

24 A. Yes, I do. As well as, you know, some of
25 the examples I gave you about call center

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1 consolidation ability and things like that.

2 Q. And referring to what's been marked as
3 Exhibit 3, this is the annual report. Specifically,
4 page four. I'm not sure that, on the copies that
5 were copied, the page numbers came through,
6 unfortunately.

7 MR. MEYER: Mine is not numbered. What
8 does the page begin with?

9 MS. TENNYSON: The page is the one with Mr.
10 Matthews' picture on it. Letter to Investors.

11 MR. MEYER: Okay, thank you.

12 JUDGE SCHAER: Page five is numbered, so if
13 you want to come up one from page five, that's how I
14 got there.

15 MS. TENNYSON: That's another thing that I
16 noticed when I was looking, the pages were garbled.
17 I couldn't figure out what order they were supposed
18 to be in.

19 Q. In this, you also made a statement to the
20 investors about the purpose of the name change and
21 the symbol of what it symbolizes. Can you --
22 referring to the fourth paragraph, the new name, can
23 you read that for us at this point? Begin with, "Our
24 new name."

25 A. Yes. The paragraph says, Our new name,

00101

1 which replaced Washington Water Power as of January
2 1, 1999, symbolizes our transformation from a
3 regional utility to a national diversified energy
4 company with a far-reaching forward-thinking business
5 philosophy. The new identity builds on those
6 attributes our stakeholders have come to expect over
7 our 110-year history. Great employees, shareholder
8 value, integrity, reliability, and superior products
9 and services.

10 Q. Okay. Turning to the next page, page five,
11 in the middle of the page, you refer to the company's
12 utility operations as one of three major pathways for
13 growth. The other two pathways you refer to as the
14 company's national players on the top of page six,
15 including Avista Energy, and our remaining affiliate
16 companies, Avista Labs and Pentzer, P-e-n-t-z-e-r,
17 Corporation. Do you recall that?

18 A. Yes.

19 Q. In your job responsibilities, which of
20 these do you focus on?

21 A. When I came in 1998, probably more so in
22 the utilities side than anything else.

23 Q. Why was that?

24 A. Because that was the part of the company
25 that's the base of our assets, the base of our

00102

1 investments that were under-earning. My philosophy
2 is when I look at businesses, if you're not returning
3 the cost of capital plus a dividend, you're actually
4 destroying value, rather than creating value. So I
5 was intent, because the -- you know, the major part
6 of our corporation and our investments is our
7 utility, and so you cannot change around the earnings
8 of the corporation till you get the utility
9 businesses restructured and new philosophy with the
10 rate cases and get their earnings up.

11 So probably early on, my guess, I spent 75
12 to 80 percent on the utility. Then, as we went into
13 more of the growth strategies, a little less than
14 that. I think that from, you know, subjective
15 thoughts, right now, I probably spend 60 percent of
16 my time utility, 40 percent on the nonregulated
17 operations.

18 Q. Now, in your testimony in this case, you
19 described the company's utility operations as being
20 organized into two lines of business, the energy
21 delivery business and the generation and resources
22 business. Those are both part of the company's
23 regulated utility operations; correct?

24 A. That's correct, but since we filed a lot of
25 this rate case so long ago, we've done a lot of

00103

1 changes since then. So that's not correct right
2 today with the utility business.

3 Q. Okay.

4 A. Because we have -- with our efforts to look
5 at RTOs and transmission. I've pulled transmission
6 out of energy delivery. And right now, we're moving
7 toward, you might say, put the integrated utility
8 back together, to put energy delivery and generation
9 resources together, but transmission separate.

10 So if I drew you a chart today, it would
11 probably show that energy delivery and generation is
12 together, so they're more integrated, but the
13 transmission, with FERC Order 2000 and everything, as
14 we're looking at whether or not it ought to be set
15 out separately in a combined regional transmission
16 organization, organization would look together at
17 this moment -- I mean, it would look differently at
18 this moment than what we talked about in our
19 testimony in the third quarter of last year when we
20 filed.

21 Q. Okay. Could we refer again to the 1998
22 10-K, the page two organizational chart, just so I'm
23 understanding where you're talking about with the
24 transmission.

25 JUDGE SCHAER: What exhibit are we in now?

00104

1 MS. TENNYSON: This is Exhibit 5, page
2 Arabic numeral two.

3 Q. On the far left side of this chart, it says
4 Avista Utilities, and then has bubbles for energy
5 delivery, generation and resources. Would the
6 transmission part you're referring to be -- which of
7 these bubbles would it be in?

8 A. It would be the third bubble.

9 Q. Okay.

10 A. And today, we have energy delivery,
11 generation of resources, and transmission. Energy
12 delivery and generation of resources both report to
13 Mr. Turner. Transmission reports to Mr. Meyer.

14 Q. And Mr. Meyer would be where on this chart?

15 A. At the Avista Corp. level.

16 Q. Okay.

17 CHAIRWOMAN SHOWALTER: I'm sorry, who did
18 you say the first two bubbles report to?

19 THE WITNESS: Edward Turner.

20 CHAIRWOMAN SHOWALTER: Okay. And is Mr.
21 Meyer this Mr. Meyer?

22 MR. MEYER: Same person again.

23 THE WITNESS: Same person. We're trying to
24 teach him something about operations.

25 MR. MEYER: It's a struggle.

00105

1 Q. At page nine of your testimony, you
2 describe the resource optimization group, which is
3 engaged in energy trading and marketing activities.
4 Now, is that part of the regulated operations?

5 A. See the word there, resources? That group
6 is now called Resource Optimization.

7 Q. Okay. And this group also does energy
8 trading; is that correct?

9 A. Energy trading of the nature required to
10 optimize the system and some of the short-term
11 trading.

12 Q. And you also have nonregulated businesses
13 within the company that do energy trading; is that
14 correct?

15 A. That's correct.

16 Q. When you have two different parts of the
17 company doing energy trading, how do you keep them
18 separate?

19 A. You have some very impenetrable walls set
20 up, but you have to keep them separate with all the
21 rules on affiliate operation.

22 Q. Since you have been with the company, have
23 employees moved from the regulated energy trading
24 part of the company into the nonregulated energy
25 trading part of the company?

00106

1 A. No, since I've been here, it's been the
2 other way. Employees have moved from the
3 nonregulated side back to the utility.

4 Q. Now, at the end of 1998, the Form 10-K
5 reported that Avista employed a total of 3,689
6 persons. Does that sound correct?

7 A. At the end of '98, that would be
8 approximately correct.

9 Q. How many of these employees report directly
10 to you?

11 A. All of them. Since most of the people that
12 work for me think I'm a micro manager, probably all
13 of them. Directly to me, probably 14, 15.

14 Q. And I'm referring to page one of Exhibit 5,
15 which is just the page right before the org chart
16 that we just referred to. This reports that of those
17 total number of employees in the company, 1,536 were
18 in the utility operations and 2,153 were in the
19 nonregulated operations. Do you see that?

20 A. Yes, I do.

21 Q. Okay. And has Avista grown significantly
22 in the nonregulated operations since 1998?

23 A. No. In fact, it's been the other way.

24 Q. So in terms of number of employees, or what
25 are you referring to?

00107

1 A. Number of employees. Those 2,153 included
2 a substantial number of people in small company
3 manufacturing operations that Pentzer owned, most of
4 which have been sold since that time. And so today,
5 we're probably in total down from the 3,700
6 employees. I bet we're down to about 2000 employees
7 today.

8 Q. Can you turn to page three of Exhibit 5?
9 Now, on this chart, we have -- or this page, they're
10 listing the percentages of derived operating revenues
11 income from operations for various portions of the
12 business. Now, at least as of this time, the first
13 two, energy delivery and generation and resources,
14 were the terms for the regulated portions of the
15 company; correct?

16 A. That's correct.

17 Q. And then the next two, national energy
18 trading and marketing and non-energy, those are both
19 the nonregulated portion?

20 A. That's correct.

21 Q. Okay. Now, then looking at the operating
22 revenues for 1998, it appears that 71 percent of the
23 company's operating revenues came from the
24 nonregulated portion of the business; is that
25 correct?

00108

1 A. That's correct. Energy trading and
2 marketing, you know, is a high-volume, high-revenue
3 sort of business. And so it makes the revenue
4 numbers become very, very inflated.

5 Q. So you have high revenue numbers, but the
6 gross margin there is very low?

7 A. Correct.

8 Q. And also, the income from operations for
9 both of these two is only 17 percent of the company's
10 total operations?

11 A. That's correct.

12 Q. Now, in your testimony, you had indicated
13 that the company had at that time -- well, in your
14 testimony, you said that there were pending -- that
15 you had received state regulatory approvals for
16 consolidation of Avista Utilities Gas Procurement
17 Operations under Avista Energy. In Exhibit 5, it
18 indicates -- that's in 1998. It indicated that those
19 approvals were pending. Do you recall when the --
20 did you obtain state approval in Washington?

21 A. Yes, we did.

22 Q. And do you recall when that was?

23 A. I don't recall when it was, because we were
24 trying to make sure we got the state approvals in
25 Washington, Oregon, and Idaho to operate on a

00109

1 benchmark basis, and I just don't recall when the
2 approvals from all those three states happened.

3 Q. And could you describe what this -- what
4 this means, that you were consolidating the gas
5 procurement operations under Avista Energy?

6 A. Yes, that's what we were doing at the time,
7 trying to get at some of the efficiencies you talked
8 about before, is that how do you keep two trading
9 operations separate. Well, one thing you ideally
10 would like to do is to have only one trading
11 business, if you can get at it. The first step was,
12 let's just do gas in one place. If we could make the
13 states comfortable on benchmark targets so that the
14 ratepayers would be protected at a certain level of
15 cost, as well as be able to share -- and gains that
16 might happen for more efficient use of combining the
17 operations together.

18 And so rather than having two units
19 managing capacity and two units managing storage and
20 two units out trying to negotiate purchase contracts
21 with Canadian producers and U.S. producers, now we
22 have the efficiencies of one, and the ratepayers
23 share in those efficiencies.

24 Q. So now Avista Energy is buying the gas and
25 selling it to the utility operation? How is the

00110

1 utility operation getting its gas at this point?

2 A. That's correct, like you described, under
3 the benchmark targets set and approved by this
4 Commission.

5 Q. In your testimony, you also described the
6 company's initiatives to develop a company called
7 Avista Power to create independent projects to
8 produce power. Is that intended to be part of the
9 company's regulated operations?

10 A. In reality, it's unknown at this time.
11 Right now, it's not. The Avista Power is developing
12 independent power in partnerships with two companies,
13 but with the power needs of the Northwest, it may be
14 that eventually some of the things Avista Power does
15 are, in reality, done for the generation side of the
16 utility.

17 Q. Now, the salaries and compensation for your
18 officers and Avista, they're allocated between the
19 regulated and nonregulated operations; is that
20 correct?

21 A. That's correct.

22 Q. And that's -- the percentages of allocation
23 are determined for each officer individually; is that
24 true?

25 A. That's true.

00111

1 Q. Can you describe the process of the
2 allocation? How is that done?

3 A. The details of the process, I think Ms.
4 Mitchell's going to testify to it. But it's
5 generally a subjective process, based on a person's
6 thoughts and feelings on where they're spending the
7 majority part of their time. You know, what
8 percentage of my time am I spending on this versus
9 this. It's not a time sheet-driven aspect; it's more
10 a subjective call on where their emphasis are during
11 the year.

12 Q. Is there a written basis to support that
13 allocation to the regulated and nonregulated for each
14 officer's compensation?

15 A. We filed that in some of the exhibits on
16 what the percentage allocation was by each officer.

17 Q. Do you know what percentage of your
18 compensation is allocated to regulated and
19 nonallocated?

20 A. I think right during this test period, it
21 was 60 percent to regulated and 40 percent to
22 nonregulated. And then further, I guess, split by
23 electric and gas and further split by the various
24 states.

25 Q. And has that changed since the test period?

00112

1 A. Probably maybe somewhat, because as we have
2 moved forward with the rate activity in Idaho, and my
3 guess is after we're complete with this rate case,
4 that it will probably change as we look forward.
5 Because after this rate case and some of the
6 restructuring done on the utility side, then my focus
7 and concentration will be more on the other growth
8 opportunities of the company, unless at that time we
9 also begin looking at the possibility of merger and
10 acquisition work for the utilities side. It might
11 stay the same or it might change.

12 Q. Could you describe for the Commission what
13 the terms of your compensation are?

14 A. I'll describe in generalities. I think
15 some of the details are under a confidentiality
16 protection, but in general, the terms of my
17 compensation are I'm paid a base salary and then I
18 have a cash bonus opportunity, and then I have
19 long-term incentives that are based on stock, either
20 restricted stock or stock options.

21 Q. Okay. I have some question about the
22 exhibit that Mr. ffitch had pre-distributed this
23 morning. And he does indicate to me he has a
24 substitute of that, because there's three pages that
25 indicate notes, but Mr. Meyer, I'm not aware of

00113

1 whether this is confidential or not.

2 MR. MEYER: No, this is straight out of the
3 proxy.

4 MS. TENNYSON: Okay.

5 MR. FFITCH: Your Honor, it is correct that
6 I had noticed after we distributed Exhibit 13, that
7 there are footnotes, so in the interest of
8 completeness, we had a copy made that actually has
9 the footnotes to the summary compensation table, and
10 we could distribute that right now.

11 JUDGE SCHAER: Would that assist your
12 examination, Ms. Tennyson?

13 MS. TENNYSON: Yes, it would.

14 JUDGE SCHAER: Okay. Go ahead, please.
15 You have handed me a multi-page document, which I'm
16 going to mark for identification as Exhibit 13. It
17 consists of a summary compensation table and two
18 pages, it appears, of notes to that table.

19 Q. Mr. Matthews, referring to what's been
20 marked as Exhibit 13, there are several categories of
21 compensation listed. There's one overall category of
22 annual compensation. Do you see that?

23 A. Correct.

24 Q. Now, you referred -- you said there were
25 some allocations to utility and non-utility, and

00114

1 that's reflected on this, correct, for your salary,
2 just looking at your annual salary?

3 A. Yes.

4 Q. Then it has a total salary in dollars.
5 Now, is this your actual total salary, or is this
6 your actual receipt, money received in 1998?

7 A. That would be the actual money received in
8 1998 for base salaries.

9 Q. Okay. Then, for Mr. Redmond, as well, and
10 he retired at that point; correct?

11 A. That's correct.

12 Q. Now, there's a category under annual
13 compensation indicated for bonus?

14 A. Yes.

15 Q. And that has utility, \$150,000. There's
16 also, in the far right corner, all other
17 compensation. Can you tell us what that refers to?

18 A. That was probably the signing bonus that
19 was paid to me, that was part of the compensation
20 package to get me to leave the company I was working
21 for to come up to Spokane. As I recall, that was, I
22 think, paid 300 in cash and 700 in deferred comp that
23 has a certain tenure associated with it.

24 Q. By tenure associated with it, if you leave
25 before the term is up, then you have to repay or

00115

1 forfeit some of that?

2 A. That's correct.

3 Q. Now, when you came to Avista, Mr. Lester
4 Bryan held the position of chief operating officer;
5 correct?

6 A. That's correct.

7 Q. He shows up on this chart, is that -- or
8 W.L. Bryan; is that Mr. Bryan?

9 A. That's correct.

10 Q. When Mr. Bryan retired from the company,
11 was someone hired to replace him?

12 A. No, there were not. I assumed that job.

13 Q. So you took over all of his job duties?

14 A. That's correct.

15 Q. What about Mr. Redmond? Mr. Redmond left?

16 A. Mr. Redmond left and I took over all of his
17 duties.

18 Q. Did Mr. Turner take over any of the job
19 duties held by Mr. Bryan?

20 A. Maybe partially. Mr. Bryan was looking
21 after, at that time, most of the energy delivery part
22 of the business. So I guess in that -- that would be
23 correct for the energy delivery side. Yes, he did.

24 Q. I'd like to refer at this time to what's
25 been marked as Exhibit 12.

00116

1 A. Is that the one that was handed out this
2 morning?

3 Q. Yes, it is, copies of the news releases.
4 Now, these -- you indicated earlier in your testimony
5 there was a restructuring of the company shortly
6 after you took over, and these articles are dated in
7 August of 1999. Now, how long was that after you
8 started with the company?

9 A. That would have been a little over a year
10 and -- a year after we announced the first financial
11 restructuring.

12 Q. Okay. These refer to a cut in the
13 company's dividend to its shareholders. Can you --
14 there's other topics addressed, but this is -- the
15 general topic is downgrade in the company's ratings,
16 and there's reference to cutting of the dividend for
17 shareholders.

18 Can you describe what happened in that
19 circumstance? What was the purpose in cutting the
20 dividend and --

21 A. It was primarily the company was paying out
22 a dividend higher than it could afford to. Like I
23 mentioned earlier, 12 of the last 13 years, the
24 company paid out more in dividends than it earned.
25 So in essence, it was having to borrow money to pay

00117

1 dividends. And so we reduced the dividend from \$1.24
2 share to down to 48 cents a share, more in line with
3 the dividend payouts of the other integrated energy
4 companies across the U.S. So in essence, what we did
5 is we cut the common dividend for most of the
6 shareholders.

7 Q. By other integrated energy companies
8 throughout the U.S., what kind of operations are you
9 talking about?

10 A. People have combined gas and power
11 operations and nonregulated companies, companies such
12 as, you know, CMS and Cinergy and Enron and Dynergy
13 and Duke, PGD, Edison, et cetera, the people that
14 have more, you know, multi-functional corporations on
15 the energy side.

16 Q. And since this time, this is August of '99,
17 has the company -- have you changed the company's
18 nonregulated operations? What have you done in that
19 area?

20 A. We have significantly changed them since
21 this time. The nonregulated operations, we have
22 greatly expanded our activities in our Internet
23 companies, where we have right now the nation's
24 probably largest business-to-business Internet
25 portal. It's continuing to grow on the utility

00118

1 energy side. We've greatly expanded our
2 telecommunications business with Avista
3 Communications and Avista Fiber, where we're bringing
4 high-speed telecom to the smaller under-served
5 communities in the West. We've greatly accelerated
6 our work on fuel cell technology, brought in
7 additional partners on the fuel cell side of the
8 business, and are growing that.

9 And we've also restructured our Pentzer
10 organization to sort of exit the small company
11 manufacturing businesses that we own and make it a
12 venture company that's more aligned with energy and
13 technology. And then we've also refocused and
14 redirected Avista Energy.

15 And with all the changes that have gone on
16 in the national energy trading marketplace, we've
17 sort of pulled it back to the West, Northwest, rather
18 than being a national energy player.

19 MS. TENNYSON: Okay. At this point, I
20 would like to offer Exhibits 3, 4, 5 and 6, 9, 10, 12
21 and 13.

22 THE WITNESS: A question on my part. What
23 is Exhibit 13?

24 MS. TENNYSON: Exhibit 13 is the pages from
25 the proxy statement.

00119

1 THE WITNESS: Oh, okay.

2 MS. TENNYSON: Mr. ffitch had proffered it,
3 but since I've used it in discussing things with you,
4 I thought I'd offer it.

5 JUDGE SCHAER: I understand that there was
6 some conversation between you, Mr. Meyer, and you,
7 Ms. Tennyson, earlier about the Data Request
8 Responses 9 and 61, which are marked for
9 identification as Exhibits 7 and 8.

10 MS. TENNYSON: And the one is -- actually,
11 Number 7, ICNU Data Request Number 9, is actually, I
12 believe, on the list in two other places, and can be
13 offered through other witnesses.

14 JUDGE SCHAER: Okay. So we are not -- we
15 are just going to not have an Exhibit 7.

16 MS. TENNYSON: Right.

17 JUDGE SCHAER: And then, with Exhibit 8,
18 that is going to be offered through a different
19 witness; is that correct?

20 MS. TENNYSON: Yes, that's our intention at
21 this time.

22 JUDGE SCHAER: Okay. Any objection?

23 MR. MEYER: No objection.

24 JUDGE SCHAER: Okay. Then Exhibits 3, 4,
25 5, 6, 8, 9, 10, 12 and 13 are admitted.

00120

1 MR. MEYER: Not Number 8.
2 JUDGE SCHAER: Not 8, excuse me. That's
3 correct. Okay. So Exhibits 3, 4, 5, 6, 9, 10, 11,
4 12 and 13 for identification are now admitted.
5 MS. TENNYSON: I did not offer Number 11.
6 JUDGE SCHAER: Okay. You guys are really
7 going to confuse me this morning, but I can deal with
8 that.
9 MS. TENNYSON: That's Mr. Van Cleve's
10 exhibit.
11 JUDGE SCHAER: So Mr. Van Cleve -- okay.
12 Mr. ffitch, did you have questions for this witness?
13 MR. FFITCH: I guess I do, Your Honor.
14 JUDGE SCHAER: I think what we'll do is
15 take our morning break at this time. Let's come back
16 at 10:45, and we'll start with your questions at that
17 point, Mr. ffitch.
18 MR. FFITCH: Thank you.
19 JUDGE SCHAER: We're off the record.
20 (Recess taken.)
21 JUDGE SCHAER: Let's be back on the record
22 after our morning recess. At this point, would you
23 like to go ahead with your cross-examination, Mr.
24 ffitch?
25 MR. FFITCH: Yes, thank you, Your Honor.

00121

1 C R O S S - E X A M I N A T I O N

2 BY MR. FFITCH:

3 Q. And good morning, Mr. Matthews.

4 A. Good morning.

5 Q. I'm Simon ffitch, with Public Counsel, and
6 actually, my questions will be shortened up a bit,
7 because some of the areas were already covered by the
8 Staff attorney. But I also would like to go back and
9 ask you a few questions of sort of an overview nature
10 about the overall company and the related
11 subsidiaries. And you've described the company as
12 undergoing a transformation from a regional utility
13 to a national diversified energy company. Is that
14 still -- is that transformation still essentially
15 going on?

16 A. That transformation is still going on, with
17 a focus toward information and technology on our
18 nonregulated growth sides, as contrasted to back in
19 '97 and early '98, some of the focus was on the
20 nonregulated trading and energy side.

21 Q. Okay. So the company is really in a period
22 of growth, although the direction has changed, still
23 in a very strong period of growth; is that right?

24 A. At the total corporate level, you might say
25 that's true. At the utility level, unfortunately, in

00122

1 the inland empire, we have very little growth, if
2 any. Our electric growth is just a little over one
3 percent a year and our gas growth is just a little
4 over two percent a year. So some people tell me I
5 should be happy about that, because at one and a half
6 percent, that's 50 percent above the national
7 average, because the national average is only one
8 percent of growth.

9 If you contrast that to the west side, our
10 growth is minimal to nonexistent. So the growth at
11 the corporate level, to attract investors to our
12 stock, investors to the company, and allow us, the
13 builder, to raise debt and things such as that, the
14 growth is in the nonregulated subs of primarily
15 technology and information.

16 Q. All right. And in order to achieve your
17 transformation that you've talked about in your 1988
18 -- excuse me, 1998 Annual Report, you have said that
19 the company has to grow substantially and quickly?

20 A. That's correct.

21 Q. And consistent with this, you've set
22 aggressive goals for annual earnings growth, have you
23 not?

24 A. Set aggressive goals for annual earnings
25 growth, but I'm finding that's not all that important

00123

1 right now, from a standpoint of growing the company.
2 It's more of looking at growth opportunities, and
3 that is actual earnings per share.

4 Q. Are your goals for annual earnings growth
5 different than they were in the -- they were stated
6 in the '98 annual report?

7 A. Yes, they are.

8 Q. And what are those goals now?

9 A. To paraphrase the Wall Street analysts that
10 are writing such glowing reports about us right now,
11 they say earnings don't matter. So really what we're
12 trying to do is to grow the opportunities to reach
13 out and touch customers in a lot of the areas. And
14 so right now, they say earnings don't matter. So
15 I've not stated any earnings goals lately, except on
16 our regulated side. I want to get our earnings up to
17 at least the levels that we're allowed to by the
18 states in which we operate in. But then, the
19 earnings on the other companies, we've not set any
20 stated goals.

21 Q. As I understand it, and this was addressed
22 by Staff Counsel, that there are three identified
23 pathways to growth for the company. Are you still
24 pursuing those three pathways? I'll acknowledge that
25 you've already perhaps answered that to some extent,

00124

1 in the sense that you've changed your emphasis, but
2 are you still pursuing those three pathways to
3 growth?

4 A. We have three pathways to growth. They're
5 called energy, information and technology. And the
6 energy side is the utility side that we're trying to
7 grow, as well as Avista Energy and Avista Power.
8 Then we have the technology side, which is Avista
9 Labs and Fuel Cells, and then we have the information
10 side, which is Avista Communications, Avista Fiber,
11 Avista Advantage.

12 Q. So those parts of your business are
13 actually grouped differently than they were in the
14 three pathways described in the 1998 annual report,
15 are they not?

16 A. Yes, they are. They're grouped
17 differently.

18 Q. Can you just describe a little bit more why
19 you've decided to regroup in that fashion within
20 those three directions?

21 A. It's the same reason we also worked through
22 the name change issues with Wall Street, is
23 clarification of a focus and direction of where the
24 corporation's going, and that we have fundamentally
25 three growth paths, energy, information and

00125

1 technology. It's simple, it's clear.

2 Q. In your '98 report, you talk about the
3 first path as -- paraphrasing perhaps -- related to
4 utilities and infrastructure. And you, in that
5 formulation, included, along with Avista Utilities,
6 you included Avista Fiber and Avista Communications
7 as your other infrastructure businesses, in addition
8 to your basic utility business. And you apparently
9 have moved away from that kind of a formulation, have
10 you not?

11 A. Somewhat, yes, because primarily right --
12 at that point in time, in 1998, I thought there might
13 be opportunities here in the Northwest to aggregate
14 small utilities together for greater efficiencies.
15 So from an infrastructure standpoint, we were in
16 discussion with lots of companies about getting
17 bigger on the utility side, which we need to do, but
18 right today, there's no mood doing that.

19 You look at the last eight mergers and
20 acquisitions that have been done across the country
21 in power or gas, all 16 stocks have plummeted since
22 the mergers were done.

23 And so when we started looking at the
24 infrastructure side of the utility, was that if you
25 buy another utility, you've got to pay a premium.

