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BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION)
Complainant,) DOCKET NOS. UE-100467
UG-100468
vs.)
AVISTA CORPORATION d/b/a) Volume III
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AVISTA UTILITIES,)
Respondent.)

A settlement hearing in the above matter was held on November 2, 2010, at 1:35 p.m., at 1300 South Evergreen Park Drive Southwest, Olympia, Washington, before Administrative Law Judge ADAM E. TOREM.

The parties were present as follows:

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, by GREGORY J. TRAUTMAN, Assistant Attorney General, 1400 South Evergreen Park Drive Southwest, Post Office Box 40128, Olympia, Washington 98504; telephone (360) 664-1187.

AVISTA CORPORATION, by DAVID J. MEYER, Vice President and Chief Counsel for Regulatory and Governmental Affairs, 1411 East Mission Avenue, Post Office Box 3727, Spokane, Washington 99220; telephone (509) 495-4316.

PUBLIC COUNSEL, by SARAH SHIFELY, Assistant Attorney General, 800 Fifth Avenue, Suite 2000, Seattle, Washington 98104-3188; telephone (206) 464-5495.

Shaun Linse, CCR No. 2029
Court Reporter

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1 APPEARANCES (CONT'D):

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3 STOKES, Attorney at Law, 1001 S.W. Fifth Avenue, Suite 2000,
4 Portland, Oregon 97204-1136; telephone (503) 224-3092.

5 INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES
6 (ICNU), by IRION A. SANGER, Attorney at Law, 333 S.W.
7 Taylor, Suite 400, Portland, Oregon 97204; telephone (503)
8 241-7242.

9 THE ENERGY PROJECT, by RONALD ROSEMAN, Attorney at
10 Law, 2011 - 14th Avenue East, Seattle, Washington 98112;
11 telephone (206) 324-8798.

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15

16

17 KELLY O. NORWOOD (Avista)

18 ANN M.C. LARUE (WUTC Staff)

19 DONALD W. SCHOENBECK (INCNU/NWIGU)

20 LEA DAESCHEL (Public Counsel)

21 CHARLES M. EBERDT (The Energy Project) (via bridge)

22 DAVID NIGHTINGALE (WUTC Staff)

23 STEPHANIE JOHNSON (Public Counsel)

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1 P R O C E E D I N G S

2 JUDGE TOREM: It's Tuesday afternoon, November 2,
3 2010, a little after 1:30 in the afternoon, and we're
4 assembled at the Washington Utilities and Transportation
5 Commission's headquarters in Olympia, Washington, for Docket
6 UE-100467 and UG-100468. This is a hearing on a proposed
7 settlement from all parties in the Avista general rate
8 cases.

9 What I'd like to do now is go out and have Company
10 counsel make their appearances, and once those appearances
11 are made the agenda for today is to see which, if any, of
12 the parties have prepared statements or remarks they would
13 like to make before putting on a witness panel. Then I know
14 we have several witnesses to come up to the front table, to
15 shuffle people around and swear everybody in, see if the
16 witnesses have any prepared comments. The attorneys can
17 advise us of that, and we will also then have questions from
18 the bench.

19 So let me introduce first the Commissioners that
20 are sitting with me. I'm Administrative Law Judge Adam
21 Torem. We have Chairman Jeffrey Goltz, to his right is
22 Commissioner Patrick Oshie, and to the far right is
23 Commissioner Philip Jones.

24 Let's start with appearances from the company.

25 MR. MEYER: Thank you, Your Honor. Appearing for

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1 Avista David Meyer.

2 JUDGE TOREM: For Commission Staff?

3 MR. TRAUTMAN: I'm Greg Trautman, Assistant
4 Attorney General for Commission staff.

5 JUDGE TOREM: Public Counsel?

6 MS. SHIFLEY: Sarah Shifley, Assistant Attorney
7 General for the Office of Public Counsel.

8 JUDGE TOREM: For the Northwest Industrial Gas
9 Users?

10 MR. STOKES: Chad Stokes for the Northwest
11 Industrial Gas Users.

12 JUDGE TOREM: For Industrial Consumers of
13 Northwest Utilities?

14 MR. SANGER: Irion Sanger for ICNU.

15 JUDGE TOREM: And for The Energy Project?

16 MR. ROSEMAN: Ronald Roseman for The Energy
17 Project.

18 JUDGE TOREM: Counsel, let me start with the
19 Company and see if there's any introductory comments. The
20 settlement was filed at the end of August, and joint
21 testimony came in a few weeks later. We'll go over the
22 exhibits in a few minutes, but let me see if there are any
23 opening comments.

24 MR. MEYER: There are none, Your Honor.

25 JUDGE TOREM: Mr. Trautman, any from staff?

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1 MR. TRAUTMAN: None from staff.

2 JUDGE TOREM: Ms. Shifley, from Public Counsel?

3 MS. SHIFLEY: No, Your Honor.

4 MR. STOKES: No, Your Honor.

5 MR. SANGER: No, Your Honor.

6 JUDGE TOREM: And, Mr. Roseman?

7 MR. ROSEMAN: No.

8 JUDGE TOREM: All right. So let's go straight to
9 the exhibits then. I have three exhibits that have come in
10 since the opening of the case from the Company, and those
11 are the joint testimony that we'll just mark these all as
12 joint exhibits so JT-1T. The actual settlement stipulation
13 which is referred to in the joint testimony we'll mark that
14 as Exhibit Joint or JT-2, and Mr. David Nightingale for
15 Commission staff filed some additional testimony. We'll
16 mark that as JT-3T.

17 (Exhibits JT-1T, JT-2, and JT-37 marked for
18 identification.)

19 JUDGE TOREM: Mr. Meyer, were there any other
20 exhibits.

21 MR. MEYER: No, Your Honor. I do have a
22 correction, though a minor correction to make to the joint
23 testimony JT-1T. That's on page 13, and that consists of a
24 table of the Electric Revenue Requirement Adjustments. Line
25 16 there is in the description there a reference to 4.125

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1 million. That reference should be changed to 4.025 million.
2 That way that table is consistent with the table that
3 appears in the body of the stipulation. We don't need to
4 make the change to that exhibit.

5 COMMISSIONER OSHIE: Mr. Meyer, would you please
6 repeat the reference?

7 MR. MEYER: Oh, surely. It's page 13 of the joint
8 testimony, line 16.

9 COMMISSIONER OSHIE: Okay.

10 JUDGE TOREM: That's the vegetation management
11 adjustment.

12 MR. MEYER: Yes, it is.

13 JUDGE TOREM: And that's consistent with the same
14 number on page 18, line 19 which says the 4.025.

15 MR. MEYER: Correct. We want to make sure the
16 numbers match.

17 JUDGE TOREM: Parties, were there any other
18 adjustments, concerns, or objections to these three joint
19 exhibits?

20 Seeing none, then the three exhibits, JT-1T which
21 is the testimony as corrected, the Settlement Stipulation
22 itself as JT-2, and Mr. Nightingale's testimony of JT-3T,
23 will all be admitted to the record at this time.

24 (Exhibits JT-1T, JT-2, and JT-3T admitted into
25 evidence.)

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1 JUDGE TOREM: Counsel, if you'll assemble the
2 witnesses, I'm going to ask them to take the table directly
3 in front of the Commissioners, and then I can swear in six
4 witnesses.

5 The panel will consist of Kelly Norwood for the
6 Avista Corporation, Ann Larue for Commission Staff. We'll
7 also ask David Nightingale for Commission staff. Mr. Donald
8 Schoenbeck is already up here for ICNU and NWIGU. Lea
9 Daeschel for Public Counsel, Stephanie Johnson for Public
10 Counsel, and I believe I have on the telephone line Charles
11 Eberdt for The Energy Project.

12 Mr. Eberdt, are you there?

13 MR. EBERDT: Yes, sir, I am.

14 JUDGE TOREM: All right. Thank you. So if the
15 other six of you will come forward to the table up front.
16 Just set your things down. We'll see if we can get enough
17 chairs up front.

18 Now that everybody is settled I'm going to ask you
19 all to stand right back up again to swear you in, and,
20 Mr. Eberdt, wherever you are on the phone if you'll do the
21 same.

22 (Kelly Norwood, Ann Larue, Lea Daeschel, Charles
23 M. Eberdt, David Nightingale, Stephanie Johnson sworn on
24 oath.)

25 JUDGE TOREM: Well, members of the witness panel,

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1 welcome. I wanted to see if any of you have introductory
2 remarks about the joint testimony and your role in what you
3 provided.

