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1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION

2 COMMISSION

3 WASHINGTON UTILITIES AND)
4 TRANSPORTATION COMMISSION,)

5 Complainant,)

6 vs.)

DOCKET NO. UE-070804

7 AVISTA CORPORATION, d/b/a)
8 AVISTA UTILITIES,)

UG-070805

Volume III

Pages 69 - 90

9 Respondent.)

10 A settlement conference in the above matter

11 was held on November 19, 2007, at 2:04 p.m., at 1300

12 South Evergreen Park Drive Southwest, Olympia,

13 Washington, before Administrative Law Judge DENNIS J.

14 MOSS, Chairman MARK SIDRAN, Commissioner PHILIP B.

15 JONES, and Commissioner PATRICK J. OSHIE.

16

17 The parties were present as follows:

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

21 AVISTA CORPORATION, by DAVID MEYER, Vice
22 President and Chief Counsel for Regulatory and
23 Governmental Affairs, 1411 East Mission, Spokane,
 Washington 99220-3727; telephone, (509) 495-4316.

24 Kathryn T. Wilson, CCR

25 Court Reporter

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1 INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES,
2 by IRION A. SANGER, Attorney at Law, Davison Van Cleve,
3 333 Southwest Taylor, Suite 400, Portland, Oregon
4 97204; telephone, (503) 241-7242.

5 THE ENERGY PROJECT, by RONALD L. ROSEMAN,
6 Attorney at Law, 2011 14th Avenue East, Seattle,
7 Washington 98112; telephone, (206) 324-8792.

8 PUBLIC COUNSEL, by SIMON J. FFITCH and SARAH
9 SHIFLEY, Assistant Attorneys General, 800 Fifth Avenue,
10 Suite 2000, Seattle, Washington 98104-3188; telephone,
11 (206) 389-2055.

12 NORTHWEST INDUSTRIAL GAS USERS, by EDWARD A.
13 FINKLEA, Attorney at Law, Cable, Huston, Benedict,
14 Haagensen & Lloyd, 1001 Southwest Fifth Avenue, Suite
15 2000, Portland, Oregon 97204-1136; telephone, (503)
16 224-3092.

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INDEX OF EXHIBITS

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EXHIBIT:	MARKED:	OFFERED:	ADMITTED:
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11 -168-C	75	76	76
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1 P R O C E E D I N G S

2 JUDGE MOSS: Good afternoon, everyone. We
3 are here this afternoon in the matter styled Washington
4 Utilities and Transportation Commission against Avista
5 Corporation doing business as Avista Utilities, Docket
6 Numbers UE-070804 and UG-070805. Those are
7 consolidated general rate case filings, and then we
8 have the Docket UE-070311, also consolidated, which is
9 styled, In re petition of Avista Corporation doing
10 business as Avista Utilities for the accounting order.

11 My name is Dennis Moss. I'm an
12 administrative law judge with the Washington Utilities
13 and Transportation Commission, and with me on the Bench
14 today are Chairman Sidran, Commissioner Oshie, and
15 Commissioner Jones presiding over this hearing. The
16 purpose of our gathering today is to focus on a
17 settlement that all the parties have filed covering all
18 of the issues in the case, what we call a full
19 settlement in our procedural rules, and we have a panel
20 of witnesses here. Mr. Meyer, perhaps you will
21 introduce the witnesses or have them introduce
22 themselves, and I understand that Mr. Kelly has a brief
23 statement he wishes to make at the outset and then we
24 will be ready for questions.

25 The first order of business, however, will be

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1 to take the appearances of counsel, so let's given with
2 the Company, Mr. Meyer?