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1 Right now, you can't earn on that premium. So then
2 you go out and try to get synergies to offset the
3 premiums you pay. And then, if the synergies all
4 have to go back to the ratepayers, in essence, then,
5 you got bigger for nothing and it was a negative.

6 So we did pull back on any discussions on
7 trying to become larger as a utility. So the change
8 on the infrastructure play there is we did, in early
9 '99, backed off on trying to grow the utility through
10 mergers and acquisitions, because there were no
11 attractive economic opportunities to do so.

12 Q. So the focus of growth now has been in the
13 opportunities on the information and technology side,
14 those two pathways? Is that a fair conclusion, from
15 what you're saying?

16 A. As well as the infrastructure with Avista
17 Power.

18 Q. Okay. All of the companies that you -- or
19 divisions or subsidiaries that you've mentioned
20 within these three pathways are all accountable for
21 furthering the overall corporate growth initiatives,
22 aren't they?

23 A. Yes, all units are, the utility units as
24 well as these other units. They all have their own
25 defined initiatives, their own defined milestones,

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1 and their own defined objectives for getting there,
2 just like any business would.

3 Q. That includes the earnings growth strategy
4 that you have, doesn't it?

5 A. Well, as I said, there's really --

6 Q. To the extent you have one anymore?

7 A. That's correct.

8 Q. All right. In addition, all these business
9 entities are accountable for carrying the Avista
10 brand into the marketplace, as well, are they not, in
11 your vision?

12 A. They help with it. Of course, they started
13 the Avista names and subs, and so, you know, we --
14 Avista brand change not only benefits the utility we
15 talked about, but one of the things we needed to do
16 is to attract investors to this company. We were
17 having great confusion on Wall Street with Washington
18 Water Power. First of all, we get at least a call a
19 week still that aren't you WPPSS, and people talking
20 about trying to dump out bonds and things like that,
21 because aren't you WPPSS, because they'd say
22 Washington Water Power, WWP, don't you have nuclear
23 plant problems. So we had to get away from that.

24 Secondly, literally, for the last -- till I
25 came here, three years prior to my coming here, we

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1 were listed in the Forbes and Fortune Magazines as
2 miscellaneous water utility. Washington Water. What
3 are you, a water utility. So we didn't even have the
4 advantage of peer company ratings.

5 When utility stocks were in vogue and going
6 up, we weren't getting the pull, because we weren't
7 part of the group. So we had great, great
8 difficulties in Wall Street in attracting investors
9 that were looking for growth in energy play, because
10 everybody talked about how the nation was going
11 through an energy restructuring, energy deregulation.
12 In the surveys we did, probably over 80 percent of
13 our people we contacted didn't know we were an energy
14 business. They thought we were a water company in
15 the state of Washington.

16 So we had to clarify to get away from
17 WWPPS, to get away from nuclear plants, to get away
18 from being a water company, and to have people
19 understand what we were about. And that helps us
20 attract capital and raise debt and having a clear
21 message, which we've tried to make even more clear
22 this year, saying we're about energy, information and
23 technology.

24 And business does change very rapidly. And
25 so everything that was written in the 1998 report has

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1 had change in some way as we have refocused our
2 strategies and changed directions based on what the
3 economy was doing, what the perceptions of investor
4 utilities were, what the perceptions was in investing
5 in an electric utility.

6 Most investors, for the last two years,
7 have said with all the risk on electricity
8 restructuring for those sort of dividends, I might as
9 well invest in treasury bills. And as a result,
10 there has been literally zero funds flowed into
11 electric utilities in this country, and so -- but
12 there's been substantial funds flow into the growth
13 aspects of energy, information and technology.

14 Q. I will confess, Mr. Matthews, that my
15 spouse thought that I was doing a water company rate
16 case this week. I wondered why, but --

17 A. See.

18 MR. FFITCH: Just give me a moment to see
19 if I have anything else in that area, Your Honor.

20 Q. You've mentioned that Avista has a
21 telecommunications business. Essentially, you've
22 described that as the information part of your
23 strategy. Those companies are not actually
24 information content providers, are they?

25 A. The fiber company is not, because it's

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1 primarily a dark fiber company that does metropolitan
2 area networks for the schools, hospitals, credit
3 unions, banks, colleges, universities. Avista
4 Communications is a content provider in that it does
5 do some content work, from a web content standpoint,
6 web development for other companies, as well as
7 provide some of the things, dial tone, voice mail,
8 e-mail, and things like that.

9 Q. Do those businesses operate, at least in
10 part, within the company's electric service
11 territory?

12 A. In part, they do. And say right today,
13 it's probably a little more than half outside the
14 service territory.

15 Q. That's for both companies?

16 A. Yes.

17 Q. And these companies, both Avista Fiber and
18 Avista Communications, are wholly-owned by the
19 parent, Avista Corporation; is that right?

20 A. Avista Fiber is. Avista Communications is
21 not. Avista Communications is owned about 75 percent
22 by us, and about 25 percent by the team that you
23 might say created it. Because we acquired a company
24 called 180 Communications, which basically included
25 the early founders of McCaw Cellular and Nextlink of

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1 Washington, and so they retained about a 25 percent
2 interest as minority shareholders in that venture.

3 Q. When you say 75 percent is owned by us,
4 you're referring to the parent, Avista Corporation,
5 which also includes the utilities division?

6 A. That would be correct. I think probably
7 the stock of Avista Communications is owned, again,
8 like we talked earlier, by Avista Capital, but all
9 the stock of Avista Capital is owned by Avista Corp.

10 Q. Right. And with regard to Avista Fiber, it
11 would be one hundred percent owned by Avista Capital,
12 which in turn would be owned by Avista Corporation,
13 which includes the utility; is that right?

14 A. That's correct.

15 Q. To your knowledge, are there any
16 telecommunications facilities operated or used by
17 Avista Fiber or Avista Communications located on
18 electric utility poles or transmission lines or
19 underground within rights-of-way granted to the
20 electric or gas utility?

21 A. Yes, to my knowledge, they are. That
22 Avista Utilities business unit has a easement and
23 pole hang policy, just like most of the other
24 utilities are, and provides the opportunities for
25 Avista Fiber, as well as all the other

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1 telecommunications players that come in, such as ELI,
2 Electric Lightwave, Nextlink, US West, QST and Touch
3 America are examples of ones I know that are
4 collocated on our pole hanging issues, also.

5 So like most electric utilities, we have a
6 pole hanging policy that's applied uniformly to all
7 requesters, and we have an official policy people
8 have to go by.

9 Q. All right. And this is true for both
10 Avista Fiber and Avista Telecommunications, just to
11 be clear?

12 A. Yes.

13 Q. And has Avista Utilities entered into
14 agreements with Avista Fiber Telecom Company --
15 excuse me, Avista Fiber or Avista Telecom for the
16 placement of facilities on the utilities, electric or
17 gas facilities or within the rights-of-way? Maybe
18 I'm asking the same question a different way, but are
19 there agreements between the Fiber and Telecom units
20 and the utility for use of those facilities?

21 A. Yes. And I think Mr. Turner could provide
22 you a lot of more detailed knowledge about that.

23 Q. Okay. How much compensation, in the form
24 of rent or royalties or pole attachment fees, does
25 Avista Fiber or Avista Communications pay to Avista

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1 Corporation for the use of these facilities that
2 we've discussed?

3 A. I have no idea.

4 Q. Do you know if compensation is paid?

5 A. To my knowledge, it is, like it is with the
6 other competitive carriers that do the same thing,
7 but I have no idea what those numbers are.

8 Q. Would there be another person with the
9 company that I should ask as we go through the
10 hearing?

11 A. The first one to ask would be Mr. Turner,
12 but whether or not he would know those numbers or
13 not, I have no idea. There may be some other
14 witnesses who could.

15 MR. MEYER: We'll try and provide that
16 information by the time Mr. Turner takes the stand,
17 so he can speak to that issue.

18 MR. FFITCH: Thank you.

19 JUDGE SCHAER: Perhaps even if you could
20 let us know after the lunch hour which witness it
21 might be, so if it turns out to be Mr. Norwood, he's
22 not gone.

23 MR. MEYER: I know it won't be Mr. Norwood.

24 JUDGE SCHAER: All right. Thank you. Or
25 Mr. Johnson.

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1 Q. I think you may have answered this in part
2 already, Mr. Matthews, but is the company willing to
3 allow any telecommunications company to attach its
4 facilities to the electric transmission and
5 distribution system on the same terms and same level
6 of compensation that Avista Fiber or Avista
7 Communications pays?

8 A. To my knowledge, yes. As I understand,
9 their pole attachment policy deals with locations,
10 available space, you know, clearances, weight, the
11 whole sort of engineering designs that have to go in
12 to provide the security of safety and stability of
13 the poles and tires of which they attach. So long as
14 they meet those pole attachment policies and
15 guidelines, to my knowledge, everybody's allowed.

16 Q. Do you know if a tariff has been filed with
17 the Washington UTC providing for nondiscriminatory
18 rates for these kinds of attachments by any
19 telecommunications company?

20 A. I don't know.

21 Q. Does Avista Fiber or Avista Communications
22 pay royalties on its revenues to the utilities
23 system?

24 A. Pay royalties on its revenues? No, not
25 that I'm aware of.

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1 Q. And you've testified about sort of a change
2 of direction with regard, I believe, to power
3 marketing, some of your national activities, but to
4 the extent that you have a subsidiary which engages
5 in power marketing outside of the service territory
6 -- perhaps you should strike that. Let me just ask
7 if you have a subsidiary that engages in power
8 marketing outside of the service territory?

9 A. The answer is yes.

10 Q. Does that subsidiary -- excuse me. What is
11 the name of that subsidiary, just for the record?

12 A. That subsidiary would be Avista Energy.

13 Q. And does that subsidiary pay royalties on
14 its revenues to the utility company?

15 A. No, it does not.

16 Q. And Avista also has several other
17 subsidiaries using the Avista name, Avista Power,
18 Avista Capital, Avista Advantage, Avista Labs, does
19 it not?

20 A. Yes, it does.

21 Q. And to your knowledge, are any of those
22 entities paying any revenues to the Avista Utility or
23 to the parent corporation?

24 A. No, they don't, since they created the
25 Avista name. Perhaps if any royalties were to be

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1 paid, they ought to be paid the other way. The
2 utility is using their name, rather than vice versa.

3 Q. Does Avista permit any business to use the
4 name Avista as part of its marketing, or is that name
5 limited to the subsidiaries of the corporation?

6 A. To my knowledge, it's our trademark, our
7 copyrighted name, so it's limited to the subsidiaries
8 and joint ventures of the corporation.

9 Q. And you would consider that to be a
10 valuable trademark?

11 A. Yes, those subsidiaries and joint ventures
12 created the name, so I assume they would assume it's
13 a valuable trademark, since they created it
14 themselves.

15 Q. Would you seek to prevent nonaffiliated
16 companies from using the Avista name to market
17 telecom or other utility-related products?

18 A. Yes, any such use of the Avista name has to
19 have the specific approval, you know, in concurrence
20 of the corporation.

21 JUDGE SCHAER: When you say the
22 corporation, there are enough corporations in this
23 setting. Tell us which one, please.

24 THE WITNESS: Of Avista Corporation.

25 JUDGE SCHAER: All right, thank you.

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1 MR. FFITCH: At this point, Your Honor, I'd
2 like to make a record requisition as follows, if I
3 may.

4 JUDGE SCHAER: Go ahead. This will be
5 Record Requisition Number One.

6 MR. FFITCH: It would be a request for each
7 subsidiary using the Avista name, provide total
8 revenues in 1998 and the payments to Avista Utilities
9 for the use of the corporate name, for the use of
10 electric and gas distribution facilities for the
11 location of communication facilities.

12 JUDGE SCHAER: Is that something that the
13 company would be able to provide, Mr. Matthews?

14 THE WITNESS: Sure.

15 MR. FFITCH: Thank you.

16 JUDGE SCHAER: Okay.

17 MR. FFITCH: And I have a second request,
18 Your Honor, that has just been generated by the
19 questioning. That is for, if it has not been
20 produced in discovery already, for the company's pole
21 attachment policy that you had referenced in your
22 testimony, Mr. Matthews.

23 JUDGE SCHAER: Okay. That's going to be
24 Record Requisition Number Two.

25 MR. MEYER: We can provide that.

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1 JUDGE SCHAER: Thank you.

2 MR. FFITCH: I just have a couple more
3 questions.

4 Q. Referring back to Exhibit 13, the Summary
5 Compensation Table, if you'd like to locate that?

6 A. Okay.

7 Q. And you testified, just earlier this
8 morning, that you took over the company on July 1st
9 of 1998?

10 A. That's correct.

11 Q. Now, based on Exhibit 13, would you agree
12 that your compensation for the remaining six months
13 of '98 was -- including stock awards, was in excess
14 of three and a half million dollars?

15 A. Yes, that's correct.

16 Q. And you've indicated that the allocation of
17 that amount between regulated and nonregulated
18 activities is a subjective matter?

19 A. Subjective based on a person's view of
20 where they're spending their time and energy.

21 Q. Could you look at the column entitled
22 Bonus?

23 A. Yes.

24 Q. And you'll agree with me, won't you, that
25 you received a bonus for utility activities, but no

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1 bonus for nonutility activities?

2 A. That's correct.

3 Q. And if you see there, next to the word
4 utility, there's a number two, and that's a reference
5 to Note Two. And if we go to the second page of the
6 exhibit, we see that under Note Two, it states, Only
7 compensation charged to utility operations is
8 recovered as an expense for ratemaking purposes. Is
9 that correct?

10 A. That's correct.

11 Q. And so you received no other bonus for
12 nonutility activity?

13 A. That's correct.

14 JUDGE SCHAER: Mr. ffitch, at some point I
15 would like you to identify the time period of this
16 document. We've heard from the witness that it's a
17 proxy statement, but I don't believe we have a date
18 in the record.

19 MR. FFITCH: I could do that at this time,
20 Your Honor, if you'd like.

21 JUDGE SCHAER: Please.

22 MR. FFITCH: This is an excerpt from a
23 proxy statement. I have the full proxy statement
24 here. It's dated March 31st, 1999.

25 JUDGE SCHAER: Thank you.

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1 MR. FFITCH: The specific pages are pages
2 13, 14 and 15 of the document.

3 JUDGE SCHAER: Thank you.

4 MR. FFITCH: Thank you, Mr. Matthews. I
5 don't have any further questions.

6 THE WITNESS: Thank you.

7 JUDGE SCHAER: Mr. Van Cleve, did you have
8 questions of this witness?

9 MR. VAN CLEVE: Yes, Your Honor.

10 JUDGE SCHAER: Go ahead, please.

11 C R O S S - E X A M I N A T I O N

12 BY MR. VAN CLEVE:

13 Q. Good morning, Mr. Matthews. Could you
14 please refer to what's been marked as Exhibit 11?

15 A. The one I have as 11 deals with a press
16 release on Avista Energy.

17 Q. That's correct.

18 A. Okay.

19 Q. And if you would refer to the third
20 paragraph of Exhibit 11, I believe there's several
21 quotes from you; is that correct?

22 A. That's correct.

23 Q. And if you'd focus on the last sentence,
24 which -- well, could you just read the last sentence
25 for me, from paragraph three?

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1 A. Looks like the last sentence is one that
2 begins with the word "Because."

3 Q. Right.

4 A. Because of the risk inherent in the
5 evolving market, we have concluded we must refocus
6 Avista Energy to the Western United States where we
7 can back our business with physical assets and build
8 on our strengths gained from our direct knowledge of
9 and experience with markets and facilities within
10 this region.

11 Q. Do you believe that physical assets are
12 important to conducting an energy trading business?

13 A. Yes, I do. Without the physical assets
14 that Avista Energy has in their joint venture with
15 Chelan P.U.D., with their ownership of expanse of the
16 Jackson Prairie Storage Facility, with their
17 ownership of capacity rights in the long distance
18 pipelines coming out of Canada, and in their
19 generation joint venture with Cogentrix, they'd have
20 a tough time competing in the marketplace.

21 Q. Can you explain how the physical assets are
22 used in the energy trading business?

23 A. For instance, if they were making a
24 long-term forward power sale to Northwest Alloys,
25 they might not feel comfortable doing that without

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1 the new Rathdrum power plant they're building in
2 Idaho, with Cogentrix as their partner. If they're
3 making a gas commitment to gas customers in Portland,
4 they'd be very reluctant to do that without having
5 some gas and storage at Jackson Prairie and capacity
6 rights on Northwest Natural or P.U.D. Northwest to do
7 that.

8 Q. Do you believe that physical assets affect
9 the market's perception of an energy trading
10 business?

11 A. Oh, yes. That's the reason Avista Energy
12 had a difficult time growing until they had the
13 physical assets of the Chelan P.U.D. backing their
14 joint venture, which sort of got them started as
15 being real over the West Coast.

16 Q. Did Avista Energy have physical assets that
17 backed its transactions in its operations outside of
18 the West?

19 A. No, they did not.

20 Q. And it's your belief that that adversely
21 affected that business?

22 A. Yes, it did. They had physical asset
23 positions, but oftentimes those positions were viewed
24 different than having physical assets. There's just
25 a different optionality when you have the physical

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1 asset on the ground than when you might have a
2 physical contract with somebody to deliver.
3 Particularly if those parties aggregate their
4 delivery obligations, which was the instance with
5 Avista Energy back in the Midwest and the East.

6 Q. Does your reference to physical assets in
7 this quote include any of the assets of Avista
8 Utilities?

9 A. No.

10 Q. And I'd like to ask you about the second
11 part of the quote, where you refer to direct
12 knowledge of and experience with markets and
13 facilities within the region. Which personnel within
14 Avista Corp. possess this knowledge and experience?

15 A. Well, it's a combination. In Avista
16 Energy, it would be the people in Avista Energy that
17 we hired from Puget, that we hired from Idaho Power,
18 that we hired from Montana Power, that we hired from
19 PacifiCorp, some people that we hired from trading
20 businesses, from Hess, some people we hired from Salt
21 Lake and Questar, and then the handful of people that
22 did transfer over from the Avista Utilities side
23 during the formation. So it would be a combination
24 of all of them there.

25 And then, of course, inside the utility,

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1 there's great experience that's there. I think
2 everyone that's involved on the utility side in
3 trading and marketing has over 20 years of
4 experience. And those are the people that remained
5 at the utility, because the experienced talent stayed
6 in the utility. Some of the younger traders are the
7 ones that moved to Avista Energy.

8 Q. Does Avista Energy rely on the knowledge
9 and experience of personnel within the utility?

10 A. No. In fact, most of the FERC rules sort
11 of preclude that interchange of knowledge.

12 Q. Are you familiar with a company called
13 Avista Turbine?

14 A. Yes.

15 Q. Is that a legal entity?

16 A. I guess it's a financing entity.

17 Q. Well, explain what you mean by that?

18 A. When -- as I recall, Avista Turbine was the
19 entity created to have the ownership of the
20 independent power plant currently under construction
21 in Rathdrum, Idaho.

22 Q. And where does Avista Turbine fit on the
23 organizational chart that you have submitted as
24 Exhibit 2?

25 A. It doesn't, because it's not an

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1 organizational unit. It's a financing unit.
2 Generally, when you're in the independent power
3 business, you'll have a separate legal entity set up
4 to hold the financing of every ownership interest.

5 Q. What is the business of Avista Turbine?

6 A. Right now, I think it's just the financial
7 ownership of the power plant interest that's being
8 built in Rathdrum, Idaho.

9 Q. Well, the reason that I ask is that Avista
10 Turbine recently submitted a request to the Federal
11 Energy Regulatory Commission in which it stated that
12 it was proposing to act as a power marketer, and also
13 requesting market-based rate approval. Are you aware
14 of that?

15 A. Yes, it holds the ownership to the power
16 sales contract out of the power plant being
17 constructed in Rathdrum. So in essence, for it to be
18 able to dispose of the power to be generated by that
19 unit, it has to have a power market certificate.

20 Q. But its business is limited to selling the
21 output of that unit?

22 A. Right now. Whether or not we use it for
23 some other purpose in the future, I don't know.

24 Q. Does Avista Utilities also engage in
25 commercial trading activities?

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1 A. Yes.

2 Q. Is it your position that the revenues and
3 costs of these commercial trading activities should
4 be excluded from retail rates?

5 MR. MEYER: Excuse me, the entire subject
6 matter of trading activities within the utility is in
7 large part the testimony of Mr. Norwood, and he would
8 be the more appropriate witness.

9 JUDGE SCHAER: Mr. Van Cleve, the objection
10 is that this should be asked of Mr. Norwood.

11 MR. VAN CLEVE: Well, if Mr. Matthews has a
12 position on the issue, I'd like to know. If he
13 doesn't, then I'd be happy to ask another witness.

14 JUDGE SCHAER: I think I'll go ahead and
15 let Mr. Matthews answer to the extent of his
16 knowledge. And if we get into details and he wishes
17 to refer them to another witness, that can be part of
18 his answer. Go ahead, please, sir.

19 THE WITNESS: I guess the position would
20 be that that Mr. Norwood espouses. But in general,
21 the issue is similar to what it was when we went to
22 Idaho last year. Looking at the utility operations,
23 they engage in several different kinds of trading.
24 Some deals with optimizing the assets of the utility,
25 some deals with long-term contracts, and some deal

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1 with short-term contracts. And what we've looked at
2 in Idaho and what we've looked at in part of this
3 case is some of the short-term speculative trading,
4 perhaps the risk reward and the cost should be
5 outside of the utility. And I think that's what Mr.
6 Norwood would talk about.

7 Q. Do you know whether these short-term
8 speculative transactions that you refer to are backed
9 by physical assets?

10 A. They're backed by generally power supply
11 purchases from third parties. So in essence, some of
12 them are probably backed with physical assets, some
13 of them are just other trading units of other
14 companies.

15 Q. Well, you stated earlier that you believe
16 that physical assets were important to conducting a
17 trading business in Avista Energy; isn't that
18 correct?

19 A. That's correct.

20 Q. Well, wouldn't it also be true that
21 physical assets would be important to conducting a
22 trading business in Avista Utilities?

23 A. Yes, in essence, they are, because the
24 trading business we're talking about to be excluded
25 are backed by physical facilities and assets of

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1 people they buy the power from to trade with. Now,
2 the details of individual contracts and who those
3 parties are, so you can see what assets are behind
4 them, Mr. Norwood is the witness you need to ask that
5 of.

6 Q. Why is it, Mr. Matthews, that the company
7 is conducting transactions that you seek to be
8 outside of regulation in a regulated entity instead
9 of in Avista Energy?

10 MR. MEYER: Did you understand the
11 question?

12 THE WITNESS: No, I didn't. Right.

13 Q. Well, let me phrase it a different way.
14 The transactions, the short-term speculative
15 transactions that are conducted by Avista Utilities
16 that the company seeks to exclude from rates, why
17 aren't these transactions conducted through Avista
18 Energy?

19 A. Whether they you could be or not -- because
20 of the FERC rules of communication is the issue, I
21 guess, because the opportunities come up inside the
22 utility. As an example would be the utility does a
23 lot of exchange of power activities across the state
24 between Puget and Montana Power and others.
25 Oftentimes, they'll come up to be certain situations

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1 where because of that trade going on inside a
2 utility, Puget will tell Avista Utilities, We've got
3 an extra block of power, can you move it for us. And
4 they'll go do that. That communication is forbidden
5 with Avista Energy.

6 Oftentimes in their work they do with
7 Avista -- I mean, with Bonneville Power Authority, a
8 lot of the trades that go on across the Northwest are
9 done between Avista and Bonneville, from a utilities
10 standpoint. And Bonneville might have surface power.
11 They will use the utility issues to move circuit
12 power. A lot of that sort of communication is
13 forbidden to go outside of the utility.

14 So it's just the opportunities that come up
15 with system optimization between the multiple
16 utilities stays within utility. Avista Energy's
17 activities generally dealing with real third-party
18 buying and selling outside utility operations.

19 Q. Did Avista Corp. file a Form 10-K
20 approximately ten days ago?

21 A. Yes.

22 MR. VAN CLEVE: Your Honor, I would like to
23 make a record requisition for the most recent Form
24 10-K.

25 JUDGE SCHAEER: It will be Record

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1 Requisition Number Three. From the answer, I assume
2 you have no problem providing that, Mr. Meyer?

3 MR. MEYER: None whatsoever.

4 JUDGE SCHAER: Would it be of assistance to
5 the parties to have that provided during this week,
6 so that it could be used for questioning, or would
7 you just prefer to have it sent after the hearings?
8 Does it make a difference?

9 MR. VAN CLEVE: I think if it's available
10 this week, it would be helpful.

11 JUDGE SCHAER: Try to have that available
12 this week, Mr. Meyer.

13 MR. MEYER: Okay.

14 JUDGE SCHAER: Thank you.

15 MR. VAN CLEVE: That's all the questions I
16 have, Your Honor.

17 JUDGE SCHAER: Thank you. Commissioners,
18 do you have questions of Mr. Matthews?

19 CHAIRWOMAN SHOWALTER: I have a couple.

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

21 BY CHAIRWOMAN SHOWALTER:

22 Q. Maybe I'll just begin with a follow-up to
23 the discussion you've just had with Mr. Van Cleve.
24 You mentioned in a number of respects the wall that
25 is required to be placed between Avista Energy and

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1 Avista Utilities for various reasons, and I'm just
2 wondering where that leaves you.

3 I have an image of you sitting up, looking
4 down over a wall, and on one side is Avista Utilities
5 and on one side is Avista Energy and others. Are you
6 bound personally by those FERC rules, or are there
7 provisions made such that the CEO can function
8 despite the wall?

9 A. The provisions are such that the CEO can
10 function despite the wall, but the way we do it and
11 the way most companies do it is that, like in Avista,
12 Gary Ely gets involved in the day-to-day operations
13 of Avista Energy, and so that I don't have to get
14 involved in the day-to-day issues and decisions on
15 Avista Energy. That way, I can keep myself, you
16 know, above the fray and just work on policy issues.

17 Q. So you're not privy to certain detailed
18 information that would compromise the wall?

19 A. That's correct. I'm allowed by FERC to see
20 summary reports, but not individual detailed data and
21 positions and how their trading philosophy might be
22 going that day.

23 Q. Okay. Then, earlier in your testimony, you
24 said you have a goal of returning the cost of
25 capital, plus a dividend, and then elsewhere you

00152

1 mentioned a 10 percent return, a 12 percent return on
2 equity, and there was another reference to six
3 percent.