4 Start with Mr. Norwood.

5 MR. NORWOOD: No, we do not. Thank you.

6 JUDGE TOREM: Ms. Larue?

7 MS. LARUE: No, sir.

8 JUDGE TOREM: Mr. Nightingale?

9 MR. NIGHTINGALE: No.

10 JUDGE TOREM: Ms. Daeschel and Ms. Johnson?

11 MS. DAESCHEL: No, we do not.

12 JUDGE TOREM: Mr. Eberdt, out there on the line?

13 MR. EBERDT: I do not, Your Honor.

14 JUDGE TOREM: Finally, Mr. Schoenbeck?

15 MR. SCHOENBECK: Nor do I, Your Honor.

16 JUDGE TOREM: I know the Commissioners have some
17 questions so we will see where we get started here.

18 COMMISSIONER OSHIE: Well, let's start with maybe
19 an easy one, and when I look at the Settlement Stipulation
20 on page 10, I guess I've got a fairly straightforward
21 question for the Company. There we have a litany of things,
22 including non-utility flights, use of corporate aircraft,
23 customer give-away items and gifts, employee gifts, various
24 other costs improperly charged to utility accounts,
25 charitable donations.

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1 My question I guess for the Company is why were
2 these in the filing to begin with? Why is it the other
3 parties' responsibility to kind of sort that out and bring
4 that to the Company's attention?

5 It would seem that the Company's filing would have
6 been scrubbed and to determine what was properly charged to
7 the utility or not, but apparently it wasn't which to me
8 calls at least somewhat into credibility, calls into
9 question the credibility of the rest of the filing. So
10 these seem to be very simple items, particularly I think
11 Public Counsel in a recent case took to Superior Court, and
12 at least in part the Court agreed with them as to what could
13 be charged to utility. So my question again is why are
14 these in there?

15 MR. NORWOOD: Yes. This issue has been raised in
16 prior cases, Commissioner Oshie, and we have taken steps to
17 reduce the number of these items that you see in these
18 cases. As we mentioned in the joint testimony on page 35,
19 the dollar amounts that were identified by Public Counsel,
20 and I will note at this point that they did a review of
21 certain accounts so there could be other dollars involved.
22 So I'll recognize that. But the dollar amounts that were
23 identified were \$26,000 on the electric side and \$12,000 on
24 the natural gas side.

25 Now as you look at the list of items on the

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1 stipulation on page 10, I would agree that there are some of
2 those items where there were dollars that ended up above the
3 line charged to utility that should not have been, but they
4 were minimal dollars. So some of these other cost items are
5 areas where we simply disagree on how many of those dollars
6 should be charged to the utility and how many should be
7 charged to the customer because there is no specific rule or
8 law that precludes those dollars from being charged to
9 customers, and so those are areas of disagreement. And for
10 some purposes we agree to exclude a body of dollars that
11 encompass some of these areas in order to reach settlement

12 COMMISSIONER OSHIE: Is the dollar amount really
13 an issue, Mr. Norwood, or is it really the principle? To me
14 it seems like it's really the principle, and is there no
15 mechanism, no structure, if you will, within the accounting
16 practice of the Company that discern when a cost should be
17 applied to the utility or not so that it's above? In other
18 words, so that it's above or below the line. I mean how
19 does that get scrubbed out?

20 MR. NORWOOD: Both are important. The principle
21 is important. There's no question about that. The dollar
22 magnitude is also always important. Let me explain why. We
23 have approximately 1,500 employees at Avista, and the
24 Company processes approximately three million transactions
25 over the course of the year, and about half a million of

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1 those are related to expense items. We have new employees
2 that come on. We do have processes and procedures to give
3 guidance to employees to record these dollars in the right
4 accounts, but it would be very expensive and very difficult
5 to ensure that there are no mistakes made over the course of
6 a year when you're dealing with three million transactions.

7 But as a part of this stipulation we've agreed to
8 go back through and do a review and do an audit to make sure
9 that we have training and other procedures in place to try
10 to minimize the amount of entries that are made that go to
11 the wrong place. But no matter what efforts we take you
12 will still find some amount of errors that are made simply
13 because when you have people involved there is going to be
14 some mistakes that are made.

15 COMMISSIONER OSHIE: Do the parties that are to
16 this case are they expected to go through and scrub three
17 million items to determine what should be allowed and what
18 shouldn't be allowed or above or below the line?

19 MR. NORWOOD: No, that's the --

20 COMMISSIONER OSHIE: I understand the magnitude of
21 the problem, but I mean you're in the driver's seat. And
22 the other parties will run an audit of your books, and, of
23 course, the audit is not, you know, it's not comprehensive
24 in the sense that they're not going to look at three million
25 transactions. They're going to look at a representative

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1 number. Obviously what you're saying is that \$26,000
2 represents how many of three million? You know, 500, 1,000?
3 I don't know what the number is, but, you know, the
4 magnitude of three million when I look at what was scrubbed
5 in the results of the scrub there's \$26,000. What else is
6 out there that's not being, you know, captured by the
7 auditing net?

8 MR. NORWOOD: And the audits that we've agreed to
9 do will shed more light on that, and so we've agreed to go
10 through that. But in our view, in my view this is not a big
11 problem. We don't expect to find material dollars that have
12 gone to the wrong place, but there are some.

13 MS. DAESCHEL: This is Lea Daeschel of Public
14 Counsel. I just want to chime in on this is an area that we
15 have a lot of focus on, and we did spend some time reviewing
16 the Company's filing to determine what costs weren't
17 appropriate, and I just wanted to reiterate I appreciate the
18 Company did mention that we did a pretty targeted approach
19 to this so we really only looked at primarily certain A&G
20 and O&M costs, and we did find I think it was something like
21 24 is what was in the stipulation.

22 But I do want to clarify that was a pretty
23 targeted approach so we did have some serious concerns with
24 what else might be in the filing, in future filings, and so
25 we really felt that we were pleased to see the Company agree

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1 to some of these internal audits that we're talking about.
2 And there's also an agreement for employee training to occur
3 in the future to really try to limit some of these types of
4 expenses being included in future cases because we figured
5 the Commission doesn't think this is something the parties
6 should be responsible for scrubbing through.

7 COMMISSIONER OSHIE: Well, I guess, Ms. Daeschel,
8 I understand the position, but it seems to me that this is
9 not an issue that we should see in the settlement. This
10 should be done prior to the filing, and it's not something
11 we should see. Although I don't know how much satisfaction
12 personally that I take that the Company has agreed to do an
13 audit. I mean it's like that's kind of a no brainer, but if
14 that's what it took is a settlement to get them to agree to
15 that, you know, I'd be -- you know, it seems to me that that
16 is a pyrrhic victory I guess, if that's what it amounts to
17 be.

18 So I guess the Company's response in general is
19 that we do three million transactions. There's been a
20 targeted response by certain members of the intervenors and
21 parties, a very targeted approach, and that resulted in
22 netting \$24,000 of adjustment out of three million
23 transactions. Okay. All right. Any other comments?

24 JUDGE TOREM: Commissioner Jones?

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1 COMMISSIONER JONES: A couple questions related to
2 cost capital and the provision in the settlement. I forget
3 which page it's on. I think it's closer toward the start.
4 Let me see.

5 JUDGE TOREM: Commissioner Jones, that's on page 5
6 of the Settlement Stipulation.

7 COMMISSIONER JONES: Okay. When was the Company
8 last reviewed by S&P or Moody's?

9 MR. NORWOOD: We met with those parties in the
10 summer months in the June-July time frame is what I
11 remember, and generally after those meetings with the rating
12 agencies they issued a review, and I believe there was a
13 review issued by them in the August-September time frame.
14 So we are still on positive outlook, but they have not acted
15 one way or the other beyond that at this point.

16 COMMISSIONER JONES: I thought I read something it
17 could have been in the direct testimony or it could have
18 been elsewhere that the company was hopeful of a ratings
19 upgrade, a notch upgrade at some point at the next S&P
20 review.

21 MR. NORWOOD: Yes, we were hopeful they would take
22 actions, but I will share with you that some of the things
23 they shared with us is, number one, they are waiting for the
24 outcome of this case. The second issue that they're
25 concerned about is liquidity. Our credit lines expire at

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1 the end of March, and so they may also hold off until they
2 see that we have renewed, successfully renewed those credit
3 facilities to those were a couple items that they mention to
4 us.

5 COMMISSIONER JONES: Were they also concerned
6 about hydro commissions? They usually are, aren't they?

7 MR. NORWOOD: They follow those, but nothing out
8 of the ordinary in terms of being concerned about that.

9 COMMISSIONER JONES: Could you turn to page 34,
10 Mr. Norwood, of the joint testimony.

11 MR. NORWOOD: Yes.

12 COMMISSIONER JONES: This is I think where you
13 refer to the financial condition of the company at the time
14 that you were on the lowest rung of the investment grade
15 credit rating; that you are at a BBB-. Correct?

16 MR. NORWOOD: That's correct.

17 COMMISSIONER JONES: I guess my question here is
18 we cannot predict how the ratings agency or Wall Street are
19 going to assess the outcome of this settlement agreement if
20 it is approved or if we modify or reject it. But if it were
21 to be approved, I think what the Company is saying here is
22 that without this kind of rate relief in the settlement
23 agreement that revenues would not be sufficient to meet the
24 needs of the ratings agencies; is that correct?

