

**Exhibit No. __ T (MPP-1T)
Dockets UE-080416/
UG-080417
Witness: Michael P. Parvinen**

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**AVISTA CORPORATION d/b/a
AVISTA UTILITIES,**

Respondent.

**DOCKET UE-080416
DOCKET UG-080417
(Consolidated)**

CROSS ANSWERING TESTIMONY OF

MICHAEL P. PARVINEN

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Recommending Rejection of Various Public Counsel Ratemaking Adjustments

October 22, 2008

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1 **I. INTRODUCTION**

2

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

4 A. My name is Michael P. Parvinen. My business address is The Richard Hemstad
5 Building, 1300 S. Evergreen Park Dr. S.W., P.O. Box 47250, Olympia, Washington
6 98504-7250. My e-mail address is mparvine@utc.wa.gov.

7

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

9 A. I am employed by the Washington Utilities and Transportation Commission
10 (“UTC”) as the Assistant Director of Energy. In that capacity I supervise the
11 members of the Energy Section that analyze electricity and natural gas filings and
12 issues. Before my current position, I was a Regulatory Analyst and later the Deputy
13 Assistant Director in the Energy Section.

14

15 **Q. What are your educational and professional qualifications?**

16 A. I graduated from Montana College of Mineral Science and Technology in May of
17 1986, and received a Bachelor of Science degree in business administration with a
18 major in accounting. I have appeared before the Commission in: Docket UE-
19 072300/UG-072301 – Puget Sound Energy; Docket UG-060256 – Cascade Natural
20 Gas Corporation; Docket UE-050482/UG-050483 – Avista Corporation; Docket UG-
21 040640/UE-040641 – Puget Sound Energy; Docket UG-021584 – Avista
22 Corporation; Docket UE-011570/UG-011571 – Puget Sound Energy, Inc.; Docket
23 UE-010395 – Avista Corporation; Docket No. UE-991606/UG-991607 – Avista

1 Corporation; Docket No. UG-931405 - Washington Natural Gas Company; Docket
2 No. UG-920840 - Washington Natural Gas Company; Docket No. UG-911246 -
3 Cascade Natural Gas Corporation; Docket No. UE-900093 - The Washington Water
4 Power Company; Docket No. U-89-2688 - Puget Sound Power & Light Company;
5 Docket No. D-2576 - Bremerton-Kitsap Airporter, Inc.; and Docket No. U-88-2294-
6 T - Richardson Water Companies. I have also analyzed or assisted in the analyses of
7 numerous transportation and utility rate filings. I attended the Seventh Annual
8 Western Utility Rate Seminar in 1987, and the 1988 Annual Regulatory Studies
9 Program, sponsored by the National Association of Regulatory Utility
10 Commissioners (NARUC).

11
12 **Q. Did you previously file testimony in this proceeding?**

13 A. No.

14
15 **II. PURPOSE AND SUMMARY OF TESTIMONY**

16
17 **Q. Please describe the scope of your testimony.**

18 A. I present Staff's response to Public Counsel witnesses Michael Majoros and Charles
19 King regarding their proposed recommendations regarding SFAS 143 and the
20 treatment of the cost of removal component of depreciation, respectively.

21
22 **Q. Please summarize your position and recommendation on those issues.**

23 A. It is Staff's position that Public Council's proposal to create a regulatory liability

1 based on Generally Accepted Accounting Principles (GAAP) expounded in SFAS
2 143 is not necessary. However, if the Commission were to accept Public Council's
3 proposal related to SFAS 143, it would be inappropriate to apply any of the resulting
4 balance to any purpose other than cost of removal. Also, Public Council's proposed
5 calculation of cost of removal based on a present value calculation should be
6 rejected.

8 III. SFAS 143

9
10 **Q. Please explain why the Commission should reject Public Counsel's proposal to**
11 **create a regulatory liability based on SFAS 143.**

12 **A.** It is unnecessary for three reasons:

- 13 • There is no UTC or FERC requirement that Avista be required to or should
14 book the amount as a regulatory liability.
- 15 • Customers receive no greater safeguard with the proposed creation of a
16 regulatory liability than under the current regulatory treatment.
- 17 • There is no revenue requirement impact.

18
19 **Q. Please elaborate on your statement that there is no requirement to book cost of**
20 **removal collections as a regulatory liability.**

21 **A.** SFAS 71 is the over-arching or governing pronouncement. If a utility is required for
22 rate making purposes to record on its books amounts which are consistent with the
23 regulatory methodology for the recovery of such amounts, then regardless of other

1 accounting requirements of GAAP or those propagated by the Securities and
2 Exchange Commission (SEC), the utility is allowed based on SFAS 71 to match its
3 books and records with such regulatory treatment. SFAS 143 simply doesn't need to
4 be applied.

5 The company is booking cost of removal consistent with traditional
6 ratemaking for Avista as well as all other utilities in this state.

