

01245

1                   BEFORE THE WASHINGTON UTILITIES AND  
2                   TRANSPORTATION COMMISSION

3 THE WASHINGTON UTILITIES            )  
4 AND TRANSPORTATION COMMISSION,    )  
5                                    Complainant,            )  
6                                    vs.                            ) DOCKET NO. UE-991606  
7 AVISTA CORPORATION,                ) VOLUME XI  
8                                    Respondent.                ) Pages 1245 - 1402

8 -----  
9 THE WASHINGTON UTILITIES            )  
10 AND TRANSPORTATION COMMISSION,    )  
11                                   Complainant,            )  
12                                   vs.                            ) DOCKET NO. UG-991607  
13 AVISTA CORPORATION,                ) VOLUME XI  
14                                   Respondent.                ) Pages 1245 - 1402  
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15                   A hearing in the above matter was held on July  
16 10, 2000, at 1:25 p.m., at 1300 South Evergreen Park  
17 Drive Southwest, Olympia, Washington, before  
18 Administrative Law Judges MARJORIE R. SCHAER and KAREN  
19 CAILLE and CHAIRWOMAN MARILYN SHOWALTER, COMMISSIONER  
20 RICHARD HEMSTAD, and COMMISSIONER WILLIAM R. GILLIS.

21                   The parties were present as follows:

22                   THE WASHINGTON UTILITIES AND TRANSPORTATION  
23 COMMISSION, by GREGORY J. TRAUTMAN and MARY M. TENNYSON,  
24 Assistant Attorney General, 1400 South Evergreen Park  
Drive Southwest, Post Office Box 40128, Olympia,  
Washington, 98504.

25 Joan E. Kinn, CCR, RPR  
Court Reporter

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1 AVISTA CORPORATION, by DAVID J. MEYER, General  
Counsel, E. 1411 Mission Avenue, Spokane, Washington,  
2 99220.

3 NORTHWEST ENERGY COALITION via bridge line, by  
DANIELLE DIXON, Policy Associate, 219 First Avenue  
4 South, Suite 100, Seattle, Washington, 98104.

5 THE PUBLIC, by SIMON J. FFITCH, Assistant  
Attorney General, 900 Fourth Avenue, Suite 2000,  
6 Seattle, Washington, 98164-1012.

7 NORTHWEST INDUSTRIAL GAS USERS via bridge  
line, by EDWARD A. FINKLEA, Attorney at Law, Energy  
8 Advocates, LLP, 526 Northwest 18th Avenue, Portland,  
Oregon, 97209.

9

10 INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES,  
via bridge line, by S. BRADLEY VAN CLEVE, Attorney at  
Law, Duncan, Weinberg, Genzer and Pembroke, 1300  
11 Southwest Fifth Avenue, Suite 2915, Portland, Oregon,  
97201.

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

2 JUDGE SCHAER: We're here this afternoon for  
3 hearings in two consolidated dockets. The first is WUTC  
4 versus Avista Utilities, Docket Number UE-991606. This  
5 is a filing by the electric arm of this company for an  
6 annual increase in rates of \$26.3 Million or about a  
7 10.4% increase in electric rates. The second proceeding  
8 is Washington Utilities and Transportation Commission  
9 versus Avista Utilities in Docket Number UG-991607,  
10 which is a general rate filing by the gas arm of this  
11 company seeking an annual increase of approximately \$4.9  
12 Million or a 6.5% increase.

13 We are in the Commission's hearing room 206  
14 in the Commission's headquarters building in Olympia,  
15 Washington. Chairwoman Marilyn Showalter, Commissioner  
16 Dick Hemstad, and Commissioner Bill Gillis are presiding  
17 in this hearing. I am Marjorie Schaer. Karen Caille  
18 and I are the administrative law judges assigned by the  
19 Commission to this proceeding.

20 I would like to start this afternoon by  
21 having the parties briefly note their appearances again,  
22 starting with you, Mr. Meyer.

23 MR. MEYER: Thank you, Your Honor. Appearing  
24 on behalf of Avista, David Meyer.

25 JUDGE SCHAER: All right, and the commission

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1 staff.

2 MR. TRAUTMAN: Commission staff is  
3 represented by Greg Trautman and Mary Tennyson,  
4 Assistant Attorney Generals.

5 MR. FFITCH: Your Honor, the office of public  
6 counsel is represented by Simon ffitch, Assistant  
7 Attorney General.

8 JUDGE SCHAER: Do we have any parties  
9 appearing by the conference bridge?

10 Let's go ahead then. This is a hearing that  
11 was scheduled by notice on April 29th, 2000. The  
12 purpose of this hearing is a presentation and  
13 cross-examination of the commission staff, public  
14 counsel, and intervener direct cases and of the Avista  
15 rebuttal in these proceedings.

16 I have previously handed out to the parties  
17 an order of witnesses and estimates of cross-examination  
18 document. What I would intend to do at this point in  
19 the hearing is to have the first witness called, to get  
20 his exhibits identified, and get him sworn in, and then  
21 when we're ready to begin with questioning, we will wait  
22 for a moment for the commissioners to join us.

23 So would you like to call your witness,  
24 Mr. Trautman.

25 MR. TRAUTMAN: Thank you, Your Honor.

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D I R E C T E X A M I N A T I O N

3

BY MR. TRAUTMAN:

4

Q. Good afternoon, Mr. Buckley.

5

A. Good afternoon.

6

Q. Could you please give your name and business address for the record.

7

8

A. Name is Alan Buckley. Business address is 1300 South Evergreen Park Drive Southwest, Olympia, Washington, 98504.

9

10

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JUDGE SCHAER: Would you like me to swear your witness in at this point, Mr. Trautman.

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13

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Whereupon,

15

ALAN BUCKLEY,

16

having been first duly sworn, was called as a witness herein and was examined and testified as follows:

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JUDGE SCHAER: Go ahead then, Mr. Trautman.

19

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D I R E C T E X A M I N A T I O N

21

BY MR. TRAUTMAN:

22

Q. Have you filed with the Commission exhibits that have been marked from T-540 through C-546?

23

24

A. Yes, I have.

25

Q. And did you also cause to be filed an errata



01253

1 sheet to the testimony?

2 A. Yes.

3 Q. And were these prepared by you or under your  
4 supervision?

5 A. Yes.

6 Q. And are they true and correct to the best of  
7 your knowledge?

8 A. Yes, they are.

9 Q. And if I were to ask you the questions  
10 contained in the testimony of T-540 noting the  
11 exceptions in the errata sheet, would your answers today  
12 be the same as in the testimony?

13 A. Yes, they would.

14 MR. TRAUTMAN: I would move for the admission  
15 of Exhibits T-540 through C-546.

16 JUDGE SCHAER: Are there any objections?

17 MR. FFITCH: No objection.

18 MR. MEYER: None.

19 JUDGE SCHAER: Those documents are admitted.

20 MR. TRAUTMAN: And Mr. Buckley is available  
21 for cross.

22 JUDGE SCHAER: Okay, let's go off the record  
23 then for just a moment and wait for the other  
24 Commissioners to join us.

25 (Discussion off the record.)

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1 JUDGE SCHAER: Go ahead, Mr. Trautman.  
2 MR. TRAUTMAN: Mr. Buckley is available for  
3 cross.  
4 JUDGE SCHAER: Did you have questions of this  
5 witness, Mr. Meyer?  
6 MR. MEYER: Yes, I do.  
7 JUDGE SCHAER: Go ahead, please.

8

9 C R O S S - E X A M I N A T I O N

10 BY MR. MEYER:

11 Q. Good afternoon, Mr. Buckley.

12 A. Good morning, Mr. Meyer.

13 Q. Mr. Buckley, do you consider it a very  
14 important responsibility to analyze the power supply  
15 revenues and expenses filed by the company in a rate  
16 proceeding such as this?

17 A. Yes, I do.

18 Q. In fact, the purchase power and fuel expenses  
19 for the company during the test period were in excess of  
20 one half billion dollars; is that approximately correct?

21 A. Yes.

22 Q. Now in order to fully analyze the power  
23 supply revenues and expenses for Avista, would you agree  
24 that it is critical to have a clear understanding of the  
25 power supply operations specific to Avista?

01255

1 A. Generally, yes.

2 Q. And in that process, you would need to  
3 understand differences, if any, between Avista and its  
4 sister IOU's?

5 A. Yes.

6 Q. So it does require some measure of a detailed  
7 understanding of the power supply situation as it  
8 impacts Avista per se?

9 A. Yes, it does.

10 Q. Okay. Now in analyzing the company's filing  
11 in this case, how many visits to Avista's offices did  
12 you make to discuss power supply costs or otherwise  
13 observe power supply operations?

14 A. None in this case.

15 Q. In the past year for any reason, how many  
16 visits to Avista offices have you made to discuss power  
17 supply costs or otherwise observe power supply  
18 operations?

19 A. None.

20 Q. In the past three years, have you visited the  
21 trading floors of any of the investor owned utilities  
22 regulated by this Commission?

23 A. Not in the last three years.

24 Q. Are there, Mr. Buckley, any commission staff  
25 members other than yourself that are responsible for

01256

1 performing a detailed analysis of power supply related  
2 revenues and expenses in this proceeding?

3 A. We have one other staff person that is  
4 sometimes involved in power supply issues.

5 Q. But in this proceeding, are you the sole  
6 witness addressing those issues?

7 A. Yes.

8 Q. Thank you. Is it true that you are also the  
9 lead staff person on power supply matters in  
10 PacifiCorp's pending rate case?

11 A. Yes.

12 Q. Have other staff members been involved in  
13 analyzing the PacifiCorp power supply revenues,  
14 expenses, et cetera, other than yourself?

15 A. For the PacifiCorp case?

16 Q. Yes.

17 A. Yes.

18 Q. And who are they?

19 A. Hank MacIntosh.

20 Q. Okay. What issues in the PacifiCorp pending  
21 rate case did you address in general?

22 A. Power supply issues.

23 Q. Power supply issues?

24 A. Yes.

25 Q. And you're the primary witness in that

01257

1 regard?

2 A. I would have been, yes.

3 Q. Now in a response dated May 22, 2000, to a  
4 data request from the company, and it was Avista request  
5 number 98, you don't necessarily need to turn to it, but  
6 you may if you would like.

7 A. Okay.

8 Q. You stated that you had not yet seen the  
9 Northwest Power Supply adequacy and reliability study  
10 phase one report that issued by the Northwest Power  
11 Planning Counsel dated March of 2000; is that correct?