4 Can you just describe for me what your
5 different goals are -- and not only what they are,
6 but why they are? That is, why 12 percent or why 10
7 percent?

8 A. First of all, the six percent, I think in
9 reference -- I said the utility, in '98, was earning
10 about a six and a half percent return overall on its
11 total business. So that's where that number came
12 from. But then the other was it's fundamental
13 economic logic. The fact is that if a business is
14 not returning its cost of capital plus a return, it
15 has no valid reason for being in business. It's
16 actually destroying the capital.

17 So when I look at, in general, targets for
18 total companies that, you know, I want a return on
19 invested capital, that's generally the cost of
20 capital, plus at least two percent, and that's just
21 sort of the rule of thumbs that anybody going
22 through, you know, finance and MBA schools use as
23 benchmarks and hurdle rates as to what you're looking
24 at to have attractive businesses.

25 And if you look at the returns on equity as

00153

1 looking at what are the alternate opportunities for
2 investments to make returns to shareholders and
3 things, generally people try to look at a minimum
4 target of about 12 percent returns on equity, but
5 about 10 percent overall returns on business.

6 Now, for business -- that's for businesses
7 that are viewed fairly risk-free, like utilities.
8 For more risky investments, whether it be Internet
9 investments or automotive dealerships or real estate
10 investments, your targets would generally be much,
11 much higher. Whereas I might set a 10 percent return
12 target for our utility side of the business, I'll set
13 an 18 percent or higher target return for Avista
14 Power or Avista Communications or Fiber.

15 So we have, in our cap allocation policy, I
16 have targeted returns based on an estimated cost of
17 capital for every different line of business. And so
18 I will accept a ten percent overall return plan going
19 forward with Utility, but for Avista Communications,
20 it's got to be a 20 percent return plan, or they're
21 not competitive.

22 Q. Okay. So it was 10 percent for the
23 Utility?

24 A. Correct.

25 Q. And then what is it overall for the whole

00154

1 company? I'm just trying to make sure I understand
2 which percentage applies to which part of the
3 company.

4 A. Whether or not -- we probably don't have an
5 overall target return for the whole company. Right
6 now, my cap allocation, we've broken it down by each
7 business unit. It would be however the weighted
8 average rolled up, and I just don't -- we have not
9 set a specific target return for the total company.

10 Q. So you didn't give that figure?

11 A. Did not, right.

12 Q. I guess I just have a couple more
13 clarifications. On your Exhibit 2, which is the
14 organizational chart, I'm just a little unclear. I
15 understood Avista Capital as a shell company and able
16 to issue debt, but what I don't understand is are all
17 of -- is the third level down, that is, the level
18 below Avista Capital, does it all report up through
19 Avista Capital?

20 A. Yes.

21 Q. Okay.

22 A. They do. And let's see. Each of those
23 companies -- the only one there that's just a paper
24 shell company, you might say, Avista International,
25 that's like the Avista Turbine Company. I guess you

00155

1 could cross that off, in reality, because there's
2 really no people or activity in that. But every
3 other unit has some activity and people in charge of
4 the activity.

5 Q. Okay. Then there was -- let's see. In
6 Exhibit 5, on page one, you said that the number of
7 employees has been reduced compared to what was
8 reported here, which was the 1,536 for utility
9 operations and 2,153 in the nonregulated business,
10 and you gave an overall figure, but you didn't break
11 it down. I'm just wondering now how many people, how
12 many employees are in the utility operations versus
13 the nonregulated businesses, approximately?

14 A. It will be in the new 10-K. I don't know
15 exactly those numbers. But in general, the
16 nonregulated businesses, we sold most of the Pentzer
17 companies last year, so we had, I think, 11
18 companies, and now we have two. So we had a lot of
19 manufacturing employees associated with those
20 companies that -- you know, the role in Pentzer was
21 to take small companies, aggregate them into bigger
22 companies, and then sell them. And that's what
23 happened in Pentzer. So probably the nonregulated
24 side of the business is down to about 300 people now,
25 I would guess.

00156

1 Q. That would mean that the other one is at
2 about --

3 A. Sixteen hundred.

4 Q. Sixteen hundred?

5 A. Right.

6 Q. And then, when you were questioned about
7 Exhibit 11, that's the press release that talked
8 about the lowered ratings. And this was August 24th,
9 1999. Is this where your debt ratings stand today?

10 A. That's where they stand today, yeah. When
11 these ratings were lowered, it took them down to the
12 levels of all the other utilities here in the state.
13 So right today, no. Puget, Cascade, and everybody in
14 Montana, all the same. And so they -- my guess is,
15 after they will see what we're doing on Avista Energy
16 and the restructuring there, my guess is sometime
17 this year, they'll probably take them back up, as
18 particularly seeing what happens on the stock market
19 this year with our stock price and the market cap
20 equity growth. Right now, this downgrade, we're down
21 in the same level as Puget, Montana, Cascade.
22 Everybody's still a high investment grade, it's just
23 not A. S&P does that. Of course, the other credit
24 agencies have maintained us at A-. There's generally
25 always a difference between S&P and Duff and Phelps

00157

1 and Moody's.

2 JUDGE SCHAER: Thanks. That's all the
3 questions I have.

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

5 BY COMMISSIONER HEMSTAD:

6 Q. Good morning, Mr. Matthews.

7 A. Good morning, Commissioner.

8 Q. You refer to an impenetrable wall between
9 the regulated energy trading and nonregulated energy
10 trading. Describe a bit more what that means in the
11 practical, day-to-day sense.

12 A. Sometimes you wish it was more penetrable
13 than impenetrable. I guess you might call it a
14 Chinese wall. Generally, what the rules are, it says
15 that any data that the utility side shares with
16 energy trading side, any data, philosophy, practices,
17 outlooks, they, in essence, have to put it on the
18 bulletin board and share it with everybody.

19 Now, so as a result is that they, most of
20 the time, just don't do it, because then, if you're
21 sharing with everybody, you're, in essence, sharing
22 it with all your competitors. That would be issues,
23 you know, what the Utility thinks about water flows
24 or outlooks on prices or where customers are going,
25 things like that. So the rules are if you share it

00158

1 with your affiliate, you have to share it with
2 everybody. So as a result, it doesn't get shared.
3 They're in separate offices, separate books, separate
4 accountants. In fact, they're literally half a city
5 away from each other.

6 Theoretically, your affiliate can
7 communicate anything they know up to the utility
8 without restriction, but generally that doesn't
9 happen. But the way FERC has set it up, it's a
10 one-way communication. Affiliates can share data
11 with a utility, but the utility cannot share data at
12 all with the affiliate, unless it's willing to share
13 that same data with all companies and all
14 competitors.

15 Q. Well, pursuing that, what does the utility
16 do with the data it receives, then, from the
17 affiliate?

18 A. Well, in reality, it receives nothing right
19 now. We don't have that sharing going on. It would
20 be to our advantage to share more than we're doing
21 now because there is a lot of knowledge that's down
22 at Avista Energy with the staffs and teams that we've
23 built up, people I've talked about that we've hired
24 from different companies, but in reality, the Chinese
25 wall is treated as an impenetrable wall. It's called

00159

1 a Chinese wall because FERC allows data to go one
2 way, but in reality, we've treated it as a pretty
3 impenetrable wall and it's not shared either way.

4 Q. Well, can you have situations, then, when
5 the regulated side and the nonregulated side are
6 bidding against one another in the marketplace?

7 A. Unfortunately, and there's no way around
8 that. In fact, the way FERC set up the rules, they
9 encouraged that. And that's some of the things, the
10 reason they had to sort of back up at the corporate
11 level, at the senior executive level, that sometimes
12 I have to play policeman, good cop/bad cop, because
13 sometimes that's not good for the shareholders or
14 ratepayers. But that internal competition does
15 exist, and that was one of the intents of FERC
16 setting up the way it did.

17 Q. But how would you know that?

18 A. You wouldn't know it until a customer told
19 you.

20 Q. You mean, after the fact?

21 A. After the fact.

22 Q. I believe it's in your testimony, but also
23 in response to questions here, Avista Power is
24 currently developing new resources, is it with
25 Cogentrix?

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1 A. With Cogentrix and a partnership with a
2 company called Steag, which is a German power
3 company.

4 Q. And I believe you stated that some or all
5 of that may be switched to the regulated side. Did I
6 understand you to say that?

7 A. Yes, that's right. As we look at, you
8 know, particularly the Centralia decision on this,
9 that right now, for one, we're power short. I'd
10 rather be power long, you might say, from a utility
11 standpoint.

12 Secondly, that as we look out the next few
13 years, I think, like the report from Northwest Power
14 Planning Council, there's a need for more capacity in
15 the Northwest. So the issue is that to get that
16 capacity built in the Northwest, is it best to do it
17 through the regulated operations or the nonregulated
18 operations. Which can happen the quickest with the
19 most surety. That would be the decisions that those
20 of us in the Northwest who want to build some power
21 plants would have to decide.

22 You know, we needed to move ahead with the
23 power plant in Rathdrum because we need the power,
24 and we said we -- it's got to be done, and we'll
25 decide down the road if we want to make a request to

00161

1 put it inside the utility.

2 Q. Well, I was going to pursue the point, how
3 do you make the decision as to whether to first
4 construct that new generation within the regulated
5 side or the nonregulated side or make the decision to
6 switch it? How do you wear those two hats?

7 A. I guess I made two key decisions. One is
8 that, as part of this rate case, my staff will be
9 talking about what we'd like to do in a PCA, a power
10 cost adjustment factor. See, I might -- the utility,
11 from a ratepayer exposure standpoint, might be
12 willing to take, you might say, volatility exposure
13 on being short on power if it had a PCA that could
14 stabilize some of those sort of power costs. If it
15 didn't, it needs to build assets for equipment.

16 The other issue -- because that's the only
17 way it can protect its power costs. One of the
18 worries that I have restructuring deregulation, take
19 an example right now, Montana Power. They're a pure
20 distribution company. They are totally naked, is
21 what we call them, totally naked on power. They're
22 going to buy all their power from the open market
23 from some third party, with no protection on price,
24 no protection on PCA, no protection on assets. I
25 don't want to be that totally exposed. I want to

00162

1 have either assets that can protect the cost to the
2 ratepayers or some sort of PCA that protects the
3 volatility with some trueup mechanism, so they say.
4 So that's one decision.

5 The other decision is, basically, from what
6 we talked about before on cost of capital and
7 earnings, what am I allowed to earn on those assets
8 inside the utility versus what can I earn on them
9 outside the utility. And I have to make that
10 decision with a capital allocation process from
11 earnings for the corporation. And those are
12 basically the two decisions we'll have to make after
13 we exit this rate case.

14 COMMISSIONER HEMSTAD: Thank you. That's
15 all I have.

16 COMMISSIONER GILLIS: I have no other
17 questions.

18 JUDGE SCHAER: I have just a few questions.

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

20 BY JUDGE SCHAER:

21 Q. Mr. Matthews, you mentioned a moment ago
22 the Centralia decisions. And looking at page nine of
23 your testimony, lines 18 through 21, you talk about
24 the assets that you own, and you referred to a 15
25 percent share in two coal-fired generating

00163

1 facilities. I'll give you a moment to find that.

2 A. I've got it.

3 Q. Okay.

4 CHAIRWOMAN SHOWALTER: What page was it?

5 Q. Page nine, lines 18 through 21. Would you
6 identify what the coal-fired generating facilities
7 are that you're referring to there?

8 A. One is Colstrip, located in Montana, and
9 the other is Centralia, here in Western Washington.

10 Q. Okay. And where is the company at this
11 point in its decision-making about what it's going to
12 do with Centralia?

13 A. You want an early indication?

14 Q. Well, I want to know -- I asked the
15 question, I think, carefully, so that if you haven't
16 made up your mind, you could say that.

17 A. I'd say, one, you know, we are disappointed
18 in the rulings that we got initially on Centralia as
19 to the sharing mechanism, but from the standpoint of
20 moving ahead, although we've asked for rehearing,
21 because some of the numbers didn't add up -- if you
22 add up the two sharing pieces, it's more than the
23 whole, so there's some reconciliation of numbers and
24 a few other things that have to be done in order --
25 but our general intent right now is to proceed ahead

00164

1 with the sale of Centralia.

2 Q. And that would be for both pieces that you
3 own or --

4 A. Yes.

5 Q. Thank you. Okay. Then looking again, if
6 you would, at Exhibit 13, which is the summary
7 compensation table out of your 1998 proxy. I'm
8 looking at the bonus column for you, and first, could
9 you explain why none of the \$150,000 bonus was
10 allocated to non-utility?

11 A. Just from an allocation standpoint, and
12 looking at 1998, the first six months I spent there
13 on the detail strategies on the utility is where I
14 spent the predominant amount of my time.
15 Theoretically, you could add up the whole numbers of
16 three and a half million, or whatever the total is,
17 and adjust percentages one way or the other, but at
18 some point in time you just put a stake in the
19 ground, say let's divide it this way.

20 Q. Okay. Looking at the footnote to that
21 section, Footnote Three, it states, Cash bonus
22 awarded in accordance with the terms of Matthews'
23 employment agreement. Can you tell us what those
24 terms are, generally speaking?

25 A. In general, for the first two years of my

00165

1 employment, there were certain minimums. And then,
2 after that, my annual cash bonus is in accordance
3 with our executive incentive plan, like it is with
4 all executives of the company. But at this time,
5 because I left a company in mid-year and so I was --
6 basically the board of directors that put together my
7 comp package was trying to make sure that they
8 obviated or overcame the losses I was looking at from
9 leaving the company I was leaving and trying to, you
10 might say, keep me whole, then providing opportunity
11 for the future.

12 Q. So if I understand what you're saying, this
13 was a fixed amount for the first two years, and
14 beyond that it will be treated as an incentive amount
15 depending on the terms of the company's --

16 A. Correct, and --

17 Q. -- incentive plan for its executives?

18 A. Correct, in accordance with executive plan.
19 I think it was part of one of the data requests we
20 submitted.

21 Q. Okay. Just a couple more small questions.
22 First of all, you were asked about providing a more
23 updated organization chart, and I believe your
24 counsel indicated that could be provided, he thought,
25 this week. And I want to check to make sure that you

00166

1 think that can happen, and if not, I'm wondering if
2 we should put a record requisition number on this.

3 A. I guess one of the questions I have is what
4 do the parties really want. Do they want an
5 organizational chart that shows what people are doing
6 what, or do they want an organization chart showing
7 what business units fit where, or are they looking
8 for a legal entity chart, because all three are
9 different.

10 JUDGE SCHAER: Ms. Tennyson, I believe this
11 was your request.

12 MS. TENNYSON: Yes, and the request was
13 stated in a data request, which I don't have the
14 exact language in front of me, but it did ask for the
15 individuals and functions within the groups. I'm
16 sure I can get you a copy of it over the lunch hour
17 so you can be sure to know exactly what it is.

18 MR. MEYER: We have that data request
19 pending and we're in the process of responding to it.
20 But it is one that, to the best of my knowledge, we
21 just received not too long ago, so it's not due for
22 several days yet.

23 MS. TENNYSON: Wednesday.

24 MR. MEYER: Wednesday is the due date. And
25 because most of us are here, there's a problem,

00167

1 obviously, getting that done on a timely basis. If
2 it's not essential to the balance of the proceeding,
3 we'd like to just follow course and respond as it is
4 as a data request. If there's some need to have that
5 information here this week for some Counsel to make
6 use of, we'll do our best. I just don't have a sense
7 that it needs to be done this week is all.

8 JUDGE SCHAER: My question is a very -- I
9 thought -- simple one. If it's not going to come in
10 this week, should we put a record requisition number
11 on it?

12 MS. TENNYSON: I would prefer we do that,
13 just to make sure we have it listed as something that
14 needs to come in.

15 MR. MEYER: That's fine.

16 JUDGE SCHAER: I'm going to list that as
17 Record Requisition Number Four, then.

18 Q. The next question I have, Mr. Matthews, is
19 you were asked about when you got state approval in
20 Washington to operate on a benchmark basis with
21 certain targets to protect ratepayers in your gas
22 business, I believe it was. And I'm going from my
23 notes, which is why the question is poorly-phrased.

24 A. Right.

25 Q. And you indicated you didn't know when that

00168

1 had happened. I basically wanted to know if there is
2 somebody who's going to testify this week who will
3 know that date and know more about that transaction?

4 MR. MEYER: Mr. Turner would or Mr. Norwood
5 would.

6 JUDGE SCHAER: Okay. So we could refer
7 that question to --

8 MR. MEYER: I would try Mr. Norwood first.
9 He is next up.

10 JUDGE SCHAER: All right. Thank you.

11 Q. Another question, there was some discussion
12 of the Avista trademark and the value of that trade
13 name. And who among your entities actually owns the
14 trademark for the Avista name?

15 A. Right today, the Avista Corporation owns
16 it. You know, you might say it took it from its
17 subsidiaries. Perhaps we ought to have the utility
18 pay royalty to the subsidiaries for using their name.

19 Q. Well, that's what I was confused by,
20 because I'm trying to figure out who owns it now, not
21 who came up with it. But do you know --

22 A. My guess is when we went through the name
23 change and redid all of our company trademarks and
24 copyrights, all that ownership, wherever it was, has
25 all been consolidated and now is owned by the parent,

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1 Avista Corporation.

2 JUDGE SCHAER: Thank you. Did you have
3 redirect for this witness, Mr. Meyer?

4 MR. MEYER: Just a few.

5 R E D I R E C T E X A M I N A T I O N

6 BY MR. MEYER:

7 Q. Mr. Matthews, referring back to what has
8 been marked and entered as Exhibit Number 13, which
9 is an excerpt out of the '99 proxy for '98, there was
10 some questioning concerning the roles played by you
11 vis-a-vis that previously played by Bryan and
12 Redmond. Do you recall that exchange?

13 A. Yes, I do.

14 Q. As you sit, you presently fill a number of
15 positions, do you not? Chairman of the Board, CEO
16 and President?

17 A. That's correct.

18 Q. And I believe you also testified as to your
19 COO, chief operating officer-type responsibilities,
20 as well?

21 A. That's correct.

22 Q. Okay. And is it true that several of these
23 functions were previously performed by Messrs.
24 Redmond and Bryan?

25 A. That's correct. In essence, when I came, I

00170

1 guess you could consolidate the top three people on
2 that chart, Matthews, Redmond, Bryan. That is now
3 one job, one position.

4 MR. MEYER: I see. That's all I have.
5 Thank you.

6 JUDGE SCHAER: Okay. Is there anything
7 further for this witness?

8 MR. FFITCH: No, Your Honor.

9 JUDGE SCHAER: Ms. Tennyson, do you have
10 more?

11 MS. TENNYSON: I do not.

12 JUDGE SCHAER: Mr. ffitch.

13 MR. FFITCH: I do not.

14 JUDGE SCHAER: Mr. Van Cleve, how much do
15 you have?

16 MR. VAN CLEVE: Your Honor, I do not have
17 any questions, but I did intend to offer Exhibit 11,
18 and I neglected to do so.

19 JUDGE SCHAER: Is there any objection?

20 MR. MEYER: None.

21 JUDGE SCHAER: Exhibit 11 is admitted.

22 Thank you for your testimony, sir.

23 THE WITNESS: Thank you. Appreciate it.

24 JUDGE SCHAER: I think at this point we
25 will take our luncheon break. Give me just a moment.

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1 It looks like at this point we're going to take our
2 lunch recess. Please be back at 1:15, and we're off
3 the record.

4 (Lunch recess taken.)

5 JUDGE SCHAER: Let's be back on the record
6 after our lunch recess. Would you like to call your
7 next witness, Mr. Meyer?

8 MR. MEYER: Yes, thank you, Your Honor. To
9 the stand, Mr. Norwood.

10 JUDGE SCHAER: The following exhibits have
11 been marked in conjunction with Mr. Norwood's
12 testimony. Exhibit T-151 is the direct testimony of
13 Kelly O. Norwood. Exhibit 152, Proforma Power Supply
14 Adjustment. Exhibit 153, Dispatch Model Simulation.
15 Exhibit 154, Wholesale Market Determination. Exhibit
16 155, Dispatch Model Simulation.

17 Exhibit 156, Example Deal Ticket. Exhibit
18 157, Commercial Trading Analysis. Exhibit 158,
19 Response to WUTC Data Request Number 31. Exhibit
20 159, Response to WUTC Data Request Number 38.
21 Exhibit 160, Response to Staff Data Request Number
22 26. Exhibit 161, Response to Staff Data Request
23 Number 27. Exhibit 162, Response to WUTC Data
24 Request Number 160. Exhibit 163, Response to WUTC
25 Data Request Number 73. Exhibit 164, Response to

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1 WUTC Data Request Number 53.
2 Exhibit 165 is the response to WUTC Data
3 Request Number 48. Exhibit 166, Response to WUTC
4 Data Request Number 49. Exhibit 167, Response to
5 WUTC Data Request Number 78. Exhibit 168, Response
6 to WUTC Data Request Number 79. Exhibit 169,
7 Response to WUTC Data Request Number 80. Exhibit
8 170, Response to WUTC Data Request Number 81.
9 Exhibit 171, Response to WUTC Data Request
10 Number 71. Exhibit 172, Response to WUTC Data
11 Request Number 72. Exhibit 173, Response to WUTC
12 Data Request Number 54. Exhibit 174, Response to
13 WUTC Data Request Number 56. Exhibit 175, Response
14 to WUTC Data Request Number 57. Exhibit 176,
15 Response to WUTC Data Request Number 60. Exhibit
16 177, Response to WUTC Data Request Number 62.
17 Exhibit 178, Response to WUTC Data Request
18 Number 63. Exhibit 179, Response to WUTC Data
19 Request 63. Exhibit 180, Response to WUTC Data
20 Request 65. Exhibit 181, Response to WUTC Data
21 Request Number 66. Exhibit 182, Response to WUTC
22 Data Request Number 67. Exhibit 183, Response to
23 WUTC Data Request Number 68. Exhibit 184, Response
24 to WUTC Data Request Number 69. Exhibit 185,
25 Response to WUTC Data Request Number 61.

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1 Exhibit 186, Response to ICNU Data Request
2 Number 4. Exhibit 187, Response to ICNU Data Request
3 Number 9. Exhibit 188, Response to WUTC Data Request
4 Number 29. Exhibit 189, Response to WUTC Data
5 Request Number 40. Exhibit 190, Response to WUTC
6 Data Request Number 36.
7 Exhibit 191, Response to WUTC Data Request
8 Number 37. Exhibit 192, Response to WUTC Data
9 Request Number 39. Exhibit C-193, Confidential
10 Response to WUTC Data Request Number 39-C. Exhibit
11 C-194, Confidential Response to Staff Data Request
12 Number 241-C. Exhibit 195, Power Supply Work Papers,
13 three books. Exhibit 196, Avista Response to ICNU
14 Data Request Number 9. Exhibit 197, Avista Response
15 to ICNU Data Request Number 15.
16 Exhibit C-198, Confidential Attachment to
17 Avista Response to Data Request Number 15. Exhibit
18 199, Avista Response to ICNU Data Request Number 29.
19 Exhibit 200, Avista Response to ICNU Data Request
20 Number 30. Exhibit 201, Power Supply Work Papers,
21 Pages 176-177, and Exhibit C-202, Confidential
22 Attachment A to Public Counsel Data Request Number
23 93.
24 Whereupon,
25 KELLY O. NORWOOD,

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1 having been first duly sworn, was called as a witness
2 herein and was examined and testified as follows:

3 JUDGE SCHAER: Your witness is sworn, Mr.
4 Meyer.

5 MR. MEYER: Thank you, Your Honor.

6 D I R E C T E X A M I N A T I O N

7 BY MR. MEYER:

8 Q. For the record, please state your name and
9 your employer.

10 A. My name is Kelly Norwood. I'm employed by
11 Avista Corporation in the rates department.

12 Q. And your position within the rates
13 department is?

14 A. I'm a regulatory policy analyst.

15 Q. As such, have you caused to be prepared
16 testimony in this proceeding marked for
17 identification as Exhibit T-151?

18 A. Yes.

19 Q. Do you have corrections to make to that,
20 which have been in the nature of errata, which are on
21 a sheet that has been passed around, also marked as
22 T-151?

23 A. Yes, I do have an errata sheet. It's
24 actually two pages, which, for the most part, it
25 simply changes the exhibit numbers that I had

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1 prefiled to the new exhibits that were assigned in
2 the prehearing conference.

3 Q. And for the record, the record should
4 indicate that I have distributed to all parties and
5 to the Bench copies of that errata sheet so marked.
6 I understand you also have a change not reflected on
7 the errata sheet to the prefiled testimony. Would
8 you proceed?

9 A. Yes, on pages 28 and 29. First of all, on
10 the page 28 --

11 Q. Wait a minute, let everybody get there.

12 JUDGE SCHAER: Go ahead.

13 THE WITNESS: On page 28, beginning on line
14 19, I would like to strike lines 19 through 23, and
15 continuing on to page 29, strike lines one and two.
16 And I'm making these changes in light of Mr.
17 Matthews' testimony this morning in that the company,
18 at this point, the intention is to move forward with
19 the sale of Centralia. And at the time that this
20 testimony in this case was developed, at that time
21 there was not a replacement power resource that was
22 in place at that time, but since that time, there has
23 been a replacement power contract put into place, and
24 those costs are known and measurable at this time and
25 those costs have been identified and provided to the

00176

1 parties in this case, and it's been marked as Exhibit
2 C-194. And so I believe it's appropriate to include
3 those changes and costs in this case.

4 JUDGE SCHAER: Mr. Norwood, I note this
5 portion of your testimony discusses whether or not
6 certain other jurisdictions have acted on the
7 Centralia sale. Would you indicate what the status
8 of that is, as well?

9 THE WITNESS: It's my understanding that
10 there's one remaining jurisdiction that has not
11 ruled, and that's California, and it's my
12 understanding that there's an order expected sometime
13 in early to mid-April.

14 JUDGE SCHAER: Thank you.

15 MR. TRAUTMAN: Could I ask for a
16 clarification? On page 29, which lines did you
17 strike, just one and two?

18 THE WITNESS: Just lines one and two.

19 Q. I'll proceed. You've also sponsored what
20 have been marked for identification as Exhibits 152
21 through 157, haven't you?

