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BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	Docket No. UE-991606
TRANSPORTATION COMMISSION,)	Docket No. UG-991607
Complainant,)	Volume VII
)	Pages 848-1053
v.)	
)	
AVISTA CORPORATION,)	
Respondent.)	
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A hearing in the above matter was held on March 31, 2000, at 9:02 a.m., at 1300 Evergreen Park Drive Southwest, Olympia, Washington, before Administrative Law Judges MARJORIE R. SCHAER and KAREN CAILLE and CHAIRWOMAN MARILYN SHOWALTER, COMMISSIONER RICHARD HEMSTAD and COMMISSIONER WILLIAM R. GILLIS.

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follows:

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

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1 NORTHWEST INDUSTRIAL GAS USERS, by
Edward A. Finklea, Attorney at Law, 526 N.W. 18th
2 Avenue, Portland, Oregon 97209.

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

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

7 NORTHWEST ENERGY COALITION, by
8 Danielle Dixon, Policy Associate, 219 First Avenue
South, Suite 100, Seattle, Washington 98104.

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Barbara L. Spurbeck, CSR
Court Reporter

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1 JUDGE SCHAER: Let's be on the record.
2 This is the fifth day of hearings this week in the
3 presentation of the company's direct case in dockets
4 Number UE-991606 and UG-991607. These consolidated
5 dockets are applications by Avista Corporation for
6 increase in general rates. We're meeting today in
7 the Olympia headquarters of the Commission in the
8 Commission hearing room, and the company is
9 continuing to present witnesses.

10 MR. MEYER: Do you know, is the Commission
11 planning on joining us shortly?

12 JUDGE SCHAER: The Commissioners will be
13 here in a few minutes, yes.

14 MR. MEYER: In a few minutes?

15 JUDGE SCHAER: We're going to get this
16 witness sworn and ready to go.

17 MR. MEYER: Okay. I was kind of -- beyond
18 just the typical errata on numbers designations, we
19 have a few changes, deletions to the last part of his
20 testimony and one short addition, so I want to make
21 sure they have that.

22 JUDGE SCHAER: Okay. Well, I want to
23 remind all of the parties that when you prepare
24 errata sheets, I view these as being for more than
25 just changes in exhibit numbers. If there are other

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1 editing changes to the documents, to the exhibits or
2 prefiled testimony, I would like you to provide those
3 on the errata sheet, as well, because it is easier
4 for us to deal with if you put it in writing and the
5 Commissioners can provide them to their support staff
6 for inclusion in their books. So would you call your
7 witness, please?

8 MR. MEYER: I'd be happy to do so. Call to
9 the stand Mr. Ronald McKenzie.

10 JUDGE SCHAER: The following exhibits were
11 marked in conjunction with Mr. McKenzie's testimony.
12 Exhibit T-445, Direct Testimony, and Exhibit 446, PCA
13 Rate Adjustment by Schedule and Tariff.
14 Whereupon,

15 RONALD L. MCKENZIE,
16 having been first duly sworn, was called as a witness
17 herein and was examined and testified as follows:

18 JUDGE SCHAER: Thank you. Your witness is
19 sworn, Mr. Meyer.

20 MR. MEYER: At this point, Your Honor, we
21 can move or we can identify the errata, but, again,
22 as I indicated, I appreciate your comments. I would
23 like to have the Commissioners at least here so they
24 can capture in their books the other changes, rather
25 than do it twice.

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1 JUDGE SCHAER: Why don't you go ahead and
2 identify the exhibits you have for Mr. McKenzie.

3 MR. MEYER: Okay. The exhibits -- there is
4 an Exhibit T-445, as well as Exhibit 446.

5 D I R E C T E X A M I N A T I O N
6 BY MR. MEYER:

7 Q. Mr. McKenzie, we've distributed an errata
8 sheet, so are you sponsoring what's been marked for
9 identification as Exhibit T-445?

10 A. Yes, I am.

11 Q. And I understand you'll have a few
12 additional changes to make to that in due course.

13 A. Correct.

14 Q. Are you also sponsoring what has been
15 marked for identification as Exhibit 446?

16 A. Yes.

17 MR. MEYER: Thank you. I'll reserve
18 admission until such time as we make the other
19 changes.

20 JUDGE SCHAER: Okay. Are there any
21 preliminary matters to come before us this morning?
22 Then let's go off the record until the Commissioners
23 arrive, which I am told should be in the next few
24 minutes.

25 (Recess taken.)

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1 JUDGE SCHAER: Let's be back on the record.
2 Would you go ahead with your witness now, Mr. Meyer.

3 MR. MEYER: Thank you.

4 Q. Mr. McKenzie, would you kindly turn to your
5 Exhibit Number T-445?

6 A. I have it in front of me.

7 Q. Okay. And do you have any corrections to
8 make to that?

9 A. I do. On page nine, beginning at line six,
10 I'd like to strike from line six through the end of
11 the sentence that ends with the word "closes" on line
12 12.

13 Q. Okay. And Mr. McKenzie, what, then, in
14 light of the Centralia order, is the company's
15 position with regard to the return of the ratepayer
16 gain?

17 A. The Commission approved the sale of
18 Centralia in Docket Number UE-991255. The Commission
19 ordered that the rate treatment of the customers'
20 share of the gain be addressed in this proceeding.
21 With that in mind, the company proposes that the
22 customers' share of the gain be used to offset the
23 Washington share of ice storm 1996 costs. We then
24 proposed that the remaining gain be amortized over an
25 eight-year period, as was recently ordered in our

00857

1 Idaho case.

2 The replacement power cost, as reflected in
3 Exhibit C-194, should then be included in this case,
4 together with the removal of the ice storm cost from
5 Mr. Falkner's injuries and damages adjustment.

6 Q. Do you have any other changes or
7 corrections to make to that?

8 A. No.

9 Q. In the event the Commission were not to
10 otherwise use the ice storm costs to offset their
11 portion of ratepayer gain, is it still the company's
12 proposal that those ice storm costs should be
13 recovered through the injuries and damages?

14 A. Yes, it is.

15 MR. MEYER: Thank you. With that, Your
16 Honor, I move for the admission of Mr. McKenzie's
17 Exhibits T-445 and 446.

18 JUDGE SCHAER: Any objections? All right.
19 Those documents are admitted.

20 MR. MEYER: The witness is available for
21 cross.

22 JUDGE SCHAER: Mr. Trautman, did you have
23 questions of this witness?

24 MR. TRAUTMAN: Yes, just a few.

25 JUDGE SCHAER: Go ahead, please.

00858

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

2 BY MR. TRAUTMAN:

3 Q. Good morning, Mr. McKenzie.

4 A. Good morning.

5 Q. I'm Greg Trautman, Assistant Attorney
6 General, for the Commission Staff. If you could turn
7 to your testimony, Exhibit T-445, to page two. At
8 the top of the page, it says Power Cost Adjustment
9 Mechanism.

10 A. I have that.

11 Q. And is it correct that in lines 14 to 21 of
12 your testimony, you state that the allocation factor
13 used to allocate the monthly variation would be 66.99
14 percent to Washington?

15 A. Yes.

16 Q. Is this based on the production
17 transmission allocation factor for the test year
18 ended December 31st, '98?

19 A. Yes, it is.

20 Q. And why would this allocation factor not
21 change annually and follow the actual production
22 transmission allocator that is used for power
23 purchases?

24 A. The base power cost to which the PCA cost
25 will be compared to will be established in this case

00859

1 using the 66.99 percent allocation factor. I felt it
2 was appropriate, then, since those base costs were
3 allocated on that percentage, to compare the PCA
4 costs to the base cost on the same percentage.

5 Q. Moving down to lines 20 and 21 -- actually,
6 prior to those lines, you state that the percentage
7 would be used until updated in a future general rate
8 case unless circumstances arise that might require
9 that it be updated outside of the general rate case.
10 And then you say, If such circumstances were to
11 arise, the company would be responsible for filing a
12 request to update the allocation percentage. What
13 circumstances are you talking about?

14 A. What I had in mind there is perhaps the
15 addition or loss of a large load customer that would
16 materially impact the allocation formula. And if
17 that were the case, the company could come in and
18 change the allocation factor, but that would also
19 impact the allocation of the base cost approved in
20 this case.

21 Q. When you refer to a large customer, how big
22 is large?

23 A. I really didn't try to put a size limit on
24 a large load. I guess we'd have to look at the
25 impact that loss in the future or a gain in the

00860

1 future would have on the allocation formula.

2 Q. How would the PCA mechanism account for
3 increases in customer counts and changes in volumes
4 over a year?

5 A. The PCA mechanism does not account for
6 changes in customer counts or customer loads. The
7 mechanism is a simplified approach where the base
8 retail loads are held constant. We're only trying to
9 track the variations in stream flows, secondary
10 prices, and PURPA contract changes.

11 Q. If you could turn to page eight of your
12 testimony, at the top of the page, lines two to four.
13 This is after you discuss an amortization. And you
14 state that at the end of the twelfth month
15 amortization period, any unamortized surcharge or
16 rebate balance will be transferred back to the PCA
17 balancing account. Do you see that?

18 A. Yes.

19 Q. Is the company's proposed monthly
20 amortization method based on the actual surcharge or
21 rebate revenues that are collected or refunded during
22 the year?

23 A. Yes.

24 Q. So it is not simply a one-twelfth
25 amortization of the total amount, six million?

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1 A. Correct.

2 Q. On the prior question about regarding the
3 large customers and how that would affect the
4 allocation factor, what amount of change in the
5 allocation factor would have to occur before you
6 would recommend a change to it?

7 A. I would think that we'd probably have to
8 examine the factor if it changed from year to year by
9 two or three percent. We could look at it. Anything
10 above that might definitely warrant a change.

11 Q. At what point would, in your view, would it
12 definitely warrant a change?

13 A. I'd say three percent.

14 MR. TRAUTMAN: That's all I have.

15 JUDGE SCHAER: Mr. ffitch, did you have
16 questions?

17 MR. FFITCH: I do, Your Honor. Thank you.

18 JUDGE SCHAER: Go ahead, please.

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

20 BY MR. FFITCH:

21 Q. Good morning, Mr. McKenzie.

22 A. Good morning.

23 Q. I'd like you to turn to page nine of your
24 direct testimony, starting at line six, the answer
25 that you have there regarding the effect of the

00862

1 Commission's Centralia decision. It's true, is it
2 not, as we've heard earlier in this proceeding, that
3 the overall effect of the Commission's decision with
4 respect to Avista is an increase in the revenue
5 requirement of the company of approximately \$4
6 million; isn't that true?

7 A. You're referring to Exhibit C-194?

8 Q. This was testimony from Mr. Norwood. And
9 my question not particularly referring to an exhibit,
10 but simply the testimony we heard earlier, that the
11 general scale of the revenue requirement increase
12 resulting from the decision was in the range of \$4
13 million?

14 A. Mr. Norwood did testify to Exhibit C-194,
15 and as I remember, the total impact was \$4.1 million,
16 removing the Centralia rate base from the test
17 period, which does not include the capital additions
18 for scrubbers and other costs associated with the
19 plant and replacing the plant with a contract
20 purchase.

21 Q. All right. Now, other than the correction
22 that you just made to page nine, there is no
23 testimony or exhibits in the case provided by Avista
24 so far explaining the effect of the proposal that
25 you've just set forth in your corrected testimony; is

00863

1 that correct?

2 A. No, Mr. Norwood testified to the impact of
3 replacing Centralia with the contract purchase, and
4 that's reflected in Exhibit C-194. Mr. Falkner has
5 work papers in an exhibit regarding the amortization
6 of ice storm costs. So that's reflected in the
7 record. The ice storm offset was presented in the
8 Centralia docket, UE-991255.

9 Q. Those exhibits were all prepared prior to
10 the issuance of the Commission's Centralia decision,
11 were they not?

12 A. I don't know when Exhibit C-194 was
13 prepared. I can't really answer that.

14 MR. FFITCH: May I just have a moment, Your
15 Honor?

16 JUDGE SCHAER: Certainly.

17 Q. Mr. McKenzie, is it the company's intention
18 to submit any additional testimony or exhibits with
19 regard to the treatment of the Centralia case in its
20 direct case in this proceeding?

21 A. If you would like information submitted
22 that you don't think is available, we could certainly
23 provide that.

24 Q. Well, I appreciate that. My question was
25 whether, you know, separate from any kind of a record

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1 requisition, whether the company was in fact planning
2 to submit supplemental testimony or exhibits on this
3 issue?

4 A. Not to my knowledge.

5 MR. FFITCH: I don't have any further
6 questions. Thank you, Your Honor. I think that,
7 just to note for the record that, at an appropriate
8 time, we may have a procedural matter for the Bench
9 with regard to the ability to respond to the changed
10 testimony on this issue, whether there needs to be
11 additional supplemental direct or additional
12 opportunity for people to respond.

13 JUDGE SCHAER: You can bring that up if you
14 feel that you need to at a later point, Mr. ffitich.
15 I believe that once we receive the transcripts, we'll
16 have a copy of the testimony given today, and
17 hopefully that will be well in advance of when you
18 have to file your own testimony. But if there is a
19 problem, please contact us and we'll try to work with
20 you and the parties to resolve the problem.

21 MR. FFITCH: Well, I would hope to raise
22 this before we conclude the hearing today, if we have
23 a specific request in that area.

24 JUDGE SCHAER: If you have a record request
25 that you'd like to make, do you have any objection to

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1 that being made later in the hearing?

2 MR. MEYER: None whatsoever. We'd be happy
3 to respond to questions, Your Honor.

4 JUDGE SCHAER: Okay. Let's go ahead in
5 that manner, then.

6 MR. FFITCH: Thank you. I don't have any
7 further questions. Thank you, Mr. McKenzie.

8 JUDGE SCHAER: Mr. Finklea, did you have
9 questions?

10 MR. FINKLEA: No questions, Your Honor.

11 JUDGE SCHAER: Commissioners, do you have
12 questions?

13 CHAIRWOMAN SHOWALTER: I have a couple.

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

15 BY CHAIRWOMAN SHOWALTER:

16 Q. Is Exhibit C-194, is that from the
17 Centralia case or this case?

18 A. It's from this case.

19 Q. This case, okay.

20 A. Correct.

21 Q. I just want to understand the mechanics of
22 the power cost adjustment proposal. On page six of
23 your testimony, you give -- and this is in lines
24 seven through 17. You give an example in which, for
25 changes occurring in the month of April, the

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1 ratepayer would feel the effect of those changes in
2 July, because of the need to accumulate the data and
3 post it to May and then notice requirements.

4 A. Correct.

5 Q. But this process is going to go on
6 month-to-month; am I right on that?

7 A. Yes. The deferrals, the comparison between
8 the PCA calculated power cost and actual costs will
9 go on from month-to-month, so the deferrals will
10 continue to go on once a trigger is reached. That
11 would cause either a surcharge or rebate change in
12 the customers' rates.

13 Q. Okay. So if April resulted in a rebate,
14 but May happened to result in a surcharge, does it
15 mean, nonetheless, that July would begin the rebate
16 and then August would counter-balance that with the
17 surcharge, or would you take that into account since
18 you would already know it, I think, by the time you
19 had to give notice for the July 1 date?

20 A. Okay. Our intention is to use a balancing
21 account and enter the monthly deferred amounts into
22 the balancing account until the balance reached the
23 \$6 million trigger level. At that point, rates would
24 be changed regardless of what happened in subsequent
25 months. The balancing account would again begin to

00867

1 accrue a new balance after the trigger was reached.

2 Q. Okay. And then, elsewhere in your
3 testimony, I think you said there would never be more
4 than two rebates and two surcharges going on at the
5 same time. Is that what you said?

6 A. Yes, right.

7 Q. I take your word for it. I'm just trying
8 to envision how it works. And I understand, in the
9 end, it would be -- it's a trueup of sorts, anyway,
10 but can there be a situation in which, in the first
11 several months, let's say there's a lot of
12 fluctuation, you get your two surcharges and your two
13 rebates?

14 A. Yes.

15 Q. And then that's it for a while, but
16 meanwhile, maybe the market goes in some direction,
17 so there'd be a hit further down the line once one of
18 these surcharges or rebates came off?

19 A. That could very well happen. And the
20 balancing account can just sit there and accumulate,
21 even though the number of rate changes restricts
22 another surcharge or rebate. Customers would not
23 forgo the balance in the balancing account; it would
24 just accumulate until a rebate or surcharge dropped
25 out, and then we could implement another surcharge or

00868

1 rebate.

2 The point on not having more than two in
3 effect at one time is to minimize the rate impact so
4 that there would be no more than a five percent rate
5 change in effect at any one point in time due to the
6 PCA mechanism.

7 Q. But -- this might just be abstract, but
8 let's say things went in one direction only, but --
9 so you got to your two surcharges and there you were,
10 but the monthly statistics would tell you're going to
11 keep doing some surcharges, but you couldn't do them
12 right away.

13 A. Right.

14 Q. But then, isn't there the piper to pay at
15 some later point? If it's going one way, you're
16 accumulating some kind of hefty surcharge. Could you
17 ever catch up?

18 A. Well, I guess if it continued to go in one
19 direction, you'd always be lagging behind, but the
20 intent is to catch up. As soon as one 12-month
21 surcharge dropped out of rates, you'd immediately
22 replace it with another surcharge that had built up.

23 Q. Okay. Then is there a cap on any given
24 surcharge?

25 A. Yes. Our proposal is once a balancing

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1 account reaches \$6 million, that would trigger a
2 surcharge or a rebate, and then the balancing account
3 would be allowed to build again to the point where it
4 reached \$6 million. That would be another trigger
5 that would cause a rate change.

6 Q. And I suppose if things just continued to
7 go one way, that we'd come in for some kind of more
8 permanent rate change?

9 A. Yeah.

10 Q. All right. It's probably academic, but it
11 seems that, theoretically, anyway, this surcharge or
12 rebate might never catch up to reality.

13 A. Theoretically, that could happen. I think
14 in the state of Idaho, it's only happened once where
15 we delayed a rebate until a previous rebate dropped
16 out.

17 JUDGE SCHAER: Okay. Thanks. I have no
18 further questions.

19 COMMISSIONER HEMSTAD: I don't have any
20 questions.

21 COMMISSIONER GILLIS: I don't have any
22 questions, either.

23 JUDGE SCHAER: I have just a couple
24 questions, Mr. McKenzie.

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

00870

1 BY JUDGE SCHAER:

2 Q. You've spoken of your PCA in Idaho. Does
3 that PCA have what I think is called a dead band in
4 it?

5 A. No, it does not.

6 Q. And did the PCA that your company proposed
7 in Washington the last time it proposed a PCA have a
8 dead band in it?

9 A. My recollection is that at one point it did
10 have a dead band, but there was some concern about
11 symmetry, so I think that was dropped, but my
12 recollection could be mistaken.

13 Q. Okay. One of the witnesses in this
14 proceeding has testified that the PCA that you've had
15 in Idaho for the last 11 years is similar to the one
16 you proposed in this proceeding?

17 A. Yes, it's very similar.

18 Q. What are the differences, if any?

19 A. From my point of view, one of the
20 differences is that the rates could be changed on a
21 much faster time schedule. In this case, I'm
22 recommending that as soon as we know a trigger's
23 reached and can file the tariff, that rates would go
24 into effect after 30 days. In Idaho, there's a
25 120-day process that we need to go through. Another

00871

1 variation is that, in Idaho, the rebate -- once you
2 exceed the trigger amount, the rebate or surcharge is
3 whatever it is. It's not limited to a two and a half
4 percent amount.

5 So if I could compare it to the numbers
6 here, let's say the balancing account exceeded the \$6
7 million and one month's entry resulted in it being
8 six and a half million dollars. That would be the
9 rebate amount implemented under the Idaho procedure.
10 But what that causes is -- and that's one of the
11 reasons for the 120 days, is you have to recalculate
12 what the rates are to all those schedules and submit
13 that information for review.

14 What I'm proposing in this case is to
15 simplify that process and say we have an automatic
16 change in rates that everybody agrees to, and once
17 the trigger amount is exceeded, those rates are
18 implemented.

19 Q. So what kind of process between the company
20 and the Commission and Public Counsel and your large
21 customers does the company contemplate at a time it
22 proposes a rate change?

23 A. All of the information leading up to the
24 balancing account exceeding the trigger amount would
25 have been provided in monthly reports, so that

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1 everyone should be aware that the balancing account
2 was approaching the trigger amount. And once it
3 exceeded the trigger amount, then we would file a
4 tariff with pre-determined rates that are similar to
5 my Exhibit 446 tariff sheet, and then those rates
6 would be implemented after the 30-day notice. And
7 we're proposing, just like we do in Idaho, that the
8 effective date be on the first day of the month, so
9 we minimize, simplify any proration calculations.

10 Q. So in terms of the process with the
11 Commission, you'd file that application here and
12 expect it to be acted on within 30 days?

13 A. It could be longer than 30 days, depending
14 on when we made the filing. I'm suggesting that
15 there be at least 30 days' notice and that the
16 effective date be made on the first day of the month
17 following that complete 30 days' notice.

18 Q. Now, let's just contemplate a hypothetical
19 for a moment, that you propose an adjustment based on
20 what's in your accounts. And some other party thinks
21 that you've got the numbers wrong and wants to have a
22 forum to challenge those numbers or to discuss other
23 information that may be coming out that shows that
24 they've -- in their opinion, that it's not
25 appropriate to do an increase or a decrease.

00873

1 Do you contemplate that within the 30 days,
2 then, the Commission would suspend the tariff filing
3 and then have 11 months to look at it, or 10 months
4 past the 30 days, or how do you contemplate that
5 happening?

6 A. Well, our proposal is to have pretty much
7 an automatic rate adjustment made. Like I said
8 earlier, the rate impacts would be pre-determined at
9 a pre-determined level, and the effects on rates
10 would be pre-determined, as I show in my tariff in
11 Exhibit 446.

12 However, if some parties differed on the
13 calculation of the deferrals that led up to the
14 balancing account exceeding the trigger, I guess
15 there would have to be a suspension to examine that,
16 but we're trying to get around that by providing
17 monthly reports so that they can examine those
18 calculations monthly and be up-to-date with where the
19 balancing account is at, and if they have any
20 problems with the calculations, they could bring up
21 those problems prior to the trigger being reached.

22 Q. Who do you propose making the monthly
23 filings to, just the Commission, or to the parties
24 that are kind of your regular cast of characters in
25 your other regulatory proceedings or -- I mean, how

00874

1 do you see that part of the process?

2 A. We could certainly submit monthly reports
3 to all the parties that are normally a part of our
4 electric rate cases. That is what we do in the state
5 of Idaho. One intervenor in Idaho gets monthly
6 reports.

7 Q. And have you ever had a proceeding in the
8 last 11 years in Idaho where someone challenged one
9 of the --

10 A. No.

11 Q. -- changes in the -- okay. Are you a
12 student of history?

13 A. Yes, I've been involved in the Idaho PCA
14 since its inception in October 1989.

15 Q. Okay. Are you aware of any of the history
16 of this Commission's work involved with things like
17 the Puget ECAC or the Puget mechanism that followed
18 the ECAC that had the couplings and some of those
19 other issues in there. Are you aware of the kind of
20 transaction costs that the Commission faced in
21 dealing with those filings each year?

22 A. I'm generally familiar with Puget's ECAC
23 and PRAM and the process that was involved. Our PCA
24 is different. It's limited scope, in that it only
25 addresses the changes in hydrogeneration, secondary

00875

1 prices, and PURPA contracts. We think it's a very
2 straightforward, simplified approach to PCA
3 mechanism, and we don't feel like there will be the
4 complication problems that arose with the ECAC and
5 PRAM.

6 Q. Let's talk about secondary sales for a
7 moment. The company, in a normal month, makes
8 secondary sales and also secondary purchases; is that
9 correct?

10 A. Yes.

11 Q. And are you proposing to look within the
12 months and see where you were in each of those areas
13 and then come up with a total, or are you going to go
14 to the end of the month and see where you are?

15 A. Mr. Johnson addresses the mechanics of the
16 actual calculation, but generally, the calculation
17 looks at the weighted average price during the month
18 for sales and purchases and then looks at the changes
19 in stream flow generation and calculates the impact
20 of both of those effects and compares it to what's
21 authorized in the general case.

22 Q. When you talk about looking at the weighted
23 average, is that a weighted average calculated by
24 Avista, or is that from some external source?

25 A. No, it's based on the actual purchases and

00876

1 sales by Avista, it's my understanding.

2 Q. Okay. And then, just a more general
3 question. Who do you think has more control over the
4 secondary sales and the risk involved with the
5 secondary sales, company managers or the customers?

6 A. I don't think customers have, you know, any
7 say, really, in the transactions the company enters
8 into, but our argument is that we don't control the
9 market prices. We try to take advantage of them as
10 best we can, but, you know, the company doesn't
11 control the price that it either purchases or sells
12 at.

13 Q. Well, you still haven't answered my
14 question, which is who has more control, the company
15 or the customer?

16 A. Well, the company's making the purchases
17 and sales, so they have control over what they buy
18 and sell. The customer doesn't have any control over
19 that.