12 A. That's the most recent one that came out,  
13 yes.

14 MR. TRAUTMAN: Excuse me, does counsel have a  
15 copy of that?

16 MR. MEYER: A copy of the phase one report?

17 MR. TRAUTMAN: To what you're referring to.

18 MR. MEYER: Oh, to Avista request number 98?

19 MR. TRAUTMAN: Yes.

20 MR. MEYER: May I approach the witness.

21 JUDGE SCHAER: You may.

22 MR. MEYER: Do you have that before you?

23 THE WITNESS: Yes.

24 MR. MEYER: Okay.

25 JUDGE SCHAER: Mr. Trautman, were you asking

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1 for the witness or for yourself?

2 MR. TRAUTMAN: I would like a copy for myself  
3 as well, if that's possible.

4 BY MR. MEYER:

5 Q. Now I believe your response to my last  
6 question was that in response to that particular data  
7 request number 98, you indicated that you had not yet  
8 seen that report issued in March of 2000?

9 A. Well, I had seen the report, but I haven't  
10 read it or analyzed it or anything.

11 Q. Okay.

12 A. It's on my desk.

13 Q. I see. Well, that was my next question as to  
14 whether or not as of this date you had had an  
15 opportunity to read that report?

16 A. Not entirely, no.

17 Q. Any significant part?

18 A. Not enough to say that I have read it, no.

19 Q. Or understood it?

20 A. I'm familiar with the reports themselves. I  
21 just haven't read that particular one.

22 Q. Mr. Buckley, have you generally been  
23 following the recent rise in wholesale market prices  
24 that have occurred in the Northwest?

25 A. By recent, you mean this spring primarily and

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1 this early summer?

2 Q. Yes.

3 A. Yes.

4 Q. Now let's refer you to what has been marked  
5 as Exhibit Number 547. I will give you a moment to get  
6 to that.

7 A. I have it.

8 Q. Now referring to that Exhibit 547, which is  
9 staff's response to Avista data request number 10, is it  
10 true that in this request the company asked for a copy  
11 of any wholesale market prices for the period January 1,  
12 2000, through December 31, 2003, used by yourself in any  
13 analysis during the last 12 months?

14 A. Yes.

15 Q. And was your response that:

16 Mr. Buckley has carried out no analysis  
17 of wholesale market prices for the  
18 specific period January 1, 2000, through  
19 December 31, 2003?

20 A. That's correct.

21 Q. Did you file testimony in the recent  
22 proceeding relating to the sale of Centralia?

23 A. Yes, only related to the Puget portion.

24 Q. I see. And would you accept subject to check  
25 that that testimony that was filed by you was dated or

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1 filed approximately on December 8, 1999?

2 A. Yes.

3 Q. Isn't it true that you used wholesale market  
4 prices for the years 2000 and 2001 in your analysis in  
5 that testimony?

6 A. Yes.

7 CHAIRWOMAN SHOWALTER: May I interrupt, are  
8 we talking about actual prices for forward purchases or  
9 forecasted prices of the future for the future in your  
10 question, for example?

11 MR. MEYER: Yes, it's future market prices.

12 CHAIRWOMAN SHOWALTER: It's prices actually  
13 paid today for future energy or a forecast of what the  
14 price will be later?

15 MR. MEYER: It would be forecasted prices.

16 CHAIRWOMAN SHOWALTER: Thank you.

17 BY MR. MEYER:

18 Q. So let me restate the question. Isn't it  
19 true that you used wholesale market prices on a  
20 forecasted basis for years 2000 and 2001 in your  
21 analysis in that testimony?

22 A. Yes.

23 Q. Okay. Mr. Buckley, why were the market  
24 prices used in that testimony not provided to the  
25 company in staff's response to data request number 10 in



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1 which we had asked for a copy of any wholesale market  
2 prices for the period of January 1, 2000, through  
3 December 31, 2003, used by you in any analysis during  
4 the last 12 months?

5 A. I guess I interpreted the question to be what  
6 analysis that I have done of market prices. In that  
7 particular proceeding relating to Puget and Centralia, I  
8 basically used wholesale prices that were used by the  
9 company in that proceeding. I did not do any additional  
10 analysis, if you call it that.

11 Q. Okay. Turning for a moment to the subject of  
12 Rathdrum, would you agree, Mr. Buckley, that with regard  
13 to the lease arrangement for the Avista utilities  
14 Rathdrum turban project, the company in this proceeding  
15 is proposing to include the lease payment in the revenue  
16 requirement in this case?

17 A. Yes, they are, as an operation fee, yes.

18 Q. Now you have recommended in your testimony  
19 that essentially the company pay off the balance of the  
20 Rathdrum lease and that the lease payment be excluded  
21 from the revenue requirement in this case; is that  
22 correct?

23 A. Yes.

24 Q. Let's refer you now to Exhibit Number 548.  
25 JUDGE SCHAER: That's still 548 for

01262

1 identification, counsel?

2 MR. MEYER: Yes.

3 BY MR. MEYER:

4 Q. Do you have that before you?

5 A. Yes, I do.

6 Q. And was that staff's response to Avista's  
7 data request number 5?

8 A. Yes, it is.

9 Q. And in that request, were you asked to  
10 provide any analysis or other written material prepared  
11 by staff related to staff's proposal for Avista to buy  
12 out the Rathdrum lease?

13 A. Yes.

14 Q. And was your response that with the exception  
15 of what is contained in Mr. Buckley's testimony and in  
16 the supporting work papers, staff did not prepare any  
17 analyses or other written material related to the  
18 proposal for Avista to buy out the Rathdrum lease?

19 A. Yes.

20 Q. That's an accurate reading?

21 A. Yes.

22 Q. Would you agree, Mr. Buckley, that the  
23 present lease arrangement is one way to finance the  
24 construction of a generating project such as Rathdrum?

25 A. Yes.

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1 Q. In fact, that's the way that the company  
2 availed itself of, correct?

3 A. Yes.

4 Q. Do you know, Mr. Buckley, whether the  
5 existing lease arrangement for the Rathdrum project  
6 provides financing at more favorable terms when compared  
7 with other financing alternatives available today?

8 A. I haven't looked at that, so I'm -- it's not  
9 part of what we provided in our -- the issue that we  
10 brought up in our testimony but -- so I can't really  
11 comment yes or no.

12 Q. Do you have before you what has been marked  
13 for identification as Exhibit Number 564?

14 A. Yes, I have.

15 Q. Now is this the response of the company to a  
16 public counsel data request number 164? I will just  
17 give a moment for the commissioners to find their  
18 exhibit.

19 Now in this response by the company, did the  
20 company respond under subsection A, which was in  
21 response to a request to provide analysis comparing the  
22 cost of financing the plant with what the cost of the  
23 lease is, okay, that in the last full sentence before  
24 the table the company indicated that:

25 Utilizing the company's current

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1 estimated incremental cost of capital is  
2 shown below. The after tax cost of  
3 financing the Rathdrum generating plant  
4 would be 8.81%, which is significantly  
5 greater than the 5.26% current cost  
6 discussed above.

7 Have I accurately read that last sentence?

8 A. Well, first of all, as you know, we just  
9 received this data response as an exhibit, and it's not  
10 one that was asked by myself, so I have -- I would have  
11 other comments on the responses, but that's what that  
12 sentence says, yes.

13 Q. All right. Now this analysis purports on its  
14 face to show that the after tax cost of financing for  
15 the existing Rathdrum lease arrangement is 5.26%,  
16 correct?

17 A. Yes.

18 Q. Okay. And I think we have just discussed  
19 what this exhibit purports to show by way of the cost to  
20 refinance on an after tax basis of 8.81% under present  
21 circumstances, correct?

22 A. Yes, it shows Avista's response to the  
23 question.

24 MR. TRAUTMAN: Your Honor, at this point, I'm  
25 going to object. Is Mr. Meyer intending to admit this

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1 exhibit through Mr. Buckley?

2 MR. MEYER: What I'm doing, Your Honor, is  
3 yes, I am intending that. And the reason for that is  
4 Mr. Buckley has made a recommendation.

5 JUDGE SCHAER: Well, why don't you go ahead  
6 and offer the exhibit now, and we will see if there are  
7 objections, and then we can discuss what they are and  
8 rule from there.

9 MR. MEYER: Very well. I will move for the  
10 admission of that exhibit, although I'm not finished  
11 with questioning on that exhibit.

12 JUDGE SCHAER: Certainly.

13 MR. TRAUTMAN: I would object to admitting it  
14 through Mr. Buckley, because it was not prepared by him,  
15 and it was not done under his supervision. It was done  
16 under an Avista witness.

17 JUDGE SCHAER: The objection is this was not  
18 prepared by the witness, and it was not done under his  
19 supervision, therefore he is not an appropriate sponsor,  
20 Mr. Meyer.

21 MR. MEYER: The purpose of entering this  
22 exhibit at this time through this witness is to  
23 demonstrate that because there may be a difference, if  
24 you assume hypothetically even a difference in the cost  
25 of presently refinancing Rathdrum compared to the cost

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1 of the existing lease, and if one were to assume those  
2 figures as part of an analysis, what hypothetically  
3 would one draw by way of a conclusion. Since  
4 Mr. Buckley has apparently in his testimony made a  
5 recommendation, I'm entitled to examine Mr. Buckley as  
6 to where the conclusion or where his recommendation  
7 would lead in terms of cost of refinancing. That's all  
8 this exercise is about.

9 JUDGE SCHAER: I don't have any objection to  
10 your questioning Mr. Buckley about his recommendation,  
11 but the objection is to admission of this exhibit  
12 through Mr. Buckley when he is not the one who wrote it  
13 or the one who supervised its presentation.

14 I'm going to sustain the objection and allow  
15 you to question Mr. Buckley about his proposal and how  
16 it may relate to a figure that you could provide, but I  
17 don't believe that he is a proper sponsoring witness for  
18 this exhibit, Mr. Meyer. Go ahead, please.

19 MR. MEYER: Very well. May I ask an entirely  
20 hypothetical question in this area?

21 JUDGE SCHAER: Yes, you may continue to  
22 question in this area.

23 BY MR. MEYER:

24 Q. Suppose, Mr. Buckley, that an analysis were  
25 to show that the after tax cost of refinancing the

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1 Avista project today were 8.81%, and suppose likewise  
2 hypothetically that the existing cost of the lease  
3 arrangement based on various assumptions was 5.26%, a  
4 lesser amount. Do you have those two assumptions in  
5 mind?