3 MR. MEYER: Thank you, Your Honor. David
4 Meyer for Avista.

5 MR. SANGER: Irion Sanger with Davison Van
6 Cleve for the Industrial Customers of Northwest
7 Utilities.

8 MR. ROSEMAN: Ronald Roseman for The Energy
9 Project.

10 MR. FINKLEA: Ed Finklea of the law firm
11 Cable Huston representing the Northwest Industrial Gas
12 Users.

13 MR. FFITCH: Simon ffitch and Sarah Shifley
14 for Public Counsel.

15 MR. TRAUTMAN: Greg Trautman for Commission
16 staff.

17 JUDGE MOSS: Mr. Meyer?

18 MR. MEYER: A few preliminary matters. You
19 had distributed a revised exhibit list, and I believe
20 just before the session today, you distributed a
21 revised exhibit list that I believe all parties have.
22 I notice it does reflect the numbered exhibits for the
23 partial settlement, full settlement, as well as a joint
24 narrative together with public comments. So assuming
25 the parties have had a chance to review this list, I

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1 would move the admission of those so identified
2 exhibits.

3 JUDGE MOSS: With those exhibits that you
4 just identified are marked one through four
5 respectively, and we have an addition of Exhibits 11
6 through 168-C, and these are the prefiled testimonies
7 and exhibits by the Company's witnesses and also those
8 that were filed during the response round by several
9 parties, including Public Counsel, Staff, and the ICNU.
10 So with that, I understand all of the exhibits are to
11 be admitted by stipulation; is that correct?

12 MR. MEYER: That is correct.

13 JUDGE MOSS: Mr. ffitch?

14 MR. FFITCH: Your Honor, with respect to
15 Exhibit 4, the public comment exhibit, pursuant to our
16 conversation off the record, I would like to request
17 leave to file the public comment exhibit on Wednesday
18 of this week.

19 JUDGE MOSS: That will be fine.

20 MR. FFITCH: With respect to the testimony of
21 William Marcus, as the Bench is aware, we filed a
22 revision to his testimony changing the confidentiality
23 designation of certain tables, and I just wanted to
24 confirm that this exhibit list would reflect or refer
25 to the revised versions of the exhibits that were filed

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1 for Mr. Marcus.

2 JUDGE MOSS: Those are exhibits in addition
3 to the testimony?

4 MR. FFITCH: Those are related to the
5 testimony itself, Your Honor.

6 JUDGE MOSS: I have identified on the exhibit
7 list the revision of November 19, 2007.

8 MR. FFITCH: And I see that, Your Honor, and
9 I think with that notation that the exhibit list is
10 up-to-date from our respective.

11 JUDGE MOSS: If anybody does find any
12 mistakes on it, please let me know and we will correct
13 that before we finish this up in the records center for
14 posterity, and I'll provide a copy of that to the court
15 reporter.

16 (Marked all Exhibits.)

17 MR. MEYER: Then the only procedural matter
18 is to note that we were hoping to proceed in a way that
19 would allow every party to have a few minutes to
20 briefly make a statement, and we would like to begin
21 with Mr. Norwood on behalf of the Company, and then I'm
22 assuming the other parties would want to contribute
23 something as well.

24 JUDGE MOSS: Before we move to that step, I
25 will for the record state that the exhibits on the list

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1 as previously discussed are admitted as marked.

2 MR. FFITCH: May I make one other comment
3 about the exhibit list? We would request that the
4 testimony of Mr. Hornby was tendered on behalf of both
5 Public Counsel and The Energy Project. Thank you, Your
6 Honor.

7 JUDGE MOSS: We will make that change. All
8 right. With that, let's swear the witness panel. If
9 each of the witnesses would rise and raise your right
10 hand, please?

11

12 Whereupon,

13 THE WITNESSES,
14 having been first duly sworn, were called as witnesses
15 herein and were examined and testified as follows:

16

17 JUDGE MOSS: With that, I believe we are
18 ready to start with your statement, Mr. Norwood.

19 MR. NORWOOD: Thank you. I just wanted to
20 make some comments regarding the stipulations that have
21 been filed. There are two separate stipulations that
22 were filed with the Commission, a partial stipulation
23 filed on October 15th. I just wanted to note that we
24 appreciate the willingness of the parties to get
25 together earlier than originally planned to work toward

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1 narrowing the issues and find areas of agreement, and
2 we did reach agreement on a number of the issues, I
3 think, that was reflected in the partial settlement,
4 and that was also reflected in the prefiled testimony
5 of the parties on October 17.