20 Q. In the PCA that your company proposed to
21 the Commission in 1989, did you have a hundred
22 percent accrual or a hundred percent deferral or was
23 there some piece of that that was kept at risk for
24 the company so that there was something to provide an
25 incentive to your people making the secondary sales

00877

1 to do their very best?

2 A. Again, my recollection is that there was
3 some sharing mechanism proposed in that PCA filing,
4 and in our Idaho PCA, we had a sharing mechanism in
5 place, but we eliminated that successfully using the
6 argument that the company really doesn't have any
7 control in today's market over secondary prices.

8 Q. Can the company shape its power purchases
9 by how it runs its dams or its other plants?

10 A. It can, but the PCA mechanism just uses a
11 price that occurred during the month, and that price
12 is applied to the variation in generation costs by
13 the company's power plants. I'm probably getting in
14 too deep, deeper than I should. Those questions
15 really should be addressed to Mr. Johnson.

16 JUDGE SCHAER: Okay. That's all I had. Is
17 there any redirect?

18 MR. MEYER: Yes, there is, Your Honor.

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

20 BY MR. MEYER:

21 Q. Staying with PCA for just a moment, there
22 were some questions concerning what I'll roughly
23 characterize as fluctuations or volatility, I should
24 say, and whether there were concerns on the company's
25 part about the impact on rates.

00878

1 Does the PCA procedure that the company is
2 recommending in this case place a limit on the impact
3 that the PCA mechanism can have at any particular
4 point in time?

5 A. Yes, the company's proposed limit is that
6 only two rebates or two surcharges can be in place at
7 any one point in time.

8 Q. And the percentage impact of that at any
9 one point in time would be what?

10 A. Each rebate or surcharge is about two and a
11 half percent, so the limit of only two being in place
12 at one point in time would place a limit of five
13 percent.

14 Q. Okay. So that assumes that two were
15 actually in place at the same time?

16 A. Correct.

17 Q. Okay. And the company has had in place a
18 purchased gas cost adjustment clause for a number of
19 years?

20 A. Yes.

21 Q. And to the best of your knowledge, have
22 fluctuations, or I should say pass-throughs of the
23 PGA resulted on occasion in double digit adjustments?

24 A. Yes.

25 Q. Still with PCA, to your knowledge, have

00879

1 there been any difficulties working with the Idaho
2 Commission Staff through time with the implementation
3 of the PCA, either in connection with surcharges or
4 rebates?

5 A. We've had some modifications in the
6 mechanism over time that -- sometimes we've been able
7 to work those modifications out with Staff. When we
8 weren't able to, we've taken those modifications
9 before the Commission. But in general, there have
10 been no changes to the -- you know, the filings for
11 rebates or surcharges.

12 Q. But more generally, how would you
13 characterize the implementation in Idaho in terms of
14 difficulty of administrating this?

15 A. There really haven't been any problems of
16 administration, other than when we felt that there
17 was a change justified in the mechanism.

18 Q. Okay. Let's turn for a moment to some
19 cross of Public Counsel.

20 May I approach the witness, Your Honor?

21 JUDGE SCHAER: Yes, you may.

22 Q. The record should reflect that I'm handing
23 to Witness McKenzie a copy of Staff Exhibit C-194.
24 It is a confidential exhibit, and I will not pursue
25 much substantive cross on it, other than just to get

00880

1 acknowledgement of its admission.

2 You have before you a copy of what has been
3 marked as Exhibit C-194, do you not?

4 A. Yes.

5 Q. And was that introduced through Staff in
6 this proceeding?

7 A. Yes, that's my understanding.

8 Q. And was that a response by the company to
9 Staff's request concerning the impact of any removal
10 of Centralia and the use of replacement power?

11 A. Yes.

12 Q. Okay. And what was the date of that
13 response? It's the upper right-hand corner.

14 A. Yeah, our response was dated March 13th of
15 this year.

16 Q. Okay. And to the best of your knowledge,
17 did that come shortly after the Commission issued its
18 Centralia order?

19 A. Yes, the Centralia order, I believe, was
20 issued on March 6th.

21 Q. Now, is it also the case, Mr. McKenzie,
22 that the Staff has introduced already in this
23 proceeding Exhibit 232, dealing with the impact of
24 ice storm? May I approach the witness, Your Honor?

25 JUDGE SCHAER: Yes, and I wish that you

00881

1 would identify these exhibits. I believe both of
2 them have been admitted, so they have not just been
3 identified by Staff. If there are things that are
4 just identified still for later witnesses, I like to
5 keep that distinction clear in the record, please.

6 MR. MEYER: Surely. Thank you, Your Honor.
7 The record should reflect that I've handed to Mr.
8 McKenzie what has been admitted as Staff Exhibit 232.

9 Q. Take a minute to refresh yourself. And
10 would you turn to page two of that, please, which is
11 actually marked P-4 on the bottom right-hand corner.

12 A. Yes.

13 Q. Okay. Does that exhibit of record contain
14 information with regard to the ice storm costs that
15 we sought to recover in this case?

16 A. Yes.

17 Q. Okay. Would you agree, Mr. McKenzie, that
18 the basic elements necessary to perform the
19 calculations concerning the impact of offsetting
20 Centralia refunds by ice storm costs are of record?

21 A. Yes, that was our proposal in the Centralia
22 docket.

23 Q. But they're of record in this proceeding?

24 A. Yes.

25 Q. And one could calculate a revenue

00882

1 requirement based on information already of record?

2 A. Yes.

3 MR. MEYER: That completes my redirect.

4 Thank you.

5 JUDGE SCHAER: Any further questions?

6 MR. TRAUTMAN: I have one.

7 JUDGE SCHAER: Go ahead, Mr. Trautman.

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

9 BY MR. TRAUTMAN:

10 Q. Counsel referred to the ice storm, or I
11 should say Exhibit 232, referring to the ice storm
12 cost, and you indicated that the proposal was that
13 the Washington share of the gain of the Centralia
14 sale be used to offset those costs?

15 A. Yes.

16 Q. Now, if the Commission were not to grant
17 recovery for those costs, does the company have an
18 alternative proposal for the Centralia gain?

19 A. I believe I answered that question to Mr.
20 Meyer. We're proposing an eight-year amortization of
21 the Centralia gain. We propose that the ice storm
22 costs be deducted from the customers' share of the
23 gain before the remainder is amortized over eight
24 years, but if the ice storm was not approved, then we
25 would recommend an eight-year amortization and also

00883

1 request that the injuries and damages adjustment then
2 reflect recovery of ice storm.

3 MR. TRAUTMAN: That's all I have.

4 MR. FFITCH: Nothing.

5 JUDGE SCHAER: Mr. Finklea, Commissioners?
6 I have one more question, as well.

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

8 BY JUDGE SCHAER:

9 Q. How many times -- how many rate changes
10 have you had in Idaho electric rates in the past 11
11 years because of the PCA in Idaho?

12 A. There is one PCA rebate pending, and
13 including that, we've had nine rebates and three
14 surcharges.

15 Q. So you've had 12 rate changes over 11
16 years?

17 A. Yes.

18 Q. And during that same period in the state of
19 Washington, how many times have your electric rates
20 changed?

21 A. They haven't changed since 1990, other than
22 the DSM tariff rider.

23 JUDGE SCHAER: Okay. Anything further for
24 this witness?

25 MR. MEYER: Nothing further, Your Honor.

00884

1 JUDGE SCHAER: Thank you for your
2 testimony.

3 Public Counsel has handed me an additional
4 exhibit for Ms. Knox, which I'm marking for
5 identification as Exhibit 472, Comparison of
6 Residential Allocated Costs.

7 MR. FFITCH: 472, Your Honor?

8 JUDGE SCHAER: Yes.

9 MS. TENNYSON: Your Honor, in terms of
10 order of examination, as Public Counsel has a longer
11 time period, more questions for this witness, we have
12 suggested, and Public Counsel has agreed, that they
13 would go before us. We have very few questions, and
14 their examination may eliminate our need to ask many
15 of them, if that is acceptable to you.

16 JUDGE SCHAER: So your 45-minute estimate
17 may be generous?

18 MS. TENNYSON: Maybe 15 minutes.

19 JUDGE SCHAER: Okay. So Mr. Meyer, will
20 you call your next witness, please?

21 MR. MEYER: Call to the stand Tara Knox,
22 please.

23 JUDGE SCHAER: The following exhibits were
24 marked in conjunction with Ms. Knox's testimony.
25 Exhibit T-460, Direct Testimony. Exhibit 461,

00885

1 Electric Cost of Service Study Process. Exhibit 462,
2 Base Electric Cost of Service (COS) Study. Exhibit
3 463, Base Electric COS Study Methodology Matrix.
4 Exhibit 464, Alternate COS Scenario Results Summary.
5 Exhibit 465, Unbundled Cost Component
6 Summary. Exhibit 466, Gas Cost of Service Study
7 Process Chart. Exhibit 467, Base Gas COS Study.
8 Exhibit 468, Base Gas COS Study Methodology Matrix.
9 Exhibit 469, COS Study Allocation Methodology
10 Description. Exhibit 470, Avista Response to Public
11 Counsel Data Request Number 16. Exhibit 471, Avista
12 Response to Public Counsel Data Request Number 4.
13 Whereupon,

14 TARA L. KNOX,
15 having been first duly sworn, was called as a witness
16 herein and was examined and testified as follows:

17 JUDGE SCHAER: Please proceed, Mr. Meyer.

18 MR. MEYER: Thank you.

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

20 BY MR. MEYER:

21 Q. For the record, would you please state your
22 name and your employer?

23 A. My name is Tara Knox, and I work for Avista
24 Corp.

25 Q. And in what capacity?

00886

1 A. I prepare the cost of service information
2 for the company, as well as providing -- or as a rate
3 analyst, I'm sorry. You want the simpler number, or
4 the simpler -- sorry.

5 Q. So your job title is?

6 A. Rate analyst.

7 JUDGE SCHAER: Ms. Knox, you're going to
8 need to do what I need to do, which is pull the
9 microphone right up to where you're speaking, because
10 the Commissioners are having trouble hearing you.

11 THE WITNESS: Is that better?

12 JUDGE SCHAER: Yes. Thanks.

13 Q. Ms. Knox, have you prepared what has been
14 marked for identification as T-460, consisting of
15 your direct testimony?

16 A. Yes, I have.

17 Q. We have distributed an errata sheet, but we
18 have one minor docket number reference change, I
19 understand, to make?

20 A. There are actually three additional changes
21 that I'd like to make.

22 Q. Well, then we'll all be surprised. Go
23 ahead.

24 JUDGE SCHAER: You're not adding a "not" in
25 front of a verb, are you?

00887

1 MR. MEYER: We're eagerly awaiting.

2 JUDGE SCHAER: Go ahead, please.

3 THE WITNESS: On page 27 of my testimony,
4 line 22, where it says February -- oh, it doesn't say
5 February 15th. I want the original. Where it says
6 December 1, 1998, that should read February 15, 1998.
7 And there are two changes to Exhibit 469.

8 Q. And that is -- that was previously marked
9 as TLK-57, but it's been renumbered as 469?

10 A. Yes, that's true.

11 Q. Why don't you go ahead and make those at
12 this time, too.

13 A. On page one of that exhibit, where it says
14 Account 804 at the top, again, the date 12/1/98
15 should be changed to 2/15/98. And the docket number
16 one that Mr. Meyer referred to is on page four of
17 that exhibit. And in the last note, at the middle of
18 the page, where it says UG-981376, that should read
19 UG-980029.

20 Q. Thank you. With those changes having been
21 made, is the information contained within your
22 Exhibits, T-460, as well as Exhibits 461 through 469
23 true and correct?

24 A. Yes, it is.

25 MR. MEYER: With that, Your Honor, I move

00888

1 for the admission of those exhibits.

2 JUDGE SCHAER: Are there any objections?

3 MR. FFITCH: No objection.

4 JUDGE SCHAER: Hearing none, those
5 documents are admitted.

6 MR. MEYER: Thank you, and the witness is
7 available for cross.

8 JUDGE SCHAER: I believe, Mr. ffitch, it's
9 been indicated that you're going to go first this
10 time; is that correct?

11 MR. FFITCH: Yes. Thank you, Your Honor.

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

13 BY MR. FFITCH:

14 Q. Good morning, Ms. Knox.

15 A. Good morning, Mr. ffitch.

16 Q. We've met. I'm the attorney for the Public
17 Counsel office in this case, and I'd like to start
18 out talking about your testimony on the electric side
19 of the company, and then later we'll move into gas,
20 as well.

21 In preparing a cost of service study, the
22 company has actual data for the number of customers
23 in each class and the kilowatt hours sold by class,
24 but it does not have peak demand data for the
25 residential or small commercial customers; is that

00889

1 correct?

2 A. That is correct.

3 Q. And you use load research techniques to
4 estimate the peak demand of those classes in each
5 month of the year?

6 A. Combined with current billing data.

7 Q. Now, I'll ask you to turn at this point to
8 what's been marked Exhibit 471 for identification.
9 Do you have that up there with you? This is one of
10 the Public Counsel cross exhibits. You're skipping
11 past 470 and going to the second one, which is number
12 471.

13 A. Yes, I do.

14 Q. And that is the company's response to
15 Public Counsel Data Request Number Four, is it not?

16 A. Yes, it is.

17 Q. Now, you were asked there to provide any
18 on-peak and off-peak monthly loads by customer class
19 if the company had, in fact, done that kind of load
20 research, were you not?

21 A. Yes.

22 Q. And in response to that, you provided some
23 load research results dated 1993; correct?

24 A. That is true.

25 Q. Is this the load research data that you

00890

1 used to base your estimates of peak demand for the
2 residential and small commercial classes?

3 A. In the demand estimation procedure that I
4 used, I estimated daily amounts for the customers
5 based on a combination of the weather normalization
6 factors and the billing data for that month. Once I
7 had a daily figure for the day that the coincident
8 peak occurred, then I applied a daily profile that
9 came out of the 1993 load research data for a typical
10 day during that season. So I had four different
11 seasonal profile days that I used.

12 Q. All right. Have you provided the work
13 papers on how you derived your demand allocation
14 factors from the load research in response to any
15 data request?

16 A. Yes, I have.

17 Q. Okay. Well, if that's so, I'd just like to
18 ask you to please direct us where to locate that in
19 your work papers?

20 A. The demand study is included on pages
21 TLK-171 through TLK-181 of the electric cost of
22 service work papers.

23 Q. Okay, thank you. The analysis provided in
24 response to our Data Request Four, which is now
25 Exhibit 471, is now eight years old; is that correct?

00891

1 A. Seven.

2 Q. Seven years?

3 A. Seven years.

4 Q. In the past, in that time frame, in that
5 elapsed period of time, the company has run a number
6 of conservation and fuel switching programs, has it
7 not?

8 A. The DSM programs that ended in 1994 would
9 have been going on at that time, and then all of the
10 programs associated with the tariff rider have been
11 in process since then.

12 Q. And the fuel switching programs, in
13 particular, were designed to cause electric heat
14 customers to switch to gas, were they not?

15 A. That would be my understanding.

16 Q. Would you expect that to have a measurable
17 effect on the residential load shape?

18 A. It could.

19 Q. How did you take the effect of these
20 conservation and fuel switching programs into account
21 in developing your class load data for the cost
22 allocation study from the 1993 class load reserve
23 study?

24 A. The only acknowledgement to it was using
25 the current monthly data from the billing in order to

00892

1 come up with that daily assumption. Plus, by using
2 the weather normalization factors, which capture the
3 usage per customer per heating degree day and usage
4 per customer per cooling degree day, we have
5 attempted to capture the current heating usage per
6 customer.

7 Q. Now, are you generally familiar with the
8 Commission's decision in Docket UE-920499, which is a
9 cost allocation and rate proceeding involving Puget
10 Power?

11 A. Yes.

12 Q. And for example, when you present the
13 results of your Alternative Scenario Number Three in
14 Exhibit 464, you are basically trying to follow the
15 method the Commission approved in that Puget order,
16 are you not?

17 A. Yes, that's true.

18 Q. Did you read the testimony of the company,
19 the Commission Staff, the industrial customers and
20 Public Counsel in that Puget docket?

21 A. I read the order in that docket and I went
22 through the company exhibit line-by-line. I do not
23 recall that I actually read all of the testimony from
24 the parties in the case.

25 Q. All right. So then you did not review the

00893

1 transcript of the proceedings?

2 A. No, I did not.

3 Q. And so you're essentially basing your
4 presentation on the matters that you mentioned on the
5 order and the company material you reviewed, and is
6 it also based on the information exchange that took
7 place a couple of years ago in the legislative
8 restructuring study?

9 A. Yes, in the 2831 House Bill that we were
10 required to provide unbundled cost studies for, in
11 the workshop process that we went through, we were
12 instructed to follow the methodology that was
13 established in that docket, and we submitted that to
14 the Commission Staff, they reviewed it, and informed
15 me of one misconception that I had, which I
16 corrected, which of course has been included in this
17 one in the corrected form.

18 Q. Okay. Now, your Exhibits 462 through 465
19 are your electric cost of service study and the
20 summarized results; right? That's TLK-50 through
21 TLK-52 in your original numbering.

22 A. I rewrote the numbers, so --

23 Q. Okay. Well, again, they've now been marked
24 for identification as 462 through 465.

25 JUDGE SCHAER: They've actually been

00894

1 admitted into the record, Counsel.

2 MR. FFITCH: All right. So they have.

3 JUDGE SCHAER: Thank you.

4 MR. FFITCH: Thank you, Your Honor.

5 THE WITNESS: Yes, that's true.

6 Q. Let me ask you first to turn to Exhibit
7 464. Well, perhaps that's not quite necessary at
8 this point, just to maybe limit paper shuffling, but
9 you included in your exhibits the complete work
10 papers for the base scenario which you show in
11 Exhibit 464, but the work papers for the rest of your
12 alternatives are not contained in the exhibits; is
13 that correct?

14 A. That is true. The work papers are not
15 included with the exhibits.

16 Q. Now, I'd like you now to refer to what has
17 been marked Exhibit 472 for identification, and that
18 is the new exhibit, the new Public Counsel cross
19 exhibit.

20 A. Okay.

21 Q. And that is a three-page exhibit, is it
22 not? I'll get my copy out here. And first of all,
23 I'll just ask you to confirm that the attached pages
24 are, first of all, a summary page for the company's
25 base case, that's the first attachment page, and then

00895

1 the second attachment page is the summary page for
2 the Puget methodology; is that correct?

3 A. Yes, it is.

4 Q. And this is essentially the same
5 information that appears in Exhibit 462, Part Three,
6 page one; correct?

7 A. Yes, it is.

8 Q. And that exhibit reference is actually
9 shown on the front of our tables here on the first
10 page. Now, I'd like you to compare some figures
11 between your base scenario and the Puget methodology,
12 and we've prepared this exhibit to facilitate that
13 comparison, and this simply extracts a few figures
14 from each study from the attached pages and then
15 compares those figures. Now, have you had an
16 opportunity to check this document for accuracy?

17 A. Yes, I have.

18 Q. And would you agree that it accurately
19 reflects the figures from the two sources that I've
20 mentioned?

21 A. Yes, it does.

22 Q. And on the right hand side of the page,
23 Public Counsel has calculated the differences between
24 the two columns -- between the two scenarios, excuse
25 me, and do you also agree that those are accurate

00896

1 calculations?

2 A. Yes.

3 Q. Okay, fine. I'm not asking you to agree
4 with what argument I might make from them, but simply
5 that the math is accurate?

6 A. I literally only checked six of those
7 numbers, but the others are all within what I would
8 expect.

9 Q. All right. Would you agree that the
10 allocation of production, transmission and
11 distribution plant to the residential class is almost
12 identical, within one half of one percent, in fact,
13 for the base scenario and the Puget methodology?

14 A. That is true.

15 Q. And we can see that if we look under, for
16 example, plant in service on the production line. We
17 can see that the difference is in the range of a
18 million dollars or .48 percent, for example. And
19 that's, in fact, the largest difference out of those
20 three categories that's shown?

21 A. That's true. Essentially, I adopted the
22 Puget methodology with a slight difference in how the
23 peak credit was calculated, and so it's not
24 surprising that the results would be similar.

25 Q. And the big difference is in the allocation

00897

1 of intangible plant, general plant, and
2 administrative and general expenses in the categories
3 that have been actually set out in bold there, is it
4 not?

5 A. That's true.

6 Q. So for example, if we look at intangible
7 there in the plant in service category, we see a
8 difference of \$570,000, nearly 9.8 percent
9 difference. For administrative and general, under
10 operating expenses, we see a difference of four and a
11 half million dollars in bold, for a difference of
12 over 26 percent; correct?

13 A. That's true.

14 Q. Now, your base scenario allocates
15 approximately two-thirds of administrative and
16 general expense to the residential class, while the
17 Puget methodology allocates approximately 45 percent
18 of the A&G expense to the residential class. And the
19 difference is about four and a half million in
20 expense and about ten million rate base; isn't that
21 correct? If you need me to refer you to an exhibit,
22 I can do that.

23 A. Subject to check, yes, I would agree with
24 that.

25 Q. What drives this difference is that there's

00898

1 a significant difference in methodology between what
2 Avista has proposed here and what the company --
3 excuse me, what the Commission previously approved in
4 the Puget UE-920499 order; correct?

5 A. That is true.

6 Q. In the Puget methodology approved by the
7 Commission, administrative and general costs were
8 allocated based on the subtotal of O&M expense, or
9 operations and maintenance expense, except for fuel
10 purchase, power wheeling and uncollectibles; is that
11 right?

12 A. Purchased power, fuel wheeling, and
13 uncollectibles.

14 Q. That's correct?

15 A. Yes.

16 Q. And then, in your base scenario, a large
17 percentage of these costs are allocated on the basis
18 of the number of customers; correct?

19 A. That is true. Sixty percent is a customer
20 allocation and 40 percent is an energy allocation.

21 Q. So compared with -- comparing your method
22 with the method approved for Puget, does this result
23 in the assignment of a larger amount of these costs
24 to the residential sector?

25 A. Yes, it does.

00899

1 Q. Now, you've also prepared a study which
2 you've described as Alternative Scenario Number One,
3 following the methodology proposed by Avista in
4 Docket U-86-99, have you not?

5 A. Yes, I have.

6 Q. And I believe that's in, just for
7 reference, it's in Exhibit 464, also. Exhibit 465, I
8 believe is the correct reference for that. That's
9 where it's summarized.

10 A. I have the alternate scenario summarized in
11 Exhibit 464.

12 Q. All right. Now, that case was settled and
13 there was no decision by the Commission on the cost
14 of service method; would you agree?

15 A. That is true.

16 Q. But in that cost of service study, isn't it
17 correct that Avista proposed that administrative and
18 general costs be allocated on the basis of the sum of
19 operations and maintenance expense, excluding
20 purchased power and fuel?

21 A. Yes, primarily.

22 Q. And in that method, which then-Washington
23 Water Power advocated 14 years ago, that's pretty
24 much the same method that the Commission approved in
25 the Puget case, is it not?

00900

1 A. It is similar.

2 Q. And the Puget methodology, again, is the
3 method you used in Alternative Scenario Number Three?

4 A. Yes.

5 Q. Now, the Commission has never accepted the
6 methodology for A&G costs that you've proposed in
7 this case, have they?

8 A. No, they have not.

9 Q. How does the method you've used in your
10 base scenario for A&G costs compare to the method
11 you've used for gas A&G costs? And I'm referring you
12 to Exhibit 467. Why don't we go there. 467 is also
13 your -- that's your base gas cost of service study,
14 formerly TLK-55. Conveniently, I have your testimony
15 in two different books, so extra paper shuffling
16 here.

17 A. I have it in two different books, too.
18 Isn't that odd?

19 Q. Again, I'm just, I guess, confirming that
20 the method that you've used in your base scenario is
21 shown at page ten, Part Three in this exhibit. These
22 exhibits, several of these exhibits are broken up
23 into different parts, and the page numbering starts
24 over again, so part three is towards the end.

25 CHAIRWOMAN SHOWALTER: What exhibit number

00901

1 are you on?

2 MR. FFITCH: Your Honor, we're on Exhibit
3 467, and we're on page ten of Part Three.

4 THE WITNESS: I have also prepared an
5 exhibit, I believe it is 469, which shows the
6 methodology that has been applied to each account.
7 It might be easier to find it there.

8 Q. Okay. Would you agree that the methodology
9 you used in your gas study, the methodology that the
10 Commission has previously approved for your company,
11 is much more favorable to the residential class than
12 the methodology you've used in your base scenario in
13 the electric proceeding in this case?

14 A. Could you repeat that? I got lost in the
15 beginning part.

16 Q. All right. Would you agree that the
17 methodology you used in your gas study for
18 administrative and general costs, which is the
19 methodology that the Commission has previously
20 approved for Avista, is much more favorable to the
21 residential class than the methodology that you used
22 in your base scenario in the electric portion of this
23 proceeding?

24 A. This methodology used in gas was not
25 formally approved for Avista; it was approved for

00902

1 Washington Natural, as far as -- it does include more
2 of a consumption allocation. However, gas systems
3 and electric systems are different, and the
4 proportion of costs that are spread because of that
5 are not comparable.