25 MR. NORWOOD: I believe that's correct. Yes,

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1 absolutely.

2 COMMISSIONER JONES: So can you expand upon
3 sufficiency a little bit. What do you mean by sufficiency?
4 It's sufficient to do what? It's not sufficient in terms of
5 the statutory definition in the RCW, but it's more the Wall
6 Street view of the world?

7 MR. NORWOOD: This is the Wall Street view, and
8 both S&P and Moody's have their own criteria that they use
9 to judge credit, and they have metrics and financial
10 parameters they look at. And, of course, what we're looking
11 at is cost recoveries and interest coverage ratios, level of
12 debt to equity and so on. So we believe that the settlement
13 that we have before you if it were to be approved would be
14 credit supportive. In other words, it would be a positive.
15 If it were to not be approved or materially changed, then
16 there is a potential for that to be viewed negatively.

17 COMMISSIONER JONES: By credit supportive you're
18 referring to the three financial metrics that S&P usually
19 uses in terms of free funds from operation as a percentage
20 of debt, debt as a percentage of total capitalization?

21 MR. NORWOOD: That's correct. It would be
22 supportive as it relates to those metrics.

23 COMMISSIONER JONES: Have you actually run some
24 numbers on, for example, the FFO to debt ratio about where
25 this settlement will take you?

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1 MR. NORWOOD: Yes, we have. We run our forecast
2 assuming if the settlement were to be approved just to see
3 what metrics would be like. I think we've shared those with
4 the rating agencies.

5 COMMISSIONER JONES: Okay. So it would fall
6 within the range, somewhere in the range of the credit
7 metrics.

8 MR. NORWOOD: We believe that it would provide
9 financial metrics that would support a credit upgrade to BBB
10 flat.

11 COMMISSIONER JONES: Question on working capital,
12 just switching gears a little bit here. In the settlement
13 includes 18.1 million working capital on the electric side,
14 but reduce the working capital amount to zero on the natural
15 gas side.

16 MR. NORWOOD: Yes.

17 COMMISSIONER JONES: I'd like to hear from staff,
18 other parties if they want to jump in. But why? What's the
19 rationale for this?

20 MR. NORWOOD: On the electric side there was lots
21 of discussion and basically a negotiated number in terms of
22 the working capital on the electric side. There was
23 recognition that there should be working capital adjustment.
24 The question is how big should it be until we ended up with
25 a negotiated number.

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1 On the natural gas side there was discussions
2 surrounding the JP Storage, the inventory which goes into
3 working capital adjustment. There's the new JP Storage
4 that's coming in May of 2011, and so as we work through that
5 where we landed was to just for settlement purposes was to
6 pull out the working capital adjustment that we had proposed
7 on the natural gas side, but go ahead and deal with it
8 through the inventory adjustment related to Jackson Prairie
9 Storage. So the bottom line is a negotiated set of numbers
10 for both electric and gas as we work through the details of
11 it.

12 COMMISSIONER JONES: Based on your discussions
13 with the Wall Street investors and the ratings agency is the
14 level of working capital something they're concerned about
15 in the context of liquidity or not?

16 MR. NORWOOD: I think it really goes more toward
17 cash flow, and interest coverage ratios is where they would
18 be looking. Those are the metrics they would be looking at
19 as they look at do you have a working capital adjustment and
20 is it sufficient or not.

21 COMMISSIONER JONES: Does staff have anything to
22 add, Ms. Larue, on this, on the working capital?

23 MS. LARUE: Yes. Staff proposed a different
24 method of working capital adjustment, but in the settlement
25 just as Kelly or Mr. Norwood stated that we decided on a

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1 number in the end.

2 COMMISSIONER JONES: For settlement purposes.

3 MS. LARUE: Yes.

4 COMMISSIONER JONES: My last set of questions
5 revolve around vegetation management and the provisions in
6 the settlement on vegetation management. This is an area
7 that is of great concern to the NERC these days, isn't it,
8 Mr. Norwood?

9 MR. NORWOOD: Absolutely.

10 COMMISSIONER JONES: From what I understand this
11 creates the one-way balancing account of 4.025 million as
12 Mr. Meyer stated not 4.125, this kind of must spend per year
13 provision.

14 MR. NORWOOD: That is correct.

15 COMMISSIONER JONES: But it also creates a one-way
16 balancing account. So if you do not spend within that year,
17 you must spend it within the subsequent year as I understand
18 it.

19 MR. NORWOOD: Or credit it back to customers.

20 COMMISSIONER JONES: Okay. So in the context of
21 that is the company catching up on any backlogs in the right
22 of way and easement clearings so that this will be on a more
23 routine schedule?

24 MR. NORWOOD: Yes, we are spending more each year
25 on vegetation management, and so this will help provide

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1 increased recovery of that. Settling on this number doesn't
2 necessarily mean we'll limit our spending to this 4.025. In
3 fact, we expect to spend more than this in the coming year.

4 So our focus will be on doing the vegetation
5 management that needs to be done as opposed to focusing on a
6 number.

7 COMMISSIONER JONES: As I understand it this takes
8 you from an the eight-year cycle to the five-year cycle.
9 Correct?

10 MR. NORWOOD: It gets us closer to a five-year
11 cycle.

12 COMMISSIONER JONES: Okay. Last question on this
13 is there appears to be no pro forma adjustment on the
14 natural gas side of the case, and why is that? When you
15 look at vegetation management do you combine the natural gas
16 pipelines with the transmission distribution lines or do you
17 approach them separately here? Just explain to me why that
18 is not in there.

19 MR. NORWOOD: I'm going to have to tell you that I
20 have limited knowledge on the details of that, but I know we
21 do have vegetation management on both the natural gas side
22 and the electric. I'm sorry. I can't give you anymore
23 detail than that.

24 COMMISSIONER JONES: Okay.

25 JUDGE TOREM: Let me follow up a little bit and

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1 give you the citations to where that question comes from so
2 that the Company can run this down.

3 When we looked at Mr. Kinney's testimony, it's
4 SJK-1T, page 28, line 14, he refers to a gas system high
5 pressure lines 219 miles to clear. Then on page 35 of that
6 same exhibit he refers to an electric and gas distribution.
7 And when we looked at this we didn't see any adjustment on
8 the gas side. We could presume it would be a very small
9 fraction of the vegetation management, but we wanted to make
10 sure if the account was to be true that electric customers
11 or electric only and gas only customers would only pay their
12 share of the vegetation management.

13 MR. NORWOOD: Thank you. That helps. There is no
14 doubt that the dollars you see in the table related to
15 vegetation management on the electric side is just for
16 electric vegetation management. There would be a number
17 included in the test year which would be 2009 related to
18 natural gas vegetation management, and we are not proposing
19 in this case to have a different number than what was spent
20 in the '09 test year. So you would still have a level of
21 dollars going forward based on what was there on an actual
22 basis for 2009 on the natural gas side which natural gas
23 customers would pay for.

24 JUDGE TOREM: So there because we're only talking
25 adjustments proposed we're not seeing it in this case.

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1 MR. NORWOOD: That's correct.

2 JUDGE TOREM: Mr. Jones, does that address what we
3 needed to know?

4 COMMISSIONER JONES: The more you go into the
5 weeds the more questions it raises.

6 JUDGE TOREM: We're clearing the weeds here.

7 COMMISSIONER JONES: We're trying to clear.

8 So let's go to the Settlement Stipulation pages 3
9 and 4, Mr. Norwood. Just so I want to be clear on this. So
10 under Item (j), you describe what the adjustment does:
11 Increase vegetation management expense by 1.025 million and
12 increase the Company's Washington annual requirements spent
13 for veg management 4.025.

14 MR. NORWOOD: Yes.

15 COMMISSIONER JONES: Then in the revenue
16 requirement number is an adjustment downward of 1.073
17 (1,073,000).

18 MR. NORWOOD: Yes.

19 COMMISSIONER JONES: So this is accurate.

20 MR. NORWOOD: Yes. So let me tell you what these
21 numbers mean. During the 2009 test year we actually spent
22 \$3 million for vegetation during 2009 on the electric side.
23 We had proposed to increase that to about \$5 million. The
24 agreement here was to increase the level of cost recovery to
25 4.025 million so we went halfway there. So that's why you

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1 see a reduction there because we had proposed an additional
2 million dollars to get to that five-year cycle, but through
3 the settlement agreement we're agreeing to a million dollars
4 or less than what we had originally proposed. But it's
5 still a million dollars more than what we spent in '09.

6 COMMISSIONER JONES: Then turning the page the
7 question it's minor I know, but I think it needs to be
8 cleared up. But on the natural gas revenue requirement
9 table there is no subparagraph for vegetation management.
10 Correct?

11 MR. NORWOOD: That is correct. As the Judge
12 pointed out we're not proposing to change the number for '09
13 so there wouldn't be an adjustment included.