6 A. Mm-hm.

7 Q. Do you?

8 A. Yes.

9 Q. Given those two assumptions, would it be more  
10 costly to now refinance Avista's participation in the  
11 Rathdrum project?

12 A. I feel a bit uncomfortable even commenting on  
13 the hypothetical, because that is not what staff's case  
14 is. I mean staff's case, if you bear with me, was to  
15 apply some of the cash payment from the PGE monetization  
16 to that, so effectively we would not -- we would be  
17 comparing a cash payment at that time of whatever the  
18 unamortized balance was, and that's the proper  
19 comparison to your number here to the -- in the case of  
20 the data response, the 5.26 after tax response or  
21 percentage. So this, this, at least as I see it, the  
22 company's response to this assumes that they have to go  
23 out and obtain additional financing to then pay off the  
24 lease, and that wasn't what staff's recommendation was.

25 Q. Is it your recommendation as it appears at

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1 page 18 of your testimony -- are you there?

2 A. Yes.

3 Q. At line 11 that a portion of the PGE buydown  
4 cash should be applied to pay off the Rathdrum lease  
5 balance?

6 A. Yes.

7 Q. Can you show me where in your testimony or in  
8 the testimony of any other staff witness an analysis has  
9 been performed that indicates that a present buydown of  
10 that balance would be more cost effective given whatever  
11 refinancing assumptions one would need to make today?

12 A. Well, I think the only analysis we did in  
13 making this recommendation was one of looking at what  
14 dollar amounts were associated with the Rathdrum lease,  
15 comparing that to the balance of the lease, and also  
16 taking into consideration some qualitative issues such  
17 as is discussed later, the removing the issue of any  
18 sort of prudence on the Rathdrum lease, we would by  
19 following our recommendation remove any issues  
20 associated with the proper I guess lease treatment of  
21 Rathdrum.

22 The company has Rathdrum -- has proposed that  
23 it be an operational lease, and that may have been an  
24 issue with staff. Staff may have proposed that it be  
25 incorporated into rate basis, some kind of a capital



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1 lease. So there was -- the analysis or the study that  
2 you're looking for was simply looking at the information  
3 that was provided in response to data requests from the  
4 company or data responses from the company and making  
5 just a recommendation to -- to use the word clean up  
6 some of the issues, not that they were dirty issues,  
7 but.

8 Q. But that recommendation of yours was not  
9 accompanied, if I understood your previous answer,  
10 within a quantitative analysis of whether a buyout of  
11 that lease would be better or worse for utility rate  
12 payers?

13 A. That's right. It was looking at the \$5 point  
14 something Million lease payment and the \$55 Million  
15 balance on the lease. And you could see I think from  
16 that comparison that at least there would be an  
17 approximate, you know, 10% kind of benefit of taking  
18 care of it plus the other quantitative issues that I  
19 have mentioned.

20 Q. Qualitative?

21 A. Qualitative, thank you.

22 Q. Turn to page 23, line 10 of your testimony.  
23 There you make reference to the staff's concerns with  
24 respect to the acquisition of the Rathdrum facility. Do  
25 you see that?

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1 A. Yes.

2 Q. Now do you have a copy of Mr. Norwood's  
3 rebuttal testimony?

4 A. Yes, I do.

5 Q. It's marked as Exhibit T-203. I will ask you  
6 to turn to page 8 of that testimony.

7 A. Okay, I'm at page 8.

8 Q. Thank you. Now beginning at line 12 of page  
9 8 of that testimony, Mr. Norwood summarizes the annual  
10 revenues from the original capacity sale to Portland  
11 General; do you see that?

12 A. Yes, I do.

13 Q. And would you agree that the annual revenues  
14 from the original capacity sale to PGE were  
15 approximately \$18 Million per year for the period of  
16 1998 through the year 2016?

17 A. Yes.

18 Q. Okay. Now do you understand that the company  
19 proposes to include \$18 Million of revenue related to  
20 this agreement?

21 A. Yes.

22 Q. So that's what it has factored in, if you  
23 will, into its revenue requirement proposal?

24 A. Yes.

25 Q. Okay. Now the capacity related to the sale,

01271

1 this sale to PGE, was 150 megawatts; is that correct?

2 A. Yes.

3 Q. Please turn now to page 55 of your exhibit  
4 545, that's 545.

5 A. Page 55, you said?

6 Q. Yes, please. Let me know when you're ready.  
7 It's a one page exhibit entitled Rathdrum turban annual  
8 cost, or that's one page out of that exhibit, but that  
9 is what that page is entitled.

10 A. Yes.

11 Q. Did you find it?

12 A. Yes.

13 Q. And as I indicated, that is entitled Rathdrum  
14 turban annual cost?

15 A. Yes.

16 Q. And does that show a total annual cost  
17 associated with the Rathdrum turbans of approximately \$9  
18 Million per year?

19 A. Not including the fuel cost, yes, that's what  
20 it looks like.

21 Q. So just in excess of \$9 Million?

22 A. Yes.

23 Q. Okay. Now the Rathdrum project provides  
24 approximately 176 megawatts of winter peaking capacity;  
25 is that correct?

01272

1 A. Yes.

2 Q. Okay. Would you agree, Mr. Buckley, that the  
3 combination of the sale of capacity to PGE and the  
4 acquisition of the Rathdrum turbans provided  
5 approximately \$9 Million per year in benefits to the  
6 company and its customers?

7 A. Could you repeat the question?

8 Q. Would you agree that the combination of the  
9 sale of capacity to PGE, which as we discussed before  
10 resulted in approximately \$18 Million worth of revenues,  
11 combined with the acquisition of the turbans and their  
12 cost of just in excess of \$9 Million provides when one  
13 nets those two approximately \$9 Million per year in  
14 benefits to the company and its customers?

15 A. If I assume that any of the energy that's  
16 produced from Rathdrum to meet those capacity  
17 requirements is priced at incremental costs, yes.

18 Q. That would be true. Did staff receive a copy  
19 of the company's initial response and supplemental  
20 response to staff request number 71? And to refresh  
21 your recollection, that staff request dealt with  
22 documentation relating to the company's decision to  
23 construct the turban project.

24 A. Yes.

25 Q. Now would you accept subject to check that in

01273

1 terms of sheer volume, those responses included over 500  
2 pages of testimony, exhibits, and studies supporting the  
3 company's decision to construct that project?

4 A. Yes, if I recall, and a lot of that was  
5 testimony in other jurisdictions, but I remember it was  
6 quite voluminous.

7 Q. With regard to the company's decision, let's  
8 turn more generally to the PGE monetization issue, with  
9 regard to the company's decision to enter into that what  
10 I will term the PGE monetization transaction, that  
11 really provides the foundation for a lot of your buyout  
12 or buydown proposals. Are you with me so far?

13 A. Yes.

14 Q. Is it staff's position that the transaction  
15 itself served to reduce the risk associated with any  
16 nonperformance in the future of the contract by PGE?

17 A. Yes.

18 Q. And, in fact, you have agreed to that in  
19 response to staff or in response to Avista's data  
20 request number 27, haven't you?

21 A. Yes.

22 Q. Okay. And in the process of reducing or  
23 avoiding that risk via monetization, would you agree  
24 that the risk associated with this future revenue stream  
25 that we have just discussed of an above market contract

01274

1 was shifted away from Avista Utilities and its  
2 customers?

3 A. Yes, that's fair to say.

4 Q. Okay. Now did the company record a gain on  
5 its books for shareholders relating to this transaction?

6 A. The company's response to our data request I  
7 believe indicated they did not.

8 Q. They did not, thank you. Were the revenues  
9 associated with the up front payment deferred by the  
10 company, and are they being amortized back to rate  
11 payers over the 16 year monetization period 1999 through  
12 2014 as proposed by the company?

13 A. That's the company's proposal, yes.

14 Q. Okay. Incidentally, did the staff receive  
15 copies of the notice of filings issued by FERC in  
16 connection with this monetization?

17 A. I have not -- I have not found it personally.  
18 Those notices that come in from FERC relating to filings  
19 for jurisdictional utilities come in the form of a kind  
20 of a one page notice to the secretary or the Commission.  
21 And there's -- it's not always the best way to notify  
22 the Commission or staff of a filing before FERC.

23 Q. In response to another data request, Avista's  
24 request number 20, and I can provide a copy of that for  
25 you if you would like, didn't the staff observe that:

01275

1           The commission generally receives FERC  
2           notices of filings made by the electric  
3           utilities regulated by the WUTC?

4           A.     Yes, that's just what I described.

5           Q.     And so you're not sure whether you personally  
6           have or have not seen any notice that may have been  
7           received by this Commission?

8           A.     No.

9           Q.     But you don't -- you're not saying that the  
10          Commission itself did not otherwise see such a notice?

11          A.     Yes, I would have to -- I mean I would have  
12          to assume that if the -- when the company made the  
13          filing at FERC that we would have received the one page  
14          notice of filing notice.

15          Q.     Okay.

16          A.     And where it goes from the secretary's office  
17          depends on what the filing number is.

18          Q.     Okay. The staff proposes -- let's do this  
19          differently. Do you have a copy of the company's  
20          Exhibit Number I believe it's 206? It's been marked but  
21          not yet entered.

22                 MR. MEYER: I know it's in your books, but  
23          rather than fumbling through all this material, I've got  
24          some extras. And I may do this again on a couple of  
25          others. It just, I think it speeds things up.

01276

1 CHAIRWOMAN SHOWALTER: Just generally there  
2 are so many notebooks in this case that we have, at  
3 least I have Mr. Buckley's cross exhibits. But if it's  
4 somewhere else in our eight volumes, it might not be  
5 handy.

6 MR. MEYER: So when we're done, you can add  
7 it or discard it, but it's already in there.

8 BY MR. MEYER:

9 Q. If you take a moment to refresh your  
10 recollection of this exhibit.

11 A. Yes, I have.

12 Q. Now on this exhibit, page one of one, you see  
13 that there is a showing of the company's existing  
14 proposal on a so-called levelized basis to proform in a  
15 levelized basis of revenues for the benefit of  
16 customers. Do you see that?

17 A. Yes.

18 Q. And is that figure represented by a bold,  
19 dark, horizontal line?

20 A. Yes.

21 Q. And denoted \$12,058,000?

22 A. Yes.

23 Q. Okay. Do you also see superimposed on this  
24 same chart the impact of staff's recommendation to use  
25 the PGE proceeds to buy down certain obligations?