6 JUDGE SCHAER: I'm not sure you've answered
7 the question of which method.

8 THE WITNESS: -- was more favorable to
9 residential customers?

10 JUDGE SCHAER: Yes.

11 THE WITNESS: Since I did not do an
12 alternative case on the gas side, I do not know what
13 effect it would have had on the gas allocations. In
14 the gas, we have our purchased gas tracker, and those
15 costs, which are roughly half, are excluded from that
16 O&M allocator, and so there is more customer that is
17 included in the other O&M piece for the gas
18 customers, and I have not done that evaluation.

19 Q. This methodology, as you point out, was
20 approved for Washington Natural Gas and also for
21 Cascade and --

22 A. I'm not aware of that.

23 Q. You're not aware of that. And the company
24 has been employing this methodology?

25 A. That is true. We had a settlement in the

00903

1 '97 case, and so there was no specific approval of it
2 in that case.

3 Q. Now, the method you used in your gas cost
4 of service study treats 50 percent of A&G expense as
5 related to non-fuel operations and maintenance and 50
6 percent as energy related; correct?

7 A. That is true.

8 Q. For the first half of gas A&G costs
9 allocated on the basis of non-fuel O&M, that's pretty
10 much the same method approved for Puget, is it not?

11 A. It's similar.

12 Q. Operations and maintenance minus purchased
13 power and fuel is similar to operations and
14 maintenance minus cost of gas, you would agree?

15 A. Yes, they also have some that are allocated
16 on labor. I forgot that when you were mentioning it
17 before.

18 Q. For the other half of the A&G costs for
19 gas, treating those as energy related is much more
20 favorable to the residential class; isn't that
21 correct?

22 A. Normally -- I would have to look at the
23 allocation factors for gas, because gas is different
24 than electric.

25 Q. Well, I'm asking you if it's more favorable

00904

1 to the residential class than what you did in your
2 electric study?

3 A. They're two entirely separate studies.
4 They're really not comparable.

5 Q. Well, perhaps a way to rephrase it is that
6 if you allocated an electric A&G on the basis of
7 energy, how would that affect the residential class
8 in terms of favoring or disfavoring?

9 A. On the electric system?

10 Q. Right.

11 A. The bigger the usage-based allocators,
12 either demand or energy, sends more costs away from
13 the residential class, because they have a low load
14 factor.

15 Q. So treating -- are you saying that treating
16 the expenses as energy-related is more favorable to
17 the residential class?

18 A. On the electric side, an energy-related
19 allocator will put a larger percentage of the costs
20 on the large industrial customers, and therefore, the
21 trade-off is very much residential and large
22 industrial.

23 Q. So is that a yes, with an explanation?

24 A. Yes.

25 Q. There's no corporate allocator used in your

00905

1 analysis for gas A&G salaries, is there?

2 A. No, we did not do the A&G study or the
3 functional allocation of general costs in the gas
4 study.

5 Q. All right. Now, I'd like to address one
6 item of detail in your electric cost study. Please
7 go ahead and turn to Exhibit 462, which is your
8 TLK-50, and line 371?

9 A. Is this in Part Two?

10 Q. It's page eight of 35 of Part Two.

11 A. What was the line number again?

12 Q. Starting at 371. I've got to find it,
13 also. In that category, if you look at line 372,
14 first of all, the heading is Administrative and
15 General Expenses. That's at line 371. Then, if you
16 look at line 372, you see a total of \$9,725,000
17 allocated among different functions; correct?

18 A. Yes.

19 Q. And the portion allocated -- a portion of
20 that sum is allocated to respectively production,
21 transmission, distribution plant, and an average
22 customer basis; do you see that?

23 A. Yes.

24 Q. And of this 9.7 million, six million, or
25 about 60 percent of the total A&G cost, is allocated

00906

1 on the basis of what is called the corporate cost
2 allocator?

3 A. That is true.

4 Q. It's line 377.

5 A. Yes, I agree.

6 Q. And of that amount, reading over to the
7 Column S, we see that 4.25 million, or 70 percent,
8 goes to the residential class. Do you see that? In
9 other words, 70 percent of that \$6 million is placed
10 over in the residential service, Column S; would you
11 agree?

12 A. It's 69.85. That would round to 70, yes.

13 Q. Altogether, this method assigns 6.4 million
14 out of 9.7 million, or 66 percent of A&G salary cost
15 to the residential class; correct?

16 A. Subject to check, yes.

17 Q. And the residential class pays about 44
18 percent of total retail revenues and uses about 44
19 percent of total system energy; is that correct?

20 A. What did you say about total retail
21 revenues?

22 Q. Both figures are 44 percent, total retail
23 revenues and total system energy for the residential
24 class?

25 A. Yes, the energy is 44 percent and the

00907

1 retail revenue is approximately 44 percent, as well.

2 Q. Thank you. Now I want to focus a bit more
3 on this 9.725 million A&G salary figure and how you
4 derive the six million that you allocate based on the
5 corporate allocator. And to do this, I want to refer
6 you to an exhibit that went in through Mr. Falkner,
7 Exhibit 261. I will have to locate it myself. Do
8 you have that?

9 A. Yes, I do.

10 Q. And that is a company response to Public
11 Counsel Data Request 11, is it not?

12 A. Yes, it is.

13 Q. And I'll just ask you to turn to -- well,
14 strike that. Just, again, these are excerpts from
15 the complete response of the company, which actually
16 reflected the amounts for 1,300 employees. We only
17 have two pages from that response, don't we?

18 A. I actually have the whole thing, because I
19 just picked up the entire data response, but which
20 pages do you have?

21 Q. The exhibit has -- the critical one, for
22 your purposes, page 59, the page with the totals on
23 it.

24 A. Okay.

25 Q. And my question is, that exhibit, in the --

00908

1 well, that exhibit totals 7.7 million A&G salaries,
2 7.4, excuse me, assigned to Washington electric
3 operations, and that's the column second from the
4 right; isn't that right?

5 A. Yes.

6 Q. And I guess the question is -- just give me
7 a moment here. Can you explain the difference
8 between this figure of 7.4 million and the figure of
9 9.7 million that you used in your cost of service
10 study that we just looked at?

11 A. These, I believe, are not loaded labor.
12 They are -- I'm not sure what these are. Mr. Falkner
13 prepared it. They are transactional level numbers
14 prior to the pro forma adjustment on labor. This was
15 not my source.

16 Q. If the company were asked to provide an
17 answer to this question in a record requisition,
18 would you be able to respond to that inquiry?

19 A. I don't know. What was the question again?

20 Q. Can you explain the difference between the
21 9.7 million in your cost of service study and the 7.4
22 million shown here allocated to Washington Electric
23 for salaries, A&G payroll charges?

24 A. The sources are quite different. Not
25 knowing what is in here, it may be that that would be

00909

1 an administratively burdensome request to track down
2 the differences between this source and the sources
3 that we used.

4 MR. FFITCH: Your Honor, I would like to
5 make a record requisition for a reconciliation of
6 those two figures.

7 MR. MEYER: We'll be happy to do our best.
8 If we discover it's indeed unduly burdensome, we'll
9 talk to the parties about it.

10 JUDGE SCHAER: Okay. That would be Record
11 Requisition 27, which seeks a reconciliation between
12 the number shown as a total for Washington Electric
13 A&G payroll in Exhibit 261, and the number --

14 MR. FFITCH: Shown on Exhibit 462.

15 JUDGE SCHAER: I'm getting there, Counsel.
16 And the number shown in page eight, Part Two of
17 Exhibit 462, at line 377, under Column S. Excuse me,
18 at line 371, under Column Q. Thank you. Is that the
19 right --

20 MR. FFITCH: Thank you, Your Honor.

21 Q. Now, Ms. Knox, in the electric cost of
22 service study in the company's last general rate
23 case, where cost of service was litigated to a
24 conclusion, Docket U-85-36, would you accept, subject
25 to check, that the total amount of A&G salaries

00910

1 attributed to Washington electric operations was only
2 2.866 million?

3 A. At this point, I don't know if that's
4 ballpark or not. I believe I have that here, and I
5 can determine if that is a reasonable number.

6 Q. Thank you. That would be fine.

7 JUDGE SCHAER: Mr. ffitch, after this
8 question is answered, would you look for a good place
9 for us to break for our morning recess? Thank you.

10 MR. FFITCH: Yes, Your Honor.

11 Q. And again, Ms. Knox, just for your
12 assistance, I'm referring to Docket U-85-36, not
13 85-99.

14 A. Yes, that's the one I have.

15 Q. Great.

16 A. The methodology in the two cases was very
17 similar. The number you gave was 2,800,000?

18 Q. Yes.

19 A. I would agree to that.

20 Q. You may want to hold on to that page. Now,
21 again, as we've heard, your cost of service study in
22 this case, that amount's increased to 9.725 million,
23 which is a threefold increase, is it not?

24 A. Roughly.

25 Q. In fact, subject to check, it's a 339

00911

1 percent increase?

2 A. Subject to check.

3 Q. Can you point to any testimony by any of
4 the Avista witnesses which justifies your use,
5 Avista's use of 9.725 million, more than triple the
6 amount previously used?

7 A. The revenue requirement was prepared by Mr.
8 Falkner. Those questions would have to be directed
9 to him.

10 MR. FFITCH: Thank you. Your Honor, I
11 think that this is the appropriate time for a break.
12 We're starting another line of questioning from here.

13 JUDGE SCHAER: Are you going to need to
14 recall Mr. Falkner or --

15 MR. FFITCH: I will consult in the break.
16 I don't believe so.

17 JUDGE SCHAER: Okay. Let's take our
18 morning recess at this time. Please be back at
19 11:00. We're off the record.

20 (Recess taken.)

21 JUDGE SCHAER: Let's be back on the record
22 after our morning recess. Mr. ffitch, did you have
23 additional questions for Ms. Knox?

24 MR. FFITCH: I do.

25 JUDGE SCHAER: Go ahead, please.

00912

1 Q. Ms. Knox, could you please turn to Exhibit
2 462, which is your old TLK-50?

3 A. Is there a particular page you'd like me to
4 turn to?

5 Q. It's the same page we were on before, with
6 the 9.7 million. Its page eight.

7 A. Part Two, page eight.

8 Q. Part Two, page eight, Exhibit 462, line
9 386. And that is the entry for outside service
10 employed, Account 923. Here you show an entry of
11 \$5.56 million; correct?

12 A. That is true.

13 Q. Now, outside services are for legal
14 expenses and outside engineering consultants mostly;
15 is that your understanding?

16 A. It may be broader than that. You would
17 have to -- once again, these things are the
18 responsibility of Mr. Falkner. I take his numbers
19 and apply them to the customers.

20 Q. Now, I'm hoping you still have your finger
21 in the 1985 rate case for this next question.
22 Perhaps I should have warned you on the break.

23 A. Well, I don't have a ruler to stick in and
24 keep it.

25 Q. Well, I'm going to ask you for the

00913

1 comparable number for the outside service employed in
2 that cost of service study. Again, just for the
3 record, that's Docket U-85-36. And I'm asking you to
4 confirm for me that the total outside services in
5 that cost of service study was \$517,000?

6 A. Pumping service was considerably less.

7 Q. That is the correct number?

8 A. No, I haven't -- I have to go to the first
9 page. The number there was 12,000. No, no, no,
10 that's not right. Under Account 923?

11 Q. Yes.

12 A. The total was \$517,000.

13 Q. So that means that the amount that Avista
14 proposes in this case is more than ten times the
15 amount in the 1985 rate case?

16 A. Roughly, yes.

17 Q. Can you point to any testimony by any of
18 the Avista witnesses which justifies the use of 5.56
19 million for outside services or identifies why these
20 costs should have grown tenfold since the last rate
21 case?

22 A. I do not recall any.

23 MR. MEYER: Again, for the record, Your
24 Honor, Mr. Falkner, our previous revenue requirements
25 witness, might have responded to those.

00914

1 JUDGE SCHAER: Well, let me ask you, then.
2 Are you aware of anything in his testimony that
3 testifies about this? I think that was the question
4 that was asked.

5 MR. MEYER: Not about this specific item,
6 but as a revenue requirements witness, he'd certainly
7 be available to testify concerning backup to any
8 adjustments he had, so I just wanted the record clear
9 that he might have been the better witness. Thanks.

10 JUDGE SCHAER: Let me ask you, do we need
11 to recall him or -- the question before us was is
12 there any testimony that's in the company's case that
13 discusses this change. If you think there might be,
14 I will let you recall him. But I think that you
15 indicated there was no such testimony, so I'm not
16 sure what the point is.

17 MR. FFITCH: That's our understanding.
18 Your Honor, I'm content with the answer. If we need
19 to seek additional information on this point, we're
20 prepared to do that by means of a data request.

21 JUDGE SCHAER: Thank you, Mr. ffitich. Go
22 ahead.

23 Q. I'd like to talk a bit about meter reading
24 and billing next. I think you can now let go of the
25 1985 rate case material. As much as I enjoy history,

00915

1 I don't think we'll be going back to that this
2 morning. And I'm going back to Exhibit 462, again,
3 your TLK-50, and going to Part Two. And just going a
4 couple pages earlier, now I'm going to pages six and
5 seven. We were on eight before. If we go to page
6 six, you show meter reading costs -- are you there?

7 A. Yes, I am.

8 Q. Okay. Three lines up from the bottom, line
9 312, we see meter reading costs of 1.348 million, and
10 then if we go to the next page of that exhibit, line
11 317, near the top of the page, we see, under Customer
12 Records and Collections, we see an amount of 3.32
13 million; is that correct?

14 A. That is true.

15 Q. Wouldn't it be fair to sort of paraphrase
16 that category as customer accounts expense?

17 A. That is the FERC label for it, customer
18 accounting expenses.

19 Q. Is that the actual test period meter
20 reading and billing cost for the test year, subject
21 to any adjustments that Mr. Falkner might be
22 sponsoring?

23 A. That would be my understanding.

24 Q. If you know, does Avista read meters every
25 month?

00916

1 A. I believe so.

2 Q. Does Avista bill customers every month?

3 A. Yes.

4 Q. So those are the costs you're currently
5 incurring for meter reading and billing. Are you
6 aware of any rules this Commission has with respect
7 to the frequency of meter reading and billing?

8 A. No.

9 Q. Well, that winds up my questions on the
10 electric side. Now let's go over to gas side for a
11 few further inquiries. First of all, in general,
12 your gas cost of service study is presented in
13 Exhibits 466 through 469, formerly TLK-54 through 57;
14 right?

15 A. That is true.

16 Q. And you summarize the results on page 33 of
17 your direct testimony. That's T-460, if we could go
18 there.

19 A. Page 33?

20 Q. Page 33, and there's a table on that page,
21 a chart. Do you have that?

22 A. Yes, I do.

23 Q. And at line 19, that summary table shows
24 that the Schedule 121 class, the large general
25 services class, is paying the lowest rate of return,

00917

1 and that the residential class is a little bit below,
2 but very close to providing the system average rate
3 of return; correct?

4 A. Yes, that's true.

5 Q. We see that the system average is reflected
6 by the 1.0 at the bottom of the table; residential
7 service, at line 17, is at .95, just below the
8 average; and large general service, Schedule 121, is
9 the lowest value on the table of .77; correct?

10 A. That is true.

11 Q. And again, over here on the gas side, you
12 have used only a single methodology for allocating
13 costs, not six different alternative scenarios, as
14 you did in electric; is that right?

15 A. That is true.

16 Q. And now, we've previously discussed
17 electric administrative and general expenses, and I'd
18 like to dwell for a minute on the gas side of these
19 issues. And this information appears in Exhibit 467,
20 at Part Two, page five. 467 is TLK-55.

21 A. I'm there.

22 Q. And again, just so everyone's following,
23 that's page five of 21 in Part Two of Exhibit Number
24 55. And I'm looking at line 344, and there you show
25 a total of \$2.483 million in administrative and

00918

1 general salaries; correct?

2 A. That is true.

3 Q. That's under Column Q. And then, that
4 amount is first divided in half, and the first half
5 is allocated using a factor that you note is SO₂;
6 correct? That's shown on line 345, under Column P?

7 A. Yes.

8 Q. I assume that doesn't stand for sulfur
9 dioxide. Could you explain what SO₂ is?

10 A. In Column M, you will see a description of
11 the allocator, and that's the administrative and
12 general expense allocator.

13 Q. And so, in summary, that would --

14 A. It's the sum of O&M, less a few odds and
15 ends.

16 Q. Purchased gas would be one of those?

17 A. Uncollectibles.

18 Q. So again, it's O&M minus purchased gas and
19 the other odds and ends that you mentioned?

20 A. Yes.

21 Q. Okay. So that's the first half of that two
22 and a half million that we've allocated. Second half
23 now is allocated on the basis of total system
24 throughput; is that correct?

25 A. Yes, that's true.

00919

1 Q. And can you describe what total system
2 throughput means?

3 A. On the gas side, we have many
4 transportation customers who do not purchase gas
5 through our system, but buy it on their own, but they
6 have it delivered to them through our system. And so
7 throughput would refer to what we have delivered, as
8 opposed to what we have sold.

9 Q. So in essence, it's a usage measurement
10 reflecting the total therms used per class?

11 A. Yes.

12 Q. And that's basically the method this
13 Commission has approved for a decade and a half.
14 You've mentioned its use in the Washington Natural
15 Gas case and its use in earlier Washington Water
16 Power rate proceedings; correct?

17 A. I am not sure on the gas side. I haven't
18 studied the Cascade methodology, which was used prior
19 to the Washington Natural methodology, on what it did
20 to A&G. I remember the distribution had some
21 straight 25, 25, 50-type things, and I don't know if
22 they did that on A&G, as well. I don't recall.

23 Q. Okay. Now, you basically do this same kind
24 of allocation with most of the other A&G accounts in
25 gas, do you not, except for employee benefits and

00920

1 franchise requirements?

2 A. That's true.

3 Q. Would it be possible to do essentially the
4 same thing with electric A&G expenses?

5 A. It would certainly be possible.

6 Q. And would you agree that the equivalent
7 cost to purchase gas on the electric side would be
8 purchased power and fuel?

9 A. Roughly, yes.

10 Q. So in order to do the same thing on the
11 electric side, you'd allocate one-half of electric
12 A&G on the basis of O&M expense, less fuel and
13 purchased power, and one-half on the basis of system
14 throughput in order to mirror this methodology, would
15 you not?

16 A. It could certainly be done.

17 MR. FFITCH: Your Honor, I'd like to make
18 two record requisitions at this point, and inquire of
19 the witness or Counsel whether these are feasible for
20 the company.

21 JUDGE SCHAER: It would be Record
22 Requisitions 28 and 29. Go ahead, please, Mr.
23 ffitich.

24 MR. FFITCH: Record Requisition 28 --
25 excuse me, for Record Requisition 28, we would ask

00921

1 that Avista provide the results of the electric cost
2 of service study in Exhibit 462, computed using the
3 same approach for intangible plant, general plant,
4 and administrative and general expenses as a gas
5 study.

6 Record Requisition 29 is a request to
7 provide the results of the electric cost of service
8 study, Exhibit 462, computed using the same approach
9 for intangible plant, general plant and
10 administrative and general expenses as the Commission
11 approved for Puget in Docket UE-920499.

12 MR. MEYER: Are those doable?

13 THE WITNESS: Yes.

14 MR. FFITCH: Thank you. I just have a few
15 more questions.

16 Q. Ms. Knox, do you have the demand side
17 management, or DSM costs in your electric and gas
18 cost of service studies?

19 A. Yes.

20 Q. And on what basis are they allocated among
21 the classes?

22 A. Did you say the gas?

23 Q. Yes. I asked, actually, about both
24 electric and gas cost of service studies.

25 A. Okay. It is in both. On the electric

00922

1 side, the investment and the related amortization is
2 allocated based on the sum of total production plant.

3 Q. And on the gas side?

4 A. On the gas side, we have applied the peak
5 and average.

6 Q. I'm sorry, what's the term you're using?

7 A. Peak and average, relationship that is used
8 on system distribution plant.

9 Q. And is that, then, a complete explanation
10 of those allocations -- I didn't want to cut you off
11 -- for both of those electric and gas studies?

12 That's, to go your knowledge, that's the way that
13 costs are allocated?

14 A. For the investment-related pieces.

15 Q. Can you tell us what accounts to look in in
16 both those studies for the allocated costs?

17 A. Okay. On the expense side, they are
18 located in Account 908.

19 Q. All right.

20 A. For the investment, it is in other rate
21 base items, which comes after we have gotten down to
22 net plant. So it's towards the end of the study. I
23 can find the page, if you'd like.

24 Q. Yes, please.

25 A. On the gas study, which is what I happen to

00923

1 have open, you will find demand side management
2 investment in Part Two, page 20 of 21, on lines 1047
3 through 1049.

4 Q. And is that one of your exhibits or --

5 A. Yes, that's in Exhibit 467, Part Two, page
6 20 of 21.

7 Q. Thanks. Now, isn't it correct that in both
8 the '92 Puget docket we've been discussing and Water
9 Power's '86 rate case, 1986 rate case, DSM costs are
10 allocated on the same basis as power supply costs?

11 A. Yes, I believe so.

12 Q. Has Avista performed a study to see how
13 that methodology would affect the distribution of the
14 DSM revenue requirement if it were applied to Avista?

15 A. Roughly what we have done with using the
16 production plant, it picks up the energy and demand
17 components that are included in the power supply.
18 They're very similar allocators.

19 Q. Thank you. One moment, please. Is the
20 tariff rider computed in the same way a production
21 plant allocator?

22 A. No, the tariff rider is a surcharge that is
23 1.5 percent of revenue.

24 Q. Would you agree that if the study was
25 conducted using the methodology I've described, that

00924

1 it would tend to increase those classes with a lower
2 than average mills per kilowatt-hour contribution,
3 specifically extra large general services and pumping
4 and decrease those with a higher than average
5 contribution, specifically small commercial and
6 streetlighting?

7 A. Are you referring to the tariff rider or
8 the DSM expenses and investment?

9 Q. I'm sorry. I'm listening to two people at
10 once. Could you repeat your question?

11 A. You mentioned changing the study to
12 allocate something on this other methodology, which
13 I'm not familiar with, and then you wanted to know
14 what effect it would have on different classes. I'm
15 asking specifically are you including the tariff
16 rider, which, as it is in the study now, is
17 effectively eliminated because the revenue is offset
18 by the expense? They are allocated intentionally to
19 have that effect.

20 Q. Well, just backing up a bit, just to give
21 you the framework, I'm asking whether, in the '92
22 Puget docket and the '86 Water Power rate case, DSM
23 costs are allocated on the same basis as power supply
24 costs, and you've indicated that you believe that
25 they were.

00925

1 A. Something close to that, yes.

2 Q. Perhaps I can ask this question, and this
3 will be a clarification. If the tariff rider is
4 calculated on the same basis as the cost allocation
5 study, the rider would go up for these Schedules 25
6 and 31, which are extra large general services and
7 pumping, and go down for small commercial and
8 streetlighting; is that a fair statement?

9 A. Let me look at the allocators in that
10 study. The ones you were interested in were pumping,
11 extra large general service, and residential?

12 Q. No, small commercial, Schedule 11, and
13 streetlighting, which I believe is Schedule 21.

14 A. Oh, okay.

15 Q. Well, streetlighting was the one I was
16 asking about. I believe I've given you -- 21 is not
17 the correct number, but I'm asking about Schedule 11,
18 small commercial, and streetlighting versus pumping
19 and extra large general service?

20 A. I'm trying to get a sense for their
21 relative allocation under a -- you know, energy and
22 demand combination allocator. The general service
23 allocation would probably go down slightly. It's at
24 about 10.8 percent right now. It would -- the
25 demanded energy is between seven and a half and eight

00926

1 and a half percent of the dollars that would be
2 allocated to them.

3 Similarly, with street and area lighting,
4 under the one and a half percent of revenue, about
5 one and a half percent is allocated to them. Under
6 some demand allocation, it would be less than a
7 percent, but between half a percent and .85 of a
8 percent.

9 Q. Of a decrease?

10 A. The decrease would be from allocating a one
11 and a half percent to them to allocating between .5
12 to -- it would be around .75, would be my guess. So
13 yes, it would decrease the allocations to them.

14 Q. All right. You have divided DSM costs into
15 two categories on page seven of Exhibit 462. That's
16 your TLK-50. Let me make sure I've got a good
17 reference for you there, because TLK-50 has more than
18 one page seven. Part Two.

19 A. Part Two, page seven, lines 336 to 339?

20 Q. Yes.

21 A. Account 908.

22 Q. Correct.

23 A. Yes.

24 Q. You divided, again, DSM into two categories
25 there; right?

00927

1 A. That is true.

2 Q. Now, first, the first part, 3.025 million,
3 is allocated on the same basis as production plant;
4 right?

5 A. Yes.

6 Q. And is that pre-tariff rider DSM cost?

7 A. Yes, it is. It's the amortization of the
8 DSM investment that came out of the '92 to '94
9 programs.

10 Q. And is the traditional or so-called Puget
11 method?

12 A. I don't know that it came from any
13 particular source. I don't remember what they did in
14 Puget. I know it had a relationship to power supply.