14 COMMISSIONER JONES: Okay. Thank you, Judge.
15 That's all I have for now.

16 JUDGE TOREM: All right. Thank you, Commissioner
17 Jones.

18 Were there any other witnesses that wanted to talk
19 to vegetation management or the other issues that
20 Commissioner Jones raised?

21 Seeing none, Chairman Goltz.

22 CHAIRMAN GOLTZ: Thank you.

23 I want to thank the parties for the joint
24 testimony. I think that was very helpful for us in sorting
25 through this.

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1 I do have some questions. First, I just want to
2 follow up just a bit on what Commissioner Oshie had
3 mentioned about the director's meetings and some of the
4 administrative and general expenses. In the Settlement
5 Stipulation on page 10, it lists a number of, what, 15
6 different items, and it states that the adjustment removes
7 all or a portion of various administrative and general costs
8 and including 50 percent of the Board of Director fees and
9 expenses in the last rate case. Was the 50 percent -- I
10 should have brought the old case with me -- was the
11 50 percent that as I recall was that just a number we picked
12 because we couldn't figure it out, and didn't we ask that be
13 gone through with more specificity?

14 Mr. Norwood, do you recall?

15 MR. NORWOOD: I'll tell you what I recall. I
16 won't speak to the Commission as to how they landed at
17 50 percent, but my recollection was that in the last order
18 the Commission approved recovery as 50 percent of that. I
19 don't recall a provision that said we need to revisit that
20 particular item in this case.

21 CHAIRMAN GOLTZ: What was over on the joint
22 testimony on page 42 in footnote 9, this is in the Public
23 Counsel Statement, the quote that in future rate
24 proceedings, to quote from our order in that '09 case, in
25 future rate proceedings we expect the Company will sort out

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1 these expenses related to Board of Directors' meetings; that
2 it's not of any benefit to ratepayers making appropriate
3 restating adjustment at the outset.

4 So I believe that's what Commission Oshie was
5 getting to or starting to. Did that just not happen, or did
6 this happen but it's not happening as well as you would like
7 or as we would like?

8 MR. NORWOOD: Right. I think that reference there
9 really goes to some of the specific expenses that are
10 incurred relating to the board meetings like meals, dinners,
11 and that sort of thing. There was a question about whether
12 some of those should be charged to customers or not.

13 CHAIRMAN GOLTZ: Right.

14 MR. NORWOOD: That is happening, but as we all
15 know it hasn't been a lot of time since the last case, and
16 when we got the order in the last case it was December of
17 '09. And so we had already progressed through '09, and this
18 is the '09 test year that we're using. So we hadn't
19 received the order from the Commission yet that told us to
20 go fix this stuff because we had already progressed through
21 '09. And so we're going to have to progress through some
22 time here before we're going to see an improvement to some
23 of these dollar items.

24 As I mentioned before, I think the dollar amounts
25 are small but certainly agree with Commissioner Oshie that

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1 it's a principle here we need to adhere to. If there are
2 mistakes, we need to keep them small. So we certainly agree
3 with that.

4 CHAIRMAN GOLTZ: Right, and working for state
5 government I can tell you that members of the public expect
6 certain things of state employees, and the dollar amounts
7 may be small, yet they're important. I got the same sense
8 from reading the transcript of the public meeting and in
9 past public meetings in this case.

10 So I guess what I hear you saying is that sort of
11 footnote 171 that is quoted on footnote 9 on page 42 of the
12 joint testimony that the way the Company approached it at
13 least is you already had booked all the expenses the way you
14 had been booking them, and it was difficult to unwind that
15 in the time before you filed this rate case.

16 MR. NORWOOD: I can tell you that Ms. Andrews does
17 go through some of those dollars so there's a couple layers
18 here.

19 Number one, the employees really should be booking
20 them to the right place to begin with. Secondly,
21 Ms. Andrews and her team goes through certain items and
22 removes some additional dollars, but there's still going to
23 be some that we don't catch. But we're certainly getting
24 the message that we need to do a better job in both areas,
25 and we certainly are going to do that.

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1 CHAIRMAN GOLTZ: Can I ask Public Counsel a
2 question?

3 MS. DAESCHEL: Yes.

4 CHAIRMAN GOLTZ: And then you can add to that.
5 So tell me how it worked. Do you recall how it
6 worked the last rate case and how it worked this rate case
7 the burden on you to go through and audit this, and, second,
8 how you think it will be different next time based on the
9 requirement agreed to have internal training?

10 MS. DAESCHEL: Right. I think the same process
11 that we went through in the previous rate case we did
12 uncover some of those costs, and essentially we had the same
13 experience in this case. So I think that's really what led
14 us to sort of really put together a different sort of
15 stipulation that would really clarify how the Company is
16 going to get to a point where this isn't happening anymore.

17 So we did see it as this has happened a couple
18 times, and we need to figure out a way that this doesn't
19 happen in the future. So I really think that the
20 documentation the Company has agreed to do an internal
21 audit, and in addition they also agreed to do a full review
22 of their accounting procedures. So there's sort of a
23 two-pronged approach there. So I think what comes out of
24 those reports are going to even safeguard. So we have to
25 see. So there will be documentation as to what the Company

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1 is going to be doing going forward and we'll have that, and
2 we will research all parties and we'll have that
3 clarification.

4 Then I did just want to make a point of
5 clarification in case it wasn't entirely clear that the
6 50 percent that was agreed to in the last case was for Board
7 of Director fees and expenses. So I just wanted to make
8 sure that everyone was understanding that's different than
9 the Board of Directors' meeting costs that we were
10 discussing in that footnote because those are two separate
11 things. So I think in terms of --

12 CHAIRMAN GOLTZ: Right.

13 MS. DAESCHEL: Okay. I just wanted to clarify.

14 CHAIRMAN GOLTZ: So you're just telling me the
15 point you made about the process on this item can you
16 estimate how much time Public Counsel staff spent on just
17 this adjustment or this set of adjustments?

18 MS. DAESCHEL: Just the administrative and general
19 expenses? That's really where we put a lot of our focus so
20 if I had to estimate in terms of time, hours spent, that
21 would be really hard to do. But I can definitely say it was
22 a significant part of review in this case, and Public
23 Counsel issued over 400 data requests, and a lot those were
24 on these types of issues.

25 COMMISSIONER OSHIE: Mr. Chairman, can I just jump

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1 in for a second?

2 CHAIRMAN GOLTZ: Sure.

3 COMMISSIONER OSHIE: Thank you.

4 Ms. Daeschel, one question. Your last answer to
5 the Chairman really I think has triggered for me is, well,
6 the Company does its audit and arguably it should have done
7 before they filed their case. But they did their audit now
8 or sometime between now and the next case, and they find
9 that for the period in question that there's a significant
10 amount of money that's associated with all of these issues,
11 employee entertainment and sporting events, executive
12 charity related travel, dues, fees to specific
13 organizations. And what if it was -- I mean what is Public
14 Counsel's response if that amount is some significant in any
15 way?

16 I mean let's just say hypothetically that since
17 there's three million transactions, you looked at, I don't
18 know, how many? You came up with \$24,000. Let's say that
19 they're able to turn up ten times that and so it's half.
20 It's a quarter million dollars. So is Public Counsel just,
21 "Well, you know, now shucks. We'll look at it the next
22 time", or is there -- there's no provision for going back in
23 the settlement to say, well, maybe this money should be
24 returned. So is that --

25 MS. DAESCHEL: Yes, I think that's a very good

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1 question. The way I understand it, and the other parties
2 can correct me if this is not their understanding, but I
3 believe the internal audit and accounting procedures
4 provision are more of a going forward process.

5 COMMISSIONER OSHIE: It looks like it to me, yes.

6 MS. DAESCHEL: So I agree that there is some
7 concern. So some of those expenses that someone might have
8 uncovered we can't really pull those forward and that's
9 concerning. But this internal audit that we've agreed to I
10 think we said is for three years going forward the Company
11 will be required to do this. So it really was a case of
12 this needs to be improved going forward. So I agree that
13 there possibly could be some costs that we didn't uncover in
14 this case, and these provisions can't reach back to correct
15 for those.

16 COMMISSIONER OSHIE: All right. Thank you.

17 CHAIRMAN GOLTZ: Let me ask Mr. Norwood a
18 question, if it's all right to refer to the direct testimony
19 of Mr. Morris. This may seem like a picky thing, but I
20 don't think it is. The question was on page 27 of his
21 direct testimony, if you have that.

22 MR. NORWOOD: I do have that.

23 CHAIRMAN GOLTZ: Is the Company currently
24 recovering its cost to provide service to its customers?
25 And the answer he gave was, no, we are currently not

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1 recovering our costs to serve customers, and he adds we are
2 not earning a return on investment that this Commission has
3 determined to be fair and reasonable. And then goes on to
4 say that we are earning 9.2 ROE instead we authorized 10.2.