01277

1 A. Yes.

2 Q. Okay. Now there is a point at which those  
3 two lines, the top line, which is the cumulative line  
4 for staff, crosses over the company's levelized line,  
5 isn't there?

6 A. Yes.

7 Q. That's approximately year six, correct?

8 A. Yes.

9 Q. Okay. Now for the remaining years from year  
10 six on out, will rate payers, customers under your  
11 proposal, enjoy fewer benefits than they otherwise would  
12 have under the company's proposal?

13 A. No, I don't think that's necessarily true. I  
14 think that it's one of the reasons that staff made this  
15 proposal is that you are -- that the I guess you would  
16 call it the net present value with the benefits are  
17 better if you would do the recommendations or do the  
18 items that we recommended.

19 And that as a result of the monetization  
20 transaction, we feel that the benefits that are -- that  
21 are -- there are some benefits, some up front benefits,  
22 that are derived from that. And that by basically  
23 applying those to some of the issues that we addressed  
24 in our recommendation that perhaps the long run affect  
25 would be less. I have not looked at this and the

01278

1 numbers behind this particular chart in detail, but I  
2 can't necessarily make that statement, because there's  
3 some assumptions behind this as far as discount rate and  
4 other factors.

5 Q. But does the face of this exhibit taken for  
6 what it is suggest that there is a point in time at  
7 which rate payers going forward will receive fewer  
8 benefits under the staff's proposal than they would have  
9 under the company's proposal?

10 A. I guess just what I said still stands. I  
11 mean based on whatever numbers are behind these, that's  
12 what this table shows. I don't necessarily agree with  
13 that conclusion.

14 Q. Do you have any reason, Mr. Buckley, to  
15 assume that the lines represented by the staff proposal  
16 on this exhibit do not accurately reflect what staff has  
17 proposed?

18 A. Well, I guess I look at this from another  
19 direction. I mean what we did in our recommendation was  
20 to reduce, effectively reduce, the revenues coming to  
21 the company as from the PGE capacity sale. So as you  
22 know, that would go down to the I believe \$1.8 million a  
23 year. The money, the monetization money, the \$143  
24 Million, if you will, would be used to take care of the  
25 Rathdrum, which is \$5 Million a year. It would be used

01279

1 to reduce DSM rate base. It would be used to reduce  
2 other rate base. It would be used to take care of some  
3 issues related to the Potlatch contract.

4 So I guess we felt that as a whole, if you're  
5 looking from now on, I believe the other staff witnesses  
6 and I felt like that had benefits greater than it would  
7 be if you adopted the company proposal to basically keep  
8 the revenues constant as if there hadn't been any  
9 transaction.

10 Q. I don't believe that was my question. The  
11 question was, do you believe that the portrayal of the  
12 staff's recommendation as it appears on the face of this  
13 exhibit in terms of the numbers shown and the slope  
14 shown is inaccurate?

15 A. I don't think I'm prepared at this point to  
16 agree with that. I'm not prepared to disagree. But  
17 again, I would need to look at it more and get the  
18 numbers behind it.

19 Q. Okay. Would you accept subject to check that  
20 these numbers do reflect what staff proposes by way of  
21 each of the five elements that appear underneath that  
22 line?

23 A. Yes, subject to check.

24 Q. Thank you. Now if we -- strike that.  
25 The term of the contract for PGE monetization

01280

1 was a 16 year term, correct?

2 A. Yes.

3 Q. Now again with reference generally to this  
4 diagram, this chart, does staff's proposal have the  
5 effect of essentially front end loading rate payer  
6 benefits in a way that does not match the 16 year term  
7 of the contract?

8 A. No. I think my answer a few minutes ago does  
9 not necessarily agree with that. It has the effect of  
10 front loading any net benefits from the transaction, but  
11 not necessarily the overall effect on revenue  
12 requirements looking forward.

13 Q. And yet those net benefits will continue to  
14 enure under the company's proposal to rate payers for  
15 the balance of the term of the contract, won't they?

16 A. Which net?

17 Q. The company's proposal, the \$18 Million  
18 figure system.

19 A. Yes, as would the benefits derived from  
20 staff's recommendation.

21 Q. The staff proposes a credit to customers and  
22 really is part of this proposal. The essence of this  
23 proposal is a credit to customers of \$143.4 Million  
24 beginning October 1 of 2000; is that correct?

25 A. I --

01281

1 Q. That's the period when the new rates  
2 presumably will go into effect?

3 A. That's staff proposals, and I don't think you  
4 can exactly say that without adding on the additional  
5 part that we are reducing the revenues from the PGE sale  
6 from \$18 Million to \$1.8.

7 Q. Okay. Now the actual balance, for comparison  
8 purposes, the actual balance of deferred revenues as of  
9 October 1, 2000, will be only \$129.5 Million because of  
10 the amortization already begun in January of '99. Would  
11 you agree to that subject to check?

12 A. Based on the company's proposal to amortize  
13 the balances, yes.

14 Q. Okay. Now would you agree subject to check  
15 that Washington's share, which is 66.99% if we use the  
16 allocator, that Washington's share of the difference  
17 between \$143.4 Million and \$129.5 Million equals \$9.3  
18 Million?

19 A. Yes.

20 Q. Okay. Would your proposal require the  
21 company to write off, to write off \$9.3 Million related  
22 to this transaction?

23 A. I don't think I'm the correct witness to ask  
24 that question to. I think that would probably be one to  
25 -- staff witness Parvinen would be the correct one to

01282

1 ask it.

2 Q. I take it then you do not know that it would  
3 not require the company to write it off?

4 A. Yes.

5 Q. Okay. Let's turn now to your testimony  
6 regarding the water years, 60 versus 40. Is the company  
7 proposing the use of a 60 year water record for the  
8 period 1929 through 1988 to normalize hydroelectric  
9 generation for rate making purposes?

10 A. Yes, it is.

11 Q. And has the staff recommended the use of a 40  
12 year record from 1949 to 1988 to normalize hydroelectric  
13 generation for rate making purposes?

14 A. Staff has recommended that the Commission  
15 adopt the methodology remain the one in this case  
16 barring any showing of any other methodology being the  
17 proper one to use.

18 Q. Okay. But just to get our feet grounded in  
19 this issue, that proposal of staff is a 40 year period  
20 based on a rolling average, correct?

21 A. Yes.

22 Q. Okay. Mr. Buckley, have you reviewed or have  
23 you had reason to review at any time the available  
24 actual measured stream flow on the Columbia River for  
25 the 114 year period 1879 through 1992?

01283

1 A. That would be in the information provided by  
2 the company.

3 Q. Okay. And would you agree that this  
4 measurement occurs at The Dalles?

5 A. Yes.

6 Q. And is that an industry accepted measuring  
7 point for flows on the Columbia River?

8 A. At that point, yes.

9 Q. Okay.

10 JUDGE SCHAER: What is it you propose now,  
11 Mr. Meyer?

12 MR. MEYER: For ease of reference, a copy of  
13 Exhibit 209 previously marked.

14 JUDGE SCHAER: 209 for identification.

15 MR. MEYER: Yeah.

16 BY MR. MEYER:

17 Q. Before we get into a few observations  
18 concerning this exhibit and your review of it, do you  
19 believe that it's important that any period of years  
20 selected, whether it's 40, 50, or 60, should include  
21 some sort of reasonable balance of the above average  
22 water conditions with the below average water  
23 conditions?

24 A. That's not what I testified to in my case but  
25 -- in my testimony.

01284

1 Q. Do you understand the question?

2 A. Yeah, I understand the question. I guess a  
3 stand alone question like that I could say yes.

4 Q. The answer is yes?

5 A. I agree, yes.

6 Q. Okay. Now let's turn to page two, page two  
7 of this Exhibit 209. Do you see on page two of this  
8 exhibit that there is a bracketed provision essentially  
9 showing 40 years, another bracketed provision showing  
10 50, and another showing 60?

11 A. That's what's indicated.

12 Q. Okay. Now does the 1949 through 1988 40 year  
13 period that is shown in brackets there, and incidentally  
14 that's the period proposed by staff, is it not?

15 A. Yes.

16 Q. Okay. Does that period include more water  
17 years with water conditions above average than below  
18 average?

19 A. It appears there are more years below --  
20 above average.

21 Q. Okay. Now page three, same exhibit, this  
22 time it's with reference to Avista generation modeled on  
23 the Clark Fork and Spokane Rivers. Okay, do you see  
24 that?

25 A. Yes.



01285

1 Q. And lastly, turn to page four, same premise,  
2 Avista system hydrogeneration, does this page four show  
3 that the 40 year period proposed by staff includes more  
4 years with water conditions above average than below  
5 average?

6 A. That appears to be what's indicated by the  
7 bar.

8 Q. Okay. Let's examine for a moment what other  
9 parties in the region use for purposes of their analysis  
10 of hydrogeneration. Mr. Buckley, does the Northwest  
11 Power Planning Counsel use the 1929 through 1978 50 year  
12 period in developing its Northwest power supply adequacy  
13 and reliability study that was dated March of 2000?

14 A. Yes, I believe that has nothing to do with  
15 setting retail rates.

16 Q. Does the Northwest Power Pool use the 1929  
17 through 1988 60 year period to calculate downstream  
18 benefits for the release of water from upstream storage  
19 reservoirs?

20 A. That's my understanding, yes.

21 Q. Does the Northwest Power Pool also use the  
22 1929 through 1988 60 year period to determine the  
23 critical period that is used in regional planning  
24 studies?

25 A. Yes, it does. And that's, again, your

01286

1 question describes that they use it for critical  
2 planning, and that again is completely different than  
3 setting retail normalized rates.

4 Q. Does BPA use the 1929 through 1978 50 year  
5 period for rate making purpose?

6 A. Yes, it does, and again, with the caveat that  
7 that's BPA's rate setting process, which is different  
8 than ours.

9 Q. Does BPA also use the 1929 through 1978 50  
10 year period in developing its so-called white book study  
11 to develop its loads and resource balances?

12 A. I believe the latest white book uses those  
13 years, yes.

14 Q. Does BPA use the 1929 through 1988 60 year  
15 period for purposes of conducting what-if studies  
16 relating to future operations?

17 A. That I would have to say I don't know.

18 Q. Don't know. Finally, Mr. Buckley, are you  
19 aware of any, any regional studies that used the rolling  
20 average methodology or the 40 year period proposed by  
21 staff in this case?