15 Q. This method has been used for a long period
16 of time, as far as you know?

17 A. As far as I know, putting a relationship to
18 power supply has been used for some time. When those
19 programs were put into effect, part of what DSM
20 programs do is provide an avoided cost of production.

21 Q. All right. Is that -- I just want to let
22 you finish your answer.

23 A. I think I'm done.

24 Q. Okay. Now, the second part of this
25 allocation, 3.4 million, is allocated on a revenue

00928

1 basis, which is how the tariff rider's collected;
2 correct?

3 A. That is true.

4 Q. Which of these is more favorable to
5 residential and which to industrial customers?

6 A. In the percent of revenue, more costs are
7 allocated to residential, and slightly less to extra
8 large general service, the larger customers, so that
9 would be beneficial to the larger industrial
10 customers to have less costs allocated to them.

11 Conversely, the production plant allocates
12 less costs to residential and more to large
13 customers, large usage customers.

14 Q. Okay, thank you. Could you please turn to
15 Public Counsel Exhibit 470. It's been marked as such
16 for identification. And is that Avista's response to
17 Public Counsel Data Request 16?

18 A. Yes, it is.

19 Q. And was that prepared by you or under your
20 direction?

21 A. Yes, it was.

22 Q. That's true and correct, to the best of
23 your knowledge?

24 A. Yes, it is.

25 MR. FFITCH: Your Honor, at this time, I'd

00929

1 like to offer Public Counsel Exhibits -- let me make
2 sure I have the numbers -- 470, 471, and 472.

3 JUDGE SCHAER: Any objections?

4 MR. MEYER: None.

5 JUDGE SCHAER: Those documents are
6 admitted.

7 MR. FFITCH: Thank you, Your Honor. No
8 further questions. Thank you, Ms. Knox.

9 THE WITNESS: Thank you.

10 JUDGE SCHAER: Mr. Finklea, did you have
11 questions of Ms. Knox?

12 MR. FINKLEA: I have just one question,
13 actually.

14 JUDGE SCHAER: Okay.

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

16 BY MR. FINKLEA:

17 Q. You were asked by Mr. ffitch that if the
18 electric study was done using the same method as gas,
19 could that be done. And my question to you is, in
20 your opinion, if you performed the electric cost of
21 service study using the same method as either the gas
22 cost of service or what's been referred to today as
23 the Puget method, would that accurately reflect cost
24 causation?

25 A. In terms of just the pieces that he wanted

00930

1 to change?

2 Q. Yes, just the pieces that he was isolating,
3 administrative and general and the other pieces he
4 was isolating?

5 A. No, I do not believe so.

6 Q. And why is that?

7 A. The reason that we looked for an
8 alternative methodology to deal with administrative
9 and general costs for electric cost of service stems
10 from an evaluation of -- let me start over.

11 If you look at Exhibit 472 that has just
12 been admitted, under the Puget methodology, and this
13 would be similar under the last case methodology, you
14 will see, on line -- this is -- it's under the Puget
15 methodology, I believe it's their third page. On
16 line 41, Column J, you'll see approximately \$4.1
17 million that is allocated to extra large general
18 service customers.

19 There are 21 customers in that category.
20 We felt that that was not a reasonable allocation,
21 and that it should be looked at more carefully. In
22 addition to that, we had, subsequent to those prior
23 cases, done the unbundling study, where the amount of
24 administrative and general costs that are assigned to
25 production allocators and then kind of implicitly

00931

1 assigned to production, it brought up the issue of is
2 there a more refined way to look at administrative
3 and general costs that caused us to do an
4 administrative and general study by function, so that
5 we could directly assign as many of those costs as
6 possible.

7 And then, with the remainder of the costs,
8 we looked at what types of things were left, and
9 through discussion with a number of analysts, we
10 determined that the administrative and general costs
11 of this sort, not those that are directly associated
12 with a given area, tend to be primarily related to
13 transactions, which the volume of transactions would
14 be affected by the number of customers.

15 In the 60/40 allocation, where we've taken
16 a consumption related, and the 40 percent related
17 there acknowledges that there are areas in there
18 where larger individual customers will -- more time
19 will be spent, will be devoted to them and to dealing
20 with them. So since the sense was that more of these
21 costs were the transaction-related, where the dollar
22 value or the kilowatt-hour value of the transaction
23 was irrelevant, that -- and they were indirectly
24 customer-related, that more than half should be done
25 this way.

00932

1 And we arrived at the 60/40 from an --
2 essentially, an intuitive sense, that that was the
3 appropriate division. The results, when we were
4 finished, allocate about \$2 million to those 21
5 customers, which is about \$125,000 over a year, and
6 we thought that was in the reasonable range.

7 Q. So that completes your answer?

8 A. Yes, sir.

9 Q. One other question. You were discussing
10 with Mr. ffitich the allocation of DSM. I take it
11 that the company engages in these programs primarily
12 to avoid, on the electric side, purchasing power, and
13 on the gas side, purchasing natural gas. Am I
14 correct that your Schedule 146 and 148 customers, who
15 are transporters, are purchasing their own natural
16 gas? So if the company engages in DSM and avoids the
17 purchase of natural gas itself, that that avoided
18 cost doesn't affect the transportation customer?

19 A. The other thing that it does on the natural
20 gas side is to obviate the stresses on the
21 distribution system. If there is less gas that is
22 required to flow through the integrated distribution
23 system, that is of benefit to the transportation
24 customers, as well as the capacity issue.

25 Q. But the gas itself, they're on their own on

00933

1 purchasing gas, and if the DSM avoids gas purchases,
2 that doesn't affect the transportation customers?

3 A. There are capacity issues for
4 transportation customers.

5 Q. Upstream capacity?

6 A. Both.

7 MR. FINKLEA: Okay. I have nothing
8 further.

9 JUDGE SCHAER: Okay. Commissioners, did
10 you have questions?

11 MS. TENNYSON: Your Honor.

12 JUDGE SCHAER: Oh, excuse me, Ms. Tennyson.
13 You're going out of order and you've got me all
14 confused. Go ahead, please.

15 MS. TENNYSON: Thank you.

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

17 BY MS. TENNYSON:

18 Q. Ms. Knox, if I read your testimony
19 correctly, you indicate you have followed WUTC
20 precedent for using WUTC approved allocators; is that
21 correct?

22 A. In which study?

23 Q. In the electric study, and that, for the
24 most part, you've tried to follow UTC precedent?

25 A. For the most part, with the exception of

00934

1 the A&G allocation.

2 Q. And are allocators intended to show causal
3 connections?

4 A. In the most part.

5 Q. Why, if you're using allocators to show
6 causation or cost causation for the most part, then
7 why is it important to follow precedent?

8 A. As Mr. Lazar will tell you, these issues
9 have been discussed and re-discussed many times over
10 the years, and the exact causal relationship is often
11 not definitively known. So it cannot be said that
12 there is one true and absolute methodology that will
13 allocate perfectly to cost causation. Therefore,
14 over the years, there are always differences of
15 opinion on what allocators meet that as close as
16 possible to cost causation test.

17 When we accept a methodology that the
18 Commission has deemed to be the appropriate
19 methodology, we acknowledge that they have taken into
20 consideration the information that was known at that
21 time and have looked at the expected differing
22 opinions of the different parties and have determined
23 that one methodology is superior in approaching that
24 cost causation relationship.

25 Q. Okay. So it would be fair to say, wouldn't

00935

1 it, that there is an element of judgment, as well as
2 causation, in setting allocators?

3 A. Yes, ma'am.

4 Q. And then, when you're relying on precedence
5 that someone has convinced the Commissioners that
6 their judgment is the better way to go; would that be
7 fair to say?

8 A. Yes.

9 Q. Now, I'm going to refer at this point to
10 your direct testimony. I've lost track of the
11 exhibit number in my mind. T-460, page seven. And I
12 believe you indicate here that first you allocated
13 the A&G costs by functions, and then the remaining
14 costs were allocated to distribution based on 40
15 percent energy and 60 percent demand?

16 A. They were included in the distribution
17 category. It's one of those things where, if you
18 want to, you can have many categories. There are two
19 items that, in my mind, break out from the
20 traditional production transmission distribution very
21 easily. One of those is demand side management,
22 which is, you know, it's -- especially the older
23 programs, it's kind of related to production.

24 More of what is done now, you know, has to
25 do with it's customer service and we're providing,

00936

1 you know, for a kind of a public good. And so it
2 almost needs its own category.

3 The other item that can be broken out very
4 easily are administrative, overhead type costs that
5 are not directly associated with production,
6 transmission or distribution.

7 Q. Would this decision to make this allocation
8 be an example of where the company used its own
9 judgment, rather than a prior precedent?

10 A. Yes.

11 Q. Have you conducted a sensitivity analysis
12 related to change in the allocation of these other
13 A&G costs to 60 percent energy and 40 percent demand,
14 switching the allocations, in other words?

15 A. I did not make a comparison against demand.
16 I did do a sensitivity analysis against -- if you
17 expanded the percentage, that was based on energy.
18 Both the energy and demand allocators are related to
19 consumption and they are similar, more so than the
20 customer allocation.

21 Q. So what was the results of the sensitivity
22 analysis you conducted? I don't need details. I
23 just sort of want to know the --

24 A. On page 18 of my testimony, at the bottom
25 of the page, you'll see a table.

00937

1 Q. Yes.

2 A. This actually shows the results of all of
3 them, and if you just want to look at the customer
4 energy relationship, it starts on the previous page
5 and goes up to that page. That's actually the better
6 one for this.

7 Q. So return to page 17?

8 A. So the bottom of page 17.

9 Q. Okay.

10 A. This uses the return ratio, and it shows
11 essentially the bounds of if it were a hundred
12 percent customer, what would be the ultimate result
13 to the different groups, or if they were allocated a
14 hundred percent energy and the demand would be --
15 would not be the same as the energy, but I think it
16 would have a similar result as the hundred percent
17 energy, although there would be more costs that would
18 flow to low load factor customers than there are in
19 the straight energy.

20 Q. Okay. And this example, then, on page 17,
21 that's if you allocated a hundred percent to energy,
22 so if you allocated 60 percent to energy, would the
23 results be -- would it be closer to the 40 percent
24 energy, 60 percent demand, or further away from the
25 --

00938

1 A. I'm sorry, could you repeat your
2 supposition?

3 Q. Okay. You've indicated on here that you've
4 got -- your weighting is --

5 A. Sixty percent customer, 40 percent energy.

6 Q. What I'm looking at is what you did was
7 allocated the A&G cost 40 percent to energy and 60
8 percent to demand. And my earlier question was --

9 A. No, it was 60 percent customer and 40
10 percent energy.

11 Q. Okay.

12 A. They should move symmetrically between the
13 lower band and the upper band if you use the same two
14 allocators. If you were to throw demand into the
15 mix, then it wouldn't be a direct relationship.

16 Q. Okay. That's what I was trying to figure
17 out there. Could you provide reasons why the
18 company's corporate allocator that you use is the
19 best method of allocating the other A&G costs? I
20 believe you refer to this corporate allocator that
21 you developed on page eight of your testimony.

22 A. We believe that it approaches to our
23 analytical estimation the closest cost causation
24 relationship.

25 Q. So it is your -- I think you said earlier

00939

1 that causation, it's not an absolute, one hundred
2 percent sure thing, but this is, in your judgment,
3 the best --

4 A. Approximation.

5 Q. Did you consider using an allocator which
6 made no difference in the relative positions of the
7 schedules?

8 A. Made no difference in terms of what --
9 every allocator makes a little difference.

10 Q. Well, right now, under current rates, the
11 schedules are in a certain relationship, and did you
12 consider using allocations that didn't make any
13 shifts in those, the relative contribution that
14 they're making?

15 A. No, we wanted to, again, approximate the
16 cost causation, rather than making some kind of an
17 adder for them.

18 Q. Do you believe that consumption growth
19 rates should be used to allocate costs?

20 A. I'm not familiar with consumption growth
21 rates as an allocator.

22 Q. So you have not used it?

23 A. I have not used it. I'm not familiar with
24 it.

25 Q. So what do you use to develop the causation

00940

1 for energy use and the peaks, peaks in usage, peaks
2 in the -- looking at the load?

3 A. The test year results.

4 Q. So you are comparing it to the results of
5 operations?

6 A. Yes, we are.

7 Q. If I gave you an example of, say, the usage
8 in the residential class -- if the energy usage by
9 the residential class grew at half the rate of the
10 usage of an industrial class, wouldn't that
11 necessarily mean that the industrial class caused
12 more changes in fixed costs during the period?

13 A. I suppose that's possible.

14 Q. Is that necessarily the case or --

15 A. No, the administrative and general costs
16 are often independent.

17 Q. Did you use insurance data as a basis for
18 computing the peak credit allocator?

19 A. Did I use insurance -- oh, the replacement
20 cost for the peak credit allocator was developed from
21 a report that is internally generated for an
22 insurance. I'm not sure what they do with it there.

23 Q. But replacement cost is a piece of the
24 insurance data; correct?

25 A. Right.

00941

1 Q. Did you consider using new construction
2 cost for this as a basis for computing the peak
3 credit allocator?

4 A. No, I did not.

5 Q. Did you use the one-half-peaker cost in the
6 peak credit methodology?

7 A. No, I did not.

8 Q. Does using the half-peaker cost mean that
9 one-half of the time the company would use peakers
10 for non-peaking service?

11 A. I believe that was the theory that was
12 discussed in the Puget proceeding.

13 Q. Out of the 8,760 hours in a year, how many
14 are peaker generation hours?

15 A. In my discussions with people in the power
16 supply, they get very confused when I talk about
17 peak, because to them, it means from seven in the
18 morning until ten at night, Monday through Saturday.
19 A lot of the hourly fluctuations within the day are
20 dealt with through our hydro flexibility.

21 Q. How many hours do the peakers run? Are you
22 familiar with that information?

23 A. We had a data response to that effect.

24 I'll have to look it up.

25 Q. Do you have that available?

00942

1 A. Yes.

2 JUDGE SCHAER: Ms. Tennyson, I think we
3 might do well to give Ms. Knox the lunch hour to look
4 for this, since we are getting to the time when we
5 need to break.

6 MS. TENNYSON: Okay.

7 JUDGE SCHAER: So we're going to take our
8 lunch recess now, and I'd like everyone to be back
9 and ready to go at 1:30. We're off the record.

10 (Lunch recess taken.)

11 JUDGE SCHAER: Let's be back on the record
12 after our lunch recess. Ms. Tennyson, did you have
13 more questions of Ms. Knox?

14 MS. TENNYSON: Yes, I did. Thank you.

15 Q. Before we broke for lunch, Ms. Knox, I had
16 asked how many hours per year did the peakers run.
17 Have you found the answer to that at this point?

18 CHAIRWOMAN SHOWALTER: The peakers?

19 MS. TENNYSON: Peakers, p-e-a-k-e-r-s.
20 Peaking units is another way to say it.

21 THE WITNESS: In response to Staff Data
22 Request Number 197.

23 Q. Yes.

24 A. They conclude that Northeast combustion
25 turbine in 1998 operated for 248 hours, and the

00943

1 Rathdrum combustion turbine operated for 3,188 hours.

2 Q. Okay, thank you.

3 JUDGE SCHAER: What was the first number,
4 please?

5 THE WITNESS: The first number was 248.

6 JUDGE SCHAER: Thank you.

7 Q. When Counsel for Public Counsel was asking
8 you some questions, you were talking about the Puget
9 method or the method in the Puget order. In the
10 Puget method, is it your understanding that the peak
11 credit and coincident peak technique are conceptually
12 independent of the A&G allocation?

13 A. Yes.

14 Q. What is the causal basis of the A&G
15 allocation in the Puget method?

16 A. I do not know precisely where the other O&M
17 type allocations developed from. I was not a party
18 to that case and have not particularly refreshed on
19 testimony that would address that.

20 Q. Okay, thank you. Why could you not use the
21 A&G allocator part of the Puget method, or could you?

22 A. As I -- you certainly could.

23 Q. Could use it independently of the other
24 parts?

25 A. Yes, you could.

00944

1 Q. I have a few questions about the cost of
2 service for the gas portion of the company. Now, the
3 expenditures made by the company to meet peak demand
4 might not be fully utilized every season. What are
5 the mechanisms the company utilizes to minimize the
6 underutilization or overutilization of resources
7 dedicated to meet peak demand?

8 A. In terms of the gas supply?

9 Q. That's correct.

10 A. I am familiar with what our gas supply
11 people in the rate department do on the gas tracker,
12 and those were the numbers that we utilized in this.
13 I really have not had discussions with our gas supply
14 personnel on that topic.

15 Q. Would off-system sales be one method of
16 dealing with an over supply?

17 A. I would think so.

18 Q. And spot market purchases for under supply?

19 A. I am really not familiar with gas supply
20 issues.

21 Q. Okay, thank you. Referring to your
22 testimony on page nine, you indicate that
23 demonstrating and selling activities are intended to
24 increase revenue. Why did you allocate the expenses
25 related to these activities to energy and not to

00945

1 revenue?

2 A. I didn't think of it. That's a good idea.

3 Q. In what ways has the company tried to
4 minimize the impact of customer switching from sales
5 to transport on the remaining sales customers?

6 A. I'm sorry, could you repeat that?

7 Q. In what ways has the company tried to
8 minimize the impact of customers switching from sales
9 just to transport? The impact on the remaining sales
10 customers, have you tried to minimize that?

11 A. I believe in the '97 case, Mr. Hirschhorn
12 addressed that in the rate design.

13 Q. And weather, the type of weather we have
14 and the loss of customers are two important factors
15 that influence variability in revenue. What kinds of
16 measures do you use so that the rate charge will
17 reflect the customers' contribution to that
18 variability in revenue?

19 A. To the extent that we have a customer, a
20 flat customer charge that helps with that, it
21 certainly does not cover all of the fixed costs that
22 are charged on a use per therm basis. Again, I think
23 that is more a question for Mr. Hirschhorn.

24 Q. Would weather normalization be one of those
25 ways of addressing the variability?

00946

1 A. When we do a test period, we of course
2 normalize the weather so that when we set rates, it's
3 on what is determined to be a normal year, so that,
4 in some years, we will get less, and in some years,
5 we will get more, and they will even out over time.

6 Q. Now, the remainder of my questions relate
7 to weather normalization procedures for both electric
8 and gas, looking at how you derive the weather
9 normalization adjustment. Have you made an effort to
10 assess the relative fitness of the transformed
11 original variables, the logarithmic ratio?

12 A. When I was contemplating having to change
13 the weather normalization model to accommodate
14 cooling degree days, I did look at a number of
15 different transformations to determine if that
16 improved the results. I did look at the R-square
17 number on that, but I cannot recall the specifics.

18 Q. What other criteria, in addition to
19 R-square, have you used in choosing a given weather
20 normalization equation?

21 A. First we test that the T statistic for each
22 variable is valid, and the test for that is if the T
23 statistic is greater than two, absolute value, it can
24 be either negative or positive, then once that
25 criteria was met, then we would look at the

00947

1 R-squared, actually, the adjusted R-squared, because
2 we're using multiple regression.

3 Q. Have you used graphical representation or
4 plots of the error terms in respecifying the
5 statistical function forms?

6 A. I used visual evaluation of the error terms
7 to help determine, number one, whether using
8 transformations was helpful and in determining the
9 fitness of model.

10 Q. Did you also use comparing predicted and
11 actual values?

12 A. Yes, I did.

13 Q. Have you assessed the impact of whether the
14 weather normalization adjustment on estimated energy
15 use per billing cycle on peak demand and rates of
16 residential commercial and industrial customers?

17 A. I'm sorry, could you repeat that?

18 Q. Certainly. Have you assessed the impact of
19 the weather normalization adjustment on estimated
20 energy use per billing cycle and peak demand of --
21 let's start with just and the rates of residential
22 customers.

23 A. I have not made any connection on the rates
24 with that. I'm not quite sure what you're asking
25 for.

00948

1 Q. Okay. Have you looked at the impact of the
2 weather normalization adjustment on the rates for
3 residential customers?

4 A. Again, I'm not quite sure what you're
5 getting at. Are you saying if we did not include
6 weather normalization in the revenue requirement,
7 would it change the rates?

8 Q. How much would it change the rates? What's
9 the estimated impact on it?

10 A. I would have to look to Mr. Hirschhorn's
11 revenue adjustment to see the dollar value of the
12 revenue adjustment. I do not recall.

13 Q. So would you say it would be more
14 appropriate for me to address these questions to Mr.
15 Hirschhorn?

16 A. In that he did the revenue study and did
17 the application of price. When I did the weather in
18 -- I did the weather normalization in that I
19 determined the number of kilowatt hours and the
20 number of therms that Mr. Hirschhorn used to come up
21 with the dollar figure.

22 Q. Okay, thank you. Did you attempt to
23 examine the robustness of estimated coefficients with
24 respect to the existence of the high level of
25 correlation between variables used in the equations?

00949

1 A. No.

2 Q. I was trying to avoid having to say the
3 word multicollinearity.

4 A. Yeah, multicollinearity. I did read about
5 it in my statistics textbook, and I attempted to try
6 to figure out what they meant by the items relating
7 to that and found it interesting.

8 Q. Or more dense than you wanted to try to
9 fathom?

10 A. Somewhat.

11 Q. Do you think the use of several years of
12 time series data or more observations will result in
13 better weather sensitivity estimates?

14 A. There's kind of a trade-off. You can --
15 you need to use quite a few data points when you're
16 doing it, so you have to have enough to have a
17 statistically solid regression. When you go too many
18 years into the past, the groups of customers and ones
19 that have switched and -- has changed over time, and
20 I think you would find that you were heavily
21 depending on the weighting factors, which I prefer to
22 have one that does not have quite so much emphasis on
23 weighting factors that are dependent on time. We
24 found the five to five and a half years seems to be
25 pretty representative of the current customers, and

00950

1 only on some subschedules do we find that the
2 weighting factors are significant.

3 Q. Why did you choose a five-year billing
4 cycle data to derive the weather sensitivity
5 coefficients when you do have at least 20 years' data
6 at your disposal?

7 A. That really goes back to the answer to the
8 previous question.

9 Q. Okay. I just wanted to make sure. I
10 thought that's where you would come out.

11 A. And I'd rather not try to repeat it.

12 MS. TENNYSON: I believe that's all the
13 questions I have of this witness.

14 JUDGE SCHAER: Commissioners, do you have
15 questions of Ms. Knox?

16 CHAIRWOMAN SHOWALTER: I have just one.

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

18 BY CHAIRWOMAN SHOWALTER:

19 Q. On Exhibit 472.

20 A. Four-seventy-two?

21 Q. That's TLK-50.

22 A. It's 462.

23 Q. Oh, 462?

24 A. That's helpful.

25 MS. TENNYSON: 472 is a Public Counsel

00951

1 cross-examination exhibit.

2 Q. Oh, it is 472. It's information taken from
3 TLK-50, but it is 472.

4 A. This one.

5 Q. Right. On the third page of it, I think --

6 A. Is that the Puget methodology?

7 Q. Right. I guess it is.

8 JUDGE SCHAER: It says TLK Elec 279 in the
9 bottom corner?

10 THE WITNESS: Yes.

11 Q. I think Mr. Finklea asked you, or somebody
12 asked you, I've written down in Column J, extra large
13 general service, that you have 21 customers?

14 A. Yes, we do.

15 Q. Okay. This is probably somewhere in the
16 record, but just so I can fill it in here, of Column
17 G, residential service, how many customers are there
18 in that column?

19 A. It's approximately 177,000 customers.

20 Q. And then, what about general service? I'm
21 not even sure what general service means. Is that
22 nonresidential?

23 A. It's nonresidential. It's going to be
24 small commercial customers.

25 Q. About how many customers are there?

00952

1 A. I have to check my allocators. The small
2 general service is about 22,000 customers.

3 Q. Okay. What about Column I, large general
4 service?

5 A. That's about 3,000 customers.

6 Q. All right. And special contracts?

7 A. We have one special contract.

8 Q. Okay.

9 A. It is a unique customer.

10 Q. And I take it your reason for preferring
11 your methodology to the Puget methodology, as far as
12 administrative cost, is you think that those costs
13 are more proportionate in terms of causation to the
14 number of customers than to the amount of revenue; is
15 that correct?

16 A. That is true.

17 Q. And I haven't done the math, so I don't
18 know if these amounts back on page three, on line 41,
19 are these amounts directly proportionate to the
20 number of customers or just closer to that proportion
21 than the Puget methodology?

22 A. In this summary, this has all of the
23 administrative and general expenses, and with those,
24 we have done -- it's a two-step process. First, we
25 segregated out any administrative and general

00953

1 expenses that we could assign to production,
2 transmission, distribution, or the customer service
3 type areas of the company. And each of those items
4 were allocated on allocators that basically pick up
5 assumptions about those areas of the company. It was
6 actually the related plant, except for the customer
7 one, and then the remainder, we've applied an
8 allocator that is based on 60 percent the customer
9 relationship and 40 percent their overall usage.

