

Q: Please state your name and business address.

A: My name is Douglas E. Kilpatrick. My business address is Chandler Plaza Building, 1300 South Evergreen Park Drive Southwest, P. O. Box 47250, Olympia, Washington 98504-7250.

Q: By whom are you employed and in what capacity?

A: I am employed by the Washington Utilities and Transportation Commission as the Electric Industry Coordinator. In that position I supervise the professional staff within the Electric Section of the Regulatory Services Division.

Q: How long have you been employed by the Commission?

A: Since June, 1996. Prior to coming to work at the Commission I worked for Pacific Gas and Electric Company as a key account representative between January 1980 and July 1987. Also, from December 1987 to June 1996, I worked for the Washington State Energy Office as the manager of its engineering staff and finally as the Assistant Director of the Energy Management Division.

Q: Would you briefly state your educational background?

A: I attended Humboldt State University and received a Bachelor of Science in Environmental Resources Engineering in 1982. In addition, I am a licensed professional mechanical engineer, having received my license from Washington State in 1990.

Q: Have you testified before this Commission in any prior proceedings?

A: Yes, I presented testimony on behalf of Staff in the application of PacifiCorp for

authorization to merge with ScottishPower under Docket No. UE-981627. In that case I presented Staff's recommendation that the Commission approve the Application according to the terms of a Stipulation Staff entered into with the Companies.

Q: What is the purpose of your testimony in this proceeding?

A: The purpose of my testimony is to summarize Staff's overall recommendations related to Avista Corporation's ("Avista" or "Company") results of operations, the adjusted revenue requirement, and associated rate impacts. In addition, I am providing specific testimony regarding Staff's position on the electric rate spread and rate design elements of this case.

Summary

Q: Would you please summarize the Staff's presentation in this proceeding and its overall recommendation?

A: Staff is recommending that Avista Utilities be required to decrease its revenues from general electric rates by \$16.49 million. This represents approximately a 6.5 percent decrease compared to current billing rates. In the matter of general gas rates, Staff is recommending the Company be allowed to increase its revenues by \$785,000, a change of just over 1 percent compared to current rates.

Q: Mr. Kilpatrick, in its prefiled direct case, Avista presented testimony supporting an increase of over \$26 million for electricity and nearly \$5 million for gas. Would you please outline the major areas where Staff's case differs from that presented by Avista?

A: There are two primary factors that result in the significant difference between Staff's case and that of Avista. These are the areas of power supply and the overall rate of return for the Company. Mr. Alan Buckley is Staff's witness presenting his analysis of and recommendations leading to the proforma power supply expenses. Dr. Richard Lurito is Staff's witness on the Company's cost of capital, capital structure and recommended rate of return. Dr. Lurito's analysis supports a Staff recommendation that Avista's annual rate of return on investment for its combined electric and natural gas operations be set at 8.82 percent. This is compared to the company's request for an overall rate of return of 9.93 percent. These two elements account for approximately \$32 million, or over one half of the difference between Staff's calculated revenue requirement and that proposed by the Company.

In addition, there are other accounting differences in the results of operation and the overall revenue requirement calculation between the Company and Staff.

Q: Who are Staff's witnesses on the Company's results of operations and overall revenue requirement and what topics are they generally covering?

A: Mr. Michael Parvinen is Staff's lead accounting witness for this case. He will present Staff's overall recommendations regarding Avista's results of operations and the revenue requirement for both gas and electric operations. Mr. Parvinen is supported by accounting testimony from Mr. Thomas Schooley and Ms. Joanna Huang. Mr. Schooley's testimony covers a series of adjustments to revenue requirement including items related to, among other things, relicensing of the Company's Clark Fork hydro

projects, payment of a settlement to the Nez Perce tribe, and recovery of expenses for injuries and damages. Ms. Huang's testimony covers revenue adjustments for, among other things, overall company wages and bonuses, including executive salaries. Mr. Parvinen testifies to the balance of Staff's recommended adjustments on the Company's revenue requirement.

Q: Earlier this Spring, the Commission approved Avista's application to sell its interest in the Centralia Power Plant under Docket Nos. UE-991255 and UE-000080 and ordered the Company to determine an appropriate mechanism for returning ratepayers' share of the gain on sale in the instant case. What is Staff's specific proposal regarding this issue?

A: Staff witness Mr. Roland Martin has prepared testimony describing Staff's accounting and ratemaking proposal related to the treatment of the ratepayer share of the Centralia gain on sale. His testimony covers a simple methodology through which ratepayers can directly receive the benefits from the sale of Centralia, consistent with the Commission's Orders approving the sale.