22 A. Yes.

23 Q. And is the information contained within
24 those exhibits true and correct?

25 A. Yes.

00177

1 MR. MEYER: With that, Your Honor, I move
2 for the admission of Exhibits T-151, as well as 152
3 through 157.

4 JUDGE SCHAER: Is there any objection?
5 Those documents are admitted.

6 MR. MEYER: With that, I tender the
7 witness.

8 C R O S S - E X A M I N A T I O N

9 BY MR. TRAUTMAN:

10 Q. Good afternoon, Mr. Norwood.

11 A. Good afternoon.

12 JUDGE SCHAER: One moment, please, Mr.
13 Trautman. Go ahead, please, Mr. Trautman.

14 MR. TRAUTMAN: Thank you.

15 Q. I'd like to refer you first to what's been
16 marked as Exhibits 158 and 159. Those were the
17 company's responses to Staff Data Requests 31 and 38.

18 A. Yes, I have those.

19 Q. And in looking at the responses to these
20 two data requests, is it correct to say that the
21 company's dispatch simulation model does not capture
22 the benefits of being able to shape or redispach the
23 company's resources on a daily or weekly basis?

24 A. No, that's not correct. When the data is
25 submitted, the operating data for our hydroelectric

00178

1 resources is submitted to the Northwest Power Pool.
2 The curves that are submitted, the H over K tables
3 that really reflect the amount of energy that you get
4 --

5 CHAIRWOMAN SHOWALTER: What's H over K?

6 THE WITNESS: It's really the amount of
7 energy you get for the amount of water that goes to
8 the turbines is what that reflects. Those curves
9 that are put together and submitted to the Northwest
10 Power Pool reflect an hourly operation of the hydro
11 resources based on the prior stream flows that have
12 occurred during these 60 water years. So the curves
13 are designed to capture the hourly flows of the
14 hydrogeneration. And that's built into the data that
15 we receive from the Northwest Power Pool, and so
16 that's already inherent in the numbers that we
17 include in our dispatch model.

18 Q. Now, your answer to DR 158 stated that the
19 resources are dispatched on a monthly basis, and then
20 that's underlined.

21 A. And that's -- I'm sorry, go ahead.

22 Q. Then, on DR 159, it says that because it is
23 a monthly average energy model, there is no breakdown
24 between on-peak and off-peak hours?

25 A. Right.

00179

1 Q. So is that correct?

2 A. We're talking about two different
3 dispatches here. The first was the hourly generation
4 relating to hydro resources, and the dispatch that
5 we're talking about here, as far as the monthly
6 dispatch, that relates to the thermal resources, and
7 baseload coal and the Kettle Falls project, as well
8 as Rathdrum, and that is a monthly dispatch.

9 CHAIRWOMAN SHOWALTER: Mr. Norwood, could I
10 ask you to slow down. I'm sure the court reporter
11 might appreciate it, too, but I'm just trying to
12 follow your words.

13 THE WITNESS: Okay. I'll slow down.

14 CHAIRWOMAN SHOWALTER: Thank you.

15 Q. How would the dispatch model, then,
16 dispatch hydro resources?

17 A. The hydro resources are an input to the
18 dispatch model, and essentially the hydrogeneration
19 is a near zero cost incremental resource, and so they
20 are input into the dispatch model. The thermal
21 resources, on the other hand, do have an incremental
22 cost assigned to them. For example, Rathdrum is
23 20-some odd dollars per megawatt hour for an
24 incremental cost, and so you compare the cost of
25 Rathdrum to the cost of the market to determine

00180

1 whether you're going to run Rathdrum or not run
2 Rathdrum back from the market.

3 Q. So just for clarification again, on Exhibit
4 159, the answer says, Because it is a monthly average
5 energy model, there is no breakdown between on-peak
6 and off-peak hours?

7 A. That's correct.

8 Q. That refers to --

9 A. That refers to the secondary -- the net
10 purchases and the sales that the company makes. When
11 the model dispatches thermal resources against the
12 market to serve load, it does not distinguish between
13 the heavy load hours and the light load hours. So
14 what you see is essentially a flat product. So the
15 output you get for short-term purchases, short-term
16 sales, are not distinguished between heavy load and
17 light load hours. That's what this response is
18 communicating.

19 Q. If you could now turn to what's been marked
20 as Exhibit 160 and 161?

21 A. Yes, I have them.

22 Q. And these data requests ask for analyses
23 that the company carried out in regard to trends or
24 patterns in historical stream flow data, and also
25 asked for studies, analyses, or documents supporting

00181

1 the contention that using the full 60 years of
2 historical stream flow data will yield the most
3 accurate estimate of average or normal results. Do
4 you see that?

5 A. Yes.

6 Q. Is it correct that the response to Exhibit
7 160 is an exhibit from a previous Puget Power rate
8 case?

9 A. It's an exhibit sponsored by me in a Puget
10 rate case, that's correct.

11 Q. And is it correct that the response to
12 Exhibit 161 consists of testimony or exhibits from
13 previous proceedings before this Commission?

14 A. Yes, plus some additional work papers.

15 Q. Is it correct that the Commission did not
16 adopt the company's recommendation in either Cause
17 Number U-85-36 or Docket UE-920433, the latter of
18 which was the 1992 Puget Power case?

19 A. I would have to review the Puget document
20 to know what occurred there, but in the 85-36 case,
21 the 40-year water record was adopted in that case.

22 Q. And would you accept that the Commission
23 did not adopt the company's recommendation in
24 U-85-36, subject to check?

25 A. That's my understanding.

00182

1 Q. Is it also correct that the filing in
2 U-871570-T, which is the middle one that you refer,
3 is it correct that that filing was withdrawn?

4 A. Yes, it was.

5 Q. Are you aware of the Commission's language
6 regarding this issue in the Puget Power case, that
7 being 920433?

8 A. No.

9 Q. And I believe I handed you excerpts from
10 that order. This is the 11th Supplemental Order.
11 The service date's September 21st, 1993, in
12 consolidated dockets, the first of which is
13 UE-920433, and it's the Washington Utilities and
14 Transportation Commission against Puget Sound Power
15 and Light. Do you see that?

16 A. Yes.

17 Q. And could you please refer to page 43 of
18 that order?

19 A. I'm there.

20 Q. Starting at the top of the page, do you
21 agree that the order says, The Commission accepts the
22 Commission Staff position and directs the company to
23 continue to use a 40-year rolling average. The
24 Commission believes that the parties spent far too
25 much time revisiting this issue. They repeated

00183

1 arguments and evidence that they have presented in
2 the previous rate cases. Mr. Winterfeld's
3 presentation in Docket U-892688-T demonstrated
4 convincingly that the cumulative error would be less
5 under a 40-year rolling average than under the
6 company's proposal. Do you see that?

7 A. I see that.

8 Q. Then, at the end of the paragraph, it says,
9 The evidence presented in this proceeding does not
10 persuade the Commission that hydro availability is
11 subject to cycles or trends. The company is put on
12 notice that this will remain the Commission's
13 position on this issue unless and until a clear and
14 convincing argument supports the superior
15 alternative. Do you agree that that's the correct
16 reading?

17 A. I see that.

18 Q. And it is correct, is it not, that
19 Washington Water Power was an intervenor in the Puget
20 Power case, 920433; is that correct?

21 A. That's correct.

22 Q. And you presented testimony in that
23 proceeding?

24 A. I did. I think it's important to recognize
25 that, for Avista, the issue was dealt with 15 years

00184

1 ago. And in the order by the Commission, they
2 specifically stated that the Commission's decision
3 does not mean that the Commission will use a rolling
4 40 years for all future cases. The Commission will
5 evaluate alternatives proposed in the future cases.

6 And there have been a number of things that
7 have changed since that time, which I think are
8 important to take into consideration as we look at
9 this --

10 THE REPORTER: Excuse me, I didn't get the
11 last part of the answer.

12 THE WITNESS: I said something to the
13 effect that it's important to recognize those things
14 that have changed as we consider what the proper
15 water record to use is for this case.

16 Q. But it's correct that, in response to
17 Staff's data request for the information relied on,
18 that you attached exhibits from -- the testimony from
19 the 1992 case and the prior cases; is that correct?

20 A. That's correct. And based on the
21 Commission's order, it was clear that there wasn't a
22 clear understanding of the methodology that was
23 proposed back in 1995 -- or 1985, excuse me.

24 And I think it's important in this case
25 that we do make clear, make sure that there is a

00185

1 clear understanding of the material that was
2 presented, because I think if you look at it closely,
3 it will show that the rolling 40-year method that's
4 been proposed will not accomplish what it was
5 presented to accomplish. And that's because the only
6 way for that to reduce cumulative error over time is
7 if you keep the same method over time, over multiple
8 decades. And the other thing you have to have is
9 that there has -- the operations of the hydro plants
10 cannot change during that time frame, so that the
11 errors can offset each other over time.

12 What we've seen already, the biological
13 opinion came out in '95, which changed the operation
14 of the hydroelectric resources. And so now this
15 long-term cumulative error that is supposed to be
16 minimized cannot be minimized, because you have a
17 change in the operation of the reservoirs. The
18 offsetting errors will not occur. So this method is
19 really not one that accomplishes what was proposed.

20 Q. I still believe my question was rather
21 simple, and it's simply that you agree that what you
22 filed today was what was filed in 1992, and referred
23 to by the Commission in that order; is that correct?

24 A. In this response to my data request, yes,
25 but I have additional testimony which addresses the

00186

1 60-year water record.

2 Q. If you could turn to what's been marked as
3 Exhibit 162, and this pertains to the Colstrip Unit
4 Number Three. Do you see that?

5 A. Yes, I do.

6 Q. Turning to the third page of the response,
7 and at the top it has a heading that says, Outage
8 Types, and underneath there are 18 different outages
9 referenced. Do you see that?

10 A. Yeah, I see a number of outages listed
11 here.

12 Q. And referring to outage number one, is it
13 true that this document shows an outage for March
14 12th through May 7th relating to transmission system
15 problems?

16 A. My understanding of what it shows here is
17 that the project went offline on March 12th, and it
18 was offline for -- looks like 1,338 hours. I'm not
19 sure of the date that it came back online.

20 Q. And again, it does show that that was
21 related to transmission system problems?

22 A. That's what's indicated here, yes.

23 Q. Do you have any further knowledge of this
24 particular outage?

25 A. I personally do not, no.

00187

1 JUDGE SCHAER: Mr. Norwood, if you look at
2 the Date On column, which is just after the Date Off
3 column?

4 THE WITNESS: I see that, thank you. It is
5 a date on of May 7th. Thank you.

6 JUDGE SCHAER: Thank you.

7 Q. Do you know who we could contact if we
8 wanted to, if we could find out further about that
9 particular outage?

10 A. We could provide you with additional
11 information regarding that outage. When the data
12 request came in, we did have our folks that are
13 involved in this do some research, and they were not
14 able to find additional information. But we could
15 certainly try again to get more details of this.
16 Again, this is back to, what, '93, I think.

17 Q. That would just be a follow-up response to
18 this data request?

19 A. We can do that if you'd like, yes.

20 Q. Yes, we'd like that. If you could now turn
21 to Exhibit 163. This is the response to Staff's Data
22 Request Number 73. And if you could turn to page six
23 of a report to the U.S. Department of Energy entitled
24 A Climate Change Fuel Cell Program. And that
25 document follows the contract in the front?

00188

1 A. Does it say Cost Benefit at the top?

2 Q. At the top, it says Climate Change Fuel
3 Cell Program.

4 JUDGE SCHAER: At the top of the page --

5 MR. TRAUTMAN: Yeah, page six says Cost
6 Benefit; correct.

7 JUDGE SCHAER: Thank you. We're in Exhibit
8 163?

9 THE WITNESS: I'm on page six.

10 Q. Do you see that?

11 A. Yes.

12 Q. And going down to the bottom of the page,
13 looking at the carryover paragraph that goes on to
14 page seven, is it correct that it states that the
15 Doubletree Hotel is being billed based on Rate
16 Schedule 21 of a rate of approximately four cents per
17 kilowatt-hour, but that the fuel cell generates
18 electricity at about eight cents per kilowatt hour?

19 A. That's what the document says, yes. It's
20 my understanding that there are some other revenues
21 that are credited back to the company from this. The
22 Doubletree, I believe, receives some water heat from
23 this process. And I'm not certain, but I believe
24 there are some revenues also that come back to the
25 company from that. That's my understanding.

00189

1 Q. Now, referring -- if you refer to your work
2 papers, and I distributed a summary of those work
3 papers, which have already been admitted as Exhibit
4 195.

5 JUDGE SCHAER: I don't believe they have
6 been admitted yet, Counsel.

7 MR. TRAUTMAN: Oh, okay.

8 JUDGE SCHAER: If you want to offer them --

9 MR. TRAUTMAN: That have already been
10 offered.

11 JUDGE SCHAER: I believe they've been
12 identified. I don't believe any of these exhibits
13 have been offered yet.

14 MR. TRAUTMAN: Right, I'll offer them
15 later.

16 Q. Do you have the exhibit?

17 A. I do.

18 JUDGE SCHAER: I would like to mention to
19 Counsel, you were instructed at the prehearing
20 conference to make sure that all exhibits were
21 numbered consecutively and the pages. This exhibit
22 is not, obviously, and I don't know if there are
23 others that you have prepared that are not so
24 numbered, but I'd ask you to check, and if you find
25 them, to make replacement copies that are

00190

1 appropriately numbered, please.

2 Q. Is it correct that the company's case
3 includes an annual fuel expense of approximately
4 \$71,000 related to the fuel cell project? That would
5 be on page three of four of the work papers.

6 A. That's correct.

7 Q. And is it correct that this is an
8 intracompany transfer to pay for the gas used in the
9 project?

10 A. It's my understanding that is an
11 intracompany transfer, yes.

12 Q. What are the benefits that ratepayers will
13 retain from the fuel cell project being demonstrated
14 at the Doubletree?

15 A. I am just generally familiar with this fuel
16 cell project. There's maybe some other witnesses
17 that could talk about it in more detail. My
18 experience is to deal more with the power supply
19 issues. This was a fuel cell that was -- where our
20 company worked with a retail company in putting this
21 in as a pilot program, and so I guess I would need to
22 defer to other witnesses that might be able to help
23 you more with the specific --

24 Q. Which witnesses might they be?

25 A. I would start with, I guess, Mr.

00191

1 Hirschhorn.

2 Q. Any others, because I believe he's the last
3 one, so I don't want to defer to him and have him
4 say, Sorry, you missed it.

5 A. Maybe Counsel can help me with that.

6 MR. MEYER: Mr. Folsom would be available.
7 Between Folsom and Hirschhorn, if we don't have the
8 answers, record requisitions will do the trick.

9 Q. Turn to Exhibit 164. This refers to the
10 Wood Power contract; is that correct?

11 A. Yes.

12 Q. And is it correct that the original Wood
13 Power purchase was made pursuant to the Public
14 Utility Regulatory Policies Act of 1978, known as
15 PURPA?

16 A. Yes.

17 Q. And is it correct that the purchase has
18 been treated as a systemwide purchase, with
19 Washington jurisdiction being allocated approximately
20 67 percent of the costs?

21 A. Yes.

22 Q. When the original contract was terminated
23 in 1996, did the company request an accounting
24 petition in this jurisdiction relating to the
25 termination payment of \$9.5 million? And that

00192

1 payment's referred to on page one of the letter.

2 A. I don't know whether we asked for an
3 accounting petition or not. I know that we spoke
4 with Staff about what we were planning to do and we
5 also sent a letter, which is shown here, notifying
6 the Commission of what we were planning to do.

7 Q. But as far as you know, no accounting
8 petition was filed; is that correct?

9 A. I don't know. I'm not aware of one myself,
10 no.

11 Q. Could you turn to Exhibits 165 and 166?
12 Looking first to 165, this deals with the Wanapum
13 project; is that correct?

14 A. Yes.

15 Q. And looking at the table, the first page
16 following the cover sheet with the picture, it says
17 Capital Forecast on the right-hand side on a tab. Do
18 you see that page?

19 A. Yes, I have it.

20 Q. There are numbers underneath 2000 and 2001,
21 and I take it that that's the company's writing, I
22 take it?

23 A. Yes, it is.

24 Q. If one takes the average of these estimates
25 from 2000 and 2001, and those numbers are 2.822

00193

1 million and 2.893 million, the result's approximately
2 2.857 million; would that be correct?

3 A. Yes.

4 Q. Is it correct that that's fairly close to
5 the earlier estimates that were contained in your
6 work papers, Exhibit 195, for the same period for
7 this project? And I believe you can find that on
8 page one of four, line three.

9 A. Yes, I see it.

10 Q. And there --

11 A. Yes, the numbers are close.

12 Q. One was 2.849, the other 2.857?

13 A. Yes.

14 Q. Now, if you could turn to Exhibit 166.
15 This deals with the Priest Rapids project. And if
16 you turn to the table with capital forecast, that
17 also has amounts for 2000 and 2001. And will you
18 agree that the average of these two amounts, which is
19 1.797 and 1.859 is approximately \$1.823 million?

20 A. Yes.

21 Q. Now, if you now turn to your work papers
22 for that estimate, Exhibit 195, that estimate of \$1.8
23 million is quite different from the estimate in your
24 work papers on line four, is it not, where we see
25 2.109 million?

00194

1 A. This new estimate that's provided here in
2 Exhibit 166 is lower than what we filed in the case.
3 The important thing to keep in mind there is that
4 when you file the case, you file it based on the
5 information available at the time. This information
6 became available subsequent to that. I guess the
7 issue here is that if we're going to look at changes
8 in one cost item, we should look at changes in all
9 the cost items as we move ahead for the case.

10 Q. But the numbers are different?

11 A. They are different. That's correct.

12 Q. Thank you. If you could now turn to
13 Exhibit 167 and 168. This pertains to the Clark
14 five-year sale. Do you see that?

15 A. Yes.

16 Q. Now, looking first at Exhibit 167, and if
17 you look to the last two pages of this response,
18 there are two tables. And is it correct that if you
19 look at the two -- the second to the last page has an
20 annual load factor of 30 percent. You'll find that
21 in the fourth column from the left. Do you see that?

22 A. I see that, yes.

23 Q. Then if you compare that to the last page,
24 also looking in that column, you'll see that there's
25 a 50 percent load factor assumption; is that correct?

00195

1 A. Yes, I see that.

2 Q. Now, do each of these two analyses indicate
3 a positive margin for this sale? And the margin's
4 found on the right-hand column.

5 A. Yes, it appears that both of them do.

6 Q. Turning to Exhibit 168, this response -- if
7 you look at the company's response, this refers to a
8 payment which Avista made to BPA of approximately
9 \$9.168 million; is that correct?

10 A. Yes.

11 Q. Now, if you turn back to Exhibit 167 and
12 look at the two tables, can you explain why, on the
13 table with the 30 percent load factor, there does not
14 appear to be any inclusion of the \$9.168 million
15 payment to BPA, whereas on the 50 percent load
16 factor, if you look on the fourth column from the
17 right, you'll see a heading that says BPA Payment
18 Amount?

19 A. I see that.

20 Q. Why the discrepancy?

21 A. I don't know the answer to that.

22 MR. TRAUTMAN: Could we make a record
23 requisition for that information?

24 JUDGE SCHAER: Would you be able to provide
25 that in response to a record requisition?

00196

1 THE WITNESS: Yes, we can provide that
2 information. What you're after is an explanation of
3 why it's not included in both cases?

4 MR. TRAUTMAN: Right.

5 JUDGE SCHAER: Okay. That would be Record
6 Requisition Number Five, I believe.

7 Q. And is it expected that this sale, meaning
8 the Clark five-year sale, which ends July 31st, 2001,
9 is it expected that that will be extended beyond the
10 term of this contract?

11 A. To my knowledge, there are no discussions
12 at this point that would cause it to be extended, and
13 I would expect that -- there's always the opportunity
14 to extend these type of arrangements, but to my
15 knowledge, there are no plans to do that at this
16 point.

17 Q. Could you refer to the exhibit that's
18 marked 169? This is a response to Staff Data Request
19 Number 80.

20 A. I have it.

21 Q. Is it correct that this response to the
22 data request contains no margin analysis such as that
23 that was contained in the previous exhibit?

24 JUDGE SCHAER: So you're asking him to
25 compare Exhibit 164 for identification --

00197

1 MR. TRAUTMAN: 168.

2 JUDGE SCHAER: -- to 168 for
3 identification?

4 JUDGE SCHAER: Thank you.

5 THE WITNESS: I believe that statement is
6 correct.

7 Q. And looking at the response to Exhibit 169,
8 you refer to a BPA new resource, or NR rate limit.
9 (Discussion off the record.)

10 Q. Can you indicate where in this contract the
11 BPA new resource rate limit is discussed or what
12 contract clause refers to that rate?

13 A. I don't think that the full text of the
14 contract is attached here. I would have to go
15 through the contract and find that. So I couldn't
16 point that to you right here.

17 Q. Could you provide that by record
18 requisition?

19 A. Yes, I can.

20 JUDGE SCHAER: That will be Record
21 Requisition Number Six, seeking information on the
22 BPA new resource rates, as it is reflected in exhibit
23 for identification 169.

24 Q. Has the company carried out an analysis of
25 net benefits relating to this sale at the present

00198

1 rate?

2 A. At the present rate for this contract, no,
3 we haven't. At the time that the deal was done,
4 there was an analysis done relating to the benefits
5 to the company and its customers, but not under the
6 existing rate.

7 Q. Did you provide that to Staff?

8 A. I think we -- this was done back in 1987.
9 A lot of changes have taken place. We searched our
10 files and we were unable to locate specific analyses.
11 I think, over time, some of those things disappear.

12 Q. Do you have any later analyses with the new
13 resource rate?

14 A. I don't believe there are any other
15 analyses. The reason that the rate changed is a
16 contract provision there, and so it wasn't a matter
17 of doing analysis to determine the value or benefit
18 to the company from changing the rate. The rate was
19 changed because of a contract provision, and the
20 contract runs through the year 2002, I think, so
21 there wasn't really any analysis to do.

22 Q. If you could turn to what's been marked as
23 Exhibit 170. This is the PGE firm capacity contract.
24 Do you see that?

25 A. Yes.

00199

1 Q. Is it true that the terms of this contract
2 have been renegotiated or amended?

3 A. Yes, they have changed.

4 Q. And do you know when this took place?

5 A. Yes, the contract was changed and assigned
6 to another entity, effective December 1998. And
7 basically, in a nutshell, what we did here was that
8 if you look at the contract price for this contract,
9 you're looking at a price of \$10 for kilowatt month
10 for capacity in this sale to Portland General. That
11 price was above market back then and it's still -- in
12 '98, and it's still above market today.

13 There was concern, because of the
14 restructuring that was going on in Oregon, as well as
15 the mergers that were going on in Portland General,
16 concerns about preserving the value of this contract.
17 There was an opportunity for us to capture the value
18 of that contract by getting an up-front payment
19 related to this contract. And so we did restructure
20 the contract to receive an up-front payment for this
21 agreement to capture that value for the company and
22 its customers.

23 What we've included in this case are
24 revenues equal to the original contract to preserve
25 and continue to pass on to customers in this case the

00200

1 benefits from this sale. And again, the reason for
2 the restructuring was to preserve those benefits, and
3 those benefits are being flowed through in this case.

4 Q. What are the present revenues associated
5 with the capacity sales?

6 A. The way the contract was restructured, we
7 -- Avista receives approximately \$1 per kilowatt
8 month in revenues for this contract. The up-front
9 payment is being amortized on the company's books
10 over the remaining life of the contract, which
11 extends through the 2016, I believe.

12 Q. What was the total of that?

13 A. The total up-front payment was \$143
14 million.

15 Q. Has the company made any filings at the
16 Commission regarding any monies received as a result
17 of actions related to this contract?

18 A. I'm not aware of any filings, at least from
19 the power supply perspective.

20 Q. I believe Staff has an outstanding data
21 request on this subject.

22 A. Yes, there are a series of data requests
23 that we received last week, and I think they're due
24 this coming Friday, so we will try to get those
25 materials to you as soon as we get back in the office

00201

1 and get them to you. I did look through these data
2 requests. We do have those materials available.
3 It's a matter of packaging them up and getting them
4 to you.

5 Q. If you could now turn to Exhibits 171 and
6 172, 171 being a fairly lengthy response.

7 A. I have it.

8 Q. These refer to the Rathdrum facility; is
9 that correct?

10 A. Yes.

11 Q. Is it correct that the company has not made
12 any filing with the Commission to put the Rathdrum
13 facility into rate base or to approve any special
14 financing arrangements?

15 A. I can't speak to the financing
16 arrangements, but as for putting into a rate base, to
17 my knowledge, we've not made a filing to do that.
18 What's included in this case are the lease payments
19 associated with the project.

20 Q. And looking to the response to data -- or
21 to Exhibit 172, can you identify approximately where
22 the company is today, as far as remaining dollar
23 balances that are due for the term of the lease?

24 A. The balance due on the lease?

25 Q. Mm-hmm.

00202

1 A. My understanding is it's \$56.2 million.

2 Q. And do you know what the purchase price is
3 for the facility at the end of the lease term?

4 A. It's my understanding that we can purchase
5 the project for the outstanding balance at any point
6 in time.

7 Q. If you could now turn to Exhibit 173. And
8 this pertains to the acquisition of Rayonier,
9 R-a-y-o-n-i-e-r.

10 A. Yes.

11 Q. And is the power being purchased or
12 considered a purchase from a qualifying facility
13 under the Commission's rules in WAC 480-107?

14 A. On this particular project, I guess I'm not
15 sure whether it is or not. When we bought out the
16 contract here, we included a provision to be able to
17 buy the power basically at market minus one mill to
18 kilowatt-hour. So we're actually buying this at less
19 than market. It was one of the provisions of the
20 buyout that we received. But as far as whether it's
21 technically under 480-107, I guess I'm not sure. I'd
22 have to take a look at that.

23 Q. Was the one mill discount the only basis
24 for the acquisition?

25 A. I think we saw it as a resource at a cost

00203

1 essentially that was below market, so it was hard to
2 pass up, I guess, as a resource.

3 Q. Did the company carry out a bid process
4 prior to the acquisition of this resource?

5 A. This particular one, I believe we did not,
6 because it was part of the prior buyout agreement
7 that we had.

8 Q. Is the one-paragraph discussion that we see
9 in the answer the company's entire showing that this
10 was the appropriate and necessary purchase, as well
11 as the entire justification for the price?