6 The parties also met on October 29th, and we
7 resolved the remainder of the issues in these dockets,
8 and that's reflected in the full stipulation that we
9 filed on November 5th, and as a note, the full
10 stipulation also includes the partial stipulation as an
11 attachment.

12 It is understood by the Company and other
13 parties that the stipulations are subject to Commission
14 approval. There were a number of concessions made by
15 all the parties as we looked through this. It is a
16 package that we agreed to, and as such, there are
17 compromises that were made by all the parties. All
18 parties agree that the settlement does provide a
19 reasonable resolution of all the issues in the dockets
20 that are before you, and we believe that it is in the
21 public interest.

22 In our original filing on the electric side,
23 we had asked for a 51.1 million dollar increase, so
24 15.8 percent. In this settlement, the overall rate
25 increase would be 30.1 million, or a 9.3 percent

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1 increase to base rates, and then there is an additional
2 increment related to demand-side management and
3 low-income rate assistance. That pushes the overall
4 impact up from 9.3 percent to 9.9 percent. On the
5 natural gas side, we requested an overall increase of
6 4.5 million, or 2.3 percent, and the settlement
7 provides for 3.3 million, or 1.7 percent, and there is
8 as additional small increment related to the low-income
9 rate assistance program.

10 I would like to highlight just a few items
11 from the stipulations themselves. Exhibit No. 1 is the
12 partial settlement. On Page 3 of Exhibit 1, the top
13 part of the page talked about the adjustments to the
14 revenue requirement. I'm not going to go through all
15 of those. On the bottom part of the page,
16 cost-of-service analysis, the Company has agreed to put
17 together a new load-research study, so we put meters on
18 our customers' sites to gather new data on their usage
19 characteristics so that we can use that to the future
20 in cost-of-service studies, and we will work with
21 Commission staff and the parties before we get that
22 started. It will be a couple of years before that is
23 completed as we gather the data over a 12-month period,
24 and then in the future reflect it in the
25 cost-of-service studies.

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1 Page 4, rate design, on the electric side, we
2 will spread the increase based on the energy charges
3 only. We are not going to increase the demand charges,
4 and there will be no change through the stipulation to
5 the basic charge for residential customers nor the
6 small commercial or the pumping service.

7 For our largest customers, Schedule 25, we
8 are going to make a couple of changes there to the
9 primary voltage discount. We are also adding a fair
10 energy block, and these changes better reflect the cost
11 to serve these high-use customers. On Page 5, for
12 natural gas in general terms, it's being spread on a
13 uniform percent of margin across all service schedules.
14 Also on Page 5, the low-income bill assistance funding,
15 you will see there that the new funding on the electric
16 side will be \$2,496,000. The current funding level is
17 \$2,260,000, so this represents roughly a 10 percent
18 increase in the funding for low-income assistance to
19 help customers pay the bills.

20 On the natural gas side, the new level of
21 funding is \$1,262,000. The current level is
22 \$1,240,000. That's roughly a two percent increase in
23 funding on the gas side, and our objective here was to
24 increase the funding for low-income assistance in a
25 comparable percentage increase as the overall increase

0080

1 in this case.

2 For demand-side management, we had proposed
3 to rate base our spending on DSM. Through the
4 stipulation, we've agreed to not implement that but to
5 continue to expense DSM spending. We will use the
6 tariff-rider dollars to cover those costs each year,
7 and as a part of each general rate case, we are
8 required to address the prudence of prior DSM spending,
9 and in this case, the parties have agreed that the
10 expenditures through December 31, '06 were prudent.