22 A. The studies that have been accepted by this  
23 Commission.

24 Q. Those were staff proposed studies, were they?

25 A. And Commission accepted.

01287

1 Q. Okay. But other than what staff has  
2 proposed, you are not aware of any other regional  
3 entities or studies that use the rolling average  
4 methodology or the 40 year water period, are you?

5 A. No.

6 Q. Okay. Short-term capacity purchase is the  
7 next area I would like to spend some time with. We will  
8 have to shuffle through a few documents, but I think we  
9 can get through it quickly. Now with respect to  
10 short-term capacity purchases, the company proposed  
11 short-term capacity purchase costs of approximately  
12 \$955,000 in this case; isn't that correct?

13 A. That's correct.

14 Q. And didn't the commission staff recommend the  
15 elimination of all of this \$955,000 associated with  
16 these short-term capacity purchases?

17 A. That's correct.

18 Q. Now let's refer to Exhibit 549, 549.

19 A. I have it.

20 Q. Now is that staff's response to request  
21 number 105?

22 A. Yes, it is.

23 Q. And that's an Avista data request, correct?

24 A. Yes.

25 Q. Now as you look through this response in sub

01288

1 part A, the third sentence of that response, don't you  
2 state that:

3                   The IRP table in Exhibit 185 appears to  
4                   assume that every short-term purchase  
5                   that is made requires some level of  
6                   additional firming that would be  
7                   accomplished by these capacity  
8                   purchases?

9           A.     Yes.

10          Q.     Is that correct?

11          A.     Yes.

12          Q.     And then in your response in section B of  
13 that same request, don't you state that:

14                   The company has identified the need for  
15                   capacity purchases to go along with  
16                   "market energy purchases"?

17                   Is that correct?

18          A.     Yes.

19          Q.     Now you refer there in part B to Exhibit 185,  
20 don't you?

21          A.     Yes.

22          Q.     Would you please turn to page two of Exhibit  
23 185.

24          A.     Do you have a copy of that exhibit?

25          Q.     I do.

01289

1 JUDGE SCHAER: Mr. Meyer, have you followed  
2 your practice of preparing a copy of that for the Bench  
3 and other counsel?

4 MR. MEYER: No, I thought I would leave  
5 everyone in suspense on this. I did not because the  
6 point can be quickly made and we can move along, so I  
7 didn't do that.

8 BY MR. MEYER:

9 Q. Now would you please turn to that table.

10 A. I am.

11 Q. Does line 49 of page two of that exhibit  
12 identify the capacity purchases and market energy  
13 purchases that you are referring to in your response to  
14 the data request?

15 A. Yes, it does.

16 Q. Okay. And by your statements and what has  
17 been marked as Exhibit 549, the one exhibit that we  
18 previously made mention of.

19 A. Mm-hm.

20 Q. Okay. And by your statements in that  
21 exhibit, is it your understanding that the capacity  
22 purchases in your words go along with or provide  
23 "firming" for the short-term energy purchases?

24 A. No, what I was trying to describe was that if  
25 you are relying upon short-term energy markets and let's

01290

1 say that their day-to-day transactions, that in buying  
2 those transactions or buying that amount of energy that  
3 there is capacity associated that you are buying, even  
4 though it may be a day ahead or an hour ahead,  
5 essentially that is firm energy and that you would not  
6 need to purchase capacity to then firm that up, because  
7 it already is firm.

8 Q. But, Mr. Buckley, in your response to the  
9 data request number 105 which appears in Exhibit 549,  
10 you use the words "appears to assume". Mr. Buckley, are  
11 you certain that these capacity purchases go along with  
12 or otherwise provide firming for the short-term energy  
13 purchases, or is that an assumption on your part?

14 A. No, it's an -- well, it's an assumption, and  
15 I guess the reasoning behind the whole adjustment in the  
16 first place is that the Commission did not, or I'm  
17 sorry, the company did not provide evidence that these  
18 purchases were for this purpose, and that's more in line  
19 with what I'm trying to say.

20 Q. Did you know how the company's need for  
21 capacity purchases is determined in this table, page two  
22 of that exhibit?

23 A. Well, these tables tend to in my mind bring  
24 up more questions than they do answers. I mean this is  
25 a -- a table is a number of years. It has for each year

01291

1 a peak requirement and an average amount of energy.  
2 It's done on an annual basis. I don't think you can  
3 just simply look at this table and determine yes or no  
4 that there are peak requirements for the company.

5 Q. Excuse me, Mr. Buckley, that's not what I  
6 asked. I asked, do you simply know how the company's  
7 need for capacity purchases was developed for purposes  
8 of preparing this testimony. That's all I asked.

9 A. Well, I'm assuming you add up the peak  
10 capacity of the resources and the sales and the  
11 purchases, the load, and put them on the table, and add  
12 and subtract.

13 Q. Would you agree subject to check that the  
14 table was based on a one hour peak demand on a day with  
15 an average daily temperature of 8 degrees Fahrenheit?

16 A. I will accept that.

17 Q. Now do you know how the company's energy  
18 deficiency, now we've been talking up to now about  
19 capacity, but let's turn now to the company's energy  
20 deficiency, how was that determined by the company in  
21 preparing this table? Would you accept subject to check  
22 that it was the average energy deficiency over the full  
23 8,760 hours of the year?

24 A. Yes.

25 Q. Okay. Now on page 26 of your testimony

01292

1 beginning at line 23, you state that:

2 In addition, after removing almost all  
3 short-term sales and purchase amounts  
4 from the test year, the company proposes  
5 to maintain capacity purchases at levels  
6 that no doubt supported the removed  
7 amounts.

8 Is that your testimony?

9 A. Yes.

10 Q. Now the "removed amounts" that you were  
11 referring to there are the commercial trading  
12 transactions, right?

13 A. It's those transactions that the company  
14 defined as that, yes.

15 Q. As that. And your assertion here is that  
16 capacity purchases "no doubt" support the commercial  
17 trading transactions; is that correct?

18 A. Well, it was a conclusion that I think a  
19 reasonable person would draw by looking at the data that  
20 the company provided. We have those tables which  
21 indicated a number of short-term transactions that the  
22 company entered into during several different years.  
23 And also in that table were capacity transactions that  
24 the company then used to support its \$955,000 worth of  
25 expenses. Given the company's inability to define or to



01293

1 tell us which ones of those transactions were as they --  
2 as they define as commercial, I think it was only  
3 logical to assume that some of those capacity purchases  
4 would have supported other transactions that were in  
5 that table.

6 Q. But do you know for certain, Mr. Buckley,  
7 that the short-term capacity purchases supported the  
8 commercial trading transactions, or did you merely  
9 assume such?

10 A. Assumed such.

11 Q. Okay. Referring to Exhibit 550, 550, do you  
12 have that before you?

13 A. Yes.

14 JUDGE SCHAER: And that's Exhibit 550 for  
15 identification, counsel?

16 MR. MEYER: Yes.

17 BY MR. MEYER:

18 Q. This consists of staff's response to Avista  
19 data request number 133, does it not?

20 A. Yes, it does.

21 Q. Now in part B of this response, you indicated  
22 that you had no direct experience, no direct experience  
23 relating to short-term electric commercial trading  
24 transactions. Is that an accurate paraphrase of what  
25 you're saying?

01294

1 A. I'm not sitting here at the Commission making  
2 these transactions, yes.

3 Q. So you don't personally have direct  
4 experience in this arena, correct?

5 A. Not direct experience.

6 Q. And I think we established at the outset  
7 today that in the past three years, you had not visited  
8 the trading floors of any of the investor owned  
9 utilities regulated by this Commission, correct?

10 A. Yes.

11 Q. You know, your testimony at -- with regard to  
12 your testimony at pages 26 and 27, I think you can agree  
13 to this without spending a lot of time, do you agree  
14 that Avista has historically used a combination of both  
15 long-term and short-term resources to serve its load  
16 obligations?

17 A. I can agree to that, and my testimony just  
18 basically is that the company did not carry its burden  
19 of proof that the amount of purchases that its proposing  
20 in this rate case for a normalized test year is  
21 \$955,000.

22 Q. Well, let's examine that.

23 A. Okay.

24 Q. Just to remind ourselves of where we have  
25 been, did the company use 1998 actual short-term

01295

1 capacity purchases as the normalized amount in this  
2 case?

3 A. Yes.

4 Q. And that figure for the test period resulted  
5 in what, a \$955,000 adjustment, correct?

6 A. Yes.

7 Q. Okay. Now staff removed the entirety of that  
8 \$955,000 adjustment, correct?

9 A. Yes.

10 Q. Now if staff or if the Commission, for  
11 example, were not to use the '98 test period, but went  
12 back for purposes of a check and used a five year  
13 average of short-term capacity purchases, say for the  
14 period '94 through '98 leading right up to the test  
15 period, would you agree subject to check that that five  
16 year average figure is \$935,313?

17 A. Yes.

18 Q. And that figure of \$935,313 compares quite  
19 closely with the test period 1998 actual capacity  
20 purchase costs of \$955,000 as used by the company in  
21 this filing, correct?

22 A. Yes.

23 Q. Let's move to a different area for a while,  
24 Centralia replacement power. Page 36 of your testimony  
25 beginning at line 18, you stated that:

01296

1           The company conducted no studies  
2           analyzing the actual size or shape of  
3           replacement power that might be needed  
4           to replace Centralia based on the  
5           company's existing resource portfolio.  
6           Are those your words?

7           A.     Yes, it is.

8           Q.     Okay. Now I'm going to direct you again back  
9           to Mr. Norwood's testimony, and this time his direct  
10          testimony, Exhibit T-151, page 21.

11          A.     Could you cite that again, please.

12          Q.     Surely, it's page 21 of Exhibit T-151.

13          A.     151 is his testimony, rebuttal testimony?

14          Q.     Yes, that's his direct testimony.

15          A.     Oh, his direct testimony, that was rebuttal  
16          testimony?

17          Q.     Yes, I'm sorry.

18                 MR. MEYER: Excuse me, for ease of reference,  
19          may I approach the Bench?

20                 JUDGE SCHAER: Yes, you may.

21                 MR. MEYER: I'm not going to make a lot of  
22          it, but just this is an excerpt from that. I just have  
23          the one copy if you want to pass it down.