12 A. Yes, together with the other documents that
13 we've attached, yes.

14 Q. Well, the other document is simply the
15 power sale agreement, I believe.

16 A. Yes, with Rayonier. I think there was
17 another data response related to the buyout of the
18 Wood Power agreement, so those other documents.

19 Q. Which documents are you referring to?

20 A. We had just, I believe in one of the prior
21 exhibits, discussed the Wood Power agreement and the
22 amortization of the buyout of 9.5 million. I don't
23 recall which exhibit that was.

24 MR. MEYER: 168 was the buyout, \$9.1
25 million buyout to BPA. And the Wood Power contract,

00204

1 164.

2 JUDGE SCHAER: Looking at 168, Mr.
3 Trautman, this appears to be something that deals
4 with a company sale to Clark?

5 THE WITNESS: 164, I believe is the --

6 Q. Wood Power is 164?

7 A. Yes.

8 Q. Turning to Exhibit 174 and 175, these
9 pertain, in part, to the Minnesota Methane project.
10 Do you see that?

11 A. Yes, and other small power projects.

12 Q. If you could turn to Exhibit A to -- of the
13 company to Exhibit 175, so this is Exhibit A to the
14 contract between Water Power and Minnesota Methane.
15 It's about halfway through, and at the top, it says
16 Exhibit A, Table One, Firm Power Costs?

17 A. I have it.

18 JUDGE SCHAER: I don't, Mr. Trautman. What
19 page number?

20 MR. TRAUTMAN: If you start from the back
21 and look through the various exhibits until you get
22 to Exhibit A. A-1 at the bottom.

23 JUDGE SCHAER: Go ahead, then.

24 Q. Is it correct this exhibit shows that the
25 price to be paid escalates significantly after 2010?

00205

1 A. I can see that it escalates from 2.6 cents,
2 roughly 2.7 cents -- excuse me, 3.3 cents in 2010 and
3 goes up from there to 6.7 in 2015.

4 Q. Well, in 2011, it goes from 3.3 to 5.7;
5 isn't that correct?

6 A. Yes, I see that.

7 Q. Turning to the response to Exhibit 175, the
8 company states that this purchase was made at rates
9 that were filed with the WUTC at the time
10 negotiations began between Minnesota Methane and
11 Avista. Do you see that?

12 A. Yes.

13 Q. Can you please identify the specific filing
14 that you're referring to in this statement?

15 A. That would have been the avoided cost rates
16 that were on file at the time. I can't point to the
17 exact rates that were used or a filing.

18 Q. Would that be the avoided costs that were
19 filed as part of a small power purchase tariff?

20 A. I don't know that for sure, but that's what
21 I would understand them to be. I would have to
22 verify that. I don't know for sure.

23 Q. Could we get a record requisition for that?

24 A. Yes, we could provide that. Could you
25 repeat again exactly what you need?

00206

1 Q. What is the filing that you're referring to
2 in this statement? You talk about Minnesota Methane
3 being purchased at rates that were filed with the
4 WUTC at the time negotiations began.

5 A. Thank you.

6 Q. What's the filing?

7 A. Okay.

8 JUDGE SCHAER: That would be Record
9 Requisition Number Seven.

10 Q. If you could turn now to Exhibit 176, this
11 deals with the Potlatch contract.

12 A. I have it.

13 Q. Do you have that? And the company's
14 response indicates that both the electric service
15 contract and the purchase power contract relating to
16 Potlatch terminate on December 31st of 2001; is that
17 correct?

18 A. That's correct.

19 Q. And is it also correct that the last
20 paragraph of the response states that the company is
21 unsure of both resource needs and any future service
22 arrangements with Potlatch after the contract period
23 ends?

24 A. As far as the uncertainty, the uncertainty
25 is surrounding whether the agreement will be renewed

00207

1 or what type of agreement would be put into place
2 with Potlatch.

3 Q. Doesn't it say any need for resources
4 following termination of the contract with Potlatch
5 will be dependent upon future arrangements with
6 Potlatch?

7 A. What we intended to say here was that what
8 we do with Potlatch will be dependent on basically
9 the circumstances at the time of Potlatch's need for
10 resources, as well as our need for resources.

11 Q. Now, the dollar amount in the company's
12 case related to Potlatch power supply purchases is
13 approximately \$22.6 million; is that correct? That
14 would be page one of your work papers, Exhibit 195,
15 line 16.

16 A. That's the total that's included in Account
17 555, yes. There are some revenues that are also
18 allocated back to the Washington jurisdiction,
19 associated with this contract. But that is the power
20 supply piece of it right there.

21 Q. I just wanted to double check on this. Is
22 the price of power from Potlatch for 2001, is that a
23 confidential number?

24 A. No, it's not.

25 Q. And is it correct, would you accept,

00208

1 subject to check -- and this is taken from your
2 larger work papers, it's not in the summary -- that
3 the average price of power from Potlatch from 2001 is
4 approximately 48 mills?

5 A. I would accept that, subject to check.
6 What you have to remember, also, is there's two
7 pieces to the agreement, actually several pieces of
8 it. We buy the power from Potlatch at this rate. We
9 also sell them power at another contract rate, so you
10 have to look at both pieces to see what the net cost
11 is to the company associated with the total
12 agreement, because it does have more than just one.
13 If you look at just one part, it can be misleading,
14 because there are other revenue costs, also, or
15 revenues that come in.

16 Q. But we're just asking about the average
17 price.

18 A. It is true that we're paying 4.8 cents, but
19 if you look at the revenues, the revenues we're
20 receiving from Potlatch are above our Schedule 25
21 rate. So what I'm saying is there's an offset on the
22 revenue side to offset this 4.8 cents to a large
23 degree.

24 Q. If I were to make a purchase today for a
25 five-year or a ten-year block of power equal to 55

00209

1 megawatts, what price would I be expected to pay?

2 A. It would be a rate that we would --
3 assuming we had the need for power, it would be a
4 rate we'd sit down and negotiate with you.

5 Q. Do you have any idea, based on your
6 knowledge, what that price might be?

7 A. Today, no, I wouldn't venture to speculate
8 what that price would be.

9 Q. No idea?

10 A. I have an idea, but --

11 MR. MEYER: Don't speculate.

12 THE WITNESS: I know. I'm not going to
13 speculate as to what the rate would be. Our people
14 that are involved in long-term transactions are
15 evaluating this on a day-to-day basis, and it does
16 change over time.

17 Q. If you could turn to Exhibit 177. This
18 deals with the Enron purchase. Is it correct your
19 work papers, Exhibit 195 at PS-2, indicate that this
20 is a 50-megawatt purchase?

21 A. I have to look at my records on this.

22 Q. Would you accept that, subject to check?

23 A. Yes, I will.

24 Q. And it results in an annual expense of
25 approximately \$10.8 million. This is from page one

00210

1 of four.

2 A. That's correct.

3 Q. July 22?

4 A. Yes.

5 Q. Based on the response to the data request,
6 is it correct that the company's entire showing of
7 the need for and pricing relating to this contract
8 consists of the one-page excerpt from the 1997
9 integrated resource plan, plus the paragraph in the
10 response?

11 A. That's correct.

12 Q. And is there anything else that has not
13 been provided?

14 A. No, when we're out looking for power, we're
15 basically looking to determine whether we need the
16 power. And if we need the power, then the question
17 is where do you get it. So you look at the
18 alternatives. We have a short-term --

19 Q. I just asked whether that was the extent of
20 the company's response.

21 A. The answer's yes.

22 Q. Thank you. Turning to Exhibit 178, which
23 refers to the MIECO, M-I-E-C-O, purchase?

24 A. I have it.

25 Q. Would you agree, subject to check, and this

00211

1 can be found in the work papers, that this is a
2 25-megawatt purchase for approximately \$5 million in
3 annual expense?

4 A. Yes.

5 Q. Is it correct that the response to the data
6 request states that the purchase was made to meet
7 system obligations?

8 A. Yes.

9 Q. And is it correct that this same one-page
10 excerpt from the integrated resource plan is cited as
11 the basis for both the need and appropriate pricing?

12 A. Yes.

13 Q. And that's the extent of the company's
14 response; correct?

15 A. Yes.

16 Q. Okay. Turning to Exhibit 179 now, this
17 actually refers to a sale; is that correct?

18 A. Yes.

19 Q. And this was a sale of the MIECO,
20 M-I-E-C-O, purchase that was just discussed; is that
21 correct?

22 A. Yes.

23 Q. Looking at this response, can you indicate
24 what happened to the system obligations that prompted
25 entering into the MIECO arrangement in the first

00212

1 place?

2 A. As we explained in this response, companies
3 all continually evaluate the markets and need for
4 resources. As we indicated, with the purchase, there
5 was a need for resources, the opportunity came here
6 to resell that amount of power and to generate a
7 profit on that, which we did, and that profit is
8 included in this case.

9 In between rate cases, the transactions
10 that we enter into are really at the risk of the
11 shareholder, because those aren't being passed on to
12 customers. And it's -- in this particular case, we
13 chose to resell that power and rely on the short-term
14 market or, on the other hand, if we choose not to
15 rely on the short-term market, we can enter into
16 other medium-term or long-term agreements.

17 Q. Is it correct that the response here in the
18 DR is the entirety of the company's response?

19 A. Yes.

20 Q. Turning to Exhibit 180, referring to the
21 Sempra purchase. And would you agree, subject to
22 check, that this is a seasonal, I believe August
23 through March, 50-megawatt purchase for about \$3.4
24 million in annual expense?

25 A. That's correct. That's during heavy load

00213

1 hours only.

2 Q. And when asked to provide a showing for the
3 need and appropriate pricing by Staff, has the
4 company stated that this purchase was needed to meet
5 system obligations?

6 A. Yes. What we're saying there, by system
7 obligation, it includes both retail, as well as
8 wholesale obligations. That's what we mean by system
9 obligations.

10 Q. And referring to the acquisition, is it
11 correct the company has referred the Staff to the
12 same one-page integrated resource plan excerpt,
13 stating that no additional documents, studies or
14 analyses are available?

15 A. That's correct.

16 Q. If you'd turn to Exhibit 181, which is for
17 Cinergy, C-i-n-e-r-g-y?

18 A. I have it.

19 Q. And this is a purchase, if you would
20 accept, subject to check, for 25 megawatts for about
21 \$2.15 million?

22 A. Yes, and again, that's during heavy load
23 hours only.

24 Q. And the response to the Staff in terms of
25 documents, studies and analyses available is

00214

1 virtually the same as for the prior Sempra purchase;
2 is that correct?

3 A. Yes.

4 Q. Exhibit 182 refers to a BPA, 115-megawatt
5 purchase contract; correct?

6 A. Yes.

7 Q. And is it correct, in your work papers,
8 that this would show, page one, line 26, that this
9 was approximately \$21.6 million of annual expense?

10 A. That's correct.

11 Q. Again, as support, is it correct that the
12 company's entire response consists of the paragraph
13 here and the reference to the one-page IRP excerpt?

14 A. Yes, it's basically a \$21 purchase in 28,
15 \$29 market, yes.

16 Q. If you could turn to Exhibit 183 and 184.
17 These refer to the Duke and Idaho, Montana contracts?

18 A. Yes, it's an exchange that we had.

19 Q. Is it correct that the benefits of the sale
20 and purchase arrangements that are referenced in
21 these data requests, is it correct that those
22 benefits are a result of Avista's ability to sell and
23 buy power at various delivery points, thus saving
24 transmission losses and transmission expenses?

25 A. Generally speaking, yes.

00215

1 Q. Is there any risk in these types of
2 arrangements to the company?

3 A. This particular one is essentially a
4 no-risk agreement.

5 Q. The next data request, which I don't
6 believe I have any questions, is 185. Let me just
7 ask whether this was -- whether you're the
8 appropriate witness to sponsor this exhibit? This
9 deals with Douglas P.U.D.

10 A. Yes, I would be.

11 Q. And it's correct, to your knowledge?

12 A. Yes, it is.

13 MR. TRAUTMAN: At this point, I'd like to
14 move for admission of Exhibits 158 through 185.

15 JUDGE SCHAER: Any objections?

16 MR. MEYER: No objection.

17 JUDGE SCHAER: Those documents are
18 admitted.

19 THE WITNESS: I might add, on this last
20 exhibit, that there should be some actual contracts
21 that were in place during the test period that
22 probably should have been provided through this
23 response.

24 MR. MEYER: I would suggest we go ahead and
25 supplement our response to that data request.

00216

1 JUDGE SCHAER: So we're looking at Exhibit
2 185; is that correct, Mr. Norwood?

3 THE WITNESS: Exhibit 185, that's correct.

4 JUDGE SCHAER: Okay. I would suggest that
5 what you would need to do, if you want to supplement
6 your response, you would need to supplement that to
7 Staff as a data request response supplement, and we
8 would not make that part of this exhibit at this time
9 unless someone, after seeing what it is, chooses to
10 offer it at some point. Go ahead, Mr. Trautman.

11 Q. If you could turn to Exhibit 186. And this
12 is actually a response to an ICNU Data Request Number
13 Four.

14 A. Yes.

15 Q. And at the end of the first paragraph of
16 the response, is it correct that it states, The
17 dispatch simulation model does not evaluate and does
18 not determine the amount of commercial trading
19 transactions as those transactions are speculative in
20 nature, are not supported by the company's generating
21 resources, and are unrelated to purchases made to
22 serve retail load. Commercial transactions are
23 short-term in duration and are not known and
24 measurable for rate-making purposes. Do you see
25 that?

00217

1 A. Yes, I do.

2 Q. Is it the company's position that all
3 short-term transactions not included in the dispatch
4 model should be classified as commercial transactions
5 and not included for rate-making purposes?

6 A. Would you repeat the question, please?

7 Q. Is it the company's position that all
8 short-term transactions not included in the dispatch
9 model should be classified as commercial transactions
10 and not included for rate-making purposes?

11 A. The reason I'm hesitating here is because,
12 for the rate case and for rate-making, the only
13 short-term transactions that you do have are those
14 that come out of the dispatch model. Dispatch model
15 is used to dispatch your thermal resources against
16 the market, and you're selling your surplus energy in
17 the marketplace and you're buying your efficiencies.
18 And that's what ends up in the case.

19 Q. So is the answer yes or no? Is the answer
20 yes?

21 A. Yes, that's correct.

22 Q. That's what I thought. There are
23 additional DRs that we have identified as exhibits.
24 187, which is the response to DR 9 of ICNU. And was
25 that prepared by you or under your supervision, or

00218

1 ultimately, but are you the appropriate witness?

2 A. Yes, I'm the appropriate witness.

3 Q. And likewise, would you be the appropriate
4 witness to sponsor Exhibits 188 through 193? These
5 are Staff Data Requests 29, 40, 36, 37, 39, and 39-C?

6 JUDGE SCHAER: So you meant to say C-193;
7 is that correct?

8 MR. TRAUTMAN: C-193.

9 JUDGE SCHAER: Thank you.

10 THE WITNESS: Give me just a moment to look
11 through them. Yes, I would be the witness to respond
12 to questions on those, although I may -- depending on
13 the questions, I may defer some to Mr. Johnson.

14 MR. TRAUTMAN: I would move for admission
15 of Exhibits 186 through C-193.

16 JUDGE SCHAER: Is there any objection?

17 MR. MEYER: There's no objection,
18 recognizing that C-193 is our first confidential
19 exhibit, to the best of my knowledge, that we've
20 introduced, and that would be introduced under seal,
21 presumably.

22 JUDGE SCHAER: It would be admitted to be
23 handled as provided in the Commission rules for
24 dealing with confidential documents, Mr. Meyer, but
25 it would be admitted at this point.

00219

1 MR. MEYER: Yes.

2 JUDGE SCHAER: Okay. Those documents are
3 admitted.

4 Q. I now have a few questions relating to the
5 status of the Centralia sale. And I believe you made
6 amendments to your testimony and struck out some
7 lines of your testimony; is that correct?

8 A. That's correct.

9 Q. And that was Exhibit T-151, on pages 28 to
10 29, in which you discuss this?

11 A. That's correct.

12 Q. I believe you left in the portion that
13 states that the Centralia plant is included in this
14 rate case based on continued ownership by the
15 company; is that correct?

16 A. Yes.

17 Q. But I believe you indicated, similarly to
18 Mr. Matthews, that it was the company's intent to go
19 forward with the sale; is that correct?

20 A. That's correct.

21 Q. Do you have any information that you can
22 add in that regard beyond that which Mr. Matthews
23 said earlier?

24 A. No, I wouldn't have anything to add, other
25 than what I mentioned earlier, in relation to --

00220

1 assuming that we go forward with the sale, the
2 intention is that there would be a need to remove the
3 Centralia costs which have been included in this
4 case, and to put in the replacement purchase, which
5 is -- and all that information has been provided in
6 response to -- or excuse me, it's been marked as
7 Exhibit C-194.

8 Q. I'm going to get to that in a second. Now,
9 under the sales agreement, the sale has to close as
10 of which date, do you know? Is it May 5th?

11 A. It's my understanding that, right, there's
12 a May 5th drop dead date, in quotes.

13 Q. And that has not changed; is that correct?

14 A. Not to my understanding.

15 Q. Turning briefly to Exhibit C-194, turning
16 to page C-1. C-1 is marked up in the upper
17 right-hand corner, and I believe we discussed this --

18 A. I'm sorry, where are you at?

19 Q. I'm sorry, page C-1 in the upper right-hand
20 corner.

21 A. I have it.

22 Q. And I believe we've indicated that the name
23 of the purchase is not confidential; correct?

24 A. That's correct.

25 Q. Just the price is?

00221

1 A. That's correct.

2 Q. So is it correct that the second item down,
3 then, is labeled Trans Alta purchase?

4 A. That's correct.

5 Q. How does the size and the shape of the
6 Trans Alta purchase, meaning how much power and the
7 load factor, how does that compare with Centralia?

8 A. The Trans Alta purchase is a purchase of
9 200 megawatts per hour for the period July 1 through
10 March 31st of each year, beginning with the
11 consummation of the sale to TECWA and running through
12 December 2003. So it's essentially a flat product
13 July 1 through March 31, and that would compare to
14 Centralia, which is a dispatchable resource.

15 And the shape of Centralia that's included
16 in this case would be -- is shown in my exhibit,
17 Exhibit Number 155. It's a variable amount of energy
18 from the project across the months.

19 Q. Looking down the right-hand column, there
20 are some items that have the word "changed" next to
21 them?

22 A. Yes.

23 Q. And is this simply the result of re-running
24 the dispatch model with Centralia out versus having
25 Centralia in?

00222

1 A. Yes, we pulled Centralia out of the
2 dispatch model and renewed the fuel cost. We put in
3 the Trans Alta purchase for the period July 1 through
4 December 31, and reran the dispatch model. And what
5 you get, results would be a change in short-term
6 purchases, short-term sales, maybe some re-dispatch
7 of your thermal resources. Then there are some other
8 minor adjustments that are made because of changes in
9 market prices. Some of these other items are
10 dependent on market prices, so when the market prices
11 change, the costs in revenues associated with them
12 would also change.

13 Q. Did the company carry out any analysis to
14 determine what the least cost or most optimal
15 long-term replacement resource would be absent
16 Centralia?

17 A. The company was or is in a position where
18 the plan was to sell the Centralia project, but in
19 entering into that contract to sell Centralia, there
20 was no guarantee that it would actually occur.
21 Obviously, there was a need for replacement power,
22 assuming the sale went through, and a fairly sizable
23 need, so what we did was we assessed the marketplace
24 to determine the -- basically, the best product to
25 replace Centralia. So there was no formal

00223

1 assessment, other than analysis done by our wholesale
2 marketing people to assess the market.

3 Q. Did the company engage in any kind of bid
4 process to acquire the replacement power represented
5 by this contract?

6 A. No, we did not. And part of the problem
7 with replacing Centralia is that not only was there
8 uncertainty as to whether the sale would go through,
9 there was uncertainty as to the timing of the sale.
10 So what you needed was a product that would start
11 immediately upon the sale. So there's some
12 flexibility there that was needed.

13 Q. But there was no bid process?

14 A. There was no bid process, that's correct.

15 Q. And when, to your knowledge, was the
16 original agreement to sell Centralia to Trans Alta
17 made?

18 A. State that again, please?

19 Q. When was the original agreement made to
20 sell Centralia to Trans Alta, to your knowledge?

21 A. I believe that was -- must have been -- I
22 believe the agreement was signed in May of '99.

23 MR. TRAUTMAN: And at this point, I would
24 like to move for admission of Exhibits C-194 and also
25 195, which are the power supply work papers.

00224

1 JUDGE SCHAER: Any objections?

2 MR. MEYER: None.

3 JUDGE SCHAER: I guess I'd like to have
4 just a little bit of conversation about Exhibit 195.
5 It's my understanding that Exhibit 195 consists of
6 three notebooks that look something like this, in
7 terms of being about four inches thick and quite
8 bulky, and that the company and Staff, in proposing
9 this as an exhibit or discussing it at prehearing,
10 had asked if it would be allowed to put in one copy
11 of this with the official record of this case in the
12 Records Center, accompanied by a disk.

13 And then what you have proposed today, in
14 addition to that, Mr. Trautman, to put in this
15 document, which says book one of three, and it
16 indicates it's the power supply work papers, but
17 consists of an index to those work papers. And so
18 I'd like to check with the Commissioners to see if
19 this is going to meet your needs to just have the one
20 copy in the official file, and then check with the
21 parties also to see if you are going to have any need
22 for additional copies of this document?

23 CHAIRWOMAN SHOWALTER: I was under the
24 impression that there was one copy up here. Is this
25 the only copy there is or -- it was in my office, I

00225

1 know that. But does that mean there's not one down
2 in the Records Center?

3 JUDGE SCHAER: We do have, actually, two
4 copies right now, one for the advisory team, which is
5 this one, and one that could go to the Records
6 Center. I would propose not to require any
7 additional copies.

8 CHAIRWOMAN SHOWALTER: We really have two,
9 not one?

10 JUDGE SCHAER: Yes. So with that
11 explanation, is there any objection to entry of
12 Exhibit C-194 or Exhibit 195?

13 MR. MEYER: None.

14 JUDGE SCHAER: Hearing none, those
15 documents are admitted. Go ahead, please, Mr.
16 Trautman.

17 MR. TRAUTMAN: I have no further questions.

18 JUDGE SCHAER: I'm going to suggest that we
19 take our afternoon recess at this time. I would ask
20 everyone to be back and ready to go at five minutes
21 to 3:00. We're off the record.

22 (Recess taken.)

23 JUDGE SCHAER: Back on the record after our
24 afternoon recess. Mr. ffitich, did you have questions
25 for Mr. Norwood?

00226

1 MR. FFITCH: I do not have questions for
2 Mr. Norwood.

3 JUDGE SCHAER: Mr. Van Cleve.

4 MR. VAN CLEVE: Yes, Your Honor.

5 JUDGE SCHAER: Go ahead, please.

6 MR. VAN CLEVE: One preliminary thing, Your
7 Honor. What we had offered as Exhibit 196 I noticed
8 was already admitted as 187, so we'd like to withdraw
9 196.

10 JUDGE SCHAER: Okay. Looking at the
11 exhibit list for 187, I see that that is listed as --
12 excuse me. Give me the numbers again, please. Which
13 one of yours?

14 MR. VAN CLEVE: 196 is the same as 187.

15 JUDGE SCHAER: 187 is identified as
16 response to WUTC Data Request Number Nine. Should
17 that -- is the exhibit list wrong?

18 MR. TRAUTMAN: It should be ICNU. So
19 should -- 186 and 187 are both ICNU.

20 JUDGE SCHAER: All right, thank you. I'm
21 going to ask Counsel, as we go through, if you see
22 errors like that on the exhibit list, please bring
23 them to my attention, so we can keep an accurate
24 record. So you're going to withdraw, then, Exhibit
25 196. Go ahead, please.

00227

1 C R O S S - E X A M I N A T I O N

2 BY MR. VAN CLEVE:

3 Q. Mr. Norwood, I'd like to ask you a couple
4 questions about the PGE contract that you referred to
5 earlier. Now, it's my understanding from your
6 earlier testimony that the price of that contract was
7 reduced to a dollar per kilowatt month and the
8 company received \$143 million and a cash payment?

9 A. That's correct.

10 Q. Now, can you tell me what happened to the
11 \$143 million?

12 A. On the -- I'll give you my best
13 explanation, from an accounting standpoint. There
14 are other witnesses that can go into more detail, but
15 on the books, we deferred and put on the balance
16 sheet that up-front payment, took a present value of
17 that up-front payment, put it in the balance sheet,
18 and that's being amortized to revenue for the
19 remaining term of the agreement. As far as the cash
20 is concerned, it's my understanding it was used to
21 buy down short-term debt.

22 Q. Now, your test year amounts assumed that
23 the PGE contract remained in place as it was
24 originally; is that correct?

25 A. That's correct.

00228

1 Q. And I note in your Form 10-K, which has
2 been admitted as Exhibit 5, that it refers to a
3 funding trust that was somehow involved in this
4 transaction. Are you familiar with how that funding
5 trust works?

6 A. Generally, yes. It's my understanding that
7 a funding trust was put together to finance the
8 buyout. And in essence, the \$10 per kilowatt month
9 is still being paid by Portland General.
10 Essentially, \$9 goes to the funding trust per
11 kilowatt month to pay the investors essentially for
12 that up-front. The remaining dollar continues to go
13 through to Avista related to capacity.

14 Q. Thank you. You also referred earlier to
15 the company's intent to go forward with the sale of
16 Centralia. Do you know if PacifiCorp intends to go
17 forward with the sale of Centralia?

18 A. I don't know the answer to that.

19 Q. And do you know whether it would be
20 possible for Avista to sell its interest in Centralia
21 if PacifiCorp elects not to go forward?

22 A. My understanding is the existing agreements
23 for the sale of Centralia are for the sale of the
24 full facility. If those agreements -- if the sale
25 does not go through per those agreements and if it

00229

1 were sold, it would have to be under some other
2 agreement.

3 Q. And you also referred to the purchase from
4 Trans Alta. Have you calculated the impact of the
5 Trans Alta purchase would have on rates if it were
6 included in rates?