11 There is an increase in DSM funding included
12 in the stipulation. The Company is currently spending
13 about 4.5 million dollars per year on the electric side
14 for DSM. This stipulation will increase that level up
15 to nine million dollars per year, and this reflects the
16 increased emphasis on DSM that the Company is working
17 toward, and that was reflected in Avista's 2007
18 integrative resource fund, so it's a pretty significant
19 increase in DSM that's included in this stipulation.
20 On Page 6, for low income DSM funding, the current
21 level of funding for low income is about \$900,000 per
22 year. This will be increased to \$1,132,000, which is
23 roughly a 20 percent increase in funding for low-income
24 DSM.

25 Then just briefly to the full stipulation,

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1 I'll highlight just a few items there, and that's
2 Exhibit No. 2. Page 3 of Exhibit 2, the top of Page 3,
3 you will see the table for cost of capital. I won't go
4 through the details, but it's presented there, and at
5 the bottom part of the page, there is a couple of other
6 adjustments that were agreed to, and again, I won't go
7 into detail on that. Page 4, you will see the overall
8 revenue requirement resulting from the stipulation that
9 I've already talked about, 30.1 million for the
10 electric and 3.3 million for natural gas, and at the
11 bottom of the page is the effective date as an integral
12 part of the settlement, and the agreement calls for an
13 effective date of January 1, 2008, which is our request
14 here.

15 On Page 5, the stipulation addresses the
16 power-cost-only rate case issue that we had requested
17 in the original filing. We've agreed in this
18 stipulation to not adopt such a mechanism in this
19 proceeding, and the parties have agreed to meet prior
20 to filing our next case to discuss such a mechanism,
21 whether one is appropriate or not. For advanced meter
22 reading, we've agreed in this case that there is
23 nothing in the filing that would indicate preapproval
24 in any way, and there is a couple of other provisions
25 related to that in the document.

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1 In the last item, Item G on Page 5, the
2 accounting-for-debt amortization, This is the other
3 docket that was consolidated with our general rate case
4 filing. As part of the stipulation, we've agreed to
5 write off 3.35 million dollars related to the cost of
6 repurchasing debt beginning in 2002, and in addition to
7 that, we've agreed to a penalty assessment of \$15,000
8 related to that issue. That concludes my comments.

9 JUDGE MOSS: Thank you, Mr. Norwood, and so
10 the record is complete, let me ask the other witnesses
11 to introduce yourself before you speak.

12 MR. SCHOENBECK: I'm Don Schoenbeck. I'm the
13 witness on behalf of the Industrial Customers of
14 Northwest Utilities. Our intervention focused on four
15 issues we thought were very critical. The partial
16 settlement addressed two of these issues that had to do
17 with power-supply costs and the rate design of Schedule
18 25. With regard to the power-supply costs, there were
19 a handful of adjustments that I submitted testimony
20 along with Alan Buckley on behalf of Staff. In total,
21 while some of the revenue requirement adjustments were
22 increases, the total net figure is a 2.3 million dollar
23 decrease from the power supply cost originally filed by
24 the Company.

25 The second issue addressed in the partial

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1 settlement was the design to rate Schedule 25. We
2 certainly appreciate the Company's willingness to
3 investigate the load characteristics of their customers
4 and have a collaborative effort to put together new
5 cost-of-service study, and we intend to be fully
6 involved in that process, but we thought we needed a
7 few baby steps with respect to Schedule 25, and we
8 think those are fully reflected in the partial
9 settlement.