24          BY MR. MEYER:

25          Q.     Are you there yet?

01297

1 A. Yes.

2 Q. Okay. Now the first column at the top of the  
3 page shows the surpluses and deficiencies on the  
4 company's system as originally filed by the company for  
5 the proforma rate period July 2000 through June of 2001;  
6 is that correct?

7 A. Yes.

8 Q. And do these figures include generation from  
9 Centralia?

10 A. Yes.

11 Q. Now removing the Centralia generation would  
12 make the company even more deficient; isn't that  
13 correct?

14 A. Yes.

15 Q. And for the period July through March that  
16 the company purchased replacement power from TransAlta  
17 for, is the company surplus or deficient during those  
18 months, July through March?

19 A. It's deficient.

20 Q. Deficient, thank you. The company did not  
21 purchase replacement power from TransAlta for April,  
22 May, and June; is that your understanding?

23 A. Yes.

24 Q. And this analysis shows that the company is  
25 surplus for May and June; isn't that correct?

01298

1 A. Yes.

2 Q. Okay. Now let's turn to your Exhibit 542,  
3 that's your Exhibit 542.

4 MR. MEYER: For convenience, I have an extra  
5 copy.

6 CHAIRWOMAN SHOWALTER: We have this one.

7 MR. MEYER: You do have that one.

8 CHAIRWOMAN SHOWALTER: Mm-hm.

9 BY MR. MEYER:

10 Q. Now let's direct your attention to line two  
11 marked short-term sales expressed in megawatt hours.  
12 Are you there?

13 A. Yes.

14 Q. Now comparing line two with line four denoted  
15 as short-term purchase megawatt hours, for the month of  
16 July, could you tell me whether the company is surplus  
17 or deficient for July based on your analysis?

18 A. Generally surplus.

19 Q. I'm sorry, July.

20 A. Oh, July.

21 Q. We're comparing lines two, lines four --

22 A. Deficient.

23 Q. It's deficient?

24 A. Yes.

25 Q. And would you agree subject to check that it

01299

1 is deficient 102,900 megawatt hours, or expressed  
2 differently, 138 average megawatts?

3 A. Based on the model.

4 Q. Yes, and this is your analysis, correct?

5 A. Yes.

6 Q. And for the other months that the company  
7 purchased replacement power from TransAlta, August  
8 through March, does your analysis show that the company  
9 is surplus or deficient during those months?

10 A. Deficient.

11 Q. Okay. Staff is not taking issue in this case  
12 with the price, with the price paid for the replacement  
13 power, is it?

14 A. It's not taking issue with either the price  
15 or the fact that the company may have needed to acquire  
16 something. The issue is, is that something that was  
17 acquired.

18 Q. Okay. Would you please turn to page 17 of  
19 Mr. Norwood's direct testimony again, T-151. Are you  
20 there?

21 A. I'm there.

22 Q. Now on line 14 of that page, the company is  
23 showing that Centralia provided 201 megawatts of  
24 capacity, that's in the first column, and approximately  
25 140 average megawatts of energy, correct?

01300

1 A. Yes.

2 Q. Okay. And then if we turn back and compare  
3 that with your Exhibit 542 that we just had reference  
4 to, are you there?

5 A. Go ahead.

6 Q. Line 11 of your exhibit shows that generation  
7 from Centralia is 1,226,300 megawatt hours, which, would  
8 you agree subject to check, is equal to approximately  
9 140 average megawatts of energy?

10 A. Yes.

11 Q. Okay. Did your analysis also include  
12 approximately 200 megawatts of capacity from Centralia?

13 A. Yes.

14 Q. So both the company's analysis and the  
15 staff's analysis do include 200 megawatts of capacity  
16 and 140 average megawatts associated with Centralia,  
17 correct?

18 A. Yes.

19 Q. In your opinion, Mr. Buckley, should the  
20 company have committed to the receipt of 200 megawatts  
21 of replacement power prior to knowing whether the sale  
22 of Centralia would actually occur?

23 A. I think the word commitment can take  
24 different forms.

25 Q. I mean by --



01301

1 A. Should probably not have signed a contract,  
2 no.

3 Q. Should not have signed a contract to acquire?

4 A. No.

5 Q. Is that your testimony?

6 A. Well, being that the company is deficient  
7 even with Centralia, I don't know if I want to go so far  
8 as to say that. But given that the company would choose  
9 to remain in the same position that they were with  
10 Centralia, I would say yes, you would not commit to  
11 that.

12 Q. Okay. In your opinion, would the  
13 implementation of demand side management in the company  
14 service area have been a viable alternative to meet an  
15 immediate need for 200 megawatts of capacity and 140  
16 average megawatts of energy as a result of the sale?

17 A. No.

18 Q. And in your opinion, would the construction  
19 of a new generating resource have been a viable  
20 alternative to meet an immediate need for 200 megawatts  
21 of capacity and 140 average megawatts of energy?

22 A. No.

23 Q. Is it your testimony that the Commission  
24 should, and here I will direct your attention to your  
25 rebuttal T-540, your rebuttal testimony.

01302

1 JUDGE SCHAER: Excuse me, counsel.

2 MR. MEYER: I mean direct testimony.

3 JUDGE SCHAER: Thank you.

4 MR. MEYER: Thank you.

5 BY MR. MEYER:

6 Q. Your direct testimony, Exhibit T-540, page

7 35. Are you with me?

8 A. Yes.

9 Q. Go to line 14, if you will. There do you  
10 state your position that the company should deny -- the  
11 Commission should deny recovery of the replacement power  
12 costs:

13 Until the company makes a sufficient  
14 showing regarding the long-term cost of  
15 replacing Centralia power.

16 Is that your testimony?

17 A. Yes, but my testimony -- well, no, what my  
18 testimony does is it -- it would disallow, if you will,  
19 the difference between the short-term replacement that  
20 was acquired and what Centralia would have been if it  
21 had been left in both rate base and power supply expense  
22 determination. So there's a difference.

23 Q. If the company -- strike that.

24 If the long-term, and those were your words  
25 not mine, if the long-term cost of replacing Centralia,

01303

1 for example, reflected a newly constructed resource, and  
2 assume with me if you will that it took more than a few  
3 years to bring such a new resource on line, would you in  
4 the meantime recommend that the company go without a  
5 short-term replacement contract?

6 A. If the company had sold Centralia.

7 Q. Which it did.

8 A. Which it did. I guess that's where I'm  
9 having trouble answering the question is what are --  
10 what we're trying to do is to hold customers, at least  
11 until a proper determination is made of the proper  
12 long-term replacement cost, harmless for the company's  
13 decisions to sell Centralia. So to answer that without  
14 putting it in that context is a bit difficult. We're  
15 not arguing that the company should not have obtained a  
16 short-term resource.

17 Q. You're not taking issue with the price of  
18 that resource?

19 A. We're not taking issue with the price. It's  
20 for setting, you know, Centralia was a long-term  
21 resource out there, and we all recognize that. And to  
22 embed in rates for who knows how long a short-term  
23 acquisition made by the company in base rates when it's  
24 some period between when the company made the -- or  
25 before the company made the decision to sell Centralia

01304

1 and some period ahead of that, that it should have done  
2 -- that there should be some analysis of the lease cost  
3 options to replace that power. Like I said, our case is  
4 just fundamentally to hold rate payers harmless for  
5 those decisions.

6 Q. Mr. Buckley, again, your response indicated  
7 that until you performed a lease cost analysis, but you  
8 haven't taken issue with the price of that replacement  
9 power, have you?

10 A. No.

11 Q. Okay. And the premise for your testimony,  
12 which is where I began this line of questioning, was as  
13 expressed at page 35, line 14, that the Commission  
14 should deny recovery of those costs:

15 Until the company makes a sufficient  
16 showing regarding the long-term cost of  
17 replacing power.

18 A. Yes.

19 Q. Now the question that I'm not sure you have  
20 answered yet is, would you recommend that in the  
21 meantime before the long-term cost of replacing  
22 Centralia power is determined that the company should go  
23 without a short-term replacement contract?

24 A. I'm not --

25 MR. TRAUTMAN: Objection, asked and answered.

01305

1 I think the question has been asked about three times.  
2 JUDGE SCHAER: I would like to have the  
3 witness answer the precise question, and it may be that  
4 if his answer is the same, then I --

5 THE WITNESS: Could you ask it again?

6 JUDGE SCHAER: I would like to hear if he  
7 thinks this is relevant to his analysis.

8 BY MR. MEYER:

9 Q. This is a question that should avail itself  
10 with a yes or no and with explanation, if you like.

11 Until such time as the long-term cost of  
12 replacing Centralia power can be determined, is it your  
13 position that the company should go without the benefit  
14 of a short-term replacement contract?

15 A. I think --

16 Q. Please, yes or no with an explanation.

17 A. Yes, and the explanation is that again it  
18 would be the difference between the replacement contract  
19 and the Centralia cost and that that -- the company  
20 would not recover those costs, because it did not show  
21 that one -- there's no showing, at least in staff's  
22 opinion, that the acquisition of a short-term resource  
23 such as they did for the period they did was, in fact,  
24 you know, the least cost option available to them.

25 Q. But other than raising that specter, you

01306

1 haven't otherwise taken issue, for yet a fourth time,  
2 with the price? In fact, you're quite careful to say  
3 that you do not take issue with the price of that  
4 replacement power, aren't you?

5 A. Yes.

6 Q. So what would you have the company do in the  
7 meantime? We have established that we're 140 megawatts  
8 short, we're in need of replacement power, it takes time  
9 perhaps to construct new resources, what would you have  
10 the company do, Mr. Buckley?

11 A. Well, I think that should have all been  
12 incorporated into the company's decision to sell  
13 Centralia. You know, the -- it's my understanding that  
14 the issue has been before the company for quite a while,  
15 and I do believe that there are actions that the company  
16 could have taken prior to the day that the company  
17 decided to close the sale.

18 We have not seen any analysis that basically  
19 addresses the issues that the company addressed in its  
20 own Centralia testimony that said those replacement  
21 power would be a, you know, combination of perhaps  
22 generation, more purchase power contracts, or DSM, or  
23 otherwise, you know, recognizing that each one of those  
24 has a different time frame involved with them. But the  
25 fact remains we have not seen any analysis that says or

01307

1 that would indicate that acquiring a three year contract  
2 with TransAlta and then making some future determination  
3 is the least cost option. And in this case, again,  
4 we're just trying to hold rate payers harmless.