7 A. Yes, we have.

8 Q. And what would that impact be?

9 A. It would increase the revenue requirement
10 by \$4.1 million.

11 MR. VAN CLEVE: Your Honor, I'd like to
12 make a records requisition for the Trans Alta
13 contract.

14 JUDGE SCHAER: Is that something --

15 THE WITNESS: We could provide that. It
16 would obviously be a confidential document.

17 JUDGE SCHAER: Okay. Record Requisition
18 Number Eight will be a request by ICNU to be provided
19 with a copy of the Centralia Trans Alta contract?

20 THE WITNESS: Correct. And that would need
21 to be a confidential document.

22 JUDGE SCHAER: I'm not going to worry about
23 that here. You can stamp it as you wish when you
24 provide it to ICNU. If anyone decides at some time
25 to bring that into the record in this proceeding,

00230

1 we'll treat it appropriately, then, Mr. Norwood.

2 THE WITNESS: Thank you.

3 JUDGE SCHAER: Go ahead, please.

4 Q. When was the Trans Alta purchase entered
5 into?

6 A. I believe it was executed in October --
7 late October of '99.

8 Q. So it was after the agreement to sell
9 Centralia had already been executed; right?

10 A. That's correct.

11 Q. Is it correct that you propose in your
12 testimony to exclude short-term commercial trading
13 transactions from retail rates?

14 A. That's correct.

15 Q. And do you also propose to exclude those
16 types of transactions from the power cost adjustment?

17 A. Yes, and Mr. Johnson speaks to that.

18 Q. Can you define for me what you mean by
19 commercial trading transactions?

20 A. Yes, and I outlined that in my testimony.
21 Page 22 of my testimony identified what I called
22 distinguishing characteristics related to short-term
23 trading transactions. And the first one I mentioned
24 was there are transactions that we entered into with
25 the full intention of reselling. For example, we'd

00231

1 buy a product and then later resell that very
2 product, same time frame, at the same location.

3 So it's something that's entered into to
4 resell. They're not supported by the company's
5 generating resources, they're not transactions that
6 are used to either serve retail load and they're not
7 sales of energy that come from our generating
8 resources. It doesn't impact customers' rates
9 positively or negatively. It's a situation where the
10 company is choosing to put its own capital at risk to
11 basically buy low, sell high, for the opportunity to
12 make a profit.

13 Q. Let me ask you about your first point. You
14 stated that the company enters into the transaction
15 with the intent of later entering into offsetting
16 transactions. Does the company somehow keep track of
17 its intent when it enters into a transaction?

18 A. At the time that our people that are
19 engaging in these transactions, they, at the time
20 they do the transaction, they do know what they're
21 choosing to do. And that is, they know at the time
22 whether they're making a purchase to serve an
23 efficiency on the system or whether they're making a
24 purchase to resale. So at the time they make a
25 decision, they do consciously decide whether it's

00232

1 trading or it's for system.

2 Q. And do they keep a record of whether it's
3 trading or for the system?

4 A. Currently, we don't have a formal process
5 set up to keep track of that, but we are working on a
6 system right now so that, as they make that decision,
7 it will be documented. For example, the traders
8 write up a deal ticket for each transaction that's
9 done, the intent would be to write on that deal
10 ticket whether it's for commercial trading or whether
11 it's for system.

12 Keep in mind, for rate-making purposes,
13 that once we set the level of power costs in this
14 proceeding related to dispatching resources to serve
15 load, that amount of costs are fixed until we set
16 rates again. In between the rate cases, all the
17 transactions that we do really are on the
18 shareholders. If we happen to buy for more than what
19 it costs us, then that falls onto the shareholder.

20 Q. But when the company enters into a
21 transaction currently, it doesn't distinguish or keep
22 a record of whether it's a commercial transaction or
23 a system transaction; is that correct?

24 A. Our pre-schedule people do keep an informal
25 record, their own record of their trading

00233

1 transactions, but it's not something that's
2 formalized on the company's books. It's just for
3 their own personal records.

4 Q. Well, explain in what format they keep
5 these informal records?

6 A. It's a book where they document the
7 transactions that they're doing for trading. It's a
8 book they keep to keep track of the margins that
9 they're creating from the commercial trading, but
10 don't misunderstand. Every transaction that they do
11 goes into the books, the company's records, the
12 company's transactions. This is something that they
13 keep track of separately for their commercial trading
14 transactions.

15 Q. So these informal books that record these
16 transactions, do they have all the commercial
17 transactions recorded in them?

18 A. It's not a process that the company has
19 finalized and really has paid that much attention to.
20 It's something that the individual traders do for
21 themselves, so I don't know that it's really been
22 looked at closely to determine whether it includes
23 every single transaction. And again, it's not relied
24 upon for the company's books and records, it's not
25 relied upon for rate-making; it's something they

00234

1 choose to do.

2 As I mentioned, we're in the process right
3 now of formalizing a system so that we can keep track
4 of which transactions are commercial trading and
5 which ones are for system. Again, as I mentioned, in
6 between rate cases, it really doesn't matter, because
7 it doesn't affect customer's rates anyway, to try to
8 separate those things out.

9 Q. Do you know how long these informal records
10 have been kept for?

11 A. I do not.

12 Q. Do you know if informal records exist
13 regarding commercial transactions for 1998?

14 A. I suspect that they do.

15 Q. I'd like to ask you about your second point
16 on page 22 of your testimony, which states that the
17 commercial transactions are not dependent upon the
18 company's generating resources. Were you in the room
19 earlier when I was asking Mr. Matthews some
20 questions?

21 A. Yes, I was.

22 Q. And I'm going to refer you to Exhibit 11.

23 MR. MEYER: We'll need to get a copy of
24 Exhibit 11 in front of the witness.

25 JUDGE SCHAER: You may approach the

00235

1 witness.

2 THE WITNESS: I have a copy of it.

3 Q. Can you look at the first paragraph there,
4 the first sentence, where it states that Avista
5 Energy is moving toward a Western region-based energy
6 marketing and trading --

7 A. Sorry, where are you again?

8 Q. I'm right at the first sentence on Exhibit
9 11.

10 JUDGE SCHAER: Mr. Van Cleve, if you read
11 that fast, the court reporter will not have a fair
12 chance to get it down, so --

13 Q. It states that Avista Energy has announced
14 that it is moving toward a Western region-based
15 energy marketing and trading effort backed by
16 physical assets.

17 A. I see that.

18 Q. And I'll ask you the same questions that I
19 asked Mr. Matthews. Do you believe that physical
20 assets are important to conducting an energy trading
21 business?

22 A. I believe that if you ask a trader whether
23 they would like to have physical assets to back their
24 transactions, all of them would say yes. In this
25 particular case, Avista Energy -- well, I'll just

00236

1 stop there.

2 Q. Do you think that purchasers of short-term
3 commercial power are under the impression, from
4 Avista Utilities, are under the impression that
5 Avista's generating assets back up the sale?

6 A. Could you ask the question again, please?

7 Q. Do you think that purchasers, short-term
8 purchasers from Avista believe that --

9 A. From Avista Energy?

10 Q. From Avista Utilities.

11 A. Utilities, okay.

12 Q. -- believe that Avista's generating assets
13 back up the sale?

14 A. I guess to some degree, it doesn't matter
15 whether the resources are backing the sale or not.
16 There are two types of products that are sold.
17 There's financial firm and there's system firm. And
18 the system firm is backed by generating resources,
19 and you don't have the opportunity to cut that sale.
20 You need to back it with your resources. The
21 financial firm transactions has a provision which
22 allows you, although it's not something you would
23 generally do, but if you do happen to get in a
24 situation of cutting the sale, you would compensate
25 the buyer that you sold it to for the difference

00237

1 between what they had to buy it at and what the
2 contract price was.

3 I guess the bottom line here is that
4 generally what we're selling are financial firm
5 products which are not backed by our system
6 resources. There are times when we do sell a system
7 firm product, and that would be included in the
8 contract, but it's my understanding that the products
9 we're selling for trading purposes are financial firm
10 products and are not backed by the system resources.

11 Q. Would Avista Utilities ever use Avista's
12 generation to deliver a short -- to serve a
13 short-term sale?

14 A. To the extent we have a surplus on our
15 system, we will sell that energy from our resources
16 into the marketplace, and obviously be backed by our
17 resources. To the extent that the market price is
18 higher than any of our incremental resources, as long
19 as there are no fuel limitations or other
20 limitations, we would run those resources and get the
21 revenue from those sales.

22 And what we've included in this rate case
23 is a crediting to customers for the dispatching of
24 all of our resources into the marketplace, and the
25 revenues from all of those sales are included in this

00238

1 case. If you go beyond that, once you've dispatched
2 your resources to serve your load and dispatched them
3 into the marketplace to capture the full value of
4 dispatching resources, then you've captured the value
5 of your resources.

6 The only other sales that you can make are
7 speculative sales, where you choose to say, I think
8 the price is going to go up, so I go out buy a block
9 of power with the intention of later reselling at a
10 higher price. That goes beyond optimizing your
11 resources and dispatching your resources into the
12 marketplace. Once you've done that, you've captured
13 the value. There's no other way to capture it.

14 Q. Wouldn't it be more appropriate to conduct
15 the speculative transactions through Avista Energy?

16 A. Avista Energy does engage in speculative
17 transactions and within the resource optimization
18 group, the company has chosen to engage in some level
19 of speculative transactions, but it's a much lower
20 level than what Avista Energy does. So we keep the
21 risk level to a much lower level, but we have people
22 that are engaged in buying and selling power and the
23 company has chosen to use those people to go ahead
24 and take some risk and buying low, selling high,
25 hopefully to make some profit on that.

00239

1 And as I mentioned in my testimony, we
2 recognize that by engaging that activity, these
3 people are doing something really for the benefit of
4 shareholders, and so we'd propose to allocate some of
5 the costs of that activity away from share -- away
6 from customers into this activity. So customers
7 really get a guaranteed benefit by shareholders
8 choosing to engage in commercial trading. Whether
9 the company makes money or not at these speculation
10 transactions, the customer's guaranteed a benefit
11 because some of the fixed costs are being allocated
12 to this activity.

13 Q. Do you believe that the -- that Avista
14 Utilities providing services for what you believe is
15 an unregulated activity should be treated as an
16 affiliate transaction?

17 A. I'm sorry, I didn't follow that. Would you
18 ask it again?

19 Q. Sure. You've testified that Avista
20 Utilities is basically allocating the overhead of
21 some of the people to unregulated activities, which
22 you've described as speculative transactions. And my
23 question is do you believe that these services being
24 provided by Avista Utilities for this unregulated
25 activities should be subject to affiliate transaction

00240

1 rules?

2 A. I guess I'm not sure exactly what you're
3 asking, because what we have is -- and again, we have
4 to make sure we're distinguishing between Avista
5 Energy and Avista Utilities. Avista Energy is
6 completely separate and apart, and that was discussed
7 this morning with Mr. Matthews. It's a separate
8 company. Our traders do not talk and talk about the
9 market. They, Avista Energy, does its own
10 transactions. The resource optimization group within
11 the utility runs its own business.

12 I guess I wouldn't necessarily view this as
13 an unregulated activity. It's an activity that we
14 choose to do within the regulated business, and we
15 recognize that by choosing to place our capital at
16 risk and by using the existing employees, it's
17 appropriate to allocate some of those costs basically
18 out of rate-making, which provides a benefit to
19 customers. I guess I don't view it as an affiliated
20 transaction at all.

21 Q. Can you tell me the amount of money that
22 you propose to allocate to these transactions?

23 A. Yes, I provided that in Exhibit 157. Total
24 allocation is \$320,000.

25 JUDGE SCHAER: Which exhibit, Mr. Norwood?

00241

1 THE WITNESS: I'm sorry, Exhibit 157.

2 Q. Is that a Washington or a system-wide
3 number?

4 A. That's a Washington number.

5 Q. What's the system-wide number?

6 A. System-wide number is \$457,000.

7 Q. And were you a witness in the company's
8 Idaho rate case?

9 A. Yes, I was.

10 Q. And did you make a similar proposal in that
11 case?

12 A. On rebuttal, yes, we did.

13 Q. And do you know what the Idaho Commission's
14 decision was?

15 A. My recollection was they allocated, I
16 believe, \$280,000 to this activity.

17 JUDGE SCHAER: And your proposal was that
18 they allocate how much?

19 THE WITNESS; I'm sorry?

20 JUDGE SCHAER: What had the company
21 proposed that they allocate?

22 THE WITNESS: I believe -- I think it was
23 approximately \$160,000 for the Idaho share, which was
24 -- it's about a third of our business.

25 Q. Do you know what the system-wide numbers

00242

1 were that you had proposed and that they determined?

2 A. I believe it's pretty much in line with
3 this. It was close to a half a million dollars on a
4 system basis.

5 Q. If you could look at Exhibit 197?

6 A. I have it.

7 Q. And if you turn to what's been marked as
8 page three on the bottom right-hand corner?

9 A. Yes.

10 Q. Can you explain what this chart is?

11 A. Yes, this is an organization chart which
12 lays out basically the structure and positions within
13 the resource optimization group, and what I've done
14 on here is to identify the amount of time that each
15 of these positions dedicate to commercial trading
16 activity. And the allocation of time is expressed in
17 percentages for various positions on this chart.

18 Q. Can you explain how the allocation of times
19 was determined?

20 A. Yes. I discussed the activities of the
21 people in the resource optimization group with the
22 manager of resource optimization, as well as the
23 director of risk management, to assess for each of
24 these positions what the estimated amount of time
25 would be dedicated to commercial trading activity

00243

1 versus the time that they spend in managing the
2 company's system to serve retail load and other
3 obligations.

4 Q. Do you know if the individuals that are
5 listed on here were asked to specify what percent of
6 their time they spent on commercial trading activity?

7 A. Some of them were.

8 Q. If you could refer to exhibit --

9 MR. MEYER: Excuse me, were you finished?

10 THE WITNESS: Yes, I was. Thank you.

11 Q. Exhibit 196, please.

12 JUDGE SCHAER: Again, these are exhibits
13 for identification at this point, Mr. Van Cleve.

14 MR. VAN CLEVE: Right.

15 THE WITNESS: Excuse me, you're on 196?

16 Q. Yes.

17 A. Is that the one that was withdrawn? I had
18 marked withdrawn on that. It was matched with 187.

19 Q. You're right. It's 187.

20 A. I have 187.

21 Q. If you look at the second paragraph under
22 response, it begins with the words "Based on."

23 A. Yes.

24 Q. And the last with two lines of that
25 paragraph state that the vast majority of the

00244

1 short-term purchases and sales in 1998 were for
2 commercial trading purposes; is that correct?

3 A. Yes.

4 Q. Is that an accurate statement?

5 A. I believe it is, yes.

6 Q. And does that mean that the vast majority
7 of short-term purchases and sales in 1998 were not
8 for resource optimization?

9 A. I believe that's true.

10 Q. Okay. If you can refer back to page three
11 of Exhibit 197.

12 A. I have it.

13 Q. What I'm trying to understand is if the
14 vast majority of the purchases and sales were for
15 trading purposes, why only ten percent of the
16 realtime schedulers' time was allocated to them?

17 A. The realtime schedulers'?

18 Q. Right.

19 A. What you have to keep in mind is the volume
20 of transactions that are done by each of these
21 individuals. We haven't calculated specifically how
22 much commercial trading realtime people do, but they
23 manage the system on an hour-to-hour basis, so they
24 can't go out for multiple days or for months or for a
25 quarter to trade transactions. They do relatively a

00245

1 small amount of volume, because they're just managing
2 for the next 24 hours.

3 The bulk of the transactions occur in the
4 next column over, where it says, Power Scheduling and
5 Trading, senior scheduler, as well as the trader.
6 And so realtime schedulers really don't do that much
7 volume, and that's why they get the ten percent for
8 commercial trading. But the large volume comes from
9 the trader and senior trader.

10 And one of the exhibits that I introduced,
11 I gave an example of a trade. It was a single trade
12 that was done, that's Exhibit 156. And this is
13 really important to grasp, because for this one
14 transaction, it was for 25 megawatts per hour for a
15 whole quarter, and that transaction was for a million
16 dollars. We bought power for a million and we sold
17 power the next day for a little bit more than that.
18 But all it takes is one trade to create a large
19 volume, both of megawatt hours, as well as dollars.

20 Mr. Matthews spoke to that this morning,
21 how that doesn't take too much time or effort to get
22 on the phone and call a broker and say, I think the
23 price is right, I want to buy 25 megawatts for a
24 quarter, three months of the year, which is 30,000
25 megawatt hours at \$25, and you have a million dollars

00246

1 in a hurry.

2 In ten minutes, you can call up again, if
3 the price moves up 15 cents, and you can resell that
4 same product for a little bit higher, but you end up
5 with large volumes of megawatt hours and large
6 volumes of dollars. Again, high revenue, but thin
7 margins.

8 Q. Are commercial transactions excluded from
9 the company's power cost adjustment mechanism in
10 Idaho?

11 A. Currently, they are not.

12 Q. And why are they not excluded?

13 A. At this point in time, we don't have the
14 system set up to segregate those transactions. As I
15 mentioned, our intention is to complete that system
16 so we can separate those out. Mr. Johnson, I
17 believe, explained, I think it's in response to a
18 data request, that they're not excluded in Idaho, but
19 we believe it doesn't make that much difference in
20 the net result, because what we're really after here
21 in the PCA is a representation of what the market
22 price is for the time period in question.

23 And if you're trading, you're trading at
24 the market price. If you're selling your surplus,
25 you're trading at the market price. So ideally, you

00247

1 eliminate those, because they're not directly related
2 to the system. But we believe it doesn't make that
3 much difference in the final analysis, and there
4 hasn't been a major concern or issue in Idaho to date
5 on including those transactions so far.

6 Q. Are you requesting approval in this case of
7 a PCA that excludes commercial transactions?

8 A. We're requesting approval of a PCA, and
9 regardless of whether the transactions are separated
10 out or not, our plan is to separate those out, and we
11 believe we'll get there. But for whatever reason, if
12 the timing doesn't work out, we still believe that we
13 still want the PCA, we still believe that the prices
14 are representative of the market, whether they
15 include commercial trading or not. So we want the
16 PCA regardless of whether those are in or out.

17 Q. But I think my question was are you
18 requesting approval of a PCA in this case that
19 excludes commercial transactions?

20 A. Yes, I believe we state in response to a
21 data request that the plan is to exclude them, but
22 there's -- the answer is yes, but I guess what I'm
23 saying is if for some reason that there isn't a need
24 to or we choose not to do that, it shouldn't preclude
25 us from moving ahead with a PCA, because in our view,

00248

1 this is a minor modification to the PCA. In Idaho,
2 the transactions are included, it hasn't been a
3 problem, but it's something that's a minor tweak to
4 the PCA that we would like to include on a going
5 forward basis.

6 Q. Does the company intend to submit its
7 methodology for excluding commercial transactions
8 from the PCA to the Commission for approval?

9 A. We'd be perfectly willing to provide that
10 information to Staff and to the Commission once we
11 separate that out, yes.

12 MR. VAN CLEVE: Your Honor, I would like to
13 offer as exhibits Exhibit 197, C-198, 199, 200, 201,
14 and C-202.

15 JUDGE SCHAER: Is there any objection?

16 MR. MEYER: Some of the exhibits being
17 offered are not appropriately Norwood exhibits. 199,
18 for example, is a request with the designated witness
19 being Johnson. And excuse me, did you also offer up
20 200?

21 MR. VAN CLEVE: Yes.

22 MR. MEYER: Likewise for 200. And so the
23 appropriate witness really to authenticate, stand
24 cross in those, would be Mr. Johnson.

25 JUDGE SCHAER: So you do object?

00249

1 MR. MEYER: I do object.

2 JUDGE SCHAER: Any brief response, Mr. Van
3 Cleve?

4 MR. VAN CLEVE: Well, I hadn't intended to
5 ask Mr. Johnson any questions. But if the company's
6 unwilling to stipulate to the admission of its own
7 data responses, I'd be happy to --

8 MR. MEYER: Let's take it up with Mr.
9 Johnson, as the designated witness.

10 JUDGE SCHAER: Well, let me ask you, Mr.
11 Meyer, is there any reason not to admit these now?
12 Does the company have concerns that these are
13 misrepresentations or something of that nature? Is
14 there some substantive reason that we can't put these
15 in the record now?

16 MR. MEYER: There is not. We stand by the
17 responses, but if part of the process is that we
18 designate a witness during the preparation of a data
19 response, I would suggest that the better practice is
20 to introduce it through that witness.

21 JUDGE SCHAER: Unless you have some reason
22 to believe that these are not true and correct, I'm
23 inclined to admit them now and keep the process
24 moving.

25 MR. MEYER: Very well.

00250

1 JUDGE SCHAER: It appears if you want to
2 take that up with the Commissioners, you may be
3 successful, but I'd like to keep moving at this
4 point, if we could.

5 MR. MEYER: Is the ruling to have these
6 introduced, then?

7 JUDGE SCHAER: The ruling is to admit these
8 and move on, yes.

9 MR. MEYER: Okay. I trust that as we move
10 forward, the parties will be sensitive to the issue I
11 just raised.

12 JUDGE SCHAER: I think they will be, and I
13 think that if there were questions being asked of Mr.
14 Norwood that were more appropriately asked of Mr.
15 Johnson, I would certainly grant an objection and
16 have those delayed to Mr. Johnson. At this point, I
17 don't see any real reason not to just get done with
18 Mr. Norwood and keep moving, if we can.

19 MR. MEYER: Very well. Let's proceed. I
20 think we've made the company's point.

21 JUDGE SCHAER: Commissioners, do you have
22 questions for Mr. Norwood?

23 CHAIRWOMAN SHOWALTER: I just have one.

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

25 BY CHAIRWOMAN SHOWALTER:

00251

1 Q. In your earlier questions about the 11th
2 Supplemental Order in UE-920433, I thought I heard
3 you more or less possibly reading from the order
4 somewhere, but I wasn't following where. And I think
5 you were saying something to the effect that the
6 Commission would entertain other notions than were
7 contained in this order under certain circumstances.
8 I don't know if you were paraphrasing the order or
9 interpreting the order or if you were reading from
10 the order?

11 A. Actually, I was not reading from this
12 order, I was reading from the order in the Avista
13 case, which -- then Washington Water Power, back in
14 the 85-36 case. And that's where the Commission
15 found that they would take a look at other methods to
16 the future and we're not locked into the rolling
17 40-year method.

18 Q. Okay. And were you reading out of
19 something that's in the record?

20 A. No. This is an excerpt from the order,
21 Commission's order in the case Cause Number U-85-36,
22 and it's page 18.

23 JUDGE SCHAER: What's the date on that
24 order please, Mr. Norwood?

25 THE WITNESS: The order was dated April

00252

1 4th, 1986.

2 JUDGE SCHAER: Thank you.

3 Q. Then maybe, if you wouldn't mind, just read
4 that to me again. I thought I started to look into
5 the other order for the words, so I didn't hear you
6 at the time.

7 A. Okay. On that page 18, it says, The
8 Commission's decision does not mean that the
9 Commission will use a rolling 40 years for all future
10 cases. The Commission will evaluate alternatives
11 proposed in future cases.

12 Q. Okay. But that order preceded this order
13 from 1993, I take it?

14 A. That was an order in the Puget case. This
15 is the last order for Avista that dealt with the
16 hydro situation, and I think if you look back to this
17 case, this was the case that dealt with getting
18 Colstrip Four into rate base. I don't believe that
19 the issue was fully developed and fully understood at
20 the time, and because some of these major issues tend
21 to get the attention.

22 I think if you really focused on this
23 issue, I believe that you really ought to take a hard
24 look at this issue, because the rolling 40 average
25 really is dependent on some very major assumptions.

00253

1 One assumption is that you keep in place for multiple
2 decades, 30, 40 years or more, and we ran some
3 analysis, which is included in the exhibit that was
4 produced.

5 The other really important point is that
6 the methodology is dependent on future positives
7 offsetting prior negatives. They offset each other
8 over time. But that's only going to occur
9 statistically or in reality if the operations
10 continue to be that way to the future. And we will
11 already know that there's already been changes in the
12 operation of the hydro system. So you won't have the
13 same positives and negatives over time offsetting
14 each other because the conditions change.

15 So just on the very surface of it, it can't
16 work and cannot truly offset and result in a
17 cumulative error unless you keep all those things the
18 same.

19 Q. And I think you cited the recent fish
20 studies or -- what was it that you cited that was
21 going to preclude the balancing in the future? What
22 was that?

23 A. Right. That was the biological opinion,
24 which came out in 1995, which did change the
25 operation in some of the reservoirs. One more item,

00254

1 too, is the recent relicensing of our Clark Four
2 River Projects, which also changed the operation of
3 those plants. So as we move through time, there
4 would probably be other changes. Because you have
5 those changes, the positives and negatives can't
6 offset each other over time.

7 Q. And whatever changes have occurred so far,
8 do they go in one direction or another? That is, do
9 they preclude positive changes to offset the
10 negatives or preclude negative changes to offset the
11 positives?

12 A. Well, we'd have to look at those
13 individually to assess what the impact on the
14 methodology is, and that would be a lot of detailed
15 analysis to try to figure that out. I think one
16 thing that's -- another point that's really important
17 to keep in mind is that, in this study, it was agreed
18 by Staff that the rolling 40 didn't provide the best
19 estimate of the next year or two, but it did provide
20 this reduced error over a long period of time. And I
21 believe in setting rates, we're setting rates for the
22 next two, three, four, five years, however long rates
23 are in effect until you change rates, and the best
24 estimate is using the maximum amount of reliable data
25 that you have available. And if you know that some

00255

1 of the data is less reliable than others, then maybe
2 there is a reason to pull it out. But if all the
3 data have an equal probability of occurring, then you
4 ought to include all the data in calculating what the
5 average of a normal amount is.

6 Q. And by all, what do you mean in that sense?

7 A. It's the water record that the Northwest
8 Power Pool uses, which is the 1928 to 1988 data. For
9 us, the Clark Four generation, we don't have records
10 prior to 1928, and so that's basically the oldest
11 data that's available. But if you look at Bonneville
12 and the Northwest Power Planning Council just came
13 out with their phase one report this month, they used
14 the BPA White Book Study which includes the 1928 to
15 1978 period, and in Bonneville -- in the studies, the
16 what if studies that they do, they use the full 1928
17 to 1988.

