

Exhibit No. ____ -T (WHW-1T)
Docket Nos. UE-070804 et al.
Witness: William H. Weinman

**BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Complainant,

vs.

AVISTA CORPORATION,

Respondent.

In the Matter of the Petition of

AVISTA CORPORATION d/b/a
AVISTA UTILITIES,

For an Accounting Order Regarding the
Appropriate Treatment of the Net Costs
Associated with the Purchase of Debt.

DOCKET NO. UE-070804

DOCKET NO. UG-070805

DOCKET NO. UE-070311

TESTIMONY OF

William H. Weinman

**STAFF OF THE WASHINGTON UTILITIES
AND TRANSPORTATION COMMISSION**

*Electric & Gas Revenue Requirements,
Depreciation Rates and Wood Pole Treatment*

October 17, 2007

1 **I. INTRODUCTION.**

2

3 **Q. Please state your name and business address.**

4 A. My name is William H. Weinman. My business address is 1300 South Evergreen
5 Park Drive Southwest, P.O. Box 47250, Olympia, Washington 98504.

6

7 **Q. By whom are you employed and in what capacity?**

8 A. I am employed by the Washington Utilities and Transportation Commission ("UTC"
9 or "Commission") as a Regulatory Analyst.

10

11 **Q. How long have you been employed by the Commission?**

12 A. I have been employed by the Commission since June 2007.

13

14 **Q. Would you please state your educational background?**

15 A. I graduated from Washington State University in 1971, receiving a Bachelor of Arts
16 in Business Administration with a major in accounting. I am a member of the
17 American Institute of Certified Public Accountants.

18

19 **Q. What are your responsibilities at the Commission?**

20 A. My work at the Commission generally includes financial, accounting, depreciation,
21 and other analyses surrounding general rate case proceedings. I am responsible for

1 tariff filings and various rulemaking proceedings involving investor-owned electric
2 and natural gas utilities regulated by the Commission.

3
4 **Q. What other experience do you have?**

5 A. I was previously employed with the Commission from 1974 to 1978. During that
6 period, I testified in two telecommunications and two natural gas general rate case
7 proceedings. I continued to be involved with regulatory issues during my
8 employment with companies in the telecommunications industry. I participated in
9 three general rate case proceedings and provided testimony for Interconnection
10 Contract disputes along with testimony regarding the granting of Eligible
11 Telecommunications Carrier status to wireless carriers.

12
13 **II. PURPOSE AND SUMMARY OF TESTIMONY.**

14
15 **Q. Please describe the scope of your testimony and list the corresponding witnesses**
16 **for Avista Utilities (“Avista” or “Company”) that you address.**

17 A. I will be making recommendations for the Wood Pole Management program,
18 presented by Company witness Scott J. Kinney, and for depreciation expense
19 changes proposed by Company witness David B. Defelice.

1 **Q. Are you sponsoring any exhibits in this proceeding?**

2 A. I am sponsoring two exhibits relating to depreciation, Exhibit No. ____ (WHW-2),
3 Comparison of Company and Staff proposed Net Salvage, and Exhibit No. ____
4 (WHW-3), WUTC Staff Pro Forma Depreciation Adjustment & Allocation to States.

6 **Q. Would you list the uncontested adjustments you have reviewed?**

7 A. Yes, I reviewed the following adjustments and agree the restating or pro forma
8 adjustments are accurate and should be accepted:

9 **No. Description**

10 **Electric**

11 Conversion Factor

12 R-2 Def Gain on Bldg

13 R-3 Colstrip AFUDC Elimination

14 R-4 Colstrip Com AFUDC

15 R-4 Kettle Falls Disallow

16 R-8 Settlement Exchange Power

17 R-11 Injuries & Damages

18 R-15 Eliminate Wa Power Cost Def

19 R-16 Nez Perce Settlement Adj.

20 R-20 Net Gains/Losses

21 **Gas**

22 Conversion Factor

1 R-2 Def Gain on Bldg
2 R-3 Gas Inventory
3 R-4 Weatherization & DSM Invest.
4 R-11 Injuries & Damages
5 R-15 Net Gains/Losses
6 R-18 Restate Excise Tax
7 PF3 Pro Forma Depreciation Study
8