5 Q. I won't belabor this, but I want to direct  
6 your attention back to company testimony and exhibits.  
7 Mr. Buckley, you have reviewed the rebuttal filing and  
8 the direct filing of company witnesses including  
9 Mr. Norwood, haven't you?

10 A. Yes.

11 Q. Okay. Now did the company conduct a market  
12 assessment and solicit bids through brokers that  
13 considered economic dispatch, load factor, and  
14 seasonality before it made its decision to purchase  
15 replacement power from TransAlta?

16 A. Based on the factors that the company gave  
17 those entities that bid, yes.

18 Q. And did that actual economic analysis  
19 otherwise contained within pages one through four of  
20 confidential exhibit number C, it's KON, I'm sorry,  
21 C-214 is the marked number, did that economic analysis  
22 comparing the cost of TransAlta purchases with other  
23 power alternatives show that based on a comparison of  
24 values that the TransAlta purchase was less than any of  
25 the other alternatives?

01308

1           A.       That's my exact -- I guess that's the issue  
2 that we're bringing up is yes, it shows a comparison of  
3 market opportunities available based on it looks like a  
4 200, you know, the size and the approximate shape of  
5 Centralia, I believe, is kind of the standard we used.  
6 And what we're saying is as the company said in its own  
7 testimony in the Centralia case that that may or may not  
8 be the least cost replacement power portfolio that  
9 should be acquired by the company. Now given that the  
10 company is saying they want a 200 average megawatt  
11 resource and shaped in a certain way and it goes out to  
12 the market and gets a number of bids and chooses the  
13 least one of those, then that is the least cost of that  
14 particular bid process.

15           Q.       For those parameters?

16           A.       For those parameters, yeah. But like I said,  
17 our testimony is more oriented toward the determination  
18 of those parameters that would have been determined  
19 before you put out a bid.

20           Q.       I don't want to belabor this, but I want to  
21 clear up one thing for sure. It's not your testimony,  
22 is it, that the company performed no analysis of other  
23 alternatives --

24           A.       Oh, no.

25           Q.       -- before?



01309

1 A. No.

2 Q. In fact, that analysis is reflected in part  
3 in Exhibit C-214, correct?

4 JUDGE SCHAER: That's Exhibit C-214 for  
5 identification, isn't it counsel?

6 MR. MEYER: Yes.

7 JUDGE SCHAER: So it's not submitted as part  
8 of the company's case in chief?

9 MR. MEYER: That is correct.

10 A. Yes, Mr. Meyer, to answer the question, the  
11 company did look at the cost of we said a block of power  
12 with those parameters that we have been describing.

13 BY MR. MEYER:

14 Q. Okay, let's turn to the next area. The  
15 so-called market transaction adjustment, let's set the  
16 stage. Do you understand the company has proposed to  
17 exclude the gains and losses associated with short-term  
18 commercial trading activity from the rate making  
19 process?

20 A. Yes, from what it describes as commercial  
21 trading activity, yes.

22 Q. And in the process, the company otherwise  
23 proposed to reduce facility overhead costs by \$306,000  
24 representing in its view Washington's share relating to  
25 this activity, correct?

01310

1 A. Yes.

2 Q. Okay. Now staff for its part has proposed an  
3 adjustment which would guaranty \$3.5 Million  
4 approximately, \$3.5 Million representing Washington's  
5 share of margins annually to customers relating to  
6 commercial trading activity. Is that a fair  
7 characterization of your testimony?

8 A. I would prefer the characterization that  
9 staff proposed a normalized value for this kind of  
10 activity.

11 Q. But is that normalization essentially locking  
12 in for purposes of rate making a \$3 1/2 Million margin  
13 annually for the benefit of customers?

14 A. Yes.

15 Q. Okay. Just as a sidebar, do you also  
16 understand ICNU to be proposing an adjustment that in a  
17 similar fashion would guaranty \$4.2 Million of margins  
18 annually to customers relating to this activity?

19 A. Yes.

20 Q. Okay. Do you understand that the company  
21 intends to continue to engage in light of recent  
22 developments in commercial trading activity?

23 A. Well, again, it gets to a matter of  
24 definition, but it's my understanding that the company  
25 is planning to no longer carry out transactions such as

01311

1 they did that caused perhaps some recent problems.

2 Q. Well, let's be a little more direct about it.  
3 Is the company proposing to continue based on its recent  
4 8-K disclosures, recent press release, to continue with  
5 commercial trading activities?

6 MR. TRAUTMAN: Your Honor, at this point I'm  
7 going to object if counsel is attempting to bring into  
8 this record information pertaining to the company's  
9 filing for losses and recent events, information that's  
10 not a part of the record.

11 MR. MEYER: That's not the purpose of this  
12 question incidentally. The purpose is simply to ask  
13 this witness whether it is his understanding that as we  
14 move forward through the next year as the new rates  
15 become effective, whether in fact in his view the  
16 company will even be doing commercial trading. That's  
17 all.

18 JUDGE SCHAER: I will allow you to ask that  
19 question. I would prefer that you do not refer to  
20 documents that are not part of this record.

21 BY MR. MEYER:

22 Q. Can you answer that question?

23 A. Can you rephrase it, or not rephrase it, just  
24 say it again, please.

25 Q. Is it your understanding that the company no

01312

1 longer intends to engage in commercial trading activity?  
2 A. Yes. And I have to add as an explanation  
3 that that's not the kind of activities that I believe is  
4 represented by my adjustment that we proposed.

5 JUDGE SCHAER: Mr. Meyer, I'm considering  
6 taking our afternoon recess at about 3:00. Is this a  
7 good breaking point for you, or do you have a couple  
8 more questions you would like to get in on this area  
9 first?

10 MR. MEYER: Let's take a short break now.  
11 I'm not done with this area yet, but we can break.

12 JUDGE SCHAER: Let's be off the record for  
13 our afternoon recess. Please return promptly at 3:15.

14 (Recess taken.)

15 JUDGE SCHAER: Let's be back on the record  
16 after our afternoon recess.

17 Did you have more questions, Mr. Meyer?

18 MR. MEYER: I do, thank you.

19 JUDGE SCHAER: Go ahead, please.

20 BY MR. MEYER:

21 Q. Remaining with the commercial trading line of  
22 questioning, refer now to Exhibit 552, please. That is  
23 staff's response to Avista's data request number 141.

24 A. I have it.

25 Q. Now for this data request, the company's

01313

1 request was as follows:

2           For each of the resources listed on page  
3           41 by Mr. Buckley, please fully explain  
4           the benefits available that are not  
5           already reflected in the company's  
6           filing from each of the resources, and  
7           provide specific examples of how these  
8           benefits from each of the items are  
9           created.

10           Is that a fair reading?

11           A.     Yes.

12           Q.     Now in your response, where did you provide  
13           specific examples of benefits that are not already  
14           reflected in the company's filing? And take your time  
15           to draw our attention to those.

16           A.     As the response says, this was intended to  
17           identify the general category of resources. You know,  
18           I'm not familiar with every experience level of every  
19           personnel. I'm not familiar with every computer or  
20           OASIS connection or technology available to the company.  
21           I'm certainly not privy to some of the market  
22           information that the company has. And, you know,  
23           although I'm familiar with the transmission system, I'm  
24           not the expert on how it operates.

25                    The point of these issues in my testimony is

01314

1 that my adjustment is not referring to what the company  
2 has called commercial trading activities or other  
3 activities that they define as risky. What I'm trying  
4 to make an adjustment here for are those financial  
5 benefits that the company itself has identified that are  
6 out there in making energy transactions that are not  
7 solely captured by the production cost model.

8           You know, as I said in my testimony, one of  
9 those was described by Mr. Matthews where he went  
10 through and I have it, to paraphrase it, it was that  
11 there was the company needed some I think power and  
12 obtained it from Puget. And then Puget said something  
13 to the effect of, can you help us market this power.  
14 And because of the company's position and location  
15 perhaps that it had the ability to market that power.

16           That's the kind of -- that, for an example,  
17 would be kind of possession of market information and  
18 the use of the transmission system in the company.  
19 These are the type transactions that I was trying to  
20 capture in this adjustment that we feel that the company  
21 -- that it is appropriate that the company should make  
22 and that aren't really risky.

23           Q.       But, Mr. Buckley, the question, I will put it  
24 to you again, where in this response do you provide  
25 specific examples of benefits that are not otherwise

01315

1 reflected in the company's filing?

2 A. Well, in the response there's not specific  
3 examples there.

4 Q. Okay. Turn now to the subject of the  
5 Colstrip availability factor. The company has proposed  
6 an 83% equivalent availability factor for Colstrip units  
7 three and four; is that correct?

8 A. Yes.

9 Q. And staff through your testimony proposed an  
10 adjustment to increase that factor to "about 86%"; is  
11 that your testimony?

12 A. Yes.

13 Q. Now would you agree with me that the impact  
14 would be, to have your adjustment, would be to reduce  
15 the company's proforma expense by \$428,400, that's a  
16 system number, or \$286,985 for the Washington  
17 jurisdiction?

18 A. That's based on my dispatch model, yes.

19 Q. And would you agree with me subject to check  
20 that during the 14 year period that both Colstrip units  
21 three and four have been in service that the average  
22 equivalent availability factor has been 82.1%?

23 A. Yes.

24 Q. Okay. Now does NAERC or the North American  
25 Electric Reliability Counsel track equivalent

01316

1 availability factors for major generating projects  
2 across the country?

3 A. It's my understanding they do.

4 Q. Okay. Has NAERC developed monthly data on  
5 Colstrip?

6 A. Yes, and the NAERC data is for reliability  
7 purposes, not for purposes of setting retail rates.

8 Q. But does the data compiled by NAERC for the  
9 Colstrip plants show an availability factor of 82.98%  
10 for the period 1994 through 1998?

11 A. Yes, I believe it does.

12 Q. Okay. So, Mr. Buckley, we have NAERC data  
13 showing an availability factor of 82.98%. We have a 14  
14 year average availability factor of 82.1% for Colstrip  
15 units three and four.

16 A. Mm-hm.

17 Q. Are those two numbers closer to the company's  
18 83% availability factor or your about 86% factor?

19 A. I would say closer to the company's.

20 Q. Okay. Next let's turn to your dispatch  
21 credit adjustment. You proposed a dispatch credit  
22 adjustment. That's your phraseology, isn't it?

23 A. Yes.

24 Q. Okay. You have proposed this adjustment to  
25 the average market price for short-term energy purchases



01317

1 and short-term energy sales, haven't you?