18 So again, unless there's a good reason to
19 pull some of the data out, we ought to use all the
20 data that's available in calculating what the
21 averages are and what the impacts will be on rates.

22 CHAIRWOMAN SHOWALTER: Thank you.

23 COMMISSIONER HEMSTAD: I don't have any
24 questions.

25 COMMISSIONER GILLIS: I don't have any

00256

1 questions.

2 JUDGE SCHAER: Mr. Norwood, I have just a
3 couple of questions.

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

5 BY JUDGE SCHAER:

6 Q. I'd like first to turn to your Exhibit 152,
7 please.

8 A. I have it.

9 Q. Looking at page one of four in that
10 exhibit, and referring you to line one, I'd like you
11 to compare that, and then looking at page three of
12 four of that exhibit, and looking at line 85, these
13 are short-term purchases and short-term sales
14 respectively, is that correct?

15 A. That's correct.

16 Q. Based on the informal method you described,
17 is it possible that nonretail speculative commercial
18 trading could be included in the numbers in the
19 adjustment column for these two lines?

20 A. If I understand your question correctly,
21 the commercial trading that are unrelated to system
22 resources, the adjustments are included in Column C.

23 Q. And that's --

24 A. For both lines one and line 85.

25 Q. We're just trying to figure out if it's

00257

1 possible there's any nonretail in there?

2 A. In Column D, the pro forma numbers?

3 Q. In Column C, adjustment?

4 A. Column C includes really the changes
5 between the 1998 test period and the pro forma period
6 and short-term purchase and sales related to really a
7 lot of items. To the extent that retail load is
8 different from the test period to the pro forma
9 period, you'd have a difference in the amount of
10 short-term purchases that you'd need to make. To the
11 extent that thermal resources, for example, if the
12 thermal resources ran more during the pro forma
13 period, you'd have less purchases and more sales,
14 alternatively.

15 So if there's a lot of items that really
16 fall into this adjustment, including those
17 transactions that are related to short-term trading,
18 they were in the test period, they're being pro
19 formed out of the pro forma period. What's included
20 in the pro formed numbers are the full benefits from
21 dispatching the company's resources to serve load and
22 the full benefit of any surpluses are being credited
23 to customers through that dispatch.

24 Q. Okay. One other question for you, or
25 series of questions. Let's now go to your Exhibit

00258

1 155, please.

2 A. I have it.

3 Q. And looking to the right-hand column,
4 titled May 1st, moving down this column --

5 A. That's actually May of 2001.

6 Q. Okay, thank you. May 01, and moving down
7 this column to line three, can you explain the
8 reasoning behind the zero amount shown?

9 A. Yes. This page is a summary of the output
10 from the company's dispatch simulation model, which
11 goes through this 60-year analysis of if you have a
12 bad water condition, then what happens to serve load.
13 You render thermals more and you purchase power to
14 serve. Under good water conditions, you may not need
15 to purchase. You would be selling into the market.

16 And in running through those 60 years of
17 analysis, the result is that during the month of May,
18 we do not have a situation where we would need to
19 purchase energy to serve our obligations for the
20 month of May.

21 Q. Okay. Moving further down the column to
22 line six, titled Colstrip Megawatt Hours, can you
23 explain why the amount 90,600 and the amount 43,800
24 immediately to the right in the next column are
25 significantly lower than the rest of the numbers in

00259

1 row six? Is this kind of the same thing?

2 A. There would be a couple of reasons why
3 those numbers would be less. One is that we
4 typically do annual maintenance on the projects
5 during the months of May, June, which is the spring
6 runoff months, so those are the months to take your
7 plants down and to do maintenance on them so that
8 they're available to run during the higher-priced
9 months, July through March, April.

10 Another reason why those could be lower is
11 that market prices tend to be lower during the May,
12 June runoff period. There may be some economic
13 dispatch or economic displacement where we're
14 shutting the plant down because it's cheaper to buy
15 non-firm rather than running the resource.

16 Q. Okay. Then one more question, and maybe a
17 similar answer. Looking at line 16 for Kettle Falls,
18 at the column for June 2001, please explain why the
19 amount is so much lower than the other column
20 amounts?

21 A. I believe that's primarily related to
22 annual maintenance. And again, there could be some
23 economic dispatch, but probably annual maintenance.

24 Q. Okay.

25 A. That would be provided in the work -- that

00260

1 would be included in the work papers.

2 JUDGE SCHAER: Is there any redirect for
3 this witness?

4 MR. MEYER: There is.

5 JUDGE SCHAER: Go ahead, please.

6 MR. MEYER: Thank you.

7 R E D I R E C T E X A M I N A T I O N

8 BY MR. MEYER:

9 Q. You were asked by Staff, Mr. Norwood, about
10 an entry in a Confidential Exhibit C-194, dealing
11 with a Trans Alta purchase in the event of a
12 Centralia sale. Do you recall that?

13 A. Yes, I do.

14 Q. And you were asked about the sort of
15 assessment undertaken by the company before entering
16 into that Trans Alta agreement for the purchase of
17 replacement power. Do you recall that exchange?

18 A. Yes, I do.

19 Q. And you spoke generally of a market
20 assessment. Would you please elaborate on what you
21 meant by a market assessment?

22 A. Yes, I think it's important to keep in mind
23 what we were looking at at the time we made the
24 decision to purchase the power from Trans Alta.
25 First of all, we're presented with a situation of

00261

1 selling a major baseload resource of about 200
2 megawatts for our system, and there isn't --
3 obviously isn't time to build something else to
4 replace this loss of power, assuming that we sell the
5 plant. There isn't time to go out and do DSN to
6 replace 200 megawatts of power.

7 What we're left with is going to the
8 marketplace and purchasing a product for some period
9 of time to give us time to evaluate longer term
10 options to meet our need for resources. And we have
11 long-term marketing people that we noticed in the
12 organization chart who it's their job and
13 responsibility to stay abreast of what the market is,
14 what products are in the marketplace. They have
15 contacts with brokers, other utilities and marketers,
16 and they're continually assessing the market as to
17 what products are out there.

18 In this particular case, we needed a
19 product which would replace Centralia, and our people
20 did go out, they talked to brokers, they talked to
21 other utilities to find out really what the market
22 prices were out there, but in doing that, they
23 communicated that we needed 200 megawatts, we needed
24 to be flexible so that we can start it when the sale
25 concludes. We don't know when it's going to

00262

1 conclude, but it needs to be flexible. And that
2 costs you something when you try to buy that kind of
3 flexibility.

4 The other thing that, for us, worked out
5 well was that we had the opportunity with this Trans
6 Alta purchase to shape this power during the period
7 July through March. As we talked to Trans Alta, we
8 found a product that we could buy during that period,
9 and we didn't buy the product during the spring
10 period, which is the spring runoff period that tends
11 to be a lower cost time, in any event. They provided
12 us with a flexibility in the start time, and not only
13 the start time, but if the sale doesn't go through,
14 we're not committed to the contract.

15 And if you look at the price that we paid
16 for the product at the time we did the deal, it was
17 at or below the other quotes that we received in the
18 marketplace for this same kind of product. If you
19 look at the product today compared to today's market
20 price, it's well below the market price of power.

21 So our people did really a fairly extensive
22 analysis of the market, but there wasn't a lot of
23 documentation that was put down, because that's what
24 they do, as far as doing business.

25 Q. When all is said and done, is it your

00263

1 testimony that, based on this market assessment, that
2 with a great degree of confidence, that you can
3 testify that the price for the replacement power
4 purchased from Trans Alta was at or below the price
5 given in the broker quotes?

6 A. Yes.

7 Q. You were also asked a series of questions
8 that took you back to the integrated resource plan.
9 I believe that was marked and introduced as 177,
10 Exhibit 177. Would you turn to that for just a
11 moment?

12 A. I have it.

13 Q. Okay. And attached to Exhibit 177 is a
14 rather detailed tabulation out of the 1997 integrated
15 resource plan; correct?

16 A. That's correct.

17 Q. Now, in what sense did that analysis out of
18 that plan serve as a foundation for the several
19 contracts that you entered into and that were
20 discussed earlier with Staff?

21 A. Right, this document really is important in
22 that it's a document which guides us in our need for
23 resources. And if you look at this document with the
24 adjustments on redistributed load and the combustion
25 turbine energy, it shows clearly that we were short

00264

1 during these periods.

2 In the contracts that we were talking
3 about, the questions today really are shorter term
4 agreements, two to three-year agreements, which
5 really serve to help the company meet shorter term
6 resource needs, as opposed to longer term, 10,
7 20-year type resources, which we tend to look at in
8 serving longer term load obligations.

9 But this document -- and again, this is
10 from 1997. More recent documents show a need for
11 resources and still show a need for resources in the
12 hundred average megawatt range and more needs as you
13 go out beyond those years. But that really provides
14 a foundation for making these purchases. We clearly
15 have a need for resources. The question is do you go
16 out and buy long-term or do you buy short-term.

17 A lot of the contracts that we discussed
18 today were contracts that we chose to do on a more
19 shorter term basis, two to three years, to meet our
20 shorter term needs.

21 As far as an RFP goes, in my view, there
22 wasn't a need or requirement for those types of
23 resources in order to purchase to meet our shorter
24 term needs.

25 Q. So it would be your testimony that your

00265

1 assessment was that an RFP was not required to
2 procure the sort of resources that we'd been
3 discussing earlier that took the form of these
4 contracts?

5 A. That's correct.

6 Q. Turning, lastly, to the question of
7 short-term commercial trading, you were asked about
8 an Idaho Commission order. Did the Idaho Commission,
9 in its order recently issued, accept the premise that
10 short-term commercial trading activities ought to --
11 and the risk and burdens associated therewith ought
12 to be shouldered by shareholders?

13 A. Yes, they did. They did find that the
14 company is allowed to go out and to enter into these
15 short-term commercial trading transactions and that
16 the profits and losses from them would accrue to
17 shareholders. And they allocated some of those fixed
18 costs, then, to that activity, which then was a
19 benefit to customers.

20 Q. I see. And was it -- do you recall whether
21 the Staff took issue with that premise itself?

22 A. No, the Staff supported the idea that those
23 types of transactions should accrue to shareholders.

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

25 JUDGE SCHAER: Is there anything further

00266

1 for Mr. Norwood?

2 MR. TRAUTMAN: Yes.

3 JUDGE SCHAER: Go ahead, Mr. Trautman.

4 R E C R O S S - E X A M I N A T I O N

5 BY MR. TRAUTMAN:

6 Q. I want to go back briefly to the questions
7 regarding the 60-year versus the 40-year, and the
8 Chairwoman asked some questions about that, as well.
9 I guess what I'd like to know is is it fair to say
10 that Staff may rely on your testimony, as provided in
11 the direct testimony, and the responses to the
12 related data request, which consisted of the excerpts
13 from the prior testimonies, as the company's argument
14 or justification for using 60 years, as opposed to
15 four years?

16 A. Yes, it is.

17 MR. MEYER: Well, wait a minute. Do you
18 mean --

19 JUDGE SCHAER: Is this an objection?

20 MR. MEYER: Yes, it is. Because I think
21 the objection is that that question mischaracterizes
22 the record that's been developed this afternoon in
23 the exchange, for example, with Chairwoman Showalter,
24 where Mr. Norwood discussed the other factors that,
25 in addition to the stuff that had been said before in

00267

1 those litigated cases, in addition to that, should
2 change this Commission's thinking in that regard.
3 That's all part of the record.

4 MR. TRAUTMAN: No, here's the --

5 JUDGE SCHAER: The objection is that you've
6 mischaracterized the case in your question. What's
7 your response?

8 MR. TRAUTMAN: Well, Staff's objection is
9 that we were provided with direct testimony on what
10 the purported justification for using 60 years was.
11 We read through that. There's a small amount of
12 justification, a great deal of description. We then
13 asked for a data request, asking for all documents,
14 analyses, studies that were performed, and in
15 response to that, we simply received excerpts from
16 prior cases.

17 Now, I did not think it was appropriate for
18 the company to be making its direct case on cross
19 when we had already asked for that material, so --

20 JUDGE SCHAER: So why don't you restate
21 your question and ask Mr. Norwood if there's anything
22 beyond what he's already testified to or included in
23 data responses.

24 Q. Well, the question stands. The question
25 was, is it not -- is the company's justification for

00268

1 using 60 years contained in the direct testimony and
2 what was provided in response to the data request, or
3 are we now hearing that there's additional
4 information that was not provided in response to the
5 data request, but that we've just heard for the first
6 time today?

7 A. If you'll read through the testimony that
8 was included in response to the one data request
9 that's marked as an exhibit, I don't recall which one
10 it is, it includes a discussion that I just went
11 through with Chairwoman Showalter. The issue of the
12 problem of the negatives not offsetting each other
13 over time is all in there.

14 Q. Well, which data request? I mean, there
15 are two, there's 161 and 162.

16 A. You referred me to testimony that was
17 sponsored in the Puget case. You referred me to the
18 '87 case.

19 Q. That's right, right.

20 A. That's in there.

21 Q. That's what the company's relying on; is
22 that correct?

23 A. Yes, that was our responses to the data
24 request.

25 Q. You also indicated, in response to

00269

1 redirect, that there were some documentations
2 regarding the Trans Alta purchase or alternatives,
3 documentation, memos, broker quotes?

4 A. Yes.

5 Q. As a record requisition, could you provide
6 to Staff all documentation related to the Trans Alta
7 purpose?

8 A. Yes, we can.

9 Q. Or alternatives?

10 A. Yes, we can.

11 JUDGE SCHAER: Record Requisition Number
12 Nine.

13 MR. TRAUTMAN: That's all I have.

14 JUDGE SCHAER: Anything further, Mr. Van
15 Cleve?

16 MR. VAN CLEVE: No, Your Honor.

17 JUDGE SCHAER: Is there anything further
18 for this witness, Commissioners? Thank you for your
19 testimony, Mr. Norwood.

20 THE WITNESS: Thank you. Let's go off the
21 record for just a moment while the company prepares
22 to call its next witness.

23 MR. MEYER: I call to the stand Mr.

24 Johnson.

25 JUDGE SCHAER: The following exhibits were

00270

1 marked in conjunction with Mr. Johnson's testimony.
2 Exhibit T-420, direct testimony of William G.
3 Johnson. Exhibit 421, Power Cost Adjustment Example.
4 Exhibit 422, PCA Hourly Hydro Shape Adjustment.
5 Exhibit 423, Response to ICNU Data Request Number 29.
6 Exhibit 424, Response to ICNU Data Request Number 30.
7 Exhibit 425, Response to ICNU Data Request Number 31.
8 Whereupon,

9 WILLIAM G. JOHNSON,
10 having been first duly sworn, was called as a witness
11 herein and was examined and testified as follows.

12 JUDGE SCHAER: Your witness has been sworn,
13 Mr. Meyer.

14 MR. MEYER: Thank you.

15 D I R E C T E X A M I N A T I O N

16 BY MR. MEYER:

17 Q. For the record, would you please state your
18 name and your employer?

19 A. My name is William G. Johnson, and I'm
20 employed by Avista Corporation.

21 Q. And have you prepared and prefiled direct
22 testimony, marked as Exhibit T-420?

23 A. Yes, I have.

24 Q. And I should note for the record that I
25 have distributed errata sheets, also marked as

00271

1 Exhibit T-420, to accompany his prefiled direct,
2 which makes the necessary changes to the exhibit
3 numbering. Do you have any further changes to make
4 to your prefiled direct testimony?

5 A. No, I do not.

6 Q. And also, are you sponsoring Exhibits 421
7 and 422?

8 A. Yes, I am.

9 Q. Is the information contained within those
10 exhibits true and correct, to the best of your
11 knowledge?

12 A. Yes, it is.

13 MR. MEYER: With that, Your Honor, I move
14 for the admission of Exhibits T-420, 421, and 422.

15 JUDGE SCHAER: Are there any objections?
16 Hearing none, those documents are admitted. Do you
17 tender the witness, Mr. Meyer?

18 MR. MEYER: He's tendered.

19 JUDGE SCHAER: Go ahead, please, Mr.
20 Trautman.

21 C R O S S - E X A M I N A T I O N

22 BY MR. TRAUTMAN:

23 Q. Okay. First, let's see if I could just
24 refer you to Exhibit 425.

25 JUDGE SCHAER: That's 425 for

00272

1 identification at this point.

2 Q. I believe this is the response to ICNU Data
3 Request 31?

4 A. That's correct.

5 Q. And was this prepared by you or under your
6 supervision?

7 A. Yes, it was.

8 Q. Is it true and correct, to the best of your
9 knowledge?

10 A. Yes, it is.

11 MR. TRAUTMAN: We'd move for the admission
12 of Exhibit 425.

13 JUDGE SCHAER: Any objection?

14 MR. MEYER: No objection.

15 JUDGE SCHAER: That document is admitted.

16 Q. Now, turning to your own testimony, which
17 has been marked as Exhibit 421.

18 JUDGE SCHAER: I believe that's Exhibit
19 T-420, Counsel.

20 MR. TRAUTMAN: T-420.

21 JUDGE SCHAER: T-420.

22 Q. Actually it's an attachment to the
23 testimony, so it is Exhibit 421. It's an attachment
24 to the testimony. It was your Exhibit Number 44, and
25 it's entitled Power Cost Adjustment Example

00273

1 Worksheets?

2 A. Okay. I have that.

3 Q. Could you turn to page three of six of that
4 exhibit?

5 A. I'm there.

6 Q. And on that page, do you see a number of
7 items under the categories contract obligations and
8 contract rights?

9 A. Yes, I do.

10 Q. Is it correct that the megawatt amounts per
11 month for each item are the same as the pro forma
12 values that are contained in the rate case for each
13 of these items?

14 A. Yes, that is correct.

15 Q. For the purposes of the power cost
16 adjustment, do these amounts remain constant?

17 A. Yes, these amounts are from the pro forma
18 and the power supply expenses, and they remain
19 constant in the PCA mechanism.

20 Q. Would you agree that some of these
21 contracts have minimum and maximum load factors and
22 that, in fact, actual sales or purchases might vary
23 from the levels that are shown on page three of this
24 exhibit?

25 A. I believe there are a couple of them. The

00274

1 line five, Clark Two, five-year sale obligation and
2 line two, which is Snohomish, where there can be some
3 variability in the actual amount of the sale.

4 Q. And would those be the only two?

5 A. I believe line nine, the PacifiCorp
6 exchange, can have some variability, also.

7 Q. Now, looking at the same page of this
8 exhibit, what adjustments to the power cost
9 adjustment is the company proposing to make when the
10 terms of one of these sales or purchase contracts
11 ends?

12 A. There would be no adjustment to either the
13 contract obligation or the contract rights, with the
14 expiration of a requirement either to sell or
15 purchase contract. Those remain fixed in the PCA.

16 Q. So if we went five years out into the PCA
17 and the contracts had all expired, would we still use
18 them in the calculation?

19 A. Yes, we would, because the point of the PCA
20 is to keep these constant, because these are the
21 contract obligation and rights that are built into
22 the base rates, normalized amount. What we're
23 tracking is a variation in the hydrogeneration as far
24 as -- and the dispatch in some of the thermals as far
25 as our contract rights and our resources. So these

00275

1 would remain fixed even if the contracts expire.

2 Q. Could you turn now to page five of six of
3 this exhibit, 421. And at the top, this details the
4 PURPA contract tracker portion of the PCA?

5 A. That's correct.

6 Q. Is the effect of this tracker to recover
7 through the PCA increases in the rates of the PURPA
8 contracts that are listed?

9 A. The purpose is to track the variations in
10 the PURPA costs, whether they be less or greater than
11 what is built into the normalized base rates.

12 Q. Now, in this rate case, to your knowledge,
13 are there any other known and measurable costs,
14 whether they be increases or decreases, that are
15 proposed to be tracked and recovered in this manner?

16 A. Yes, and in addition to tracking
17 hydrogeneration, we're also proposing to track
18 changes in the short-term energy prices from those
19 levels established in the normalized case. And we're
20 also proposing to track the actual gas cost for the
21 Rathdrum turbine from the changes that were built
22 into the normalized base rates and actual generation
23 from the Rathdrum turbine.

24 Q. Now, what about non-power supply items.
25 Would any of those items be tracked in this manner or

00276

1 in a similar manner?

2 A. I guess you'd have to give me an example of
3 what you're thinking of as non-power supply items.

4 Q. Decreases in rate base?

5 A. No, those are not tracked.

6 MR. TRAUTMAN: That's all I have.

7 THE WITNESS: There's no non-power supply
8 items tracked.

9 MR. TRAUTMAN: That's all I have.

10 JUDGE SCHAER: Thank you. Go ahead, then,
11 Mr. Ffitch.

12 MR. FFITCH: Public Counsel has no
13 questions, Your Honor.

14 JUDGE SCHAER: Mr. Van Cleve.

15 MR. VAN CLEVE: No questions, Your Honor.

16 JUDGE SCHAER: Okay. Commissioners, do you
17 have any questions of Mr. Johnson?

18 COMMISSIONER HEMSTAD: No, I don't.

19 COMMISSIONER GILLIS: No, I don't.

20 JUDGE SCHAER: Any redirect for this
21 witness?

22 MR. MEYER: I can't think of any.

23 JUDGE SCHAER: Thank you for your
24 testimony, Mr. Johnson.

25 THE WITNESS: Thank you.

00277

1 JUDGE SCHAER: We're going to go off the
2 record for a moment to change witnesses, but we're
3 not going to call it a break. We're just going to go
4 off the record to change witnesses. We're off the
5 record.

6 (Discussion off the record.)

7 JUDGE SCHAER: Let's be back on the record.
8 Before we proceed to the next witness, I believe, Mr.
9 Trautman, you had some exhibits you wished to offer?

10 MR. TRAUTMAN: Yes, Exhibits 423, 424, and
11 425.

12 JUDGE SCHAER: Any objection?

13 MR. MEYER: None.

14 JUDGE SCHAER: Those documents are
15 admitted. Go ahead and call your next witness,
16 please.

17 MR. MEYER: Thank you. I call to the stand
18 Mr. Edward Turner.

19 JUDGE SCHAER: The following exhibits were
20 marked in conjunction with Mr. Turner's testimony.
21 T-26, direct testimony of Edward H. Turner. Exhibit
22 27, Cost of Living Chart. Exhibit 28, WUTC v WWP,
23 WUTC Cause Number U-83-26, Fifth Supplemental Order.
24 Exhibit 29, Response to WUTC Data Request Number 263.
25 Exhibit 30, Avista Response to Public Counsel Data

00278

1 Request Number 18. Exhibit 31, Avista Response to
2 Public Counsel Data Request Number 19.
3 Whereupon,

4 EDWARD H. TURNER,
5 having been first duly sworn, was called as a witness
6 herein and was examined and testified as follows:

7 JUDGE SCHAER: Your witness is sworn, Mr.
8 Meyer.

9 D I R E C T E X A M I N A T I O N

10 BY MR. MEYER:

11 Q. Mr. Turner, for the record, please state
12 your name and your employer.

13 A. Edward Harrison Turner, Avista Corporation.

14 Q. And you're employed in what capacity?

15 A. Vice president of Avista Corporation,
16 general manager of Avista Utilities.

17 Q. And have you prepared testimony that has
18 been premarked as Exhibit T-26?

19 A. Yes, I have.

20 Q. Do you have any changes to make to that?

21 A. No, I do not.

22 Q. So if I were to ask you the questions that
23 appear therein, would your answers be the same?

24 A. Yes, they would.

25 Q. Likewise, with respect to your Exhibit 27,

00279

1 was that prepared by you or under your direction and
2 supervision?

3 A. Yes, it was.

4 Q. Is it true and correct?

5 A. Yes, it is.

6 MR. MEYER: I should also note for the
7 record that I have distributed an exhibit as an
8 attachment, if you will, or a supplement to Exhibit
9 T-26, the errata sheet for Mr. Turner. With that, I
10 tender Mr. Turner, move for the admission of the
11 exhibits.

12 JUDGE SCHAER: Any objection?

13 MS. TENNYSON: No.

14 JUDGE SCHAER: Exhibits T-26 and 27 are
15 admitted. Exhibit T-26 does include the errata sheet
16 that was provided for this witness as part of the
17 exhibit. Have you got any questions, Ms. Tennyson?

18 MS. TENNYSON: Yes, I do.

19 JUDGE SCHAER: Go ahead, please.

20 C R O S S - E X A M I N A T I O N

21 BY MS. TENNYSON:

22 Q. Good afternoon, Mr. Turner.

23 A. Good afternoon.

24 Q. My name is Mary Tennyson, I'm a Senior
25 Assistant Attorney General, representing Commission

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1 Staff in this case. Could you describe for us what
2 your job duties are as the vice president and general
3 manager for Avista Utilities Operations?

4 A. Yes, ma'am. It's to oversee the operations
5 of the utility, in short. That would include gas,
6 electric, line operations. It includes generation,
7 as Mr. Matthews mentioned. It includes all customer
8 service and marketing functions, as well as
9 engineering.

10 Q. As well as engineering?

11 A. As well as engineering.

12 Q. How long have you been in this position for
13 Avista?

14 A. Approximately 17 to 18 months. About a
15 year and a half.

16 Q. So you were brought into this position
17 after Mr. Matthews took over as the chief executive
18 officer; is that correct?

19 A. Yes, ma'am.

20 Q. Now, Mr. Matthews described various
21 operations of the business and segments of the
22 regulated utilities. One of them was generation and
23 resources. And within generation and resources, if
24 I'm understanding it correctly, is the purchase and
25 sale of power, as part of that; is that correct?

00281

1 A. That is correct.

2 Q. And you supervise that?

3 A. Yes, ma'am.

4 Q. Now, this is not only purchasing and
5 selling power, but it's for power needs to serve the
6 customers, but also additional purchases and sales of
7 power; is that correct?

8 A. Additional beyond the supply of our retail
9 load?

10 Q. Yes.

11 A. That's correct.

12 Q. Do you supervise any other power trading
13 that is done by the company?

14 A. No, ma'am.

15 Q. So you do not supervise any of the
16 commodity trading wholesale marketing done through
17 Avista Energy?

18 A. No, ma'am.

19 Q. Referring to your testimony, which has been
20 admitted as Exhibit T-26, and referring to page two.

21 A. Mm-hmm.

22 Q. Lines 22 and 23, you refer to the
23 generating capacity of two coal-fired plants,
24 Colstrip and Centralia, as being 423 megawatts. Does
25 that figure represent the total capacity of those two

00282

1 plants or Avista's 15 percent of the generated
2 capacity?