7

8 **Q. Can you elaborate on your response that current regulatory treatment provides**
9 **assurance that customers will receive the benefits of all cost of removal**
10 **collections?**

11 A. Yes. Mr. Majoros on page 9, lines 12 - 14 of his direct testimony, states that
12 customers will face a strong possibility of losing substantial prepaid funds for cost of
13 removal if the funds are not protected by placing them in a regulatory liability
14 account. This is absolutely incorrect. Under the traditional approach, when an asset
15 is finally retired and the actual cost of removal is known, if there has been an over
16 collection, then the amount stays in the Accumulated Depreciation account to reduce
17 the overall cost of removal to be recovered on all other assets within the asset
18 account through the remaining life approach employed by this Commission. The
19 company does not have the ability to keep any unspent funds (if there were to be
20 any); rather, they continue to go to the benefit of customers.

21 The remaining life method of depreciation allows for constant updating of
22 asset information over the life of the asset up to its retirement date. As new
23 information becomes known or further refined such as expected life, retirement

1 dates, salvage, and cost of removal, this information is incorporated and the
2 depreciation expense is adjusted over the remaining life of the asset. What this
3 means in the current application is that if cost of removal ultimately becomes
4 something different than current expectations, the depreciation rates will change to
5 incorporate the new information. To the extent Avista has ultimately miscalculated
6 cost of removal; the balance will be trued up over the remaining life of the existing
7 assets in the account.

8
9 **Q. Does Mr. Majoros agree that there is no revenue requirement impact associated**
10 **with his proposal?**

11 A. Yes. He states this on page 11, lines 26 – 18, of his direct testimony.

12
13 **IV. PROPOSED USE OF THE REGULATORY LIABILITY ACCOUNT**

14
15 **Q. Do you disagree with Mr. Majoros' proposed use of the regulatory liability**
16 **created by the implementation of SFAS 143?**

17 A. Yes. In the event that the Commission decides to order Avista to record cost of
18 removal collections as a regulatory liability, it is inappropriate to use those amounts
19 for any other purpose other than cost of removal, as is proposed by Mr. Majoros on
20 page 18 of his direct testimony.

21
22 **Q. Please explain why you disagree with the proposal by Mr. Majoros.**

23 A. I disagree with his proposal to use the cost of removal portion of accumulated

1 depreciation, which he proposes to treat as a regulatory liability to offset certain
2 costs otherwise charged to rate payers. Mr. Majoros is correct that Avista has
3 collected from ratepayers amounts to pay for the future cost of removal. However,
4 he ignores the fact that these funds are specifically collected for the future cost of
5 removal. Mr. Majoros does not state from where the actual cost of removal will
6 come from when it is time to pay removal costs if the funds have, instead, been used
7 to offset other current costs, as he proposes. It just does not make intuitive sense and
8 sets a bad precedent by asking future rate payers to pay for yesterday's costs.

9
10 **Q. Is the problem with Mr. Majoros' approach compounded if the Commission**
11 **were to accept Mr. King's recommendation to use a present value on future**
12 **removal costs?**

13 A. Absolutely. Not only will future rate payers be asked to pay the increased cost of
14 removal associated with present value method Mr. King proposes (described later in
15 my testimony), they will also be asked to pay for the cost of removal funds that were
16 used to offset other costs.

17
18 **V. KING DEPRECIATION ADJUSTMENT**

19
20 **Q. Please turn to Public Counsel's King Depreciation adjustment and explain why**
21 **you disagree with the proposal.**

22 A. Again, it basically comes down to the matching principle. The Commission has
23 historically accepted the straight-line, remaining life method for determining

1 depreciation expense as the preferred approach to recover from rate payers the net
2 cost of an asset over its useful service life. The net cost of the asset is the original
3 purchase price, less salvage, plus the cost of removal. The beauty of the remaining
4 life methodology is that, as the estimated service life, salvage value, or cost of
5 removal change over time, those changes are reflected going forward over the
6 remaining life of the asset. This levelizes the effects of the changes so that at the end
7 of the service life (retirement date) all costs have been recovered from rate payers. It
8 is, therefore, appropriate to match the dollars collected with the dollars spent.
9 Performing a present value calculation, as Public Counsel proposes, creates a
10 mismatch in timing of the actual dollars collected. The mismatch occurs because,
11 under Public Counsel's proposal, fewer dollars are collected in the early years and
12 more dollars will have to be collected in the later years.

13
14 **Q. What happens if at some point the cost of removal actually experienced**
15 **indicates that the Company has indeed collected more than is needed to remove**
16 **an asset?**

17 **A.** The remaining life methodology will adjust the depreciation rate going forward to
18 correct the balance over the remaining life. Customers in the meantime will get the
19 benefit of a reduced rate base by virtue of an overstated accumulated depreciation
20 reserve. Since the cost of removal is essentially an estimate of future costs based on
21 what we know now, it is assumed that some accounts may be over-accruing and
22 others may be under-accruing. Over time the remaining life approach will levelize
23 these imbalances.

1 **Q. What is the revenue requirement associated with Public Counsel's King**
2 **Depreciation adjustment?**

3 A. Exhibit No. __ (MJM-4), page 11, schedule 5, removes from the Company's filed
4 electric case a revenue requirement amount of \$3.3 million and from the Company's
5 filed natural gas case a revenue requirement amount of \$1.3 million. The
6 Commission should reject this adjustment.

7

8 **Q. Does this conclude your cross-answering testimony?**

9 A. Yes it does.

10