10 Q. Okay. So first you excluded everything but
11 the remainder?

12 A. Right.

13 Q. Then you took the remainder and divided it
14 into 60 percent and 40 percent?

15 A. Yes.

16 Q. And it's the 60 percent of that remainder
17 that is --

18 A. That is customer.

19 Q. -- that is directly related to these
20 ratios, or not?

21 A. Not --

22 Q. Have you allocated the 60 percent according
23 to the number of customers or not?

24 A. Yes, the 60 percent is directly related to
25 the ratio of number of customers.

00954

1 CHAIRWOMAN SHOWALTER: Okay, thank you.

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

3 BY JUDGE SCHAER:

4 Q. Just as a clarification, the page that is
5 page three to 472, you're showing what the Puget
6 method would be; correct?

7 A. Yes, the one that we're looking at there on
8 page three --

9 CHAIRWOMAN SHOWALTER: Oh, yeah.

10 THE WITNESS: -- is the way Puget did it
11 with the O&M related allocators.

12 Q. Where is the page that shows what you
13 recommend, your recommendation for this?

14 A. That's equivalent to this summary?

15 Q. Yes, please.

16 A. It's Exhibit 462, and that would be Part
17 Three, page one. So back, the eighth to the last
18 page of that exhibit.

19 MR. FFITCH: I believe, if I may be of
20 assistance, It's just the other page.

21 THE WITNESS: It is the other page. It's
22 taken directly from my exhibit.

23 CHAIRWOMAN SHOWALTER: Is it the same as
24 page two?

25 THE WITNESS: It's exactly the same. He

00955

1 used that.

2 CHAIRWOMAN SHOWALTER: Page two of 472?

3 THE WITNESS: Yes.

4 CHAIRWOMAN SHOWALTER: So they both have
5 columns --

6 THE WITNESS: Yes, they do.

7 CHAIRWOMAN SHOWALTER: -- G through J, and
8 I could write my population --

9 THE WITNESS: Yes.

10 CHAIRWOMAN SHOWALTER: -- at the top of
11 both pages, and then I could compare if I wanted to?

12 THE WITNESS: Yes, you may.

13 Q. So we could take line 41 from each page and
14 compare, and it's otherwise the same thing. The
15 difference is the two different --

16 A. Yes, Mr. Lazar has done that on -- let's
17 see. On his first page there, at the very bottom,
18 where it says administrative and general -- he's done
19 that for residential. You could do that for all of
20 the classes in the same manner that he did.

21 JUDGE SCHAER: Thank you. Did you have
22 questions, Commissioners?

23 COMMISSIONER GILLIS: No.

24 JUDGE SCHAER: Okay. Did you have any
25 redirect, Mr. Meyer?

00956

1 MR. MEYER: I do. A few, at most.

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

3 BY MR. MEYER:

4 Q. Stepping back from the detail for just a
5 moment and, of course, as is customary, there's a
6 fair amount of cross regarding the allocation
7 factors, a fair amount of cross regarding reliance on
8 prior Commission orders. Do you have any concluding
9 observations about the use, the results of your cost
10 of service study and the use to which they have been
11 put in this proceeding?

12 A. When you perform a cost of service study,
13 it, in many areas, is a matter of judgment, and given
14 that in areas where it's a matter of judgment, there
15 will always be legitimate differences of opinion, it
16 is useful to look at a variety of different ways of
17 doing this process. We know that the goal of a cost
18 of service study is to provide a guideline to be used
19 for rate design and rate spread. And as such, if you
20 could go to the table that's on page 18 of my
21 testimony.

22 Q. That's your testimony marked T-460;
23 correct?

24 A. Yes, it is.

25 JUDGE SCHAER: What page?

00957

1 THE WITNESS: Page 18.

2 JUDGE SCHAER: Thank you.

3 MR. FFITCH: Your Honor, I didn't object
4 before. I guess I'll just observe that the form of
5 the question, the witness has simply been asked to
6 engage in an unfocused narrative on her feelings
7 about summarizing what the cross-examination has
8 discussed and what her feelings are about the method.
9 I'm not sure how long it's going to go on or what
10 areas we're going to get into, so I guess I'm willing
11 to give Counsel and the witness some leeway here, but
12 I'm a little concerned that it's very open ended. If
13 we're going to start walking through multiple
14 exhibits here, for example, I don't feel that's
15 appropriate.

16 JUDGE SCHAER: Why don't you wait and see
17 if it's getting beyond a reasonable scope and object
18 at that point, because I have no way of judging at
19 this point.

20 THE WITNESS: I really only have one more
21 point.

22 MR. FFITCH: That always happens.

23 CHAIRWOMAN SHOWALTER: That's why it
24 happened.

25 MR. MEYER: It would have been a good

00958

1 objection. Just a little early, I think.

2 THE WITNESS: When you look at that table
3 and you look at the relative rates of return for
4 residential schedules, you can see that all of them
5 are less than one, one being unity. You can also see
6 that small general and large general, all of them are
7 consistently greater than one. When I provide this
8 information to Mr. Hirschhorn as a guideline in
9 producing rate spread and rate design, I think I have
10 produced a study that is representative of the cost
11 to serve customers. And when you compare it to
12 differences of opinion, you can see that ours falls
13 somewhat in the middle of the range. And I think
14 what I have provided him is a reasonable guideline.

15 MR. MEYER: Thank you. That's all we have
16 for redirect.

17 JUDGE SCHAER: Okay. Anything further for
18 this witness?

19 MS. TENNYSON: I have nothing.

20 MR. FFITCH: Nothing further, Your Honor.
21 Thank you.

22 JUDGE SCHAER: Mr. Finklea.

23 MR. FINKLEA: Nothing further.

24 JUDGE SCHAER: Commissioners? Thank you
25 for your testimony, Ms. Knox.

00959

1 THE WITNESS: Thank you.

2 JUDGE SCHAER: You may step down. Ms.

3 Tennyson, are you going to be the first questioner of

4 --

5 MS. TENNYSON: I think I will.

6 JUDGE SCHAER: I think I could remember if
7 you wanted to go second. Let's start out with you,

8 then. I've been handed an errata sheet that's marked
9 for identification as T-490, and I will identify this

10 as a portion of Mr. Hirschhorn's direct testimony.

11 Are there any additional exhibits from any of the

12 parties for Mr. Hirschhorn?

13 MS. TENNYSON: I do not have any.

14 JUDGE SCHAER: Okay.

15 MS. TENNYSON: In fact, at this point, I

16 could -- I'll withdraw my Exhibit 498. I have no

17 idea why it showed up under this witness. I don't

18 see where it relates in any way to his testimony, so

19 --

20 MR. FFITCH: Your Honor, just to note that

21 we do have exhibits from SNAP for Mr. Hirschhorn to

22 be introduced. We'll just do that during our

23 examination. They've already been distributed to the

24 Bench, I believe.

25 JUDGE SCHAER: Just take that up when you

00960

1 begin your questioning, if you would, Mr. ffitch.
2 Call your next witness, please, Mr. Meyer.

3 MR. MEYER: Yes, for the record, call to
4 the stand Mr. Brian Hirschhorn.

5 JUDGE SCHAER: The following exhibits were
6 marked in conjunction with Mr. Hirschhorn's
7 testimony. T-490, Direct Testimony. Exhibit 491,
8 Present Electric Service Tariffs. Exhibit 492,
9 Proposed Electric Service Tariffs. Exhibit 493,
10 Proposed Electric Rate Spread and Rate Design.
11 Exhibit 494, Present Gas Service Tariffs. Exhibit
12 495, Proposed Gas Service Tariffs.

13 Exhibit 496, Proposed Gas Rate Spread and
14 Rate Design. Exhibit 497, Avista Corp. Pro Forma
15 Revenue Adjustments Year Ended 12/31/98. Exhibit
16 498, Avista Corporate News Article: T.M. Matthews
17 selected to lead Washington Water Power as new
18 chairman and CEO. Exhibit 499, Avista Response to
19 Public Counsel Data Request Number 27.

20 Exhibit 500, Avista Response to Public
21 Counsel Data Request Number 28. Exhibit 501, Avista
22 Response to Public Counsel Data Request Number 97.
23 Exhibit Number 502, Avista Response to Public Counsel
24 Data Request Number 90. Exhibit Number 503, Avista
25 Response to SNAP Data Request Number 60. Exhibit

00961

1 Number 504, Avista Response to SNAP Data Request
2 Number 61. Exhibit C-505, Confidential, Schedule 46
3 Customer Increases Under Proposed Rates.
4 Whereupon,

5 BRIAN J. HIRSCHKORN,
6 having been first duly sworn, was called as a witness
7 herein and was examined and testified as follows:

8 JUDGE SCHAER: Go ahead, Mr. Meyer.

9 MR. MEYER: Thank you.

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

11 BY MR. MEYER:

12 Q. For the record, please state your name and
13 your employer.

14 A. My name is Brian J. Hirschhorn, and I'm
15 employed by the Avista Corporation.

16 Q. In what capacity?

17 A. I'm a senior rate analyst.

18 Q. And have you prepared direct testimony that
19 has been marked for identification as Exhibit T-490?

20 A. Yes, I have.

21 Q. Do you have any changes to make to that
22 beyond the errata sheets?

23 A. I do not.

24 Q. Are you likewise sponsoring what have been
25 identified as Exhibits 491 through 496?

00962

1 A. Yes, I am.

2 Q. Is the information contained therein, does
3 it still remain true and correct?

4 A. Yes, it does.

5 Q. If I were to ask you the questions that
6 appear in your direct testimony, T-490, would your
7 answers be the same?

8 A. Yes, they would.

9 Q. Likewise, with regard to your other
10 exhibits?

11 A. Yes.

12 Q. Were they prepared under your supervision
13 or by you?

14 A. Yes, they were.

15 MR. MEYER: With that, I move the admission
16 of Exhibits T-490, as well as 491 through 496.

17 JUDGE SCHAER: Any objections?

18 MR. FFITCH: No objection.

19 JUDGE SCHAER: The documents are admitted.

20 MR. MEYER: The witness is available for
21 cross.

22 JUDGE SCHAER: Do you have questions, Ms.
23 Tennyson?

24 MS. TENNYSON: Yes, I do. Thank you.

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

00963

1 BY MS. TENNYSON:

2 Q. Good afternoon, Mr. Hirschhorn.

3 A. Good afternoon.

4 Q. I would like you to refer to what's been
5 marked as cross-examination Exhibit 497. It's one
6 that Staff prepared.

7 A. Yes, I have that.

8 Q. And there's a couple of numbers that I
9 would like to ask you about. If you look towards the
10 bottom of the page, and the title of the line I'm
11 looking at is Miscellaneous Revenue Schedule 199, the
12 numbers -- I believe this is \$2,707,000?

13 A. Yes.

14 Q. And then the next line, large customer PGA
15 refunds, \$239,000?

16 A. Yes, that's correct.

17 Q. Okay. Would you agree that the amount
18 shown on the Miscellaneous Revenue Schedule 199 in
19 the amount of \$2,707,000 is net of the large customer
20 PGA refund of \$239,000?

21 A. Yes, it is.

22 Q. And referring, then, to -- that means, in
23 other words, that \$239,000 already has been removed
24 from the \$2,707,000; is that correct?

25 A. That's correct.

00964

1 Q. So the amount in 1998 adjusted general
2 business revenue really is understated by \$239,000,
3 under or overstated?

4 A. Could you repeat that again? I'm sorry.

5 Q. Would you agree the amount labeled 1998
6 adjusted general business revenue is understated by
7 \$239,000?

8 A. Yes, it is.

9 Q. I'd like to refer you at this point to your
10 Exhibit 493, and page three of six is the page that
11 I'd like you to refer to. Now, this lists all of the
12 -- this lists the information relating to your
13 proposed rates for the different segments, different
14 type schedules of customers; correct?

15 A. That's correct.

16 Q. Could you -- and this compares the present
17 to the proposed electric rates. Could you provide us
18 the percent increase for each of these schedules, so
19 that we have everything on one page?

20 A. Yes, I believe that information is provided
21 on page one of that same exhibit. The far right-hand
22 column, Column H on page one of six, shows the
23 percentage increase proposed for each schedule.

24 Q. This doesn't compare the actual rates.
25 What I'm looking at is, basically, can you -- we

00965

1 would take, then, the first one, for Residential
2 Service Schedule One, would be 14 percent?

3 A. Yes, that's correct.

4 Q. And then, the next, General Service
5 Schedule 11, is seven percent?

6 A. Yes.

7 Q. And Schedule 21 is 7.9 percent?

8 A. Correct.

9 Q. Extra Large General Service, Schedule 25,
10 12.6 percent?

11 A. Yes.

12 Q. The next one would be 12 percent?

13 A. That's correct.

14 Q. Okay. Just -- I like to kind of have
15 everything all on one page, so I can make sure I
16 understand it. And the same thing, then, for -- in
17 Exhibit 496, on the proposed gas rate spread to
18 obtain, if we were, the percentage of the increases
19 on page one of the exhibit?

20 A. That's correct.

21 Q. And then the comparison of present rates to
22 proposed rates shows up on page four of six?

23 A. Yes.

24 Q. So we can just transfer those over so we
25 have them all on the same page. I won't walk

00966

1 everyone through that number-by-number at this point.

2 A. Okay.

3 Q. Now, throughout your testimony, you use the
4 term unity. Can you explain again what do you mean
5 by this term?

6 A. Unity would be when the rate of return for
7 an individual schedule is equal to that of the
8 overall rate of return for the company. In other
9 words, Residential Schedule One, say the rate of
10 return is nine percent and the company's overall rate
11 of return is nine percent. That schedule would be at
12 unity.

13 Q. Now, the revenue normalization adjustment,
14 is this just a pro forma adjustment for each calendar
15 year? How would you describe that adjustment? How
16 do you make that adjustment?

17 A. Pro forma revenue adjustment looks at two
18 main categories. One is any significant load
19 adjustments that are known and measurable we would
20 make during the test year. The other part of the
21 adjustment is pricing at present rates in effect at
22 the time to reflect revenues on a forward-looking
23 basis, based on known and measurable changes.

24 Q. In your testimony, when you're describing
25 how you develop the rate spread information, at page

00967

1 five, you use the number of customers served as of
2 August 1999. Does this time period correlate with
3 the timing of the cost of service study?

4 A. The cost of service study is based on 1998,
5 as the information in the entire case is, it's based
6 on a 1998 test year. What I wanted to give the
7 readers of my testimony is an up-to-date picture of
8 the number of customers that we serve under each of
9 the schedules. It may not tie exactly to the numbers
10 used by Witness Knox or myself, but this information
11 here was to give readers an up-to-date picture of the
12 number of customers served under each schedule.

13 Q. So is it important to match the periods for
14 the cost of service study and the number of customers
15 in determining the rate spread, or did you use those?

16 A. No, I did not use these numbers. It was to
17 give the readers current information on the number of
18 customers served.

19 Q. Okay. So referring again to Exhibit 493 on
20 page five, the number of customers, what's the as-of
21 date for that number of customers?

22 A. Those are -- you're talking about the
23 middle column that says average customers?

24 Q. Yes.

25 A. That's the average customers served during

00968

1 1998, during the test year.

2 Q. So you did match the periods, then, for the
3 cost of service study?

4 A. Yes.

5 Q. Okay. On page nine of your testimony,
6 there you show a chart that gives the hypothetical if
7 you spread the rate increase equally among all
8 customer classes. Now, doesn't this equal percentage
9 basis of rate spread move most of the schedules
10 closer to unity?

11 A. It does. Not as much as the company is
12 proposing in its case, but it does move them closer
13 to unity.

14 Q. Okay. And on page ten of your testimony,
15 you refer to an example of -- you state that the
16 proposal the company is making is moving one-third of
17 the way towards unity, at least for residential, and
18 you suggest that this be done -- or the move towards
19 unity be made in two or three steps. Does your
20 proposed rate spread incorporate any steps beyond the
21 14 percent rate increase per schedule for the
22 residential customers?

23 A. You mean propose steps for the future?

24 Q. That's correct.

25 A. No, I merely suggest in my testimony that

00969

1 movement toward unity could be done in two or three
2 different phases, with this case being the first step
3 toward unity.

4 Q. Okay. So the company would have to come
5 back to the Commission for that?

6 A. Yes, that's correct.

7 Q. On page 18 of your testimony, you refer to
8 the large general service, Schedule 21, for the
9 50-kilowatt or less usage, you have \$190. Exhibit
10 493, page three, shows \$200. The tariff says \$190.
11 I'm just making sure that we understand which one is
12 the correct number.

13 A. Could you direct me -- I'm with you on the
14 testimony.

15 Q. Okay.

16 A. We're looking at the tariff now?

17 Q. Well, Exhibit 493, on page three, uses a
18 different number, and do we need to correct the
19 exhibit, is my question?

20 A. Bear with me one second, Mary. I'm going
21 to check the tariff, since we have a discrepancy
22 here.

23 Q. Sure.

24 A. The current charge is 190. So page --

25 Q. Page three of six on Exhibit 493, then,

00970

1 under --

2 A. That should be revised to \$190.

3 Q. Okay.

4 A. And that's the current demand charge for 50
5 kW or less.

6 Q. Okay, thank you.

7 CHAIRWOMAN SHOWALTER: What line is that?

8 MS. TENNYSON: This is under large general
9 service, Schedule 21, on the column headed Present
10 Rates, the second number, under demand charge, 50
11 kilowatts or less is \$200, and should read \$190.

12 Q. Am I correct, Mr. Hirschhorn?

13 A. Yes, that's correct.

14 MS. TENNYSON: I have no further questions
15 for this witness. I would move the admission of
16 Exhibit 497.

17 JUDGE SCHAER: Any objection?

18 MR. MEYER: No objection.

19 JUDGE SCHAER: The document is admitted.

20 Mr. Ffitch, did you have questions of Mr. Hirschhorn?

21 MR. FFITCH: I do, Your Honor. Thank you.

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

23 BY MR. FFITCH:

24 Q. Good afternoon, Mr. Hirschhorn.

25 A. Good afternoon.

00971

1 Q. Close enough to opening day that we can
2 perhaps call you the cleanup batter. I hope I do
3 better than the Mariners' pitching. Mr. Hirschhorn,
4 you're responsible for the company's recommendation
5 as to how much each class of customers should
6 contribute in proposed increase. In other words,
7 what's generally known as rate spread; is that
8 correct?

9 A. That's correct.

10 Q. And your recommendations on rate spread are
11 generally set forth in Exhibit 493, which is your
12 original 61. They're all based on moving the rate of
13 return for each class, as you've already testified,
14 towards unity or an equal rate of return, as measured
15 by the electric cost of service study prepared by Ms.
16 Knox; is that correct?

17 A. That's correct.

18 Q. And specifically, you have done this based
19 upon her base scenario cost of service study, not
20 upon her Alternative Scenarios One through Five;
21 correct?

22 A. That's correct.

23 Q. And just to clarify, you testified just a
24 moment ago in response to Ms. Tennyson's questions,
25 this proposal that we have before us in Exhibit 495

00972

1 for new rates is the entirety of your proposal for --
2 entirety of your rate proposal for the company at
3 this time, is it not?

4 A. That's correct.

5 Q. You do not propose a specific three-year
6 phase-in proposal, do you?

7 A. We're just -- in my testimony, I discuss
8 that a three-phase movement toward unity might be
9 reasonable given the magnitude that we're proposing
10 to move in this case.

11 Q. So if you would accept, subject to check,
12 that in Mr. Dukich's supplemental testimony, he
13 refers to your proposal for a specific three-year
14 phase-in, that would be incorrect? I can refer you
15 to a specific cite, if you'd like, in his testimony.

16 A. Well, I might qualify both my answer and
17 Mr. Dukich's supplemental testimony.

18 Q. Before you do that, perhaps just for the
19 record and the assistance of other participants, I'll
20 just read the phrase I'm referring to.

21 A. Okay, sure.

22 Q. The sentence I'm referring to. This is the
23 supplemental testimony of Mr. Dukich, Exhibit T-58,
24 page four, line ten, and at that place Mr. Dukich
25 states, Also, Avista witness Mr. Hirschhorn discusses

00973

1 and proposes a three-year phase-in to uniformly
2 cost-based rates for each existing tariff schedule.
3 Does that sound like your recollection?

4 A. Well, what I've proposed is a three-part --
5 a two or three-part phase-in, and in response to a
6 data request, I was asked what period of time the
7 company might see this movement toward unity
8 occurring, and my response in that data request was
9 perhaps 12 to 18 months after the conclusion of this
10 case, the second part of the phase-in could be
11 accomplished, and then 12 to 18 months after that
12 period, if necessary, a third part could be
13 implemented.

14 So I'm not sure if Mr. Dukich was looking
15 at the response to the data request or just
16 substituted three years for a three-part phase-in.

17 Q. Very well. But his statement is at least
18 somewhat inaccurate with regard to what you've
19 actually stated in this case, is it not?

20 A. Not totally inaccurate, but -- let's say it
21 was more specific than I was in both my testimony and
22 data response.

23 Q. So in order to accomplish this phase-in,
24 you've mentioned just now that the second phase would
25 occur in 18 months, perhaps?

00974

1 A. Twelve to 18 months.

2 Q. You're suggesting that that would be an
3 additional rate filing within a 12 to 18-month time
4 frame. Is that how that would be accomplished?

5 A. It could be via a general rate filing by
6 the company, it could be a cost of service rate
7 design rate proceeding.

8 Q. And within what time frame would you expect
9 a third phase into your admittedly somewhat
10 theoretical vision here? What time would the third
11 phase occur?

12 A. As I stated in my response to the data
13 request, probably 12 to 18 months following that.

14 Q. All right. Now, referring you to your
15 direct testimony at Exhibit 490-T, page eight, line
16 17, there you state that the cost to provide electric
17 service to residential customers has been subsidized
18 by the rates charged to nearly all commercial and
19 industrial customers, do you not?

20 A. Yes, I do.

21 Q. By subsidized, do you mean that the small
22 and large commercial customers have paid rates which
23 produce a higher than average rate of return?

24 A. Yes.

25 Q. What evidence do you present that all

00975

1 classes should pay the same rate of return? That is,
2 that all classes impose the same risk on the company?

3 A. I have not done a specific risk study with
4 regard to various classes of customers served by the
5 company. My analysis is based solely on the cost of
6 service study presented by Ms. Knox, as well as
7 looking at the other alternatives, but I did not -- I
8 relied solely on the cost of service study prepared
9 by the company.

10 Q. All right. Does any other witness address
11 the issues of whether all classes impose the same
12 risk?

13 A. I don't believe in this case they do.

14 Q. Now please turn to Exhibit 493, which is
15 your former Exhibit 61, page one, for a moment. And
16 if you look at Column G there, your proposed increase
17 of .666 cents for the residential class is
18 approximately one and a half times as large as the
19 increase of .417 for the extra large general service
20 class; isn't that correct?

21 A. Yes, that's correct.

22 Q. Those are lines one and four, respectively,
23 of that exhibit. In Ms. Knox's preferred cost of
24 service study, both of these classes are paying below
25 average rates of return; is that correct?

00976

1 A. That is correct.

2 Q. Now, if, instead of using Ms. Knox's base
3 scenario cost study, we rely on the Alternative
4 Scenario Three that she prepared, which uses the
5 Commission methodology approved for in the Puget
6 case, the results change somewhat, do they not?

7 A. They would.

8 Q. And in fact, under the Commission approved
9 methodology, both pumping and extra large general
10 service classes would have lower rates of return than
11 the residential class, would they not?

12 A. I will accept that, subject to check,
13 unless you can point me to the exhibit or provide me
14 the exhibit.

15 Q. All right. I'm going to -- the exhibit I'm
16 referring to is Exhibit 464.

17 A. I've just found it. Thank you.

18 Q. Okay. I'm not referring to pumping, just
19 extra large general service classes, so amend my
20 question. Again, the question is, in fact, under the
21 Commission-approved methodology, the pumping --
22 excuse me. Pumping on the brain. Extra large
23 general service class would have a lower rate of
24 return than the residential class, would it not?

25 A. Yes, it would.

00977

1 Q. A portion of this rate increase is to pay
2 for the new Rathdrum power plant, is that your
3 understanding? For the court reporter, that's
4 R-a-t-h-d-r-u-m.

5 A. The portion of this -- I'm going to repeat
6 the question to see if I understand. A portion of
7 this rate request is to pay for the new Rathdrum
8 turbine plant?

9 Q. Yeah.

10 A. That's not --

11 Q. Incorporated into rates?

12 A. When you say the new Rathdrum turbine
13 plant, the Rathdrum turbine that we have in service
14 at this point in time. When you say new, I have a
15 connotation of, well, it's being built.

16 Q. It's new since the last rate case. New in
17 utility years new, regulatory terms. It's new since
18 the last rate case. It's been placed in the rate
19 base since the last rate case?

20 A. Since I'm just the rate design witness,
21 I'll accept that, subject to check. I can't really
22 testify to that, but --

23 Q. Okay. Do you know if it was added to meet
24 load growth in the utility system? Would that be
25 your understanding, if you know?

00978

1 A. I don't know.

2 Q. Now, did you consider growth and usage in
3 each class in determining how to spread out this rate
4 increase?

5 A. No, I didn't look at growth as it has
6 occurred over time. I think the effects of growth
7 somewhat show up in the cost of service study, to the
8 extent we're adding new plant, and if, in fact, we're
9 adding new higher cost resources or new resources,
10 for that matter.