5 The way he uses the word cost in that paragraph
6 doesn't conform to the way I understand it to mean. In
7 other words, if you're really not recovering your costs you
8 would not be earning any return; isn't that right?

9 MR. NORWOOD: Yeah, that is correct. The
10 intention here the answer is intended to say that we're not
11 fully recovering the costs to provide service and so that we
12 are earning a return that's lower than what's authorized by
13 the Commission.

14 CHAIRMAN GOLTZ: Right. The reason I say seems
15 like a nit-picky point, but in my view it's not is because
16 the public might read this to say, "Oh, my gosh. Avista is
17 not meeting its payroll. It's not paying its bills. It has
18 to borrow to meet operating expenses," and that's not the
19 case.

20 MR. NORWOOD: We are recovering a level of costs
21 to serve customers but not the full amount.

22 CHAIRMAN GOLTZ: You aren't yet recovering that
23 part of cost that's attributable to return.

24 MR. NORWOOD: You know, I guess I'm not sure that
25 it's appropriate to color dollars and say you are recovering

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1 these dollars but not other dollars. So you can look at it
2 a number of ways, and one example is in the last case
3 information technology. We knew we were going to have to
4 spend additional dollars for information systems, but we did
5 not get recovery of the dollars that we knew we had to spend
6 so therefore those dollars were not being recovered. Where
7 it shows up though as you mentioned is in the form of a
8 return, our return on equity gets lower than what was
9 authorized because either you're not earning a return on the
10 capital that was invested or you're not recovering a cost
11 item that you're actually incurring.

12 CHAIRMAN GOLTZ: What I'm saying is you're
13 incurring the costs and paying the costs.

14 MR. NORWOOD: Yes.

15 CHAIRMAN GOLTZ: The point I guess I'm saying is
16 normally people when they think of a business you pay your
17 costs, and what's after your costs you have a profit and
18 then you pass it onto the owners or shareholders.

19 MR. NORWOOD: That's correct.

20 CHAIRMAN GOLTZ: And you can only pass on profits
21 to the owners or shareholders if you pay all other costs;
22 otherwise, it goes there. So my point is, is that saying we
23 are currently not recovering through customers seems to me
24 is somewhat misleading to someone that just looks at that.
25 It paints a picture of a company in more dire straits than a

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1 9.2 ROE actual painting.

2 MR. NORWOOD: I think I understand where you're
3 coming from. We are paying all of our bills, but the return
4 it less than that for us.

5 CHAIRMAN GOLTZ: It's 9.2 instead of 10.2.

6 MR. NORWOOD: Correct.

7 CHAIRMAN GOLTZ: I have a question, if you don't
8 mind me asking more about Mr. Morris' testimony, and I know
9 this is a question you're prepared to answer because I
10 remember a year ago at last year's case you answered this
11 when they asked it. It relates to what's the Company doing
12 to hold down costs because I think from I'm sure the written
13 comments from customers and also the oral testimony at the
14 public hearing customers really expect the company to be,
15 you know, cutting back on costs just like they expect their
16 governments to do that.

17 But I'm not going to ask you all of the things to
18 describe Mr. Morris' testimony except for one, and that is
19 at the bottom of page 32 among the cost cutting was a
20 limitation on capital spending. Then turning over to page
21 33 of his testimony it says the Capital Prioritization
22 Committee reduced the listed projects to be completed by
23 approximately \$60,000,000 in 2009. So if you know the
24 answer to this, what was not done? What's representative in
25 \$60,000,000?

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1 MR. NORWOOD: I don't have all the specifics, but
2 I will tell you that we have a lot of facilities out there,
3 distribution poles, transformers that are 60, 80 years old
4 that need to be replaced, and so it's some of those items
5 we're waiting another year or two before we spend the money
6 on them.

7 CHAIRMAN GOLTZ: What are the downsides of waiting
8 another year there?

9 MR. NORWOOD: On some of those items you may have
10 some failures that you otherwise wouldn't have, and so you'd
11 have the maintenance costs to go out, you need to repair or
12 replace at that time. But a lot of this equipment is
13 durable and built to last a long time, but at some point it
14 gives up. But our judgment then is that we can get by for
15 another year or two and hold off on spending some of these
16 dollars. Due in part to the fact that we've had rate
17 pressure, the economy is the way it is, and so we are
18 looking at every avenue to try to keep costs as low as
19 possible as long as we can get it by.

20 CHAIRMAN GOLTZ: If you'd spent that \$60,000,000
21 on all those things then the number earlier of the 9.2 ROE
22 would have been a little bit lower?

23 MR. NORWOOD: Quite a bit lower, that's right. A
24 million dollars is another 10 basis points on ROE.

25 CHAIRMAN GOLTZ: I think I'm going to change pace

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1 a little bit and ask The Energy Project a question. In the
2 stipulation or I should say in the joint testimony on page
3 48 where it's the statement of The Energy Project, and in
4 there The Energy Project stated it's supportive of the
5 settlement. And stated on page 49 I am starting on line 3
6 that the settlement provides a modest increase to the
7 utility's ratepayer funded LIRAP program.

8 Is it your conclusion that this just kind of
9 treads water or just holds ground? Is this progress? Is it
10 backsliding or what?

11 MR. EBERDT: Well, Commissioner, the fact is that
12 the increase to the program is less than what the increase
13 will be to residential rates, and since people who
14 participate in the program are residential customers, if the
15 same number of people get into the program they're actually
16 going to be seeing less benefits than people who --

17 JUDGE TOREM: Mr. Eberdt, can you keep speaking up
18 so we can hear you.

19 MR. EBERDT: Sure.

20 JUDGE TOREM: You trailed off at the end.

21 CHAIRMAN GOLTZ: Mr. Eberdt, so the customer
22 covered by this program prior to this will actually be worse
23 off, would be worse off after the settlement than before?

24 MR. EBERDT: He will be, yeah, in a couple of
25 ways. One in the sense that the increase of program --

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1 well, first of all, we're assuming a number of things. But
2 if all things were equal, if the award that went to that
3 customer was increased equally to how much the program's
4 funding went up, he is seeing a greater increase in his
5 rates than he is paying in his assistance. And because the
6 assistance never covers the whole bill he's always paying
7 more for that part of the bill that doesn't get covered by
8 it. So there's always slippage.

9 CHAIRMAN GOLTZ: Is the demand for the program
10 expanding? In other words, are there more and more people
11 eligible?

12 MR. EBERDT: Yes. That's the short answer, yes.

13 CHAIRMAN GOLTZ: What's the slightly longer
14 answer? Is there a percentage increase number of people or
15 some magnitude that you can identify?

16 MR. EBERDT: Well, Commissioner, I guess there's
17 two ways to answer that. One is the short answer is I don't
18 have any data to give you specific percentages, but given
19 the economic situation that the state is in right now people
20 are finding themselves in need of availing services like
21 this.

22 The other way I would look at that is what we're
23 seeing on the federal side of these programs which we try to
24 work the Avista program compatibly with the Federal LIHEAP
25 program so that we can serve more people while we're seeing

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1 a lot more people that are eligible because, well, actually
2 the state did not change the percentage level in Washington,
3 but the federal program rates to 175 percent. We kept those
4 level at 125 percent for the LIHEAP program because there
5 are so many people that need to be served. So there are
6 more people falling into poverty. That means the number is
7 going up.

8 CHAIRMAN GOLTZ: So are there more people that are
9 eligible or are more enrolled in the program as well?

10 MR. EBERDT: I think if we look back over the last
11 several years at the LIRAP report you'd see the numbers are
12 going up every year.

13 CHAIRMAN GOLTZ: So let me switch back to a
14 different topic, and give you as Public Counsel witnesses or
15 one of you, both of you, and this is really kind of looking
16 head. You've either read or heard comments by members of
17 the public that express the sentiment that they really
18 believe that the Company ought to be really managing this
19 efficiently and as prudently and cutting back and cutting
20 out all thrills just like we all are experiencing in
21 government.

22 My question is do you have a sense whether that's
23 happening or if more could happen down the road and how will
24 we figure that out?

25 MS. DAESCHEL: I think that's a good question, and

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1 it's difficult to assess. But in terms of this settlement
2 agreement I feel that the overall, we felt that the overall
3 decrease was a really favorable result, and we had comfort
4 on the overall 29.5 that was agreed to in this case. And
5 so, yeah, we took a close look, and there was stuff like
6 give and take on some of these issues, but ultimately we're
7 happy with the end result.

8 CHAIRMAN GOLTZ: In looking forward how will
9 you -- I mean I'm just speculating that this economic
10 downturn isn't going to be recovered by April or at least
11 the test year for the next rate case is happening now
12 probably. So how will you look at these issues? How will
13 assure yourself this issue in the future?

