

BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION d/b/a AVISTA UTILITIES,

Respondent.

DOCKET NOS. UE-080416 AND UG-080417

RESPONSE TESTIMONY OF MICHAEL J. MAJOROS, JR. (MJM-8T)

ON BEHALF OF

PUBLIC COUNSEL

AND THE

INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

OCTOBER 10, 2008

1 the Relicensing/Litigation adjustment,

- 2 • the customer deposits adjustment,
- 3 • the Incentives adjustment,
- 4 • the adjustment to correct the error in officer's salaries,
- 5 • the adjustment to Union and non-executive salaries,
- 6 • the Colstrip generation and O&M expense adjustment,
- 7 • the administration and general expense adjustment,
- 8 • the production property adjustment, and
- 9 • the adjustment to restate debt interest.

10 Several of these adjustments have already been incorporated into my direct
11 testimony. The use of the stipulated return on equity and cost of debt is discussed
12 in my direct testimony at page 40, the adjustment to incentives to use actual
13 amounts is discussed at pages 31 to 33, and the removal of the sponsorship costs
14 included in administrative and general expenses is discussed at pages 35 to 36. In
15 addition, although not specifically discussed in my direct testimony, I corrected
16 officer's salaries for the error in Avista's calculation in addition to the other
17 adjustments I made to that expense.

18 **Q. Given these areas of agreement, does the settlement result in just and**
19 **reasonable rates?**

20 A. No, the settlement results in an excessive increase, because it does not address the
21 significant necessary adjustments to Avista's proposed revenue requirement
22 described in my direct testimony and summarized below.

1 **IV. SUMMARY OF DISAGREEMENTS**

2 **Q: Do you disagree with any aspects of the settlement?**

3 A: Yes, I disagree with the settlement's failure to address the following:

- 4 1. Avista's Regulatory Liability for non-legal Asset Retirement
5 Obligations as discussed on pages 5 to 11 of my direct testimony.
6 Avista's \$209.4 million regulatory liability should be reclassified
7 from accumulated depreciation to Account 254 - Other Regulatory
8 Liabilities for regulatory purposes just as Avista has done for
9 GAAP purposes. In addition, should any settlement related to the
10 Confidential Litigation discussed on pages 14 to 18 of my direct
11 testimony be approved or allowed, it should be charged against this
12 regulatory liability rather than flowed into customer rates.
- 13 2. Avista's correct federal income tax rate as discussed on pages 11
14 to 14 of my direct testimony. Avista has overstated its income tax
15 expense by virtue of using an excessive federal income tax rate.
16 The result is to subsidize Avista affiliates at the expense of its
17 ratepayers.
- 18 3. Avista's correct depreciation expense as discussed on page 14 of
19 my direct testimony and in Mr. King's direct testimony.
- 20 4. Avista's correct executive compensation as discussed on pages 19
21 to 31 of my direct testimony. In addition to the correction of the
22 calculation error discussed in the Settlement, Avista's executive
23 compensation should be reduced in three ways: a larger percentage

- 1 should be assigned to non-utility operations, the estimated 2008
2 base pay used in the calculation should be replaced with actual
3 2008 base pay and the 5 percent pay increase assumed for 2009
4 should be reduced.
- 5 5. Avista’s inclusion of certain advertising expenses as discussed on
6 pages 34 to 35 of my direct testimony. These expenses are related
7 to charitable and civic-related advertising, as well as advertising
8 that appears to be geared toward influencing customers to use
9 natural gas.
- 10 6. Avista’s inclusion of “sponsorship costs” in its gas revenue
11 requirement as discussed on pages 35 to 36 of my testimony. The
12 Settlement removes these costs as they relate to the electric
13 revenue requirement in its Administrative and General Adjustment,
14 but fails to address the gas portion of the costs.
- 15 7. Avista’s inclusion of charitable donations in its revenue
16 requirement as discussed on pages 36 to 37 of my direct testimony.
17 Ratepayers should not be charged for the Company’s charitable
18 efforts.
- 19 8. Avista’s inclusion of Directors’ compensation and other
20 shareholder-related expenses as discussed on pages 37 to 38 of my
21 direct testimony. These expenses relate to shareholder activities
22 and as such should be charged to shareholders, not ratepayers.
- 23 9. Avista’s inclusion of 100 percent of D&O Insurance in its revenue

1 requirement as discussed on pages 38 to 40 of my direct testimony.
2 This cost should be split between ratepayers and shareholders to
3 reflect the benefit that both groups receive from the expense.

4 **Q: Do you have any other disagreements with the Settlement?**

5 A: Yes. As I mentioned above, I do not object to the Settlement's treatment of the
6 Spokane River Relicensing and Montana riverbed litigation costs. However, I do
7 object to the Settlement's treatment of the Confidential Litigation costs as
8 included in its Relicensing/Litigation adjustment. In particular, I object to the
9 conclusion that these costs are prudent.¹ As discussed on pages 14 to 18 of my
10 testimony, I recommend that certain costs associated with this litigation be
11 disallowed entirely. If the Commission decides to allow any of the costs they
12 should be charged against the existing regulatory liability for cost of removal.

13 **Q: Does this conclude your testimony?**

14 A: Yes, it does.

¹ Stipulation at 11.