9 **Q. Do you agree with the Company's proposed adjustment for the Wood Pole**
10 **Management (WPM) program?**

11 A. I agree with the concept and recommend that the pro forma adjustment be accepted.
12 I also recommend that future reporting requirements and a commitment to the level
13 of capital and expense, as described later in my testimony, be a condition for the
14 acceptance of this pro forma adjustment.
15

16 **Q. What are your concerns with the WPM program?**

17 . The Company has invested money and time in a software program to manage their
18 WPM process. Adopting this program will bring consistency to the expenditures of
19 capital and expense dollars in the future. However, this program will only be
20 successful with a commitment to continued funding. Wood pole inspections are
21 expenditures that can easily be deferred to future periods, and the Company's history
22 of pole inspections has been sporadic. Exhibit No. ____, Staff Data Request No. 302,

1 lists the history of pole inspections for the last 10 years. Total poles inspected range
2 from a low of zero, in 2002, to a high of 16,181 in 1993. Prior to 2003, the
3 Company used internal labor for pole inspections. In 2003, wood pole inspection
4 work was contracted to outside vendors. This program needs consistent inspection
5 and capital expenditures to achieve its purpose.
6

7 **Q. Is there any reason to change from the Company's current process?**

8 A. Yes. Prior to implementing the new software program, the Company's program was
9 not well defined. It lacked consistent inspections, and funding varied from year to
10 year. The majority of Company's poles were placed in service during the 1940s and
11 1950s. The frequency of the pole deterioration will accelerate as they continue to
12 age. For Avista to meet its public service obligations, the wood pole management
13 program needs consistent funding.
14

15 **Q. What is your proposed recommendation for the WPM program?**

16 A. The pro forma adjustment to expense is reasonable and should be accepted. The
17 program requires a significant increase in both capital and expense budgets for the
18 next 10 years. Staff recommends that the Company set up a "one way" balancing
19 account for wood pole expenditures. The Company would commit to spending the
20 allocated amounts on WPM (\$530,000 in Washington); and if it falls short for any
21 year, the difference would be recorded as a liability and either spent in a future year
22 or returned to the customers through a credit applied in a subsequent general rate

1 case (GRC). The Company must also commit to making the budgeted capital
2 improvements. Acceptance of the pro forma adjustment should be conditioned on
3 the Company reporting annually to the Commission its expenses for wood pole
4 inspections as well as capital expenditures made for wood poles.

5
6 **Q. Does the Company agree with the reporting requirements?**

7 A. Yes. Staff's discussions with Company personnel indicate that they will not contest
8 the reporting requirement. Staff's recommendation is included in the Partial
9 Settlement Stipulation.

10
11 **Q. Did you review the Company's proposed depreciation adjustments?**

12 A. Yes. The Company retained a consultant to review their existing depreciation rates.
13 As a result of this review, the Company has proposed pro forma adjustments for both
14 electric and gas depreciation rates.

15
16 **Q. Do you agree with the proposed change from the sinking fund method to**
17 **straight-line method for computing depreciation expense in the Hydro plant**
18 **accounts?**

19 A. I agree this is the appropriate time to begin using straight-line method to compute
20 depreciation expense for Hydro plant. The sinking fund method of depreciation will
21 exceed the straight-line method beginning in the year 2008. In 2010, the sinking

1 fund method's depreciation expense will be approximately \$1,000,000 higher than
2 the straight-line method.

3 Generally, sinking fund method will accrue less depreciation expense than
4 the straight-line method during the early years of the plant's life and greater
5 depreciation expense than the straight-line method towards the end of the plant's life.
6 The total depreciation expense during the life of the plant is the same under both
7 depreciation methods.