14 MS. DAESCHEL: I think definitely going forward in
15 future cases we hope to see perhaps different company
16 proposals in terms of issues like executive compensation,
17 and instead of compensation that's one of the terms in the
18 stipulation we ask the Company to specifically identify how
19 the incentive compensation program is tied to ratepayer
20 benefits. So issues like that where there might be some
21 question as to whether or not these costs should be paid by
22 ratepayers in an economic climate like we're in right now.

23 We hope to see perhaps different proposals going
24 forward, and if those aren't proposed then we certainly will
25 be offering our testimony on those issues.

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1 CHAIRMAN GOLTZ: Where was that point in the
2 testimony?

3 MS. DAESCHEL: Oh, let's see.

4 CHAIRMAN GOLTZ: Maybe Ms. Daeschel can look at
5 that and Ms. Johnson was about to say something.

6 MS. JOHNSON: Oh, I was going to follow up and say
7 I think, you know, again this is something the burden would
8 really fall on the Company to be making these sort of
9 proposals, but it's something that is happening across the
10 board I think at all levels of government and we're seeing a
11 lot of creative ideas. Obviously you are also seeing the
12 same sort of thing as fellow state employees where --

13 CHAIRMAN GOLTZ: Some are less creative than
14 others.

15 MS. JOHNSON: Yes, some draconian. But I think
16 that that's an expectation that whether it's customers
17 regulating the utility or, you know, constituents of the
18 government expect that people are tightening their belts
19 everywhere. And that, you know, I'm imagining that Avista
20 gets to come in next year, and that that's something we
21 would hope to see that they are making more proposals of
22 this similar sort of thing because it's not just even
23 governments. It's publicly owned companies that are having
24 to do the same sort of cuts across the board.

25 But again, you know, it's difficult with the

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1 resources that we have to be able to be making those sorts
2 of proposals for the Company. I mean our office just isn't
3 capable of doing that. That's not our role. So we would
4 hope that the Company, particularly obviously this is an
5 issue for the Commission, that based on your questions now
6 that's going to be something they're going to look at more
7 in the future.

8 CHAIRMAN GOLTZ: Do you have a response,
9 Mr. Norwood?

10 MR. NORWOOD: No. You know, my understanding of
11 the questioning here is that it's not a question of whether
12 we've cut back. The question is, is there room to do more
13 and what is the company going to do going forward to cut
14 deeper into cost cuts and cost management. So we certainly
15 will. In fact, we have already had these discussions in the
16 building about what we can do going forward to tighten the
17 belt even further.

18 But, you know, we all know that as a regulated
19 company obligation to serve, we have to serve. We have to
20 provide service, but there's always a place to look so we
21 will look.

22 MS. DAESCHEL: Just to follow up on your question.

23 CHAIRMAN GOLTZ: Sure. Ms. Daeschel.

24 MS. DAESCHEL: Just to follow up on your question
25 where that term in the settlement stipulation is, it's

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1 actually in the joint testimony on page 17, and it's line 16
2 where the discussion occurs.

3 CHAIRMAN GOLTZ: Okay. Okay. Thank you.

4 Let me then just ask all the parties to see if I
5 could understand. The table shows it at various places, but
6 I think I'm looking at the right table on page 13 of the
7 joint testimony which is summary adjustments to the electric
8 revenue requirement.

9 So am I reading this correctly that the big ticket
10 adjustment here is the power supply rated adjustments? Is
11 that right the power supply related adjustments?

12 MR. SCHOENBECK: Yes, that's correct.

13 CHAIRMAN GOLTZ: Sorry. I haven't been looking at
14 you. You've been over at the side.

15 MR. SCHOENBECK: I'm trying to hide.

16 CHAIRMAN GOLTZ: Then there's a fairly significant
17 one for the cost of capital adjusting the return equity at
18 10.2 percent, but between those two they seem to be the big
19 major adjustments to the case as filed or as proposed by the
20 Company.

21 MR. NORWOOD: That and capital additions is
22 another pretty large adjustment.

23 CHAIRMAN GOLTZ: Right. Okay. So is the idea
24 there, I mean putting aside the cost of capital and the
25 capital additions in power supply, was the idea there to

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1 really kind of is this frequently the case in rate cases to
2 get the most recent information on power supply costs?

3 MR. SCHOENBECK: That is the case for several of
4 the adjustments. For several of the adjustments, including
5 the electric reflecting more recent electric purchase and
6 power sales which is part of the very first adjustment, the
7 second adjustment, as well as there is an update to the
8 Stimson Rates which is shown as the (v) or the 5th power
9 supply adjustment. The same with the 7th which is the wells
10 cost adjustments. So several of those adjustments are
11 reflective of more recent data, but in addition to that some
12 of the other adjustments such the as hydro shaping
13 adjustment were in fact to try to more from our perspective
14 to try to more accurately model the shaping of the hydro by
15 month through their turbine generators.

16 CHAIRMAN GOLTZ: So what you're trying to do here
17 is just in these power supplied related adjustments is
18 basically get it right; is that correct?

19 MR. NORWOOD: Well, at that point in time. But,
20 you know, as you negotiate the settlement you negotiate and
21 you have tradeoffs. So the agreement among all the parties
22 was let's lock in the price, and I think it's important also
23 to recognize as Mr. Schoenbeck testified on behalf of ICNU
24 now on page 38 -- I'll wait for you to get there because I
25 think this is very important here.

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1 CHAIRMAN GOLTZ: Okay.

2 MR. NORWOOD: On page 38 beginning on line 12, it
3 says, "In addition the parties agreed to lock in these costs
4 giving ICNU members, as well as other customer's, price
5 certainty (an upper bound) at the time when budgets were
6 being prepared for the coming year."

7 So part of the give and take is to lock in what
8 those power supply costs are. Whether it's related to
9 natural gas or wholesale electric price or fuel costs is to
10 lock in those prices so that there's certainty for all
11 parties knowing that that's going to change going forward.
12 But that's part of the package and there are compromises
13 made on other areas as part of that agreement on both sides
14 to lock in that part.

15 CHAIRMAN GOLTZ: So you're saying that the Company
16 then bears the risk of it going up and reaps the benefit if
17 it goes down.

18 MR. NORWOOD: That's correct.

19 CHAIRMAN GOLTZ: Mr. Schoenbeck, is that correct?

20 MR. SCHOENBECK: Yes, I agree with everything
21 Mr. Norwood just stated. It was very important that we had
22 the price certainty at the time the settlement was achieved,
23 and as we all know forward price curves can shift from one
24 day to the next and they are volatile. So he's correct in
25 pointing out at the point in time when the settlement was

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1 done I would say it was reflective and accurate power supply
2 situation from our perspective.

3 CHAIRMAN GOLTZ: Is that the reasoning that
4 everyone is in agreement with that? I see nods from staff.
5 Is that Public Counsel as well? I see modest nods from
6 Public Counsel.

7 MS. JOHNSON: Public Counsel didn't take a very
8 close look at this piece. In our targeted approach we
9 really relied on the analysis of other parties on this
10 specific issue. So it's a part of the global settlement.

11 CHAIRMAN GOLTZ: I have no further questions.

12 COMMISSIONER OSHIE: I have a couple follow-up
13 questions on the last one. Mr. Schoenbeck and Mr. Norwood
14 were the respondents.

15 In here there's a natural gas adjustment that is
16 referred to on page 5 of the settlement agreement, and that
17 adjusts the annual average natural gas price from the
18 Company's as filed \$6.38/dth to \$5.13/dth which is based on
19 a three-month look forward July 21, 2010 of 2011 looking at
20 their forward prices.

21 Now, I know in past cases we've updated gas costs,
22 and we've done that for purpose, which is that its purpose
23 is to be as accurate as possible when setting rates that
24 reflect the cost that the company in wide respects can't
25 control, which is the commodity cost of the marketplace

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1 other than through hedges and other financial and some
2 physical hedges that could be made. But we look at the
3 forward prices today in natural gas, and I don't know have
4 you, Mr. Schoenbeck, looked at the forward prices for
5 natural gas and can you say whether they're higher or lower
6 than the \$5.13/dth?

7 MR. SCHOENBECK: As of today the forward prices
8 are lower than they're locked into the settlement.

9 COMMISSIONER OSHIE: Can you say about how much
10 lower they are?

11 MR. SCHOENBECK: Roughly 80 cents maybe.

12 COMMISSIONER OSHIE: Is that in your opinion a
13 significant amount?

14 MR. SCHOENBECK: Well, it would depend because
15 there's two factors. One is how has the price gone, but
16 also what are the remaining purchases or what's the open
17 position of the utility that has to be met for the current
18 year. And, of course, as we get closer and closer to the
19 year your open position is going to be narrower and
20 narrower. So I can't recall the exact percentage of what
21 their open position was when the settlement was, but it is
22 certainly one of the things we considered at that time, and
23 we were comfortable with because you're correct there have
24 been settlements both ways when we've locked in a particular
25 price and it has not changed. And there have also been

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1 settlements where we suggested upon the issuance of the
2 order we would update the prices. But we were comfortable
3 at the \$5.13 at the time the settlement was entered into.
4 We felt the price certainty of locking with the exact prices
5 would outweigh the potential benefit on our risk of having a
6 gas price update.