11 Q. Well, if you would look at your direct
12 testimony again, T-490, and go to pages -- go to page
13 seven, first of all, starting at the sentence at the
14 bottom of the page, on line 23, you state, during
15 that same time, which I believe is since 1986?

16 A. Mm-hmm.

17 Q. The number of residential customers served
18 by the company has increased by 17 percent, moving to
19 the next page, whereas total residential energy and
20 revenue has increased only seven percent; is that
21 right?

22 A. That's correct.

23 Q. Now, I'd like you to please go to what has
24 been marked as Exhibit 499 for identification, and
25 that is a Public Counsel cross exhibit. Do you have

00979

1 that before you?

2 A. Yes, I do.

3 Q. And that is a response by the company to a
4 request to provide annual revenues in kilowatt sales
5 for the different customer classes each year for the
6 past ten years, is it not?

7 A. Yes, it is.

8 Q. And the company response is attached.
9 Would you accept, subject to check, that the
10 commercial and industrial customer classes have been
11 growing much more rapidly than the residential
12 classes?

13 A. The energy usage for those classes has. I
14 don't have the number of customers that were added
15 under each of the classes, but yes, energy usage has.

16 Q. All right. If, for example, we look in the
17 first block of data there under the residential
18 column for the years 1991, 1993, 1996, we see that,
19 in each of those years, the usage is actually higher
20 than in 1998; is that correct?

21 A. Yes. These numbers have not been
22 weather-corrected. That would make some difference.
23 It wouldn't -- in fact, I don't think it would
24 totally skew the results the other way, let's put it
25 that way.

00980

1 Q. Yes, and I don't dispute that they're not
2 weather-corrected.

3 A. Okay.

4 Q. I'd like to talk about your customer charge
5 proposal a bit now. You are proposing an increase in
6 the monthly customer charge of \$2, from a \$3 charge
7 to a \$5 charge, and that represents a 66 percent
8 increase, does it not?

9 A. Sixty-six percent, or \$2 a month.

10 Q. And can you point to any time this
11 Commission has ever allowed an electric or gas
12 utility to increase an element of rates by that
13 percentage?

14 A. Off the top of my head, no, I cannot.

15 Q. Now, if you could turn to Exhibit 61, which
16 is 493 in this case, we're going to be looking at
17 that a number of times here. Go to page five.

18 MS. TENNYSON: Sorry, Mr. ffitch, what was
19 the exhibit number again?

20 MR. FFITCH: Exhibit 493, former exhibit
21 61, page five of six.

22 Q. If we look at the line five of that
23 exhibit, under the residential Schedule One grouping,
24 the right-hand column, we see that your estimate of
25 meter reading and billing cost is \$5.18 a month;

00981

1 correct?

2 A. That includes meter reading, billing, as
3 well as a return and the recovery of the cost
4 associated with service lines and meters.

5 Q. All right. Does Avista read meters and
6 bill customers every month?

7 A. Yes, we do.

8 Q. Is it your understanding that Ms. Knox has
9 included monthly meter reading and billing as
10 customer related costs?

11 A. Yes, she has.

12 Q. So your calculation here of \$5.18 on this
13 exhibit is based on monthly meter reading and
14 billing?

15 A. Yes, it is.

16 Q. And is it fair to say that Avista's average
17 residential customer uses something on the order of a
18 thousand kilowatt hours per month? Is that in the
19 right ballpark?

20 A. That's close, yeah.

21 Q. Continuing with the baseball analogies. If
22 I may just have a moment, please. Suppose,
23 hypothetically, for a moment, that each residential
24 customer used an average of only 50 kilowatt hours
25 per month. Now, if usage were small, would monthly

00982

1 meter reading and billing be justified, or could you
2 do it less frequently?

3 A. I think it would more generally be accepted
4 by customers -- I guess it depends what you do in the
5 month that meters aren't being read. If you're
6 estimating bills, and in fact, there's been cases
7 where the company has had to estimate bills, for
8 whatever reason, and the customers don't like their
9 bills being estimated. This is one of the things we
10 found out. If they're not used to it.

11 So I guess with regard to the potential
12 margin of error, if you're estimating bills during
13 that off or non-meter-reading month, they --

14 Q. Well, the hypothetical is that you have or
15 you know that the average usage averages at 50
16 kilowatt hours. You know that it's low in this
17 hypothetical, and the assumption is that you would
18 not be sending bills in the off months. You could
19 only send it every other month. Would that be
20 justified?

21 A. To the extent customers' usage is
22 consistent and we know that and the customer knows
23 that and knows what their bill is going to look like,
24 yeah, it would be more acceptable by the customer and
25 wouldn't create some of the problems that we see in

00983

1 bi-monthly meter reading.

2 Q. I guess what I'm trying to get at is if the
3 usage is low and it is predictable on average that
4 it's more justified in that -- for that reason to
5 look at monthly -- the issue of the frequency of
6 meter reading, and I think you've agreed?

7 A. I believe so, yes.

8 Q. Does Avista have customers who have no
9 meters, such as outdoor lighting customers, for whom
10 the usage is so predictable that meters are not
11 needed to compute usage?

12 A. Yes, we do.

13 Q. Suppose, hypothetically, for a moment that
14 each residential customer used exactly 1,000 kilowatt
15 hours each month, and that amount never varied. If
16 usage were completely stable, would you agree that it
17 might not be appropriate to read meters every month?

18 A. I don't think we'd even need meters if we
19 knew that, so we wouldn't have meter costs, either, I
20 guess.

21 Q. Okay.

22 A. So yes, I would agree.

23 Q. So you would agree, then, that monthly
24 meter reading and billing, if it is justifiable, is
25 appropriate only because customers use significant

00984

1 amounts of electricity each month and because the
2 amount that they use varies from month-to-month?

3 A. I think more the latter, that it does vary
4 from month to month.

5 Q. Okay. Has the company, in the course of
6 preparing this rate increase, prepared any studies
7 for your consideration in rate design of whether
8 current blocks correspond to lights and appliance
9 use, water heat use or space heat use?

10 A. We have not done a specific end use study.
11 From the weather normalization regression results, we
12 know that base load consumption is -- I believe it's
13 approximately 700 kilowatt hours a month. And that
14 would include lighting, appliance use, a base load
15 amount that pretty much every customer uses each
16 month on average.

17 Q. Well, let me ask you again to turn to
18 Exhibit 493, your former 61, and to page three of
19 that exhibit, page three of six. And I see that the
20 proposed end block is lower than the current end
21 block; is that right?

22 A. Yes.

23 Q. Is the company actually proposing a net
24 decrease in the rate for usage above 1,300 kilowatt
25 hours per month?

00985

1 A. It's about a tenth of a cent decrease for
2 consumption over 1,300 kilowatt hours. But all
3 customers would see an increase, because they have to
4 go through the first block to get to the end block.
5 So given the proposed rates, all customers would see
6 an increase in the monthly bill, regardless of their
7 usage.

8 Q. Would you agree that usage over 1,300
9 kilowatt hours per month is mostly electric space
10 heat?

11 A. Yes.

12 Q. And space heat occurs during the winter
13 peak demand period on Avista's Washington system,
14 does it not?

15 A. Generally, it does.

16 Q. Now, would you agree that residential
17 lights and appliances usage has a different time of
18 day and seasonal load shape than, for example,
19 residential space heat usage?

20 A. It has a different load shape, no question.

21 Q. And if you were to examine the load factors
22 for different residential end uses, would you expect
23 to find differences in those load factors?

24 A. Yes, you would.

25 Q. Now, if you could please turn to the next

00986

1 page of this same exhibit, 493, on page four, you
2 show unit costs for demand in energy. Do you see
3 that?

4 A. Yes.

5 Q. Have you measured the unit costs which
6 appear on page four at the relative load factors of
7 lights and appliance usage, water heater usage, space
8 heat usage?

9 A. In other words, assigned various power
10 resources to identify the costs associated with
11 supplying different appliances?

12 Q. What I'm asking is if you've applied these
13 unit costs on page four to the load shape of the
14 different residential end uses?

15 A. No, I haven't.

16 Q. Are your proposed rates for usage below 600
17 kilowatt hours and above 600 kilowatt hours based on
18 the unit costs which you show on this same page on
19 page four, applied to the relative load factors of
20 usage above and below 600 kilowatt hours?

21 A. No, we looked at a number of other factors,
22 though, as I discuss in my testimony.

23 Q. I meant to say applied to the load factors
24 of residential usage?

25 A. Oh, excuse me.

00987

1 Q. But your answer would be the same?

2 A. Yes.

3 Q. Are you generally aware of the concept of
4 the elasticity of demand in response to price?

5 A. Yes.

6 Q. And that concept is generally that people
7 use less in response to higher prices and more in
8 response to lower prices; is that true?

9 A. That's correct.

10 Q. Have you computed the change in electricity
11 sales that you would expect to result from the change
12 in the residential rate design that you proposed
13 compared with current rate design?

14 A. I haven't done that, but as I mentioned
15 earlier, the bills for all customers would, in
16 essence, go up. How customers respond to that
17 depends on the appliances they have in their home.
18 Also, as I state in my testimony, we only have about
19 21 percent of our customers that still use electric
20 heat. And to continue on with the three-block
21 structure, as we have it now, I think puts a burden
22 on those customers that maybe aren't able to switch
23 to gas.

24 Q. Well, you give me a great segue into my
25 next line of questioning. We will turn away from the

00988

1 electricity now and look at your proposed rate
2 changes on the gas side. Have you heard the term
3 rate shock in your career as a rate analyst?

4 A. I have.

5 Q. You've never been involved with any kind of
6 a rate shock, though, have you?

7 A. Not to my knowledge.

8 Q. Would you agree that one common definition
9 of rate shock is an increase of more than ten percent
10 in a single year?

11 A. I've heard it interpreted that way, yes.

12 Q. Do you have a different definition that you
13 would use?

14 A. I think it depends on your starting point.
15 If you're paying a dollar a month and it goes up --
16 and your bill goes up ten cents a month, I don't
17 really think that's rate shock. I think you have to
18 look at it from more than just a percentage
19 perspective.

20 Q. Well --

21 A. That's my opinion. In terms of hearing
22 that definition from others, no, I don't think so,
23 but there's other factors you need to look at.

24 Q. But you've heard that as a common
25 definition?

00989

1 A. Yes, I have.

2 Q. Are you generally familiar with the terms
3 margin and gas cost?

4 A. Yes.

5 Q. In the context of natural gas rate-making?

6 A. Yes.

7 Q. And generally speaking, margin is the cost
8 that the company collects for delivery and storage
9 service using facilities that the company itself
10 owns, and that's set in the general rate case; right?

11 A. That's correct. It's all costs, other than
12 the cost of gas itself or pipeline capacity charges.

13 Q. And gas cost is the flow-through of
14 purchased gas cost, and that's adjusted periodically
15 through a PGA mechanism or a purchased gas adjustment
16 mechanism; correct?

17 A. That's correct.

18 Q. This case is a margin case; correct?
19 You're not proposing to set or change gas costs in
20 this proceeding?

21 A. That's correct.

22 Q. And in your gas rate spread recommendation,
23 and I'll refer you to page one of Exhibit 496, your
24 former 64, you're proposing an increase of 3.33 cents
25 per therm; is that correct?

00990

1 A. Yes, that's correct.

2 Q. And that's shown on line one for the
3 general service Schedule 101, and that would include
4 residential and small commercial customers, would it
5 not?

6 A. Yes, it would.

7 Q. And where you show that as 7.5 percent in
8 Column H, that's divided by the total rate for
9 Schedule 101, including gas cost; is that correct?

10 A. Yes, it is.

11 Q. Now, if we move down the page to Schedule
12 146, that's line five, you show an increase of 41
13 cents per therm, which you portray as an 8.6 percent
14 increase. See that?

15 A. Yes, it's .41 cents therm.

16 Q. Sorry.

17 A. Yes, 8.6 percent.

18 Q. Would you agree that this is not an apples
19 to apples comparison?

20 A. I would. For transportation customers, the
21 revenues do not include gas cost. They're just the
22 revenues that the company collects.

23 Q. All right. So just to walk you through
24 that, for Schedule 101, again, the general service,
25 residential small commercial, you've derived the

00991

1 seven and a half percent by taking the increase in
2 the margin cost and dividing it by the total
3 increase, including gas, whereas for Schedule 146, on
4 line five, you've derived the 8.6 percent by dividing
5 the increase in margin by the total margin price
6 only, excluding gas cost; is that correct?

7 A. That's correct.

8 Q. If we were to eliminate the gas costs for
9 all classes which are not being addressed in this
10 case, namely the gas cost, and computed the
11 percentage increase in margin for the sales
12 schedules, the percentage increases would be much
13 larger than the figures that you show in Column H,
14 would they not?

15 A. Yes, they would.

16 Q. How big a percentage increase is this in
17 the margin for Schedule 101?

18 A. For 101, it's about 16.8 percent, is the
19 percent increase in margin proposed by the company.

20 Q. And again, that's line one, and that
21 includes residential and small commercial?

22 A. Yes, that's correct.

23 Q. Okay. let me just have one moment. All
24 right. Now, that 16.8 percent increase in margin the
25 customers would pay if your proposal were approved is

00992

1 in addition to the gas tracker that was approved last
2 fall, in which customers are already paying; is that
3 correct?

4 A. Yes, that's correct.

5 Q. And that increase can be compared directly
6 to the 8.6 percent increase in margin you propose for
7 Schedule 146 on line five, transportation service?
8 In other words, we're comparing 16.8 to 8.6?

9 A. Yes, those both represent an increase in
10 margin under the various schedules.

11 Q. And that's more of an apples to apples
12 comparison?

13 A. Yes, it is.

14 Q. Now, if you would look at Exhibit 496,
15 please, which is your 64, the same exhibit, and I'm
16 directing you to -- I'm not sure I have my page
17 number here -- page three, lines 24 and 30. How much
18 was the tracker and how much did those costs
19 increase? Lines -- do you see the references there?

20 A. I do. I don't have the exact WACOG. If
21 you give me a minute, I might be able to look that
22 up.

23 Q. Okay. That would be fine. Thank you.

24 JUDGE SCHAER: Mr. ffitch, let's take our
25 afternoon recess at this time. Allow the witness to

00993

1 look this up and everyone else to have a break. Back
2 at 3:00. We're off the record.

3 (Recess taken.)

4 JUDGE SCHAER: Let's be back on the record
5 after our afternoon recess. Before we start with the
6 questioning again, I'd like to just make a couple of
7 announcements about procedure after today. The first
8 is that there will be a public hearing in this rate
9 case held in Spokane on April 20th at 6:45 p.m. to
10 9:00 p.m. at the Spokane Falls Community College.

11 So there will be a notice sent out, but I
12 wanted people to be able to get this on your
13 calendars and make your plans if you didn't have this
14 information already.

15 And the second is to repeat an announcement
16 that I made earlier in the proceeding, which is that
17 we're going to have a prehearing conference in this
18 proceeding on July 6th at 9:30 in the morning. It's
19 going to be very similar to the hearing that we had
20 last Wednesday afternoon. I'll be wanting people to
21 walk in the door with sufficient copies of all of
22 their cross-examination exhibits for the following
23 week's hearings that they can give me nine copies and
24 have enough left to distribute to the other parties.

25 We will, at that hearing, then be marking

00994

1 for identification those exhibits and going over any
2 plans that we need to go over to make sure that the
3 hearings for the presentation of cross and the direct
4 cases of Staff, Public Counsel, and Intervenors and
5 the rebuttal case of the company.

6 So there will be, again, probably a letter
7 that would look like the one you got for last week's
8 hearing with the dates changed and a little bit of
9 other information, but I will be setting out in the
10 letter a request that any motions or objections be
11 provided probably either by the last week in June or
12 the Monday before the 4th of July. It's kind of a
13 bad week to have to do all this, but we'll put
14 together a schedule for getting that information.

15 We'll want you to do some thinking about
16 order of witnesses and perhaps some conversations
17 among yourselves, if you need to have all the cost of
18 money people here at the same time so that the
19 company could have its cost of money person come
20 listen to them or if you need to do something else of
21 that nature to make things run more smoothly. I'll
22 ask the parties to work together to put together an
23 order of witnesses.

24 And I would like to have that provided to
25 me prior to our hearing Thursday morning, so that I

00995

1 can get the exhibit list brought up to date and put
2 in order. It would work better for the Commissioners
3 if that were in the order that the witnesses were
4 going to appear, if we could get it to that point,
5 although we know there are some witnesses who kind of
6 bounce around, depending on what the timing is doing.

7 So that's where we are on announcements,
8 and I think, then, Mr. Ffitch, you had some more
9 questions for Mr. Hirschhorn?

10 MR. FFITCH: Yes, Your Honor.

11 JUDGE SCHAER: Thank you. Go ahead,
12 please.

13 Q. When we left off, I was dangling
14 precariously from the following question. That was,
15 if you remember, Mr. Hirschhorn, I had asked you, on
16 Exhibit 496, which is your old Exhibit 64, for the
17 figure shown at line 24 and line 30, which are a
18 subtraction figure for weighted average cost of gas,
19 how much was the gas tracker and how much did these
20 costs later increase?

21 A. The last PGA, which was approved by the
22 Commission, was a little less than five cents a
23 therm. It looks like about 4.8 cents a therm. For
24 Schedule 101, that percentage increase was about a 17
25 percent rate increase.

00996

1 Q. All right. You anticipated my next
2 question. In order to see what the cumulative impact
3 is on residential customers, we'd really need to add
4 the increase in gas costs from last fall to the
5 proposed 3.33 cents per therm that appears on page
6 one of Exhibit 64. So if we go back to page one of
7 the same exhibit and look in line one, we see that
8 3.33 cents for general service. You'd really need to
9 add the increase from last fall to that proposed 3.33
10 cents, would we not?

11 A. Our last PGA is not at issue in this
12 filing, I don't believe.

13 Q. Well, I understand that. I guess I'm just
14 saying to see the cumulative impact?

15 A. Of the last PGA coupled with the proposed
16 increase in this case, yes.

17 Q. Right. And so together with the gas
18 tracker increase, this proposal would put next
19 December's rates about 20 percent higher than last
20 December's rates, would you agree?

21 A. That's approximate.

22 Q. Could you please go to page six of this
23 same exhibit. Again, it's Exhibit 496. I'm sorry,
24 I've given you an incorrect page reference. I'm
25 looking at page six of your Exhibit 61, which is, I

00997

1 believe, 493. Do you have that?

2 A. Yes, I do.

3 Q. It's page six of six in Exhibit 493, and
4 it's entitled at the top Proposed Increase by Month
5 for a Typical Residential Customer. And if you look
6 at the top half of the page, it's the electric heat
7 customer, bottom half, gas heat customer, and bottom
8 right-hand corner of those data blocks, do you see
9 that the average increase per month proposed for
10 electric heat customer would be \$10.36?

11 A. Yes.

12 Q. And down below, your exhibit shows that the
13 average increase for gas heat customer would be
14 \$9.87?

15 A. Yes, electric and gas increase combined for
16 a gas heat customer, that's correct.

17 Q. Yes. Now, if you add in the tracker to the
18 figure shown in the bottom portion for gas heat
19 customers, the total figure changes from \$9.87 to
20 \$13.87, doesn't it?

21 A. I haven't calculated that number. I'll
22 accept that, subject to check, based on --

23 Q. Okay. Well, I guess perhaps a better way
24 to ask the question is to ask how much, rather than
25 disregarding the number that I've -- excuse me,

00998

1 rather than using the number that I've suggested in
2 my question, let me just ask you what the change to
3 the \$9.87 would be if you take the tracker into
4 account, assuming an average use of 80 therms per
5 month and the 4.8 cents per therm that you had
6 mentioned earlier, the tracker?

7 A. As a result of the PGA adjustment the
8 company had at the end of last year, that added about
9 \$3.80 to a customer's bill, I believe.

10 Q. So you would add that to the \$9.87?

11 A. If you were going to ask the question, what
12 is the effect of the last PGA the company had plus
13 the entire proposed increase as a result of this
14 general proceeding, what effect would that have on a
15 customer's bill, yes.

16 Q. All right. So if you were to look at it in
17 that fashion, you'd have to agree that there's really
18 a bigger increase for gas customers than for electric
19 customers when all is said and done?

20 A. Not as a result of this case. When you
21 incorporate the last purchased gas adjustment, yes.

22 Q. Although, in fact, the company is trying to
23 encourage people to use less electricity; isn't that
24 correct?

25 A. Yes.

00999

1 Q. Now, I'd like to direct you back to Exhibit
2 496, which is your Exhibit 64, for a record
3 requisition.

4 Your Honor, we'd like to ask for an update
5 to this information. Let me get the correct -- Your
6 Honor, what we would be requesting in this record
7 requisition would be an update of Exhibit 496, pages
8 one, three, and four, to reflect the impact of the
9 gas tracker, and we would request presentation of the
10 information in three columns or some other suitable
11 format to reflect pre-tracker, post-tracker, and the
12 proposed rates from this case, if the company's
13 proposal is adopted.

14 JUDGE SCHAER: Is that something you'd be
15 able to do, Mr. Hirschhorn?

16 THE WITNESS: Yes. Can we look at page one
17 and just kind of go through an example? We have a
18 column there, Revenue Under Present Rates. Are you
19 asking that we have an additional column showing
20 revenue under present rates including the purchased
21 gas adjustment, as well?

22 Q. Correct.

23 A. Okay. Yes, we can do that.

24 JUDGE SCHAER: That will be Record Request
25 Number 30.

01000

1 THE WITNESS: And that was pages one, three
2 and four of that exhibit?

3 Q. That's correct. Now, referring you to page
4 one of this same exhibit, your proposed increase to
5 the Schedule 101, again, that's residential and small
6 commercial, is eight times as big as that for the
7 Schedule 146 transportation. It's derived by
8 comparing 3.33 cents versus around four-tenths of a
9 cent for Schedule 136. Is that an accurate summary?

10 A. On a cents-per-therm basis, that would be
11 correct.

12 Q. And you're proposing no rate increase at
13 all for Schedule 148, high-volume transportation
14 service; is that right?

15 A. That's correct.

16 Q. Now, if you would turn to page two of
17 Exhibit 496, looking first at Column C. Now, Ms.
18 Knox's study shows, I think you testified earlier,
19 whether or not you have -- her study shows that
20 Schedule 148 is providing less than the requested
21 rate of return, does it not?

22 A. Could you repeat the question, please?

23 Q. Ms. Knox's study shows that Schedule 148 is
24 providing less than the requested rate of return?

25 A. Under present rates, no, that's not

01001

1 correct. If you look at Column D, that shows the
2 relative rates of return under present rates, and it
3 is, in fact, above the rate of return by the company
4 under present rates.

5 Q. Well, I'm not asking if it's above the
6 average, but if it's above the actual requested rate
7 of return?

8 A. Okay. Yes, after the proposed increase is
9 applied, Schedule 148 is slightly below the overall
10 rate of return proposed by the company.

11 Q. We can see that, because we can see in
12 Column C, eight and a half percent rate of return,
13 also in Column E, and then in Column E, line seven,
14 we see the requested 9.93 percent rate of return?

15 A. Yes, that's correct.

16 Q. And in fact, Ms. Knox's study shows that
17 Schedule 148 is providing a lower rate of return than
18 Schedule 146, to which you're proposing that an 8.6
19 increase in margin be assigned, but no increase is
20 assigned to Schedule 148 at all?

21 A. That's correct. The reason we haven't
22 proposed an increase for Schedule 148 is those are
23 contract -- customers we've negotiated contracts
24 with, all of which have the option to direct connect
25 to Northwest Pipeline. Actually, one with PGT. Some

01002

1 were -- our largest contract was negotiated, I
2 believe, eight or nine years ago, and those rates are
3 set under those contracts. And as I point out in my
4 testimony, those customers are still providing
5 substantial contributions to the system costs of the
6 company.

7 Q. All right. And it appears from Column C
8 that Schedule 121 has the lowest rate of return, at
9 77 percent of the system average. If you look back
10 at page one of the same exhibit, it seems that you're
11 proposing that Schedule 101, residential schedule,
12 gets the highest increase, the 3.33 cents per therm,
13 while Schedule 121 gets only a 1.33-cent per therm
14 increase; is that right?

15 A. That's correct. I think in this case you
16 need to look at the increase in the margins, as well,
17 as I believe you pointed out in your prior
18 questioning. The increase in -- the percentage
19 increase in the margin for Schedule 121 is actually
20 about 23 percent compared to just under 17 percent
21 for 101, because the rates are lower. So there
22 actually is a higher percentage increase in margin
23 applied to Schedule 121 under the proposed rates.

24 Q. All right. Let's talk about the customer
25 charge on the gas side. And as in the electric part

01003

1 of the case, you've proposed a \$5 per month customer
2 charge for gas customers. And if we turn to Exhibit
3 496 on page five, you have done a calculation of the
4 elements of the service meter reading and billing,
5 have you not?

