

Q. What is the purpose of this joint testimony?

A. The purpose of this testimony is to set forth the joint position of the WUTC Staff, Public Counsel, and the Industrial Customers of Northwest Utilities (ICNU) on the subject of the spread of any allowed increase or decrease in electric rates between the classes.

Q. What agreement have the three parties reached?

A. We agree that any increase in electric rates allowed as a result of this proceeding should be spread among the classes in the relative proportions proposed by the Company in the direct testimony and exhibits of Brian Hirschhorn. If an increase smaller than the requested level is approved, or if a decrease in rates from existing levels is approved, the increase or decrease for each class of customers will be spread as shown on the attached Exhibit ____ (Joint-Electric-1); labeled "Joint Position on Electric Rate Spread". This exhibit sets forth numerical examples of this agreement showing the effect of four different levels of potential increase in electric rates, a zero or insignificant change in rates with the current spread remaining unchanged, and three levels of potential decrease in electric rates.

Q. Do the parties support the cost of service studies prepared by Ms. Knox and used by Mr. Hirschhorn in preparing his testimony and exhibits?

A. Not necessarily. Each of the three parties has prepared a one-paragraph statement on the electric cost of service study, contained in this testimony, and as part of this agreement has waived any additional testimony on the issue. While we do not agree on the

methodology or accuracy of the results of the cost of service study, we have reached agreement on a fair spread of the revenue requirement between classes. This is based upon the totality of the multiple scenarios presented by Ms. Knox in Exhibit 464, and the expectations that each of the parties has as to what action the Commission would take if each party presented complete testimony on the subject.

Q. What is the position of the WUTC Staff on the Company's electric cost of service studies?

A. (By Mr. Kilpatrick): Staff is of the opinion that the Company methodology is generally acceptable and that the results of the Base Case and Scenario 3 can be regarded as reasonable boundaries of proper results in general terms. This is not to say that the Staff fully endorses the Company's filing without reservation, nor that if it were to file a study of its own that such a study would match one of the alternatives provided by Avista. Staff believes that cost-causation based allocation is the purpose of costing studies and that rate spread should be founded on this base but with additional consideration given to factors such as fairness, rate shock, effective elasticity, and local economic conditions. Ultimately in this case, however, with the issue of revenue requirement providing the largest impact and matters of rate spread methodology less so, Staff arrived at the conclusion that the public interest would be best served by the agreement supported by this joint testimony.

Q. What is the position of Public Counsel on the Company's electric cost of service studies?

A. (By Mr. Lazar): Public Counsel believes that the Company's Alternative Scenario 3 is a fair representation of the cost of serving the classes of customers. This study uses the methodology approved by the Commission for Puget Sound Energy in Docket No. UE-920499, where an entire record was compiled on the issue of cost of service and rate design. If the results of that study were followed, the industrial class would receive the largest rate adjustment, followed by the residential class. As shown in Exhibit ____ (Joint-Electric-1), the key difference between Alternative Scenario 3 and the Company's Base Scenario is the treatment of Administrative and General Costs. Alternative Scenario 3 uses the same general approach for allocating A&G costs previously approved by the Commission for Puget, while the Base Scenario uses a method never previously proposed or accepted. The Company's gas rate case uses a methodology which the Commission has previously approved, and which would also be acceptable for allocation of electric administrative and general costs and produce results more favorable to the residential class than the Base Scenario. Finally, the adjustment to meter reading and billing costs I propose in my revenue requirement testimony would significantly reduce costs to the residential class without affecting any other class. But for the agreement which led to this joint testimony, we would be recommending a lower share of the increase be assigned to the residential class.

Q. What is the position of ICNU on the Company electric cost of service studies?

A. (By Mr. Schoenbeck): ICNU does not believe that any of the six cost studies submitted by the Company accurately portrays the cost of providing electric service to large industrial

customers served by Schedule 25. However, in recognition of prior Commission decisions regarding cost-of-service matters, ICNU is willing to be a party to this rate spread proposal so our attention may be focused on issues far more critical to our members, such as opposing the Company's request for a power cost adjustment mechanism.

Q. By agreeing on the spread of rates in this proceeding, are the parties agreeing that the Company's rates should be adjusted toward the results of the Base Scenario or any other cost allocation study in increments over the next few years, as proposed by Mr. Dukich?

A. No. If the Company desires future changes in rates, we agree that those must be proposed in the context of general rate proceedings or revenue-neutral rate design proceedings. The merits of such proposals will be examined if and when such filings are made. Each of the parties reserves the right to challenge both the cost allocation methodologies and rate spread methodologies which may be presented in the future.

Q. What are the principal reasons that the parties have reached this joint position?

A. There are several, and not all of these reasons apply to each party. First, there is the pragmatic analysis by each of us as to what the Commission would decide if presented with extensive testimony. The Commission has made it clear in the past that the results of cost of service studies were only one aspect of their decision making process on rate spread, with other issues including gradualism, perceptions of equity and fairness, economic conditions in the service territory, and other factors were of equal importance.

We each feel that this agreement is within a range of reasonable expectations as to what the Commission would decide with a fully contested record. Second, in light of the large and complex issues raised by the Company, we all agreed that in this proceeding, it was more important for us to focus our attentions on the other aspects of the case. Third, we all agree that the commercial customers in Schedules 11 and 21 are providing a level of return that would justify a lower than average increase in rates or conversely a larger than average reduction in rates as compared to other rate classes. We do believe, however, that all classes should shoulder some share of any allowed increase and should likewise be the beneficiary of any allowed decrease. Finally, since the Company has expressed an interest in further changing the balance of rates between classes in the future, we recognize that the Commission may have an opportunity to examine cost of service methods in more detail in future proceedings where there are not as many other issues to be decided.

Q. Does this testimony address whether Potlatch Corporation should be treated as “Other Revenue” in the context of Washington rate spread, or treated as a retail customer in the state of Idaho?

A. No it does not. Some parties may address that issue separately. The example in Exhibit ____ (Joint-Electric-1) follows the format of the Company’s Exhibit 493, and treats Potlatch as “Other Revenue.” If Potlatch is treated as a retail load of the state of Idaho, the issue on which we agree, a uniform adjustment to the Company’s proposed rate spread, would still apply to the Washington retail classes.

Q. Please summarize the decision you collectively recommend the Commission adopt.

A. The Commission should specify that it is NOT accepting the results of any particular cost of service study in this proceeding, and should order that any allowed increase or decrease be applied to the classes in the manner set forth in Exhibit ___(Joint-Electric-1).

Q. Does this conclude your joint testimony?

A. Yes.