8 The crossover of depreciation expense in 2008 is one reason to change
9 depreciation methodologies. Two other reasons for changing methodologies now are
10 that none of the other utilities in Washington use the sinking fund method to accrue
11 depreciation expense, and Generally Accepted Accounting Principles ("GAAP") no
12 longer prescribe the sinking fund method for computing depreciation expense.

13 Finally, the straight-line method will levelize the depreciation expense in the
14 Hydro Plant accounts in the future. It will also levelize future revenue requirements
15 associated with Hydro Plant depreciation expense.
16

17 **Q. Are you recommending that the electric depreciation rates proposed in Mr.**
18 **Defelice's testimony be allowed to go into effect?**

19 **A.** No. I recommend different depreciation rates for four accounts. My disagreement
20 with the rates proposed by Mr. Defelice concerns the calculation of net salvage
21 values. Mr. Defelice discusses the rationale for the proposed net salvage values and

1 the importance of matching the expense with those customers who benefit from the
2 plant. I agree with this general concept.

3 Avista's proposal relies on meeting industry trends for salvage values to
4 establish its depreciation rates. However, the Company has not adequately explained
5 the negative net salvage percentages it proposes for the four accounts at issue. Staff
6 Data Request No. 353 requested additional justification for the proposed net salvage
7 percentages. The Company's response speaks generally about net salvage being not
8 only a statistical analysis but recognizes other factors, such as informed judgment by
9 the depreciation consultant, review of management's plans, and industry trends.
10 Further inquiries for additional information specifically relating to the four accounts
11 fell short of supporting the significant increase in the negative salvage percentages
12 proposed by the Company.

13
14 **Q. Please explain the net salvage percentages you recommend.**

15 A. Exhibit No. ____ (WHW-2) contains historical data in columns C, D, and E. Column
16 F lists the existing net salvage percentages embedded in the existing depreciation
17 rates, and columns G and H list the net salvage percentages proposed by the
18 Company and Staff.

19 Reviewing net salvage percentages requires observation of industry trends
20 and the historical net salvage data experienced in the Company's plant accounts.
21 The four plant accounts in dispute are assets with long lives, and I would expect the
22 historical data to begin moving towards the industry trend or average before industry

1 experience becomes a valid predictor of the net salvage percentages used to compute
2 depreciation expense in these accounts. Industry trends or averages do not apply
3 equally to all electric companies. My review of historical data and industry trends
4 results in my proposed salvage values on this exhibit in column H.

5
6 **Q. What is the result of your recommended depreciation rates?**

7 A. Exhibit No. ____ (WHW-3) illustrates the pro forma adjustment for electric
8 depreciation expense. Columns B and C show existing and pro forma total Company
9 electric depreciation expenses. Column D calculates the Staff-proposed pro forma
10 adjustments. Columns E and F allocate the total system expenses to Washington and
11 Idaho. Lines 14 through 27 calculate the Washington effect on Accumulated
12 Depreciation and Accumulated Deferred Tax. My recommended rates would reduce
13 Washington depreciation expense by \$320,000. The reduction in expense increases
14 net operating income approximately \$208,000 and increases net rate base by
15 \$104,000.

16
17 **Q. Did you review the Company's proposed depreciation rates for the gas**
18 **operations?**

19 A Yes, those proposed rates are reasonable, and the pro forma rates should be
20 approved.

1 **Q. Do you have a recommendation for an effective date to implement the change in**
2 **depreciation rates?**

3 A. I recommend the depreciation rates for electric and gas operations become effective
4 the first full month after the effective date of the tariff changes in this general rate
5 case.

6

7 **Q. Has the Company agreed to accept your wood pole reporting requirements and**
8 **your proposed pro forma depreciation adjustment in the Partial Settlement**
9 **Stipulation?**

10 A. Yes, it has.

11

12 **Q. Does this complete your testimony?**

13 A. Yes, it does.

14

15