6 A. Yes, I have.

7 Q. And the result was that you show a cost of
8 \$10.17 per month; correct?

9 A. That's correct.

10 Q. That includes the same monthly meter
11 reading and billing assumption you made on the
12 electric side?

13 A. Yes, as well as recovery of the cost of
14 services and meters.

15 Q. And if I asked you the same questions I
16 asked you about monthly meter reading and billing on
17 the electric side, would you give the same answers
18 for the gas information that you provided? If you
19 need to -- if that's a little confusing --

20 A. See if I can paraphrase. Basically, if the
21 usage -- if customer's usage is fairly constant
22 throughout the year, would bi-monthly meter reading
23 being a reasonable approach for the company to
24 examine or be more accepted by customers, as well.

25 Q. Or if it were small, either extremely

01004

1 predictable or small?

2 A. Right, extremely predictable.

3 Q. Low level?

4 A. I believe my answers would be the same.

5 Q. A big element of this, however, is the
6 service connection cost for gas, which is much bigger
7 for gas than for electric; correct?

8 A. Yes, it is.

9 Q. And would you agree that, under the
10 company's line extension policy, Schedule 151, the
11 amount that the company's willing to invest in the
12 line and service investment to connect the new
13 customer is computed by multiplying expected annual
14 revenue from the sale of gas by three? Would you
15 agree with that statement?

16 A. Yes.

17 Q. So a customer who will use a lot of gas,
18 for example a space and water heat customer, might
19 have the entire cost of a service paid by the
20 company?

21 A. That's correct.

22 Q. And on the other hand, a customer expected
23 to use very little gas, for example, a cooking only
24 customer, might have to make a pretty substantial
25 contribution in aid of construction or to have

01005

1 service extended to their home or place of business,
2 wouldn't they?

3 A. If the company had absolute knowledge that
4 that's all they were going to use gas for, yes,
5 that's correct.

6 Q. If we remove the cost of the service from
7 your calculation, the monthly customer-related cost
8 drops to only \$4.13. That is \$2.20 for meters, 56
9 cents for meter reading, and \$1.36 for billing;
10 right?

11 A. Yes, if you were to remove the cost of the
12 service, that's correct.

13 Q. Would you agree that, in the summer months,
14 your gas customers have pretty low usage and their
15 bills are pretty small?

16 A. Generally speaking, yes.

17 Q. Now, I'm going to ask you to turn to what's
18 been marked for identification as Public Counsel
19 Exhibit 501. My luck may have finally changed. I've
20 been examining on complex, technical matters in the
21 middle of the afternoon all week, and now we get to
22 look at some pictures, so the numbers component goes
23 way down at this point.

24 This is -- in this request, we asked for
25 copies of bill inserts for the 1998 test period, and

01006

1 these are the materials that you provided to us; is
2 that correct?

3 A. Yes, that's correct.

4 Q. They're excerpts of the materials that you
5 provided to us. And let's just take a look at these.
6 First of all, let me ask, are the bill inserts a part
7 of the cost of billing in the rate case?

8 A. I don't know what account bill inserts go
9 into, but my understanding would be that they are.

10 Q. Well, I'll accept that answer. Maybe this
11 question will help. Is the cost of printing and
12 inserting the bill inserts included in the customer
13 accounts expense that you used in Exhibits 493 and
14 496, in calculation of customer costs?

15 A. I believe so.

16 Q. Okay. Well, now let's turn to some of
17 these inserts. If we go -- turning to the first
18 sheet after the data request, there's discussion here
19 about the availability of a device to stop electrical
20 surges. I think it's called the meter socket
21 lightning arrester. Are these sold by the utility or
22 by an unregulated subsidiary to which you granted
23 access to the billing envelope?

24 A. Presently, they're sold by an unregulated
25 subsidiary. At the time that these billing inserts

01007

1 went out, the utility was providing these products
2 and services. Since that time, we've established a
3 subsidiary called Avista Services that deals with
4 products and services.

5 Q. How much revenue did the utility receive
6 from the sale of these lightning or socket lightning
7 arresters?

8 A. I don't know.

9 Q. So you wouldn't know how or if the revenue
10 had been applied to offset the cost of billing?

11 A. No, I don't.

12 Q. Let's turn the page, and we'll see there a
13 Cougar football schedule. Is this a gas or an
14 electric customer benefit?

15 CHAIRWOMAN SHOWALTER: Just seeing if
16 anybody's awake?

17 Q. How much did the Washington State
18 University pay you to put this advertisement in the
19 billing envelope?

20 A. I don't know.

21 Q. Now, does the company have a policy of
22 allowing any educational institution to advertise for
23 free in its billing envelope?

24 A. I don't know.

25 Q. Would, for example, the University of

01008

1 Washington be able to get a Huskies schedule in this
2 envelope?

3 A. Being a Cougar alum, I hope not.

4 Q. How about Penn State?

5 A. I don't know what the arrangement was for
6 this particular billing insert.

7 Q. Okay. So you wouldn't know about the
8 application of any revenue towards the calculation of
9 billing costs in your Exhibits 493 or 496?

10 A. No, I don't today.

11 Q. And then the next page shows another ad for
12 the lightning arrester. And then the fourth sheet is
13 Steam Plant Square, and this is an advertisement for
14 renting office space in a building formerly used by
15 the company's steam heat utility, isn't it?

16 A. Yes, it is.

17 Q. Now, is this facility owned by the utility
18 or is it owned by the unregulated subsidiary referred
19 to here, WP Finance?

20 A. I'm sorry, I don't know who the building is
21 owned by. I know Avista or WP Finance, one of our
22 subsidiaries was involved in the conversion of the
23 steam plant to a commercial facility, but that's
24 about all I know on the subject matter.

25 Q. Are there revenues from leasing this office

01009

1 space applied as a credit against meter reading and
2 billing costs? Do you know if they're even credited
3 to the regulated utility at all?

4 A. I don't think so.

5 Q. What about any revenues from this
6 advertisement? Do you know how those --

7 A. I don't know where the revenues went for
8 this particular advertisement.

9 Q. Do you know if Avista Finance paid or WP
10 Finance paid the utility for placing this ad, and if
11 so, how much?

12 A. I don't know.

13 Q. And turning to the next page, we see an
14 insert providing information about the 800 number and
15 customer assistance system, and then moving on to
16 page six, we have an ad in the upper right-hand
17 portion here for trucks and bears. And if you look
18 down at the bottom of the page, the cutout order form
19 refers to DG Productions, does it not? Do you see
20 that?

21 A. Yes.

22 Q. Now. Is that company related to Avista?

23 A. No, I don't think so.

24 Q. Do you know how much DG Productions paid
25 Avista to place this ad in the billing envelope?

01010

1 A. No, but this was -- at the bottom, just
2 before the order blank, you can see that it was in
3 conjunction with our Project Share program, that a
4 portion of the proceeds went to Project Share.

5 Q. Yes, that's right.

6 A. But to answer your question, no, I don't
7 know.

8 Q. And \$5 of the proceeds went to Project
9 Share; correct?

10 A. That's correct.

11 Q. If you look on the order form, the cost of
12 the auger truck is \$25.90, and the cost of the bear
13 is \$35; is that correct?

14 A. That's correct.

15 Q. Do you know what DG Productions' profits
16 were on the sales of these trucks or bears or what
17 part of the profits went to the Project Share
18 charity?

19 A. No, I don't.

20 Q. Do you know if Avista earned any revenue,
21 other than ad revenue, if any, from this promotion?

22 A. I don't know.

23 Q. If you'd turn the page, please, to the next
24 insert, this is an ad for an art gallery, it looks
25 like. I assume this gallery isn't a part of the

01011

1 regulated utility operation?

2 A. That's correct.

3 Q. And that none of these paintings or
4 painters had any direct impact on the gas or electric
5 utility facilities of the company?

6 A. Not to my knowledge.

7 Q. Do you know how much the gallery paid
8 Avista to place this ad, if any payment was made?

9 A. No, I don't.

10 Q. This is a coupon for 50 percent off
11 admission to the gallery, which means it will cost
12 something still to get in. Do you know if Avista
13 receives any of that additional revenue resulting
14 from the payments to visit the gallery?

15 A. No, I don't.

16 Q. And presumably, you don't know whether any
17 revenue from placing the ad or admissions to the
18 gallery was applied to offset the meter reading and
19 billing costs, based on your prior answers, I would
20 assume?

21 A. That's correct.

22 Q. Well, finally, let's go to the last page
23 here. We have satellite dishes. Can you tell me
24 what the relationship is between Dish Network or the
25 dish and the Avista Company?

01012

1 A. As I previously stated, since 1998, we have
2 established a subsidiary, Avista Services, that deals
3 in various products and services, some related to the
4 utility, some outside. When I say related to the
5 utility, in products that could be considered like
6 surge protectors and so forth, some products that
7 aren't related to utility service. And this ad was
8 placed, I believe, just prior to establishing that
9 subsidiary.

10 Q. Is there any ownership relationship between
11 an Avista subsidiary and the Dish Network, do you
12 know?

13 A. I don't know.

14 Q. In this ad, it states, Washington Water
15 Power will also help you choose the perfect system to
16 match your viewing habits. Do you know if it's the
17 gas or the electric division that would assist
18 customers in that exercise?

19 A. Today, it would be Avista Services, which
20 is not part of the utility. At that time, I don't
21 know who would be providing that assistance.

22 Q. And I assume you don't know if the dish,
23 the Dish Network company paid Avista to place these
24 ads or if any --

25 A. No, I don't know.

01013

1 Q. You don't know if there was a share of the
2 revenues from the sale of satellite dishes that went
3 to Avista?

4 A. I don't know.

5 Q. Can I ask you now to turn to the next
6 exhibit, which is 502 for identification. This is
7 the company's response to Data Request 90. And here
8 we asked for a breakdown of all miscellaneous
9 revenues for the test year. And if you could turn to
10 the answer, the following sheet, does this schedule
11 of miscellaneous revenues reflect any revenues
12 received from any of the items we've covered in the
13 bill inserts discussion?

14 A. No, none of the revenues are reflected in
15 that account.

16 MR. FFITCH: Now, I have, just to finish
17 up, a couple of record requisitions, Your Honor.

18 JUDGE SCHAER: Go ahead, Mr. ffitich.

19 MR. FFITCH: I would like to ask the
20 company to provide the revenues received for
21 placement of each billing insert which advertised any
22 merchandise or services for sale and to indicate
23 where that revenue was credited in the calculation of
24 unit costs shown in Exhibit 61 and 64. That's the
25 first one.

01014

1 JUDGE SCHAER: That would be Record Request
2 Number 31.

3 MR. FFITCH: And then Record Request 32,
4 anticipating the numbering, Your Honor, would be to
5 provide the total revenues received by Avista
6 Corporation for electrical surge protectors, Cougar
7 football ticket sales, Steam Plant Square lease
8 payments, DG Productions for trucks and bears, the
9 gallery, or by the dish resulting from the billing
10 inserts, and show how those revenues are reflected in
11 Ms. Knox's cost of service study and Mr. Hirschhorn's
12 rate design analysis.

13 MR. MEYER: That may require some
14 clarification. When you say revenues received from
15 the billing inserts, you mean from the party who is
16 -- or the corporation whose billing insert appears?
17 I mean, revenues consisting of ad placement in the
18 envelopes, or what is the revenue you're after here?

19 MR. FFITCH: No, this is the revenues to
20 Avista Corporation that would originally derive from
21 the sale of the goods or services that are mentioned
22 in the billing insert. For example, if Avista were
23 to receive some dish -- some money for the trucks and
24 the bears as part of the promotional activity in
25 addition to any payment for the placement of the

01015

1 actual ad or promotion in the billing envelope.

2 I believe, Your Honor, I'm now at the point
3 where I can offer Exhibits 499 through 502 for the
4 record.

5 JUDGE SCHAER: Any objection?

6 MR. MEYER: Well, there may be to 501.
7 Depends on the purpose for which it is offered. 501,
8 you'll recall, is the company's request, response to
9 request Number 97. The request was to provide copies
10 of all bill inserts for the test period, and attached
11 to that cover response are just a very few select
12 responses to what is otherwise a very voluminous
13 response. And I would not want this to go into the
14 record leaving unless it's clarified that these are
15 just selected excerpts selected by Public Counsel and
16 do not represent the majority of the inserts that we
17 provided.

18 MR. FFITCH: Your Honor, we're very
19 comfortable and amenable to that clarification, and
20 either to let it stand in that form on the record or
21 to simply allow the company to provide the additional
22 materials to make the exhibit complete, that would
23 also be quite acceptable to us, or we could provide
24 the entire response that we received, if that would
25 take the burden off of Avista.

01016

1 MR. MEYER: You know, I would prefer that
2 you include the entire response.

3 JUDGE SCHAER: Okay. Well, then, we will.
4 I will admit Exhibits 499 through 502, with the
5 understanding that Public Counsel is going to provide
6 the complete response to Data Request Number 97 as a
7 supplement to what's currently filed as Exhibit 501.

8 MR. MEYER: Then, with that, I have no
9 objection.

10 MR. FFITCH: I just have one other matter,
11 Your Honor, and that is I'd like to attend to the
12 Spokane Neighborhood Action Project exhibits. If I
13 might inquire of the witness with regard to those.

14 JUDGE SCHAER: Go ahead, please.

15 Q. Mr. Hirschhorn, do you have in front of you
16 what's been marked for identification as Exhibit 503
17 and 504?

18 A. I don't.

19 MR. MEYER: I'll provide a copy.

20 JUDGE SCHAER: You may approach the
21 witness.

22 Q. I have additional copies here.

23 A. Yes, I do now.

24 Q. These have been provided to the Bench. If
25 other parties would like me to distribute those, I

01017

1 can do that momentarily. Do you recognize this as
2 Avista's response to Spokane Neighborhood Action
3 Project's Data Request Numbers 60 and 61?

4 A. Yes, I do.

5 Q. And were these prepared by you or under
6 your direction?

7 A. They were prepared by me.

8 Q. Are they true and accurate, to the best of
9 your knowledge?

10 A. Yes, they are.

11 MR. FFITCH: Thank you. I'd like to offer
12 the SNAP Exhibits 503 and 504, Your Honor.

13 JUDGE SCHAER: Any objection?

14 MR. MEYER: No objection.

15 JUDGE SCHAER: Those documents are
16 admitted.

17 MR. FFITCH: Thank you, Your Honor.
18 Nothing further from Public Counsel. Thank you, Mr.
19 Hirschhorn.

20 JUDGE SCHAER: Mr. Finklea, did you have
21 questions of this witness?

22 MR. FINKLEA: Yes, I did.

23 JUDGE SCHAER: Go ahead, please.

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

25 BY MR. FINKLEA:

01018

1 Q. Good afternoon, Mr. Hirschhorn.

2 A. Good afternoon.

3 Q. Mr. Finklea, representing Northwest
4 Industrial Gas Users. Do you have before you what
5 has been marked for identification as Exhibit C-505?

6 A. Yes, I do.

7 MR. FINKLEA: Your Honor, just to clarify,
8 I will have a few questions about this. I will not
9 be asking any questions that would address
10 confidential data, so it's not my intent that those
11 who haven't signed the protective order would have to
12 clear the room. I just have a few questions about
13 the exhibit. I think those who have it have signed
14 the confidential agreement, and I will not delve into
15 confidential information.

16 JUDGE SCHAER: Good. Go ahead, please.

17 Q. Mr. Hirschhorn, if you could turn again to
18 what's your Exhibit 496, what was originally your
19 Exhibit 64, page six is the page that I have some
20 questions about.

21 A. Yes, I have that.

22 Q. Now, your page six shows the impact of the
23 gas rate increase for Schedule 146 customers by
24 customer; correct?

25 A. Yes, it does.

01019

1 Q. And the percentage increases that you show
2 there, this gets back to some of the questions that
3 were being asked by Mr. ffitch, that shows increases
4 that include an assumed cost of gas, so that you're
5 trying to show a delivered cost of gas effect from
6 the proposed rate increase; is that correct?

7 A. Yes, that's correct.

8 Q. But again, these customers only purchase
9 transportation service from Avista?

10 A. From Avista, that's correct.

11 Q. And your increase that you're proposing
12 here is to these customers' transportation rates?

13 A. That's correct.

14 Q. And these customers, then, go out on the
15 open market and purchase their own gas?

16 A. Yes, that's correct.

17 Q. And you've assumed that the gas price for
18 these customers, in preparing your page six, is 25
19 cents, but that's just an assumption on your part?

20 A. That's correct.

21 Q. Have you had an opportunity to look at
22 what's been marked for identification as C-505?

23 A. Yes, I have.

24 Q. And this was prepared by the Northwest
25 Industrial Gas Users in an attempt to show the effect

01020

1 for the customers shown on page six if we isolate
2 simply the increase in the transportation rate. Is
3 it your understanding from studying this that we have
4 done that correctly?

5 A. Yes, I haven't recalculated the numbers,
6 but I think they appear reasonable.

7 Q. And if we go to just the far column, which
8 just, again, addresses the percentage changes in
9 customer bills without addressing any of the actual
10 usage data, this exhibit shows that some of the
11 customers on Schedule 146 would face increases in the
12 range of 30 to 40 percent as a result of your
13 proposal; is that correct?

14 A. That's correct. I think it's also
15 important to look at the prior column that shows the
16 dollar change in transportation costs to these
17 customers. And that's one of the reasons I prepared
18 page six of six, which includes gas cost, to look at
19 the change in the customer's entire gas bill.

20 MR. FINKLEA: Okay, thank you. Your Honor,
21 I would move for the admission of what's been
22 pre-marked for identification as Exhibit Number
23 C-505.

24 JUDGE SCHAER: Any objection?

25 MR. MEYER: None.

01021

1 JUDGE SCHAER: That document is admitted.

2 Q. If we could next turn to page 27 of your
3 testimony, what has been marked and admitted as
4 T-490?

5 A. Yes, I have that.

6 JUDGE SCHAER: What page, Mr. Finklea?

7 MR. FINKLEA: Page 27, Your Honor.

8 JUDGE SCHAER: Thank you.

9 Q. I take it, from your response at the bottom
10 of page 27, and then carrying over to page 28, that a
11 primary goal of yours in taking the results of the
12 cost of service study and putting those into effect
13 through your rate spread recommendations was to move
14 rates toward unity; is that correct?

15 A. Yes, that's correct.

16 Q. And in doing that, you were looking at Ms.
17 Knox's cost of service study in her testimony;
18 correct?

19 A. Yes, that's correct.

20 Q. Do you have her testimony in front of you?

21 A. Yes, I do.

22 Q. If you could turn to page 33 of her
23 testimony. Now, it's been noted earlier this
24 afternoon that large general service, Schedule 121,
25 under current rates has actually the lowest return

01022

1 ratio of .77, and that your transportation service,
2 Schedule 146, has a return ratio of 1.19.

3 I note that your proposed rate increase for
4 146 in the margin is, on average, 8.6 percent. And
5 then, as we noted from C-505, it varies widely
6 because of the rate spread implications, while your
7 proposal for Schedule 121 is a 4.6 percent increase.
8 Am I accurate in concluding that, at least as to this
9 aspect of rate spread, you are not moving your rates
10 toward unity?

11 A. I'm not completely sure of the question,
12 Mr. Finklea. All the schedules move toward unity
13 after application of the proposed increase.

14 Q. But the Schedule 146 customers, while they
15 are above an average cost of service figure, face an
16 8.6 percent increase, while your Schedule 121
17 customers are -- you're recommending a 4.6 percent
18 increase?

19 A. Well, the 4.6 percent increase in rates for
20 121 translates into about a 22 percent increase in
21 margin, which would be comparable to the proposed
22 increase in the transportation rates, because they
23 don't include gas costs. So to compare apples and
24 apples, we either need to put gas cost into 146 or
25 take gas cost out of 121. And I think it's easier to

01023

1 take them out of 121, because we've already got the
2 percentage increase stated for 146 of 8.6, I believe.
3 The comparable percentage increase for 121 would be
4 about 22 percent is the increase in margin we're
5 proposing.

6 Q. But that increase for the 146 customers,
7 while on average is 8.6, it varies widely, as we've
8 seen in C-505?

9 A. It does vary considerably.

10 Q. And if your goal was strictly to move all
11 rates toward unity, am I correct that a rate spread
12 proposal other than the one you've made could
13 accomplish that goal better than the proposal we have
14 before the Commission today?

15 A. Could you rephrase the question, Mr.
16 Finklea? Are you asking is there a better way to
17 move the schedules toward unity than what we're
18 proposing in this case?

19 Q. The relationship between Schedule 121 and
20 146, yes, that is my question.

21 A. We're making a significant movement toward
22 unity for both the schedules in the proposed rate
23 spread that the company's proposing. If there's -- I
24 don't know if there's a better way to achieve our
25 proposal in this case. Was that your question?

01024

1 Q. Well, the question is if our goal really
2 was to achieve that unity, if something less than an
3 8.6 percent increase for 146 wouldn't bring us closer
4 to that goal of unity?

5 A. In other words, would a lesser percentage
6 increase to 146 move us closer to unity?

7 Q. Correct.

8 A. Yes, that's correct.

9 Q. Now, if we could turn to page 35 of your
10 testimony, again, T-490, and in particular, lines six
11 through eight. I take it that one of your concerns
12 in the relationship between 121 and 146 is the
13 possibility that Schedule 121 customers might choose
14 Schedule 146 transportation service over sale
15 service; is that correct?

16 A. Yes, it's also Schedule 111 customers. We
17 do have a few customers on Schedule 111 that could
18 qualify for 146, as well. So yes, that is a concern.

19 Q. And you make the observation there in your
20 sentence that begins on line six that there's
21 approximately \$140,000 annual margin loss that could
22 occur if all customers who apparently have an
23 incentive moved to 146.

24 And the focus of my question is, in your
25 assessment of that risk, aren't you assuming that all

01025

1 of those sales customers would be able to purchase
2 gas for the same price that they receive gas service
3 from Avista?

4 A. That revenue is only representative of
5 margin, so if all those customers switched from sales
6 schedules to transportation schedules, that would be
7 the reduction in the company's margin under present
8 rates.

9 Q. But from the customer perspective, if I'm a
10 current 141 customer, and say I have a -- if I
11 compare the 146 margin to the 121 margin, I conclude
12 that there's a four-cent incentive to move to
13 Schedule 146, in order for me to capture that full
14 four-cent incentive, I have to be able to purchase
15 gas for no higher a price than what your company's
16 WACOG is; correct?

17 A. Yes, gas and transportation, pipeline
18 transportation, that's correct.

19 Q. Because in this margin analysis, to back
20 up, there really are three things. By the time gas
21 gets to the burner tip, there's three things that
22 we've purchased; right? We've purchased commodity,
23 we've purchased interstate transportation and we've
24 purchased cross-town delivery service?

25 A. That's correct.

01026

1 Q. And your company provides the cross-town
2 delivery service on an unbundled basis under Schedule
3 146?

4 A. That's correct.

5 Q. And bundled with those other two elements
6 for your sales customers?

7 A. Yes, that's correct.

8 Q. So if I'm a 121 customer contemplating
9 moving to 146, the fact that I might save four cents
10 in margin doesn't necessarily mean that I will jump
11 to 146, because I might face higher prices on those
12 other two unbundled components?

13 A. You could, but I would doubt that on the
14 interstate transportation piece. I think
15 transportation customers usually end up getting a
16 break on pipeline transportation, as compared to the
17 company's sales rate. So they would have to pay
18 significantly more for a commodity, I think, for that
19 to be true.

20 Q. And for any individual customer, that will
21 depend on how they use the gas, what their load
22 factor looks like?

23 A. Could very well, yes.

24 Q. And I take it that this incentive exists
25 today and has existed for a while; correct?

01027

1 A. Yes, it has.

2 Q. Incentive to move?

3 A. It has. We addressed it in our last case
4 and went to a two-block declining block rate
5 structure for 146. We were trying to address it even
6 further in this case by going to a four-block
7 declining block structure to minimize that potential
8 margin loss.

9 Q. But whether by the fact that their gas cost
10 might be more or simply the ease of buying a bundled
11 service rather than an unbundled service or just
12 inertia, for whatever reason, the customers that
13 you've identified have not, at least thus far, made
14 the switch?

15 A. We've had a few over time. In fact, about
16 three or four years ago, we had quite a few customers
17 move from sales to transportation. I can't remember
18 the year, but it was about a dozen customers, I
19 believe, moved in one year. Since that time, we've
20 only seen three or four move. I think it depends
21 what happens to gas prices in the future. If they
22 tend to stabilize, I think customers would become
23 more interested in moving to transportation service,
24 those that qualify.

25 Q. Is it accurate that a larger volume

01028

1 customer is likely to have a greater incentive to
2 switch from sales to transport than a smaller-volume
3 customer on 121?

4 A. In terms of total dollars, yes. Of course,
5 that could be relative, in terms of size of their
6 business. A thousand dollars to one customer may be
7 similar to \$10,000 to another customer, depending on
8 the size of their business.

9 Q. Well, I was actually thinking from the
10 standpoint of potentially the buying power of that
11 customer in the gas market. If I buy a million
12 therms, am I likely to get a better price than if I
13 buy a thousand?

14 A. I would guess the way -- and I haven't been
15 too close to this lately, but most often customers
16 are pooled by brokers, and they're buying gas in
17 large volumes, but generally speaking, I would say
18 that's probably true.