10 With regard to the full settlement, it
11 captured our two remaining issues that had to do with
12 the proposal for power-cost-only rate case mechanism.
13 Again, the Company agreed to a collaborative effort
14 such that we will be meeting and deciding if and how
15 that mechanism should come to fruition for the Company,
16 and finally, the full settlement also addresses our
17 cost-of-capital issues with respect to return on equity
18 and capitalization ratios. So again, we think the full
19 settlement fully addressed our concerns, and we look
20 forward to working with the Company on these matters in
21 the future, and I also must say I certainly appreciate
22 the leadership shown by the Staff and the Company with
23 regard to resolving many of these issue in the partial
24 settlement where the direct testimony was due to be
25 filed that allowed all parties to have a much more

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1 effective intervention, and interventions do cost
2 money, and it was also a cost savings to everyone
3 involved, so we appreciate the leadership shown by Gene
4 Weis (phonetic) in particular. Thank you very much.

5 JUDGE MOSS: Thank you.

6 MS. KIMBALL: I'm Mary Kimball, public
7 counsel section of the attorney general's office. It's
8 never pleasant for Public Counsel to agree to a rate
9 increase. We did believe that some of Avista's
10 proposed increases and expenses and rate base were
11 justified. We also believe these settlements contain
12 significant benefits for consumers. Avista's original
13 rate case filing was very complex and included several
14 requests for new regulatory mechanisms and new
15 proposals on a wide range of issues, which Public
16 Counsel had significant concerns with. We are very
17 pleased to have reached an agreement that addresses our
18 concerns.

19 For Public Counsel, some of the highlights of
20 the two settlements are as follows: Of particular
21 importance to Public Counsel is the reduction of
22 Avista's return on equity to 10.2 percent, which
23 reflects market trends and Avista's risk eduction
24 mechanism, such as the ERM, energy recovery mechanism,
25 and the gas decoupling mechanism. Avista has also

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1 agreed to withdraw many of their new proposed
2 regulatory mechanisms, particularly the power-cost-only
3 rate case proposal, or PCORC, and Public Counsel
4 opposed in large part because we do not believe Avista
5 currently needs such a mechanism. It was also
6 important to Public Counsel that Avista has withdrawn
7 its proposed electric-loss-margin mechanism and it's
8 proposal to rate base its demand-side programs.

9 The settlement also includes several revenue
10 requirement adjustments that Public Counsel proposed in
11 the testimony of Mr. Marcus, such as the reduction and
12 recovery for executive-based salaries and short-term
13 cash incentives, as well as the removal of certain
14 expenses for dues, advertising fees, and director fees.
15 Public Counsel is also uncomfortable with Avista's
16 proposed advanced meter-reading investments being the
17 subject of testimony, even though the Company was not
18 seeking cost recovery in this proceeding. It was
19 important for Public Counsel to clarify, as Mr. Norwood
20 mentioned, that nothing in this case establishes
21 preapproval for any AMR investments, and if Avista
22 seeks cost recovery for any AMR investments or seeks to
23 implement -- pricing, it will bear the burden of
24 demonstrating that such investments are cost-effective.

25 Last but not least, we are very pleased to

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1 see increased funding for the low-income rate
2 assistance program and electric demand-side management.
3 We are also pleased that Avista has agreed to make
4 annual filings to review its DSM chair prior accounts,
5 and finally, their withdrawal of the proposed
6 late-payment program was also important to Public
7 Counsel.

8 MR. SCHOOLEY: Good afternoon, Commissioners.
9 I'm Tom Schooley with the Commission staff. The
10 settlements in the Avista filing represent a fair
11 outcome for customers and the Company. The partial
12 settlement resolved a number of accounting issues and
13 some of the policy issues proposed by Avista in its
14 direct testimony. The final settlement resolved the
15 total revenue requirements to an increase of about 30
16 million dollars for electric operations and 3.3 million
17 for gas. Staff's proposed returns on equity and debt
18 were applied in the settlement. The capital structure
19 represents compromises by all parties. Taken together,
20 the result is fair and reasonable.