7 COMMISSIONER OSHIE: So the extra 80 cents if it
8 really amounted to that, that is built into the gas prices
9 that is a risk that the parties are willing to accept if we
10 were to look at gas prices today and going forward.

11 MR. SCHOENBECK: To speak for our client the
12 answer is yes.

13 COMMISSIONER OSHIE: Is it because of the working
14 of the ERM in that? You know, there's, what, a about \$4
15 million deadband? And so if we guess high, the company
16 benefits, at least arguably would benefit by \$4 million? If
17 we guess low, the ratepayers may pay a bit more in the event
18 that prices were higher.

19 MR. SCHOENBECK: That's the way the ERM typically
20 works, that's correct.

21 COMMISSIONER OSHIE: So is the settlement
22 provision in there where the Company is going to accept all
23 the risk of the ERM balance going up? And if gas prices are
24 going down based on what their power costs are today, and
25 understanding the relationship between gas costs and their

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1 overall power costs, you know, what's -- if you just had to
2 take, you know, like a guess as to what the balance would be
3 in the ERM, would you say that it's going to be higher and
4 lower or lower than it is today?

5 MR. SCHOENBECK: You mean for the remainder of
6 this year?

7 COMMISSIONER OSHIE: For the remainder of this
8 year.

9 MR. SCHOENBECK: Given the precipitation of water
10 it would literally be a guess.

11 COMMISSIONER OSHIE: Well, that's how I framed it.

12 MR. SCHOENBECK: I would suspect it would be more
13 of a credit to the company.

14 COMMISSIONER OSHIE: More of a credit to the
15 company. Then I'm trying to get my arms around that.
16 Credit to the customer or credit to the company?

17 MR. SCHOENBECK: Well, shareholder.

18 COMMISSIONER OSHIE: Okay. If what they're paying
19 for gas in the market -- I know there's a reflection back on
20 what they've also locked in; in other words, the commitments
21 that they've made to buy at certain index gas prices or that
22 they buy at a gas that they purchase. But it would seem to
23 me that if gas prices are going down, then it would cost
24 less to operate the equipment that generates electricity.
25 And assuming that hydro is rather static, and we know it's

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1 not but just make that assumption, it would seem that the
2 Company would be paying less to meet its power requirement
3 than it would if gas prices were higher.

4 MR. SCHOENBECK: Again, it depends if there's an
5 open position or not. That's the critical element that I
6 know no knowledge of sitting here today what their open
7 position is.

8 COMMISSIONER OSHIE: I'm just trying to get to
9 really -- well, I guess if -- how did the parties really
10 assess the risk issues without understanding where the
11 Company stood in relationship to what its outstanding
12 obligations were as open positions, and what were you buying
13 then for that provision in the settlement?

14 MR. SCHOENBECK: We looked at the settlement as
15 being ultimately a total dollar number and having it be at
16 approximately half of what the Company originally requested.
17 When we did our very initial analysis we were very
18 comfortable in thinking the utility could justify around 30
19 million dollars. This is ultimately the settlement number
20 that was agreed to by our clients and it's slightly less
21 than that. That's why we supported the settlement.

22 COMMISSIONER OSHIE: The issue of the risk this
23 sort of -- is there a wrong way? I guess the way I read it
24 is that the ERM won't operate by its typical rules until,
25 what, January 1, 2011?

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1 MR. NORWOOD: That's correct. It will resume any
2 deferrals in January 2011.

3 COMMISSIONER OSHIE: So if the ERM were to fall in
4 favor of the ratepayer, that's basically dollars that are
5 given up in the settlement; is that right?

6 MR. NORWOOD: May I comment on this issue?

7 COMMISSIONER OSHIE: Let me finish with
8 Mr. Schoenbeck if you don't mind, Mr. Norwood. He's
9 probably looking for some relief himself here.

10 MR. SCHOENBECK: I was giving Mr. Norwood a hard
11 stare.

12 COMMISSIONER OSHIE: That's because he was
13 interjecting.

14 MR. SCHOENBECK: No, I wanted him to answer. I'm
15 teasing you. I'm sorry.

16 COMMISSIONER OSHIE: That's okay. I guess we
17 could use a little lighter mood here.

18 So I mean the Company said we'll eat any cost that
19 are higher than the baseline, but I'm assuming from the way
20 the wording if the costs are lower than the baseline, then
21 that will go to the shareholder even if the amount would
22 have been within the deadband.

23 MR. SCHOENBECK: Right. There is one other
24 aspect, Commissioner Oshie. If you look at the Lancaster
25 Line as well, another part of the settlement that's affected

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1 by ERM is how much of the costs have been deferred with
2 respect to the Lancaster Plant would be included and allowed
3 in rates. And as part of the settlement where we tie
4 together the ERM on the Lancaster deferral allowance amount
5 was the notion that the Company could potentially be at risk
6 with respect to the deferral.

7 So the way it's set to operate is that the
8 customer would pay for \$6.8 million of the Lancaster
9 deferral. At the time of the settlement negotiations the
10 projected Lancaster deferral settlement range was 12 to 14
11 million dollars. So that was another aspect that we tied in
12 with respect to gas prices, with respect to the overall
13 amount in basically having the ERM cease to operate for the
14 remainder of this year. So it really was tying those two
15 together.

16 COMMISSIONER OSHIE: Mr. Norwood.

17 MR. NORWOOD: Thank you. This is really important
18 I think to understand how this will work for the balance of
19 this year, and as Mr. Schoenbeck mentioned the estimate for
20 Lancaster for 2010 was approximately \$12 million. So in
21 terms of risks and who has certainty, who has risks through
22 the settlement agreement, we've actually guaranteed that
23 customers will pay no more than 6.8 million for Lancaster
24 for 2010, and it will be whatever it will be for the balance
25 of the year, but we've agreed to absorb that. So customers

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1 are guaranteed that part by basically not doing deferrals
2 under ERM for the balance of this year. We take the risk on
3 of whether there's really any opportunity to offset that for
4 the balance of the year.

5 So let me tell you where we're at today.
6 Lancaster deferrals are at 9.2 million at the end of
7 September. So that's an actual number. We agreed in the
8 settlement to recover no more than 6.8.

9 COMMISSIONER OSHIE: Now, Mr. Norwood, is that in
10 net? Is that a net cost?

11 MR. NORWOOD: That is Lancaster only. The net
12 cost through the accounting treatment that the Commissioner
13 approved to put on the books. So that is what's on the
14 books right now 9.2. So then we step over to the ERM.
15 Well, is there an opportunity to offset some of that
16 Lancaster cost?

17 At the end of September, which is what we have
18 numbers through, we're on the positive side by a million
19 dollars, but that's within the deadband so we would keep
20 that anyway. And so in order for us to have an opportunity
21 to offset any of the Lancaster that we would absorb, we have
22 to go through the deadband and into a deferral opportunity
23 before we would have anything available. So right now
24 we're underwater on this deal, and we have, you know, a
25 couple more months here to hopefully get those in the right

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1 way. So we're taking risk on whether there's really an
2 opportunity there for the balance of this year to offset
3 what we've agreed to absorb related to Lancaster.

4 COMMISSIONER OSHIE: Okay. That doesn't strike
5 me, the \$6.8 million number did not strike me as being
6 unreasonable since I think when we looked at Lancaster in
7 the last rate case the projections would be \$12 million
8 underwater for the year. So it seems like that was somewhat
9 a reasonable split saying, you know, well, the shareholders
10 and the ratepayers will pretty much bite off equal portions
11 of the cost of the plant. That did not look like it was
12 going to produce any real financing benefit in the year one
13 but looking had some other benefits. So that didn't seem to
14 be an unreasonable number to me.

15 I guess I'm trying to get really my arms around
16 some of these other tradeoffs that were made, and kind of
17 going back, Mr. Norwood, it would seem one of the principles
18 that we've employed here -- I understand this is a
19 settlement -- is that really what we would like to have is
20 the most accurate numbers as possible going into any future
21 year. So we set rates that we have a pretty good idea that
22 they'll actually reflect somewhat the cost that the Company
23 may be facing going forward, and, you know, I know there are
24 arguments about the future test year that are made sometimes
25 in public and sometimes not. And so it's something that we

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1 are certainly aware of. But the fact is the power cost are
2 forecasted, and power costs because they're forecasted are
3 just the same as a future test year. So we need to get it
4 right, settlement or not. And so at least it would seem as
5 if, you know, there would want to be some kind of assessment
6 of whether \$5.13 really represents what the power costs are
7 going to be for the future year whether it gives some
8 comfort or not.

9 And I'm not discounting at all what
10 Mr. Schoenbeck's testimony's been in the interest of his
11 clients, but it would seem as if there's also the tradeoff
12 between accepting the settlement number and accepting a
13 settlement number that we know might not be right because
14 the parties have agreed to it because it's certain.