Q: What other issues are being covered by Staff witnesses in this case?

A: Staff also is presenting as a witness, Ms. Joelle Steward who has prepared testimony on Staff's review of the demand side management (DSM) programs funded through the tariff rider operated by Avista. In her testimony, Ms. Steward states that following a review of Avista's records, Staff concluded that Avista has adequately demonstrated the prudence of their DSM program expenditures in the time period from 1995 when the tariff rider

was put in place to the end of the test period in 1998. She is recommending acceptance of the Company's DSM expenditures through the end of the test period for these programs funded by the tariff rider. Finally, Staff witness, Mr. Jim Russell has prepared testimony addressing rate spread and rate design for the natural gas portion of this case.

Q: In its power supply case, the Company specifically recommended establishment of a Power Cost Adjustment Mechanism. Does staff have a recommendation regarding this proposed mechanism?

A: Yes. Staff witness, Mr. Alan Buckley recommends that the Commission not adopt the Company's proposed Power Cost Adjustment (PCA) Mechanism as filed. As he states, Avista's proposed mechanism has the potential to impact the risks and payment patterns of affected customers, yet the Company has not provided any opportunity for customers to provide input on the PCA mechanism. Mr. Buckley identifies that the Company's filed proposal does not sufficiently address the conditions set forth by this Commission in previous proceedings related to power cost adjustment mechanisms. He recommends the Company initiate a process that solicits customer input and explicitly addresses Commission conditions prior to bringing a fully developed proposal back before the Commission for decision.

Q: In the Company's case, Mr. Dukich sponsored testimony regarding a request for the Company to receive an upward adjustment to its return on equity in order to recognize and compensate it for various management initiatives. Does Staff have a recommendation corresponding to this request?

A: Yes. In his testimony, Dr. Lurito directly addresses this request for an upward adjustment to the Company's return on equity. Dr. Lurito recommends the Commission not acquiesce to the Company's proposal on this issue. According to Dr. Lurito, the Commission should not act on the company's markup proposal without solid evidence that in a competitive market for management talent the Company's management would receive higher compensation than it currently receives.

Rate Spread

Q: The Staff, Public Counsel, and Industrial Customers of Northwest Utilities (ICNU) have entered joint testimony regarding electric rate spread in this case. Does Staff have any comments on this proposal?

A: Yes, Staff agrees with Public Counsel witness Mr. Jim Lazar and ICNU witness Mr. Donald Schoenbeck that any electric rate increase should be spread among the classes in the relative proportions proposed in the direct testimony and exhibits of Brian Hirschhorn. Joint Exhibit ____ (Joint-Electric 1); labeled "Joint Position on Electric Rate Spread" provides numerical examples of this agreed rate spread at several levels of increase or decrease in electric rates. We supported this proposal because we agree with the basic information presented by Mr. Hirschhorn which indicates Schedule 11 and 21 customers have drifted a considerable distance from full cost-of-service under existing rates. The cost-of-service review work done during Staff's analysis led us to conclude that some movement toward rates that are more closely supported by such modeling was

appropriate. The proposal offered here makes this movement in a way that we believe is fair for all rate classes.

Q: Based on Staff’s recommendation that Avista be required to decrease revenues collected through general electric rates by \$16.489 million or 6.56 percent, and consistent with its position on rate spread as presented in the joint testimony, what is the effect on revenues by class of service?

A: In support of our recommended reduction in revenues, Staff has prepared Exhibit ____ (DEK-1); labeled “Staff Position on Electric Rate Spread.”

Rate Design

Q: What is Staff’s recommendation for implementing its proposed revenue decrease through electric rates?

A: As Staff has indicated in our joint testimony with Public Counsel and the ICNU, we are not expounding any particular cost-of-service model results at this time. Because no agreement on exact modeling is being offered, Staff believes the most appropriate way to effect recovery of its proposed revenue requirement is through decreasing the energy components of existing electric rates. This should be accomplished in such a way that the principles outlined in the joint testimony on rate spread are also met. Staff believes that in a situation involving such a decrease in general rates it would be confusing for customers if some components of electric rates, such as basic charges or demand charges are increased while energy charges are decreased. If the Company believes that further

work needs to be done on its electric rate design following determination by the Commission in this case of an appropriate revenue requirement, it should make a subsequent filing with the explicit purpose of accomplishing this goal.

Q: Does this conclude your direct testimony?

A: Yes.