21 Staff determined the load and cost of service
22 studies behind the rate schedule were seriously out of
23 date. For purposes of this settlement, the parties
24 agreed to allocate the revenues of cost equitably.
25 The Company agrees to commence new studies to determine

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1 proper allocations of cost to customer classes and rate
2 schedules. The important policy-related issues are
3 left for future discussions. The Company's request for
4 ways to update power cost more frequently and to revise
5 the recovery of demand-side management costs are set
6 aside for now but will return after consultations with
7 interested parties.

8 Finally, the settlement resolves the deferred
9 accounting requested in Docket UE-070311. The Company
10 agrees to write off the reacquisition expenses that are
11 the subject of the petition rendering the petition
12 moot. Avista also accepts Staff's recommendation of a
13 \$15,000 fine for violating Commission rules. Staff's
14 investigation did turn up two items where deferral and
15 amortization of expenses is recommended as described in
16 the settlement. Staff recommended the partial and full
17 settlements be approved by the Commission as in the
18 public interest. Thank you.

19 JUDGE MOSS: That completes our statements
20 from the witness panel, so I believe we are ready for
21 questions from the Bench.

22 COMMISSIONER JONES: This is for Mr. Norwood.
23 You mentioned the 3.85 million charge for the
24 unamortized debt to be written off. It's going to be
25 implemented in 2007. 2007, three more months left, I

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1 would assume based on the reading of the settlement
2 that you would have to take this charge by the end of
3 December in the fourth quarter because you've already
4 released your third quarter results?

5 MR. NORWOOD: Actually, we've already
6 reported the write-off in the third quarter of this
7 year. In fact, the parties met on October 29th, and we
8 did reach agreement, and even though the Commission had
9 not ruled on it, we had made an agreement with parties
10 to write off that amount, and under our accounting
11 rules required us to record that, so there was time
12 then to reflect that in our third quarter earnings. In
13 fact, there is an obligation for us to reflect that in
14 the third quarter earnings which had not yet been
15 released.

16 In terms of the timing, these costs are
17 primarily related to the nine-and-three-quarters
18 percent notes that are due June 1 of 2008, and so any
19 costs that were at issue related to those all the way
20 out through June 1 of '08 are reflected in the
21 stipulation so all those dollars are dealt with.

22 COMMISSIONER JONES: That's all I have.

23 JUDGE MOSS: Thank you very much. Chairman
24 Sidran?

25 CHAIRMAN SIDRAN: I don't have a question. I

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1 want to make a comment, and that is to commend the
2 parties not only with respect to having arrived at a
3 full settlement but also, as Mr. Schoenbeck suggests,
4 time is money for everyone, including the
5 commissioners, so the fact that you were able to arrive
6 at a full settlement and the fact you were able to
7 arrive at it expeditiously is something that I find
8 value in and hope to see more of, and here, of course,
9 I'm speaking not only to the Company but to the
10 parties. Not that I'm hoping to see more rate cases,
11 but if there are rate cases, I would like you to think
12 about what worked here, because one of the items on the
13 Commission's agenda to be taken up at our bench bar
14 conference next year will be what is it that is working
15 and what can be improved on in our settlement process.
16 Something here obviously worked, and I look forward
17 after this case is over to hearing more about what it
18 was about this process that the parties saw as working
19 that produced not only a settlement but a settlement, I
20 think, at least since I've been on the Commission, at a
21 fairly early stage, so that is my comment, and I
22 commend the parties for their effort.

23 JUDGE MOSS: Is there any further business
24 from the parties? I would ask you all, counsel at
25 least, to stay behind for a moment after we go off the

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1 record. I want to talk to you briefly about the timing
2 on the compliance filing, assuming that the Commission
3 approves this settlement. Of course, if there was any
4 other action taken, it would be indicated by order and
5 some other course of action would be established. But
6 with that then, our record is closed. Thank you all
7 very much for being here today; appreciate your
8 participation.

9 MR. MEYER: Thank you.

10 (Settlement conference adjourned at 2:30 p.m.)

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