19 Q. Is one way that you could solve the
20 migration issue would be to lower the Schedule 121
21 tail block?

22 A. Actually, most of the margin -- I think we
23 would need to address Schedule 111, as well. Right
24 now, there's a transition point between Schedule 111
25 and 121, so a customer that uses over 10,000 therms a

01029

1 month is clearly better off if they meet the minimum
2 requirements of the schedule on Schedule 121. So we
3 need to look at all those schedules together if we're
4 going to look at an alternative rate design.

5 That's kind of what I've done here. I've
6 looked at Schedule 111, 121, as well as
7 transportation, and tried to keep the transitional
8 pieces of the schedules in place. So I don't think
9 we can just isolate on 121 and say, Okay, let's look
10 at lowering the tail block and see if that addresses
11 the margin problem. You need to look at Schedule
12 111, as well. But there could be -- that could be an
13 alternative.

14 Q. I just have one last question. I know
15 you'll hold me to that, because I said one last
16 question. On page 37, you discuss a change in your
17 penalties to reflect changes in Northwest Pipeline
18 penalties. Am I correct that the Federal Energy
19 Regulatory Commission rejected the change that
20 Northwest Pipeline had been recommending last fall?

21 A. My understanding, the changes I referred to
22 in my testimony were, in fact, proposed at the time,
23 and all the changes that I've reflected in our
24 tariff, all those changes were not approved by the
25 FERC, so yes, they were proposed at the time.

01030

1 Q. I'll have to violate my one question. It
2 would be your intention, then, to make changes in the
3 tariff so that your penalty provisions continue to
4 mirror those of Northwest Pipeline's?

5 A. There is one change we added that was
6 verbatim in terms of overrun penalties proposed by
7 Northwest Pipeline. The FERC rejected that part of
8 their proposed penalties. We would propose that that
9 part be removed from our tariff, as well.

10 MR. FINKLEA: I have nothing further.

11 JUDGE SCHAER: All right. Ms. Dixon, did
12 you have questions?

13 MS. DIXON: Yes, I do. Thank you.

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

15 BY MS. DIXON:

16 Q. Hi, Mr. Hirschhorn. Danielle Dixon, with
17 the Northwest Energy Coalition.

18 A. Good afternoon.

19 Q. Good afternoon. If you could refer to
20 Exhibit 490, page 16. And I'm looking at lines one
21 through six. You state that the company believes
22 that moving partway to a flat energy charge in this
23 proceeding is reasonable, and further, if the
24 Commission does not approve the company's entire
25 proposed increase in this case, it may be reasonable

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1 to consider moving to a single energy charge in this
2 proceeding; is that correct?

3 A. That's correct.

4 Q. Could you please explain the company's
5 rationale for moving in the direction of a single
6 energy charge?

7 A. Right now, we have a three-block inverted
8 rate structure that was implemented shortly after
9 PURPA came into effect, and it was implemented to
10 provide price signals to customers that the
11 incremental cost of energy was much higher than the
12 embedded cost for utilities. Since that time -- at
13 that time, most of our residential customers, over 50
14 percent of our residential customers, use electric
15 heat as a primary heat source. Their energy
16 consumption varied substantially from month to month
17 during the year.

18 Since that time, the number of gas
19 customers, residential gas customers, has pretty much
20 taken the place of electric heat customers in terms
21 of percentages. Sixty percent of our residential
22 customers are now gas heat customers. Their
23 consumption is more uniform throughout the year,
24 because they're using electricity primarily for base
25 load consumption, they're using gas for heating.

01032

1 So the customers that are left, in terms of
2 electric heat customers, are those customers that
3 typically cannot -- either cannot afford to switch to
4 gas or don't have gas available in their area. To
5 continue on with the three-block structure, to a
6 certain extent, penalizes those customers, because
7 they do not have a choice of fuel source in order to
8 switch to natural gas.

9 So also the incremental cost of energy is
10 not what it was in shortly after PURPA. We're
11 looking at combined cycle gas turbines for new
12 resource needs in the Northwest, and they're
13 significantly lower cost than the resources we were
14 looking at 15 years ago.

15 Q. You answered one of my other questions
16 there, too. Could you tell me, has the company
17 assessed the impact to ratepayers of reducing or
18 eliminating the blocks and increasing the basic
19 residential customer charge from \$3 to \$5 per month?

20 A. Do you mean for each customer usage level
21 and the number of customers and the percentages on --

22 Q. Let's focus on residential ratepayers, I
23 guess.

24 A. Okay.

25 Q. Has the company actually evaluated what the

01033

1 impact to those residential customers would be?

2 A. I do have an exhibit, page six of Exhibit
3 493, that shows the typical usage profile for an
4 electric heat customer, as well as a gas heat
5 customer, with the electric portion of their bill
6 broken out by month. It's pretty easy to calculate,
7 I think. The \$2 increase per month would result in a
8 \$24 annual increase. So for an electric heat
9 customer, for example, it's about 20 percent of the
10 increase, total increase that's being proposed, and
11 for a non-electric heat customer, it looks like it's
12 about 30 -- between 25 and 30 percent of the total
13 electric increase proposed. Does that address your
14 question?

15 Q. And just to clarify, you're saying the 20
16 percent and the 25 to 30 percent figures are for the
17 increase in the fixed charge?

18 A. Yes.

19 Q. Okay.

20 A. That would be the basic charge divided by
21 the total increase proposed.

22 JUDGE SCHAER: Does that include both
23 increases in customer charge for the --

24 THE WITNESS: No, that would just be for
25 electric, that was just addressing electric.

01034

1 JUDGE SCHAER: I wasn't clear which it was.

2 Q. Now I'm confused. You said 20 percent of
3 the total increase being proposed for the fixed
4 charge is what's due to the fixed charge for the
5 electric heat customers, and for non-electric heat
6 customers, it's 25 to 30 percent?

7 A. For the electric increase we're proposing
8 for those customers.

9 Q. I see.

10 A. Not -- excluding any change in the gas
11 rates.

12 JUDGE SCHAER: Those customers also get an
13 increase in customer charge; correct?

14 THE WITNESS: Yes, they do. We're
15 proposing a dollar a month.

16 Q. Can you tell me, has the company formally
17 evaluated the impact to low-income customers
18 specifically of reducing the rate blocks and
19 increasing the fixed charge?

20 A. We have not -- actually, we have some
21 information from a residential survey we conducted in
22 1997. The information we have -- the level we use is
23 \$15,000, so it doesn't correlate to the federal or
24 state guidelines in terms of poverty levels, but we
25 use a \$15,000 level for all households.

01035

1 Based on that, about 27 percent of
2 customers that fall below that income level use
3 electric heat. And surprisingly, their average
4 annual consumption is not that much different from
5 all electric heat customers. It's about a thousand
6 kilowatt hours a year less than for all electric heat
7 customers. All electric heat customers, it's about
8 18,000 a year. It's about 17,000 for households
9 under \$15,000 a year. So there's actually a higher
10 percentage of what I'll term as low income, as I've
11 defined it, that use electric heat, with regard to
12 the change in the rate blocks.

13 MS. DIXON: And actually I should ask the
14 judge. Your Honor, is that something I can request,
15 a copy of that survey, if it hasn't been provided in
16 a data request already?

17 THE WITNESS: Yes. Yes, I can provide
18 that.

19 JUDGE SCHAEER: That would be Record Request
20 Number 33, Ms. Dixon.

21 MS. DIXON: Thank you.

22 Q. How do you reconcile the company's proposal
23 for reducing the number of energy rate blocks for
24 residential customers with the company's commitment
25 to energy conservation?

01036

1 A. As part of our proposal, the bills for all
2 residential customers increase. I think that sends a
3 signal that the costs are increasing, whether they be
4 from new resources or from company costs. So I don't
5 think there's an inconsistent message with regard to
6 our commitment for conservation in our proposal in
7 this case.

8 Q. If you refer again to your direct
9 testimony, Exhibit 490, bottom of page 14, going on
10 to page 15, you state that -- I'll let you get there
11 first. Sorry. You state that total energy
12 consumption in the higher-rate second and third
13 blocks has not increased at all since 1986. Your
14 statement implies that customers are responding to
15 the conservation price signal. Is that not the case?

16 A. They're responding to, I think, two things.
17 Conservation, and with part of conservation, we had a
18 fuel switching program. Customers are responding to
19 lower gas prices, as compared to electricity prices
20 for home heating, and have -- many existing homes
21 have converted from electric to gas. I lost my
22 second thought.

23 So they've responded basically by
24 converting from electric to gas for home space
25 heating. And new construction is primarily going

01037

1 with gas heat at the present time. And that's --
2 that shows up in the results of the energy usage in
3 the second and third blocks over the last 14 years.

4 Q. Okay. To switch gears slightly, another
5 approach exists to implementing a fixed charge, which
6 is called a minimum charge or a minimum bill
7 approach. Under this approach, no monthly service
8 charge is assessed apart from the per-kilowatt-hour
9 bill, but all customers are charged at least a set
10 amount each month. Are you familiar with that
11 approach?

12 A. Yes, I am.

13 Q. Has the company assessed the feasibility of
14 moving from a fixed charge to a minimum charge?

15 A. We just eliminated our minimum bill charge
16 for residential service in Idaho on the basis that we
17 don't think a minimum bill for residential customers
18 fairly reflect cost to all customers. I believe a
19 minimum bill is reasonable for higher use schedules,
20 but for residential customers, I don't think it
21 fairly reflects the fixed cost of providing service
22 and can just exacerbate the effect of higher usage
23 customers paying certain fixed costs that are -- that
24 lower use customers create. So we believe a basic
25 charge is a better way to properly reflect cost.

01038

1 Q. And can I make that my Record Requisition
2 Number 34, to get the analysis that you did in Idaho
3 to show the rationale behind eliminating that minimum
4 charge?

5 A. Sure.

6 MS. DIXON: Thanks. And that was my final
7 question.

8 JUDGE SCHAER: All right. Commissioners,
9 did you have questions?

10 COMMISSIONER GILLIS: No.

11 JUDGE SCHAER: I have just a couple
12 questions, Mr. Hirschhorn.

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

14 BY JUDGE SCHAER:

15 Q. Looking first at what we have of Exhibit
16 501, the bill inserts. Looking at the first page
17 only of that exhibit, I believe you testified in
18 earlier cross-examination, and then just now you
19 again spoke to Ms. Dixon about the fact that the
20 company has had a program to encourage customers to
21 convert from electricity to gas; is that correct?

22 A. That's correct.

23 Q. Do you know why the company, when it was
24 invited to sell meter socket lighting arresters that
25 were supposed to work with large appliances only made

01039

1 those available to Washington residential electric
2 customers?

3 A. Does it say that in here, if it's --

4 Q. If you look at the right-hand column, the
5 first sentence in the last paragraph, The MSA will be
6 available only to Washington Water Power residential
7 electric customers.

8 A. Okay. I thought you said Washington
9 residential customers. Do you mean why was it only
10 made available to residential customers?

11 Q. Why was it only made available to electric
12 customers? Why couldn't people who had gas heat get
13 a surge protector for their whole house?

14 A. Oh, oh, oh, I see. I do not know.

15 Q. Does it appear to you that this would be an
16 incentive for a customer to stay with electric
17 service, rather than switching to gas if this were
18 something they wanted to obtain?

19 A. I can't imagine that was the thought going
20 through anyone's mind, but I suppose it could be
21 looked at that way, but I don't think that was part
22 of the thinking, but I don't know.

23 Q. Well, then, as Bench Request Number Two,
24 could you find out what the company's justification
25 was for limiting this to just electric customers?

01040

1 A. Yes, I can.

2 Q. And perhaps you could find out if I'm
3 interpreting this correctly to have that -- to my
4 mind, that would mean this would only be available to
5 people with electric heat. Am I interpreting it
6 wrong?

7 A. Well, I don't think so. It doesn't say --
8 it says residential electric customers. It doesn't
9 say residential electric heat customers.

10 Q. I just noticed that myself, so -- would you
11 just find out what the thinking was there and who
12 else they might have been not allowing to use this or
13 how that program was planned?

14 A. Well, yeah. The information only goes out
15 to our customers, anyway, and I think these -- I'm
16 guessing that these surge protectors probably don't
17 work for larger commercial establishments, would be
18 my guess. These are for residential use. So I'm
19 assuming that's why it's for residential electric
20 customers.

21 Q. I have only one other line of questions,
22 and that is about the question of whether you read
23 meters and bill once a month or read meters and bill
24 less frequently. Does your company have a bill
25 paying system that averages annual usage and then

01041

1 charges that amount per month on a level?

2 A. Yes, we do.

3 Q. How popular is that program? Do you know
4 what percentage of your customers use it?

5 A. I don't. Surprisingly, it's lower than you
6 would think, with people wanting to have some idea
7 what their expenses are going to be, but I don't know
8 the actual percentage.

9 Q. If that percentage were to become quite
10 high, would that perhaps allow the company to make a
11 decision to read meters at least bi-monthly, because
12 it would be charging a level amount each month and
13 wouldn't need to know consumption, necessarily?

14 A. That would make more sense. There would be
15 less customer reaction in terms of changing bills and
16 estimated bills, if that's what we do in the
17 non-reading months, yes. Bills would be more
18 predictable, yeah.

19 JUDGE SCHAER: Okay. That's all I have.
20 Is there any redirect for this witness?

21 MR. MEYER: Brief redirect. Thank you.

22 JUDGE SCHAER: Go ahead, Mr. Meyer.

23 MR. MEYER: Thank you.

24 R E D I R E C T E X A M I N A T I O N
25 BY MR. MEYER:

01042

1 Q. Staying with the subject of bi-monthly
2 meter reading, has the company considered going to a
3 bi-monthly meter read?

4 A. The company has looked into it. In fact,
5 it's recently done a survey of various utilities,
6 some of which do bi-monthly meter reading.

7 Q. And what did it conclude, the company
8 conclude?

9 A. It concluded that those utilities that have
10 always done bi-monthly meter reads don't have a
11 problem with it. Their customers are accustomed to
12 bi-monthly meter reads, but it -- from the problems
13 it has seen in the past with estimating bills and
14 customers' reactions, that it would be a customer
15 service problem to move to bi-monthly meter reading.

16 Q. And were those conclusions set forth in
17 response to a data request received on the subject?

18 A. I believe the information was provided
19 under a data request, the results of that survey.

20 Q. And again, was that in response to Public
21 Counsel Request Number 18, if you recall?

22 A. I believe it was, yes.

23 Q. Now --

24 JUDGE SCHAEER: Mr. Meyer, don't we have a
25 copy of some kind of survey of this nature in the

01043

1 record at this point?

2 MR. FFITCH: Yes, Your Honor. It's been
3 marked and admitted as Exhibit 30.

4 JUDGE SCHAER: Would that perhaps assist
5 you?

6 MR. MEYER: That would. That's what I was
7 looking for. Thank you.

8 Q. Now, with multiple rate blocks, could there
9 be a problem with bi-monthly or longer periods
10 between meter reading?

11 A. Yes, there could.

12 Q. Why is that?

13 A. There's more price and energy usage
14 variability on a month to month basis. Not only
15 energy usage, but then there's price variability, as
16 well, with multiple rate blocks.

17 Q. Turning now to a discussion you had earlier
18 concerning percentage increases and rate shock, there
19 were a number of questions asked in this area.
20 Percentages aside, have you calculated in terms of an
21 average residential electric customer what the
22 average dollar impact would be on a monthly basis?

23 A. Yes, that's on page six of Exhibit 493.
24 I've shown both for an electric heat customer, as
25 well as a gas heat customer what the proposed

01044

1 electric rate increase would mean to those customers.
2 That's shown on the line entitled annual total, as
3 well as average increase by month. So it shows the
4 monthly increase, as well as the annual increase for
5 both types of customers.

6 Q. So for the record, what does it show for
7 electric and gas, based on your proposed revenue
8 requirements?

9 A. The average increase per month for an
10 electric heat customer is about \$10.36. If you look
11 under the gas heat customer, the bottom part of the
12 page, the average increase per month for electric for
13 a gas heat customer is \$7.13, and then the proposed
14 increase for gas is \$2.74, for a total monthly
15 increase of \$9.87.

16 Q. Very well. There was some
17 cross-examination concerning margins, and if one were
18 to translate percentage increases as you've shown
19 them into a margin increase. Do you recall that
20 exchange?

21 A. Yes.

22 Q. What problems, if any, do you have with
23 stating these increases on a margin percentage basis?

24 A. Customers look at their total bill,
25 generally. They don't -- I don't think they separate

01045

1 out their gas cost as part of their bill. So that's
2 the reason why we've stated the percentage changes
3 based on total bills, because that's what customers
4 are going to look at.

5 Q. Are you just testifying, then, that when
6 they look at their bill, that they don't segregate
7 out the purchased gas cost component and then
8 otherwise attribute a different percentage to
9 whatever rates come out of this proceeding?

10 A. I know I don't, and I do this for a living.

11 Q. The basic charge, you were asked about the
12 \$5 basic charge for residential?

13 A. Yes.

14 Q. That represents an increase, doesn't it?

15 A. Yes.

16 Q. Do you recall offhand what Puget Sound
17 Energy's basic charge is currently in effect?

18 A. Their current basic charge is \$5.28 per
19 month.

20 Q. And what is the company proposing in this
21 case?

22 A. Five dollars.

23 MR. MEYER: I believe that covers it.

24 Thank you.

25 JUDGE SCHAER: Okay. Did you have any

01046

1 questions, Madam Chairwoman.

2 CHAIRWOMAN SHOWALTER: No, thanks.

3 JUDGE SCHAER: Anything else for this

4 witness? Go ahead, Ms. Tennyson.

5 MS. TENNYSON: Unfortunately, I do.

6 JUDGE SCHAER: We know it's Doug's fault.

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

8 BY MS. TENNYSON:

9 Q. Referring to the exhibit that Public
10 Counsel showed you with the bill inserts and your
11 responses to those, you said that for a couple of the
12 items, Avista Services is now in the business of
13 selling some of these items, and it's not going to be
14 Avista Utilities doing that anymore; correct?

15 A. That's correct.

16 Q. In the future, will Avista Services be
17 doing bill inserts similar to those in Exhibit 501?

18 A. I believe they will, but any additional
19 cost associated with sending out inserts will be
20 picked up by Avista Services.

21 Q. So they --

22 A. All incremental costs -- there's also an
23 allocation of fixed cost if utility people are
24 working in conjunction with Avista Services.

25 Q. Okay. And would there be, like, an

01047

1 advertising payment in addition to a payment cost or
2 --

3 A. I'm not sure what you mean by an
4 advertising payment.

5 Q. Well, for example, if there's a production
6 of some sort and a group has a program, they'll
7 charge advertisers to put an ad in their program,
8 which they're going to produce anyway. Now, here you
9 have the bill that's going to go out anyway and you
10 can either let someone put it in for no cost, you
11 know, we'll prepare it and you pay the incremental
12 cost?

13 A. My understanding, this is a copy of What's
14 New, which is a publication that goes to customers.
15 At this point and this point forward, it would
16 contain utility information. There may be billing
17 inserts that are provided by Avista Services, but any
18 incremental cost of preparing and mailing those
19 inserts are picked up by Avista Services.

20 Q. Do you know what the company's policy is
21 about offering space in its billing envelope to
22 advertisers or to subsidiaries?

23 A. I know that we are -- there are billing
24 inserts which go out now that are for non-utility
25 type products. That's about all I know. I don't

01048

1 know much else, other than this is handled through
2 Avista Services, I believe.

3 Q. You know it happens. Do you know whether
4 there's a charge for that service?

5 A. I don't.

6 Q. In terms of -- you said there are billing
7 inserts from other than Avista Utilities that go out.
8 Does any company or individual have the opportunity
9 to do a bill insert, or is it only Avista Services?

10 A. I think Avista Services works with certain
11 vendors, and they're selling certain products, as far
12 as I know.

13 Q. Do you know whether this is a written
14 policy of the company?

15 A. I would assume so.

16 Q. What I'm looking for is I would like to
17 make a record requisition for a copy of the policy,
18 assuming it's a written one. Can the company do
19 that?

20 JUDGE SCHAER: It would be Record Request
21 Number 35.

22 MS. TENNYSON: I have no further questions.

23 JUDGE SCHAER: Okay. Is there anything
24 further for this witness?

25 MR. FFITCH: Yes, Your Honor.

01049

1 JUDGE SCHAER: Go ahead, please, Mr.
2 ffitch.

3 R E C R O S S - E X A M I N A T I O N
4 BY MR. FFITCH:

5 Q. Mr. Hirschhorn, you talked about what
6 customers look at in their bills and how they figure
7 out they ought to be concerned. I don't know that
8 I'd have a big argument with you about how much
9 people understand or pay attention to their bills in
10 most cases. Isn't it true, though, notwithstanding
11 what you've said, that unless you present a change in
12 rates on a margin-only basis, you're, in effect,
13 masking the impact of a rate change in the cases
14 particularly where a gas tracker has occurred a short
15 period of time before the rate increase request takes
16 place?

17 A. I'll try and repeat your question, make
18 sure I understand it. Unless you present the
19 increase on a percent of margin basis, aren't you
20 masking the real increase, is that the basis of your
21 question?

22 Q. Does that not have the effect of masking
23 the rate increase? For example, in this case, with
24 the gas tracker in late 1999, which goes into effect,
25 now a proposal for a rate increase being presented.

01050

1 Unless you present the current rate increase proposal
2 on a margin only basis, are you not, in fact, masking
3 from the customers the true magnitude of the rate
4 increase because of the -- because of the
5 implementation of the gas tracker?

6 A. Well, I know, as a gas customer, as a
7 result of the PGA, my bill, my rates went up about 17
8 percent as a result of the PGA. And I also know, as
9 a gas customer, what the company's proposing in this
10 case is about a seven and a half percent increase in
11 my bill. So how that translates into margin, I'm not
12 sure is --

13 Q. Well, that's pretty simple. So that adds
14 up to 25 percent increase, but customers are being
15 told, unless you tell them about the margin approach,
16 the customers are being told they're only having a
17 seven percent increase, because the gas, the prior
18 gas tracker is included, and if you include it in
19 your calculation, then tell customers they're getting
20 a seven percent increase in this rate case, you're
21 actually masking the effect of the rate change, are
22 you not?

23 A. That may be one way to look at it. I don't
24 think so. We're not talking about the electric
25 increase on a margin basis. The bills -- we're

01051

1 proposing the bills will probably go up about seven
2 and a half percent. And that's what they're going to
3 see on a monthly basis if our entire request, as
4 proposed, is approved.

5 Q. This is partly a function of customer
6 education and information and understanding of their
7 bills, is it not?

8 A. Yes.

9 Q. Do you know what kind of notice customers
10 get about gas trackers?

11 A. Yes. Basically, we tell them what their
12 increase in their bill is going to be, the increase
13 as a result of gas costs going up over the prior year
14 or down, as the case may be. We don't express it in
15 a percent of gas cost, because they'll probably
16 think, wow, my bill's going to go up by that much,
17 but that doesn't mean that that education can't occur
18 over time and that customers can't gain that
19 understanding of there's a gas portion of their bill
20 and there's a margin portion of their bill. But,
21 typically, they look at their entire bill and they
22 want to know what the percent increase is in their
23 bill that's going to result from the proposal.

24 Q. If they look at their entire bill and don't
25 understand the part of the bill that has the gas

01052

1 tracker in it, which they can't affect versus the
2 margin portion, then they don't understand that,
3 they're not really getting a true picture of the
4 magnitude of the proposal, are they?

5 A. Well, that's -- I think you mentioned two
6 different things in the question. As part of the PGA
7 notice, we talk about it's an increase in gas cost,
8 something which the company has little or no control
9 over. In the notice of the general case, we talk
10 about it's an increase in costs other than gas. So
11 we do provide them that information that, you know,
12 the PGA is an increase in gas cost that we don't have
13 any control over. The general case is a proposed
14 increase in other costs.

15 Q. Do you know when the gas tracker notice
16 goes out?

17 A. It goes out coincident with the filing of
18 the PGA. So if I might add on that answer. So for
19 typically the 30 days of suspended, customers are
20 receiving the notice on the PGA.

21 MR. FFITCH: I don't have any further
22 questions. Thank you, Mr. Hirschhorn.

23 JUDGE SCHAER: Anything further for this
24 witness?

25 MR. MEYER: None, Your Honor.

01053

1 JUDGE SCHAER: Okay. I'm going to withdraw
2 Bench Request Number Two. I think I managed to
3 confuse myself and get unconfused during the time we
4 were speaking, so --

5 THE WITNESS: Thank you.

6 JUDGE SCHAER: That's all I had for you,
7 Mr. Hirschhorn. Thank you for your testimony.

8 THE WITNESS: Thank you.

9 JUDGE SCHAER: Is there anything further
10 that we need to discuss today? Okay. Our next
11 hearing dates are those I announced to you earlier
12 this afternoon. We will have a public hearing April
13 20th in Spokane. We will have a prehearing
14 conference for marking of exhibits for the next
15 session on July 6th in Olympia, and we will have a
16 week of hearings beginning July 10th, 2000. Thank
17 you very much.

18 This week of hearings went very well. I
19 thought all participants did a good job of asking
20 clear questions and giving responsive answers, and
21 I'm very pleased that we got done in the time that
22 was available. We're off the record.

23 (Proceedings adjourned at 4:38 p.m.)

24

25