3 A. I believe that's our 15 percent interest.

4 Q. On page 13 of your testimony, you state
5 that in 1999, the company received state regulatory
6 approvals to consolidate Avista Utilities gas
7 procurement operations under its affiliate, Avista
8 Energy. Can you tell us when that approval was
9 obtained in Washington?

10 A. No, ma'am, I do not know the specific date.

11 Q. Okay. Was it -- it was sometime in 1999?

12 A. Yes, it was.

13 MR. MEYER: May I just -- because we've
14 kind of kicked that ball around, and for the record,
15 if it will refresh this witness' recollection, the
16 gas benchmark was approved in Washington on 6/23/99.

17 JUDGE SCHAER: What shape did that approval
18 take, please?

19 MR. MEYER: The form of a Commission order.

20 JUDGE SCHAER: Could you give us the docket
21 number, please?

22 MR. MEYER: Your Honor, there's some
23 confusion as to whether a short order followed the
24 business meeting at which it was taken up and
25 approved. I believe that 6/23/99 references to the

00283

1 Commission meeting.

2 JUDGE SCHAER: I'm going to ask you
3 tomorrow to provide us with a docket number.

4 MS. TENNYSON: Your Honor, I believe the
5 docket number is UG-990614.

6 JUDGE SCHAER: Okay.

7 MS. TENNYSON: One reason for my inquiry is
8 I was unable to locate an order that was issued as a
9 result of that. I found a memo to the Commissioners
10 on it, but I was not able to find an order.

11 JUDGE SCHAER: Okay. If you find a
12 different docket number, inform us of that. We'll
13 proceed right now with the understanding that this
14 came up at Commission open meeting under this docket
15 number, and that no one in the hearing room presently
16 has an order that was an outcome of that proceeding.
17 Go ahead, please.

18 MS. TENNYSON: Thank you.

19 Q. Do you have a copy of the exhibits that
20 were used for Mr. Turner, or do we need to locate a
21 copy of the -- I'm looking for Exhibit Number 5.

22 MR. MEYER: Used for Mr. Turner? You mean
23 Mr. Matthews?

24 JUDGE SCHAER: Ms. Tennyson, this is Mr.
25 Turner.

00284

1 MS. TENNYSON: I'm sorry.

2 MR. MEYER: Yes, I have a copy of it.

3 MS. TENNYSON: I brought my stack of
4 exhibits for Mr. Matthews downstairs and didn't bring
5 it back up.

6 JUDGE SCHAER: Let the record show that Mr.
7 Turner is being provided with a copy of Exhibit 5 in
8 this proceeding.

9 MR. MEYER: Which one was that, the 10-K?

10 MS. TENNYSON: The 10-K.

11 MR. MEYER: Okay.

12 Q. Referring to Exhibit 5, in particular, page
13 28, if you could find that. Okay. Now, there's a
14 section on that page that is headed Energy Delivery,
15 and then, under that, 1998 compared to 1997. Do you
16 see that?

17 A. Yes, I do.

18 Q. Referring specifically to the third
19 paragraph under that heading. Now, this -- have you
20 found that?

21 A. Mm-hmm.

22 MR. MEYER: I haven't. Which page are we
23 at?

24 MS. TENNYSON: Page 28, it's approximately
25 the middle of the page. It's the paragraph directly

00285

1 above 1997 compared to 1996.

2 MR. MEYER: I'm with you now. Thank you.

3 Q. Now, this is a comparison of or recitation
4 of differences between the 1998 and 1997 year for the
5 company; is that correct?

6 A. It appears to be.

7 Q. Now, in looking at this comparison, it
8 mentions three areas in which costs or expenses
9 increased in 1998 over 1997; isn't that true?

10 A. I'm going to ask for a moment to read it.

11 JUDGE SCHAER: Go ahead, sir.

12 THE WITNESS: Okay, I've read it.

13 Q. Okay. And I will revise my question, make
14 it a little bit more accurate. Referring to the
15 increases in administrative and general expenses in
16 that paragraph, this mentions three areas or the
17 primary reasons for those increases; is that correct?

18 A. Yes, it does.

19 Q. Now, there's also -- above that, there's a
20 reference to purchased gas cost as a cost increase or
21 an expense increase for the company?

22 A. Yes, there is.

23 Q. Now, increases in the cost of gas for
24 Avista Utilities are already addressed through the
25 purchased gas cost, or PGA process; isn't that

00286

1 correct?

2 A. That's my understanding.

3 Q. Can you describe the purchased gas
4 adjustment, that process, the PGA process?

5 A. I've never been through one.

6 Q. Okay. Do you know when Avista received or
7 requested the purchased gas adjustment in Washington
8 or when that was approved?

9 A. No, I do not.

10 Q. Okay. Now, the next area of increased
11 expenses in this paragraph is administrative and
12 general expenses in the amount of \$7 million due to,
13 and I quote, executive changes, corporate name change
14 and incentives, close quote. Do you see that?

15 A. Yes, ma'am.

16 Q. Now, could you describe what is included
17 within the term executive changes?

18 A. No, I cannot.

19 CHAIRWOMAN SHOWALTER: Ms. Tennyson, where
20 were you referring when you read about executive
21 changes?

22 MS. TENNYSON: This is in the paragraph
23 under Energy Delivery, 1998 compared to 1997, the
24 third paragraph, under that section, the second
25 sentence.

00287

1 CHAIRWOMAN SHOWALTER: Thank you.

2 Q. Can you describe what's included in the --
3 under the heading incentives?

4 A. I can describe what might be included
5 related to the energy delivery line of business that
6 I was involved in. And there we paid out incentives
7 in 1998 for meeting targets related to operating
8 income and customer satisfaction.

9 Q. Now, would those generally be included in
10 administrative and general expenses or would they be
11 in other areas of the corporation's expenses?

12 A. I don't know for sure.

13 Q. Okay. I'm going to refer at this point
14 back to your testimony, and specifically page 14.
15 I'm looking at line 17 through 19. There you mention
16 that Avista Energy -- now, if I'm understanding it,
17 this is the nonregulated energy part of the business
18 -- optimizes the JP storage and the gas
19 transportation assets; correct?

20 A. That is correct.

21 Q. And this is a result of the incentive
22 mechanism that was approved by this Commission that
23 we referred to that we're not sure whether there's an
24 order or not?

25 A. That's correct.

00288

1 Q. Now, as a result of that incentive
2 mechanism, Avista Energy now purchases the gas that
3 goes into storage and Avista Energy then has control
4 of how it is utilized; isn't that true?

5 A. I'm not familiar with the mechanics, what
6 Avista Energy does with it, but the benchmark has
7 three legs to it, commodity, transportation and
8 storage. That's all part of the benchmark.

9 Q. So commodity, transportation, and storage.
10 Commodity, I would assume, is the actual product, the
11 gas?

12 A. Yes, ma'am.

13 Q. And the transportation, what does that
14 include?

15 A. The pipeline, pipeline capacity.

16 Q. And storage, then, is the storage facility?

17 A. Yes, ma'am.

18 Q. I'm familiar with that facility. I'm not
19 sure whether the Commissioners are. Could you
20 describe for us what the JP storage is?

21 A. My understanding, I've never visited
22 myself. My understanding, it's about 18, I think
23 about 18 billion cubic feet of storage for natural
24 gas, and the use of it is put gas in during off-peak
25 seasons at low prices and extract it for use for

00289

1 retail load when the price is up, typically in the
2 winter, et cetera.

3 Q. And formerly, the storage facility was
4 something that Avista Utilities operated; isn't that
5 correct?

6 A. A portion of it. We are one-third owner of
7 it, and then, I believe -- I don't know the exact
8 time, but I know some capital additions were made to
9 expand the storage. Avista Utilities did not need
10 the expanded storage, so Avista Energy invested the
11 capital expense to expand the storage.

12 Q. Do you know whether Avista Utilities or
13 Avista Energy still holds only a one-third interest
14 in the storage?

15 A. Yes, ma'am, I believe they do.

16 Q. So they didn't expand the ownership
17 interest, just the size of the storage facility?

18 A. That's correct.

19 JUDGE SCHAER: You know, I didn't
20 understand that.

21 MS. TENNYSON: Okay.

22 JUDGE SCHAER: That conversation.

23 MS. TENNYSON: Okay.

24 JUDGE SCHAER: They owned a third of the
25 facility?

00290

1 MS. TENNYSON: Avista Utilities owned a
2 third of the facility.

3 JUDGE SCHAER: And then the facility got
4 bigger, and they didn't increase the amount they
5 owned, but they still owned a third of the facility?

6 THE WITNESS: Avista Utilities -- let me
7 try to clarify it.

8 MS. TENNYSON: I think it better come from
9 the witness.

10 THE WITNESS: Assume the facility starts
11 out sometime X back at a size of 15 billion.

12 JUDGE SCHAER: Okay.

13 THE WITNESS: And we own one-third of that
14 along with a couple of other utilities, I believe.
15 Williams and Puget Sound Energy, I believe, are the
16 other owners. There was an opportunity to expand the
17 capacity of that facility from 15 to 18, I believe.

18 JUDGE SCHAER: Okay.

19 THE WITNESS: And Avista Utilities did not
20 participate in the expansion, but Avista Energy did.

21 JUDGE SCHAER: So you owned a third of 15,
22 which was five units, and then the thing increased to
23 18 units, so a third of 18 would be six, but you
24 still only own five. So do you own a third of it?
25 That's where I'm getting lost.

00291

1 MR. MEYER: I realize I'm not on the stand.
2 I am familiar with how that played out. I'll just
3 provide this representation of counsel, and we can
4 have additional discussion perhaps with the witness.

5 JUDGE SCHAER: Okay.

6 MR. MEYER: The ownership agreement, three
7 parties, as Mr. Turner adequately described, Puget,
8 Avista, Northwest Pipeline. When they elected to
9 expand the project, all three of the owners,
10 representing one-third interests respectively,
11 decided to participate in that expansion, okay. So
12 even on an expanded basis, Avista Utilities owned a
13 full share of the expanded.

14 What it did for a period of ten years was
15 to release the incremental capacity made possible by
16 the expansion to its affiliate, Avista Energy, with
17 the right to recall that at some future date when the
18 utility needed it. The --

19 JUDGE SCHAER: I think that's sufficient
20 for me to understand.

21 MR. MEYER: Okay. That's -- for which
22 Avista Energy, then, paid the price or the cost of
23 the expansion. Enough said.

24 JUDGE SCHAER: Thank you for clearing up my
25 confusion. Go ahead.

00292

1 Q. Mr. Turner, in your position as the head of
2 the utility operations, are you familiar with the
3 Commission's rules on -- for gas and electric
4 companies?

5 A. Somewhat.

6 Q. Are you familiar with the rules regarding
7 political information, political education activities
8 for these companies, limitations on including them in
9 rates?

10 A. They've been explained to me, yes, they
11 have.

12 Q. Okay. At this point, I would like to refer
13 to what's been marked as Exhibit 29. Do you have a
14 copy of that? I do have an extra copy, if --

15 MR. MEYER: It should be in your materials.
16 That would be the first staff exhibit? Do you have
17 an extra copy?

18 MS. TENNYSON: Yes, I do. May I approach
19 the witness?

20 JUDGE SCHAER: Yes, you may.

21 Q. Mr. Turner, I've handed you what's been
22 marked for identification as Exhibit 29, and you are
23 listed as the witness on this. I am -- if this is a
24 matter that you need to defer to Mr. Falkner, since
25 he apparently did respond, we can address that. The

00293

1 question has to do with a Commission Staff or Data
2 Request Number 263, requesting a listing and
3 description of corporate memberships that have been
4 charged to the utility operations; is that accurate?

5 A. Yes, ma'am.

6 Q. And there is then attached a listing and
7 description of several of these. What my question of
8 you is did you or did someone under your direction
9 review these organizations to determine the amount of
10 lobbying or political activities these groups do that
11 the dues for these organizations or for membership of
12 these organizations pay for?

13 A. Yes, ma'am.

14 Q. And what were the results of that research?

15 A. We believe these clearly fall outside of
16 that exclusion of lobbying.

17 Q. And what about -- the Commission has a rule
18 on advertising, as well. Did you do a similar review
19 for that?

20 A. Yes, ma'am.

21 Q. Okay. And would your answer be the same,
22 that you believe these are outside of that rule? Or
23 membership in these organizations would not include
24 payment for advertising activities?

25 A. Yes, ma'am.

00294

1 Q. Okay, thank you. I have one additional
2 question relating to the JP storage facility, at the
3 risk of opening up bigger holes.

4 A. Okay.

5 Q. Perhaps while you're here in this area, you
6 might go visit the storage facility. It appears to
7 be in this area. Now, as I understand it, Avista
8 Energy now has control over the JP storage facility;
9 is that correct?

10 A. That is correct.

11 Q. Is Avista Energy the one -- the entity that
12 will now be purchasing the gas during the summer
13 months for storage and usage later in the year?

14 A. Yes, ma'am.

15 Q. Okay. And then they will be supplying that
16 gas to Avista Utilities to meet the gas needs of
17 Avista Utilities?

18 A. That's my understanding, under the
19 benchmark.

20 Q. And again, that was approved in June of
21 1999?

22 A. Yes, ma'am.

23 MS. TENNYSON: Okay, thank you. I have no
24 further questions at this time. I will note that I
25 had marked a copy of the Commission Order, which

00295

1 actually should have been an exhibit that was in the
2 pile for Mr. Dukich. There was a separator page when
3 they were copied and it got misplaced. So we will be
4 using that with Mr. Dukich, not Mr. Turner.

5 JUDGE SCHAER: So you are not offering
6 Exhibit 28?

7 MS. TENNYSON: Correct. I would offer
8 Exhibit 29.

9 JUDGE SCHAER: Any objection? Hearing
10 none, Exhibit 29 is admitted. Mr. ffitch, did you
11 have questions for Mr. Turner?

12 MR. FFITCH: Yes, Your Honor.

13 C R O S S - E X A M I N A T I O N

14 BY MR. FFITCH:

15 Q. Mr. Turner, you should have in front of you
16 Exhibits 30 and 31. Perhaps I should just ask if you
17 do have those?

18 A. What is the data request number?

19 Q. They're 18 -- Public Counsel 18 and 19.

20 MR. MEYER: I'll go ahead and provide
21 copies of those.

22 Q. First of all, could you please refer to
23 Exhibit 30, which is the response to Data Request 18,
24 is it not?

25 A. Yes, it is.

00296

1 Q. And in that data request, you were asked to
2 provide any studies prepared by or for the company on
3 the cost of benefits of moving to bi-monthly meter
4 reading; is that correct?

5 A. That's correct.

6 Q. And the response there was that no studies
7 have been prepared. However, please the results the
8 internal survey -- I think that should read, Please
9 see the results of an internal survey?

10 A. Yes, it should.

11 Q. All right. So I'm correct, am I not that,
12 the company did not survey its customers to see if
13 they preferred monthly or bi-monthly meter reading
14 and billing?

15 A. That's correct.

16 Q. And this survey was described here as an
17 internal survey. Can you describe what you meant
18 here by internal survey?

19 A. We had folks that are responsible for meter
20 reading operations contact 40-plus utilities and
21 dialogue with them about how they read meters and
22 which of those companies, of course, read bi-monthly.

23 Q. Very well. And this survey was conducted
24 apparently by a Heidi Durham in 1999. Am I correct
25 in assuming that? I see her name at the top of page

00297

1 four of the survey document, along with the year.

2 A. Yeah, I would assume so.

3 Q. And then, on the top of page one, there's a
4 handwritten notation of November '99. Again, as far
5 as you know, does that indicate that was when the
6 study was prepared?

7 A. Yes, it would.

8 Q. And certainly, the study speaks for itself,
9 but it's correct, is it not, that the study reflects
10 that Seattle City Light, Tacoma City Light, Snohomish
11 P.U.D. have always done bi-monthly billing? You can
12 take a minute to look at it, if you'd like.

13 A. That's what it does reflect.

14 Q. Now, I'm going to ask you to turn to
15 Exhibit 31, and that -- I'll give you a minute to
16 find that. That is Avista's response to Public
17 Counsel Data Request 19, is it not?

18 A. Yes, it is.

19 Q. And is that response true and correct, to
20 the best of your knowledge? Take a moment to look at
21 it, if you'd like.

22 A. I would add to this response that I know
23 personally that we have looked at, in particularly,
24 in conjunction with a local vendor, Itron, at the
25 feasibility of using their equipment to do automated

00298

1 meter reading. And that's been done towards the end
2 of last year, early part of this year.

3 Q. All right. Well, this data request asked
4 you to provide any studies prepared by or for the
5 company on techniques to reduce meter reading and
6 billing costs, including the use of non-utility meter
7 reading and/or billing services; isn't that correct?

8 A. Yes, it is.

9 Q. Now, the opportunity that you just
10 mentioned falls within that description or that
11 request, doesn't it?

12 A. I guess it could. I don't know if I would
13 say it was an exhaustive study. It was a look at one
14 vendor.

15 Q. All right. Well, I'm just going to ask,
16 either in the form of a record requisition or a
17 request for a supplemental response to this data
18 request, for any records or documentation or studies
19 that resulted from your communication with that
20 vendor.

21 JUDGE SCHAER: I think you could go ahead
22 and do that as a supplement to your data request, Mr.
23 Ffitch.

24 MR. FFITCH: Very well.

25 THE WITNESS: Okay.

00299

1 JUDGE SCHAER: You'll be able to respond to
2 that, Mr. Turner?

3 THE WITNESS: Yes, we will.

4 JUDGE SCHAER: Thank you.

5 MR. FFITCH: At this time, Your Honor, I'd
6 like to offer Exhibits 30 and 31.

7 JUDGE SCHAER: Any objection?

8 MR. MEYER: None.

9 JUDGE SCHAER: Those documents are
10 admitted.

11 Q. Mr. Turner, I'd like to turn to another
12 area that was discussed this morning with Mr.
13 Matthews, and he suggested I might talk with you
14 about this area, so here we are.

15 A. Okay.

16 Q. This relates to some of the activities of
17 subsidiaries. Let me ask, first of all, has Avista
18 Utilities or Avista Corp. entered into -- I'm sort of
19 using those interchangeably, because there's no legal
20 distinction.

21 A. Okay.

22 Q. Has the entity entered into agreements with
23 Avista Fiber or Avista Telecommunications for the
24 placement of facilities on electric or gas utility
25 facilities or within the electric or gas

00300

1 rights-of-way?

2 A. Let me answer the question this way. We
3 have made a call back to Spokane to get some folks
4 working on that answer. I know that we have entered
5 into agreements. We have not been able to pull the
6 agreements together thus far.

7 Q. Okay. And --

8 CHAIRWOMAN SHOWALTER: Excuse me. I didn't
9 -- what do you mean by that answer? You have entered
10 into agreements, you just haven't pulled them
11 together. You mean you haven't produced them?

12 THE WITNESS: I haven't been able to
13 actually look at the agreements. But I know that we
14 treat Avista Fiber and Avista Communications just
15 like every other entity that wants to contact our
16 facilities.

17 CHAIRWOMAN SHOWALTER: Thank you.

18 THE WITNESS: So we have pole attach
19 agreements with them just like we would with any
20 other entity.

21 COMMISSIONER HEMSTAD: So apparently you
22 have written agreements, but you're looking for them
23 or --

24 THE WITNESS: That's my understanding.

25 COMMISSIONER HEMSTAD: Okay.

00301

1 CHAIRWOMAN SHOWALTER: Maybe they're in
2 with our June order.

3 MR. FFITCH: Well, Your Honor, we have an
4 outstanding record requisition number --

5 JUDGE SCHAER: Your Record Requisition Two
6 asks for --

7 MR. FFITCH: That's the policy. It's not
8 for the other agreements. I was just trying to see
9 if -- we've kind of landed around this with some of
10 the other record requisitions, but we haven't
11 actually asked yet for those agreements. I think
12 maybe this would be an appropriate time to add a
13 record requisition for the agreements that the
14 witness has just referred to.

15 THE WITNESS: These will be pole attachment
16 agreements?

17 MR. FFITCH: Well, I think it's a little
18 broader than that, Your Honor. I guess I would
19 phrase it as any agreements for the placement of
20 facilities by Avista Fiber or Telecommunications on
21 electric or gas utility facilities owned by Avista
22 Corp. or within the electric or gas utility
23 rights-of-way of Avista Corp.

24 JUDGE SCHAER: You want it just for those
25 two subs; is that correct?

00302

1 MR. FFITCH: That's correct, Your Honor.

2 THE WITNESS: That's fine.

3 JUDGE SCHAER: Mr. Turner, you understand
4 the request and you'll be able to respond?

5 THE WITNESS: Yes, ma'am.

6 JUDGE SCHAER: That will be Record
7 Requisition Number Ten. Go ahead, please.

8 MR. FFITCH: One moment, Your Honor.

9 Q. Were those agreements presented to the
10 Commission for review and approval, Mr. Turner?

11 A. Not to my knowledge. These are standard
12 FCC -- we follow standard FCC policy and practice
13 with all of our entities in the local region that
14 want to use our facilities for pole attachments.

15 Q. Do you know if any compensation was paid in
16 the form of rent or royalties or pole attachment fees
17 by Avista Fiber or Avista Communications to Avista
18 Corp. -- I'm sorry.

19 A. Sorry.

20 Q. I just want to make sure I get you a
21 complete question -- for the privilege of placing
22 their facilities or attaching their facilities to the
23 Avista Corp. electric facilities or gas facilities?

24 A. They pay the same rates that every other
25 entity within our service territory pays for

00303

1 attaching to our facilities.

2 Q. So your answer is that, yes, there was
3 compensation?

4 A. Yes, there was compensation.

5 Q. And do you know how much compensation that
6 was or that is?

7 A. Not off the top of my head.

8 Q. Would that be reflected in the agreements
9 or contracts that you are locating in Spokane?

10 A. It would either be reflected in those
11 agreements or contracts or specifically identified in
12 the FCC guidelines.

13 Q. Is there another witness for Avista that I
14 could ask these questions of if it's beyond your area
15 of specific knowledge?

16 MR. MEYER: May I -- I suspect this week,
17 in this hearing room, there is no one who has that
18 level of revenue from those subsidiaries. If it
19 could be put as a data request or a record
20 requisition, we could simply answer it and get the
21 right number to you.

22 JUDGE SCHAER: Would you like that, Mr.
23 Ffitch, as a portion of Record Requisition Number
24 Ten?

25 MR. FFITCH: That would be fine, Your

00304

1 Honor.

2 JUDGE SCHAER: It's been represented by
3 Counsel for the company that nobody here knows the
4 answer to your question, so why don't we proceed in
5 that manner.

6 Q. Do you know, Mr. Turner, if the company,
7 Avista Corp., has allowed any other nonaffiliated
8 telecommunications companies to attach to its
9 facilities?

10 A. Yes, we have.

11 Q. And is that on the same terms and
12 conditions and at the same level of compensation that
13 Avista Fiber pays or Avista Telecom pays to the
14 electric utility?

15 A. Yes, I believe it would be.

16 Q. And has a tariff been filed with this
17 Commission providing for nondiscriminatory rates to
18 any telco -- telecommunications company desiring to
19 locate telecommunications facilities on the electric
20 distribution or transmission structures or within the
21 rights-of-way?

22 A. No, I don't believe there has been.

23 Q. And this morning, Mr. Matthews testified
24 that, to his knowledge, neither Avista Fiber nor
25 Avista Communications paid any royalties on its

00305

1 revenues to Avista Corp. Is that also your
2 understanding?

3 A. That would be beyond my area of knowledge.

4 Q. But would that also be your answer with
5 regard to any of the other Avista subsidiaries or
6 business entities?

7 A. Yes, it would.

8 Q. Are you aware of whether Avista Corp. pays
9 any royalties to any of its subsidiaries or business
10 entities?

11 MR. MEYER: I'm going to object.
12 Essentially, the same line or pattern of questioning
13 was done this morning of Mr. Matthews. Clearly, this
14 witness is here for a different purpose. Unlike Mr.
15 Matthews, who gave you a bigger picture view of the
16 company and its affiliates, this witness is here to
17 testify to issues surrounding the Avista Utilities,
18 the Utility.

19 JUDGE SCHAER: And I believe the question
20 just asked if Avista Utilities, as a utility, had
21 paid any amounts to other subsidiaries. Was that
22 correct, Mr. ffitch?

23 MR. FFITCH: That's correct, Your Honor.

24 JUDGE SCHAER: I might have sustained you
25 on a couple questions before this, but I think this

00306

1 one is appropriate to ask of this witness, Mr. Meyer.
2 Go ahead, please.

3 THE WITNESS: Repeat the question for me,
4 please.

5 Q. I was asking whether Avista Utilities has
6 paid any royalties to any of the subsidiaries, I
7 guess Avista Capital or any of its subsidiary
8 business entities?

9 A. No, we haven't.

10 MR. FFITCH: I think those are all my
11 questions, Your Honor. I'd like -- I guess I have
12 offered the only cross exhibits, so --

13 JUDGE SCHAER: I believe you have.

14 MR. FFITCH: -- I believe that finishes for
15 Public Counsel. Thank you, Mr. Turner.

16 THE WITNESS: Thank you.

17 JUDGE SCHAER: Mr. Van Cleve, did you have
18 questions of this witness?

19 MR. VAN CLEVE: No questions, Your Honor.

20 JUDGE SCHAER: Commissioners, did you have
21 questions for Mr. Turner?

22 CHAIRWOMAN SHOWALTER: No.

23 COMMISSIONER HEMSTAD: No.

24 JUDGE SCHAER: And I have no questions for
25 you, so do you have any redirect?

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1 MR. MEYER: I have none. Thank you.

2 JUDGE SCHAER: Okay. Mr. Turner, thank you
3 for your testimony, and you may step down. Let's go
4 off the record for just a moment to discuss how to go
5 from here.

6 (Discussion off the record.)

7 JUDGE SCHAER: Let's be back on the record.
8 While we were off the record, we discussed scheduling
9 for tomorrow morning's hearing. We will reconvene at
10 9:15 and, until then, we are off the record.

11 (Proceedings adjourned at 4:57 p.m.)

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