15 I don't know quite how to really figure this one
16 out, but I guess we'll have an opportunity to do so, and
17 that's the tangent that I see, Mr. Norwood.

18 MR. NORWOOD: May I add one more comment?

19 COMMISSIONER OSHIE: Sure.

20 MR. NORWOOD: It goes back to what Mr. Schoenbeck
21 explained earlier, and that is \$5.13 is in the stipulation,
22 and that \$5.13 represents the forward basically monthly
23 price of gas. That doesn't mean that that's the cost that
24 the Company is going to incur for 2011 because as you
25 mentioned we've already hedged and locked in some purchases,

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1 electric and natural gas, for 2011. So as he mentions 80
2 cents it doesn't mean that there's an opportunity to reduce
3 that by 80 cents because we've locked into that.

4 COMMISSIONER OSHIE: Understood. But the
5 projected cost of gas is \$5.13/dth. When I look at the Wall
6 Street Journal or I guess it's the Natural Gas NYMEX
7 Futures: December, \$3.83, January \$4.08, February \$4.11,
8 March \$4.07, April \$4.05, and October a roughly a year ago
9 now \$4.37.

10 So I understand your point I mean that you're not
11 buying like on the daily spot market every time you go and
12 buy gas, but still those numbers are significantly in my
13 mind lower than \$5.13. I think it's great for the
14 ratepayers because gas costs have been high for a long time,
15 and the lower they are the better the Company is, the better
16 the ratepayers are, and easier our job is.

17 But this is I think when you look at about
18 roughly, you know, a 20 percent spread between the near-term
19 future gas costs and what's in the settlement, it may be
20 something that we'll want to look at and figure out whether
21 or not that that is what appropriately represents the gas
22 costs going forward so that we can ensure that both the
23 Company and the ratepayer are treated most fairly going
24 forward. And I'm not discounting the idea that the parties,
25 at least one party has said they want certainty. Maybe the

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1 other party, that being the Company as well, wants some
2 certainty.

3 I know I understand it flows through the ERM so
4 there's a \$4 million deadband going into that. So perhaps
5 that's the only risk that's really on the table. But I
6 don't know if we'll ask or not, but I think you're
7 understanding what issues that we're looking at going
8 forward here.

9 COMMISSIONER JONES: Commissioner Oshie asked many
10 of my questions, but just a couple.

11 COMMISSIONER OSHIE: Well, you gave them to me.

12 COMMISSIONER JONES: I've always been a good staff
13 person. What can I say? Besides being a commissioner I'm
14 staff to the commissioners as well.

15 It would be helpful to know what percentage of
16 your power book is hedged. If you don't have that
17 information --

18 MR. NORWOOD: I do not have that information. As
19 Mr. Schoenbeck mentioned as we get closer to the time period
20 to serve the load we close out those positions, but in terms
21 of the total load, you know, I would estimate that probably
22 95 percent of our load for the year is hedged either through
23 existing resources or fixed price transactions.

24 COMMISSIONER JONES: That is for the rate year.

25 MR. NORWOOD: That is for the 2011 rate year and

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1 that's an estimate on my part.

2 COMMISSIONER JONES: Mr. Norwood, that's power
3 book. That's not natural gas for home heating. That's just
4 the power book.

5 MR. NORWOOD: That's correct for electric power.

6 COMMISSIONER JONES: How many combined cycle
7 turbines do you have in operation now, either through a PPA
8 like Lancaster or direct claim rate based?

9 MR. NORWOOD: Just the two units that are combined
10 cycle, Coyote Springs 2, which is approximately 270
11 megawatts and Lancaster 275 megawatts. So those units are
12 available. We have purchased some gas at fixed price, and
13 we have some of those positions open. And in some cases
14 it's less expensive to buy electricity and to leave it off.
15 And as we move through the year we'll switch back and forth
16 to get the best deal.

17 COMMISSIONER JONES: Okay. I think as
18 Commissioner Oshie said this is of concern to me as well so
19 I think we may have a bench question or something for you
20 based on discussions after this. I guess I was the
21 commissioner at the public hearing in Spokane, the public
22 comment hearing, and I heard quite a few comments to the
23 effect that, Commissioner or Commission, it doesn't make
24 sense when I read the paper natural gas prices are going
25 down. We read these stories about the shale gale, shale gas

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1 everywhere. Supplies are abundant. So why can't rates
2 reflect, you know, lower gas prices? So those are public
3 comments, of course, I heard loud and clear over there, and
4 I think we have to take that into account.

5 MR. NORWOOD: I understand, and I think that's
6 what's reflected. Part of the reason our request is lower
7 is to reflect the lower cost of gas. Again, if we're
8 looking at trying to reflect in rates, the current costs to
9 serve, then I guess I'm concerned that we should look at
10 other categories too.

11 Let me give you an example. Interest rates
12 continue to be low, and what that does is it creates an
13 increased pension obligation, and so what we're seeing is
14 increased costs there that has occurred after the
15 stipulation. So I think it's important to pick a point in
16 time, look at that time, we'll look at costs that you know,
17 and negotiate a deal around it, which is what we've done.
18 And if we start picking the files apart now, I think you end
19 up with something that isn't what was bargained for by the
20 group and what's presented.

21 COMMISSIONER JONES: Well, I accept your point.
22 I'm talking and I think Commissioner Oshie was merely
23 talking about power costs in the settlement stipulation.

24 MR. NORWOOD: Yes.

25 COMMISSIONER JONES: I would agree with you that,

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1 for example, I'm not talking about interest rates and
2 pensions and those sorts of things, but, for example, if
3 coal strip coal costs have gone to this \$21.92 per ton
4 figure is not accurate maybe that needs to be updated, if
5 the Mid C rates need to be updated. I mean Mr. Schoenbeck
6 talked about hydro shaping. I think that gets into a level
7 of detail that's probably too much for this settlement
8 agreement hearing, but, you know, I think it's fair. If
9 prices are meant, if the prices put into the base rates are
10 meant to be most recent prices done on a fair, objective,
11 and transparent basis I think it should apply to all fuels I
12 guess is what I'm saying. That wasn't a question.

13 JUDGE TOREM: Commissioners, any further questions
14 for the panel?

15 Well, they look happy with no further questions.

16 Was there any closing comments that any members on
17 the panel wanted to make?

18 Mr. Roseman?

19 MR. ROSEMAN: I am not on the panel, but I do have
20 a redirect question for Mr. Eberdt.

21 JUDGE TOREM: If you will, go ahead.

22 MR. ROSEMAN: Thank you.

23 Mr. Eberdt, are you still on the line?

24 MR. EBERDT: I am.

25 MR. ROSEMAN: Good. You'll have to speak up.

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1 JUDGE TOREM: He got that question correct.

2 MR. ROSEMAN: I want to refer you to the question
3 from Chairman Goltz where he asked whether the LIRAP number
4 of customers or the number of customers participating in the
5 LIRAP is going up and you answered. Do you recall your
6 answer?

7 MR. EBERDT: I believe the number has gone up, but
8 I believe that's because the budget has gone up.

9 MR. ROSEMAN: The number of LIRAP customers have
10 gone up, but what I'm asking is considering how much money
11 has been going into the LIRAP has the amount of the grant to
12 those customers stayed the same, gone up, or gone down?

13 MR. EBERDT: The LIRAP program, the funding from
14 the utility for bill assistance is split into a couple of
15 different programs, and in a couple of cases those grants
16 don't change. In the case of the one that mimics most
17 completely the Low Income Home Energy Assistance Program,
18 the federal program, I believe those grants have gone up
19 slightly. I don't think those grants have increased as much
20 as rates have increased.

21 MR. ROSEMAN: Okay. Thank you.

22 JUDGE TOREM: Any other questions for members of
23 the panel from counsel?

24 All right. Seeing none, we understand that the
25 proposed date for effective rates in the settlement is

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1 December 1. Today is November 2. So the Commissioners plan
2 on considering the settlement and the testimony from today,
3 as well as responses quickly, and letting the panel and
4 parties know what they recommend to do with the settlement
5 sooner rather than later so that in case there is any
6 rejiggering of schedules necessary to meet the other
7 suspense deadline of February 23, 2011 parties can be on
8 notice sooner rather than later with respect to the
9 settlement.

10 Commissioners, anything else to say today?

11 Thank you. Then at three o'clock we are
12 adjourned.

13 * * * * *

14 (Stipulation hearing adjourned at 3:00 p.m.)

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1 In re: Avista Corporation d/b/a Avista Utilities

2 Docket Nos. UE-100467, UG-100468

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I, Shaun Linse, CCR, do hereby certify that the
foregoing transcript prepared under my direction is a
full and complete transcript of proceedings held on
November 2, 2010, in Olympia, Washington.

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Shaun Linse, CCR 2029

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