2 A. No, that's the effect of the adjustment. I'm  
3 not proposing -- well, that's a tricky issue, because  
4 that's the effect of making the adjustment, and the  
5 methodology for carrying out does end up in the model  
6 run results indicating that those are the prices that  
7 would come out.

8 Q. Well, let's explore the prices that would  
9 come out. Would the impact of your proposal in this  
10 case serve to reduce the average short-term purchase  
11 price from \$22.32 per megawatt hour as proposed by the  
12 company down to \$18.83 per megawatt hour?

13 A. That's the mathematical result of the  
14 adjustment. However, the adjustment as I proposed would  
15 have an effect irrespective of what the sales price or  
16 the purchase prices that came out of the model were.  
17 The adjustment is not meant to explicitly adjust the  
18 company's or my own sales and purchase dollar amounts or  
19 rates. The adjustment is simply to reflect the  
20 operational flexibility of the system irrespective of  
21 whether the rates out of the model would be 50 mils, 10  
22 mils, 25 mils.

23 Q. But --

24 A. So by -- the company -- in my opinion, the  
25 company's rebuttal case kind of mischaracterizes my

01318

1 testimony in that it is not simply an adjustment to the  
2 market prices. It is not. That's not the purpose of it  
3 here.

4 Q. But that is the effect, is it not, of  
5 reducing -- the company has proformed about a \$22 down  
6 to your amount of \$18; isn't that the effect?

7 A. To the, yes, to the extent that the purchase  
8 sales or the purchase price or the sales price out of  
9 the model is calculated by the model, that is the  
10 mathematical effect of it, yes.

11 Q. Now let's test whether that effect is  
12 reasonable in light of circumstances that I think we're  
13 all aware of. Are both the company's proposed  
14 short-term purchase price figures of \$22.32 and the  
15 staff's lower proposed price of \$18.83 well below both  
16 current and expected future market prices?

17 A. Well, again, I have a difference of opinion  
18 about what I think evidently than the company does of  
19 what these purchase and sales prices from the model  
20 represent, so I hesitate to make that characterization.  
21 The inputs, I mean obviously there have been some  
22 short-term changes in the price of power that we're all  
23 aware of recently. To the extent, you know, and in my  
24 testimony I used what the company used, which in the  
25 dispatch model is a series of six bands, and each of

01319

1 those bands has a price associated with them. I used  
2 the exact same input as the company.

3 Again, mathematically coming out of that  
4 model when you -- when you determine what a purchase  
5 power amount and a purchase and a sales amount and then  
6 calculate a rate, I'm not so enamored that that  
7 represents what the market was or should be at any time,  
8 you know, during the period.

9 Q. I --

10 A. And again, just one short, again, this  
11 reduction if the company withdrew this case and refiled  
12 something with higher energy prices and inputs into the  
13 model, this, in my opinion, this adjustment would still  
14 be there. It's one that has to do with the operational  
15 flexibility of the system and the differences between  
16 high load and low load hours.

17 MR. MEYER: May I approach the Bench?

18 JUDGE SCHAER: Yes.

19 MR. MEYER: I'm going to hand an extra copy,  
20 I thought I had made several more, of Exhibit 213 which  
21 has been previously marked. This is from Mr. Norwood's  
22 testimony. And I apologize, I thought I had the others  
23 at hand. But if you want to share that, if you would.  
24 Here's an extra set if that would help.

25 JUDGE SCHAER: I think I have mine now,

01320

1 Mr. Meyer. Why don't you provide it to Commissioner  
2 Gillis, or do you have a copy Mr. Trautman?

3 MR. TRAUTMAN: I have my own.

4 BY MR. MEYER:

5 Q. Do you have it now Mr. Buckley?

6 A. Yes, I do.

7 Q. Okay. Mr. Buckley, let's turn to page one of  
8 that exhibit.

9 A. I'm there.

10 Q. Does that page show that the company's  
11 average short-term purchase prices increase from \$12.74  
12 per megawatt hours in 1996 to \$27.54 by 1999?

13 A. Could you describe what average short-term  
14 purchase power price is?

15 Q. I'm referring here to average short-term  
16 purchase power prices.

17 A. Of purposes or sales that you have made in  
18 the market or model results or --

19 Q. Those are purchases, short-term purchases; do  
20 you know what I'm talking about?

21 A. Yeah.

22 Q. Okay. I'm looking to find an apples to  
23 apples comparison with the numbers that tumble out of  
24 your analysis as well as the numbers we work with.

25 MR. TRAUTMAN: Objection, argumentative.

01321

1 Q. Does this page --

2 JUDGE SCHAER: Mr. Meyer, there has been an  
3 objection. Can you restate the question, please.

4 MR. MEYER: I believe the question has been  
5 answered.

6 JUDGE SCHAER: I don't believe so.

7 MR. MEYER: Could you please read it back.

8 (Record read as requested.)

9 JUDGE SCHAER: I would just like you to reask  
10 the question and try to avoid phrases like tumbled out.

11 BY MR. MEYER:

12 Q. Mr. Buckley, page one of four.

13 A. Mm-hm.

14 Q. Does that exhibit show on its face a steadily  
15 increasing progression of short-term purchase power  
16 prices as we work from '96 through '99?

17 A. That's what the chart shows, yes.

18 Q. Okay. Now would you turn to pages two,  
19 three, and four of that same exhibit. Do these pages  
20 for the years '98, '99, and 2000 show daily heavy load  
21 and light load prescheduled electricity prices for  
22 delivery at Mid Columbia?

23 A. That's what it's labeled, yes.

24 Q. Okay. Mr. Buckley, haven't real time prices  
25 at Mid C or the Mid Columbia during May of this year

01322

1 risen at times to over \$700 per megawatt hour?

2 A. Yes, and I guess, Mr. Meyer, again, I have  
3 said it several times, that our testimony is nothing to  
4 do with the level of these costs. It has to do with the  
5 difference between the high load and the low load.

6 Q. I was trying to determine, Mr. Buckley, the  
7 impact of your adjustment. Let's say if one were to  
8 use, let's back up to the first page, if one were to use  
9 the price of \$27.54 per megawatt hour, which represented  
10 the 1990 price, instead of the \$22 price that the  
11 company actually proformed into its case, would you  
12 agree subject to check that this would cause the  
13 company's purchase power costs to increase by  
14 approximately \$9 Million on an annual basis?

15 A. I can agree to that subject to check, and I  
16 would also say that if the company feels that that has a  
17 material impact on its normalized rate setting procedure  
18 of power cost, it should withdraw this case and file  
19 another one at this price.

20 Q. Do you agree, Mr. Buckley, that there is  
21 substantial variability in recent documented pricing at  
22 Mid C and at other plants?

23 A. High load, low load hour, high load hour  
24 variability or just general variability?

25 Q. General variability.

01323

1 A. Yes.

2 Q. Okay. And that depending on what level of  
3 proformed purchase power expense one uses in the case,  
4 that that assumption can have a fairly dramatic impact  
5 on revenue requirement?

6 A. Not necessarily.

7 Q. Do you consider a, for example, a \$9 Million  
8 impact had we proformed in a \$27.54 figure instead of a  
9 \$22 figure to be an insignificant impact?

10 A. Well, no, what I'm saying is just because the  
11 Dow Jones Mid Columbia Index says that a certain price  
12 is such does not mean that's what the company is  
13 acquiring. You know, it may or may not. I can not say  
14 that it would have any material effect. It could have  
15 the effect if you were in a surplus situation of  
16 benefiting the company, or it could have an effect if  
17 you were relying upon those to the detriment to the  
18 company.

19 Q. Mr. Buckley, did I understand your answer to  
20 a previous question to be that the company, of course,  
21 is free if it felt it was understating its power cost to  
22 go ahead and refile another case. Is that what you  
23 meant to suggest?

24 A. Absolutely.

25 Q. Okay. So if based on current electric or

01324

1 based on current and expected market prices, would you  
2 agree that in this filing, the filing that this  
3 Commission has before it today, that the company has  
4 significantly understated its power costs?

5 A. No, I would not say that. Like I said, we  
6 are calculating a normalized power supply expense here,  
7 and whether it be based on 40 years, 50 years, 60 years,  
8 it's a normalized power expense. And I do not think  
9 that necessarily that a short-term increase that we're  
10 seeing this fall or this summer would necessarily  
11 reflect itself in increases in costs to the company or  
12 in what the company would come in under a normalized  
13 situation and set its rates based on. Like I said  
14 before, it could be beneficial to the company.

15 Q. Mr. Buckley, turning to pages two through  
16 four yet again of Exhibit 213.

17 JUDGE SCHAER: 213 for identification.

18 Q. For identification.

19 A. Two through four?

20 Q. Yes, please. As we look and compare, for  
21 example, the year 2000 with the year 1998, does it  
22 strike you that in the year 2000 there is substantial  
23 variability in both firm on peak and firm off peak?

24 A. Obviously 2000 only has partial year. If  
25 you're taking a look at the one particular peak, that's



01325

1 what it indicates. But again, whether the company or  
2 anybody for that matter is out there acquiring that is  
3 another matter.

4 Q. Okay. Mr. Buckley, on page 45 of your  
5 testimony, now we're going to turn to the PCA, you state  
6 that the company's proposed PCA is unacceptable for a  
7 few reasons. You mention first of all that it is  
8 unacceptable because it tracks long-term changes in  
9 PURPA costs. Is that the essence of your testimony?

10 A. I don't know if that's the essence. That's  
11 one issue that I have that I had with the PCA.

12 Q. So it's your position that PURPA changes  
13 should not be included in the PCA?

14 A. Well, it's my position based on looking at  
15 previous Commission orders in the matter and what  
16 they're looking for in the PCA, I think I would have to  
17 characterize it as that.

18 Q. Okay. Is it also your position that changes  
19 in thermal generation and fuel costs should not be  
20 included in the PCA?

21 A. Well, on this issue, it in my opinion depends  
22 on what the PCA mechanism is, and if I could give two  
23 examples of that to clarify the issue.

24 If you had a PCA that was solely related to  
25 changes in water conditions and was structured somehow

01326

1 that it did not incorporate market price changes or  
2 follow complete market price changes, then I think that  
3 the thermal resources should be out.

4           If you had ended up with a PCA I believe such  
5 as the company proposed on its rebuttal case where you  
6 are recalculating where you are following the market and  
7 changes in market prices, then you would have to  
8 incorporate some of the thermal projects. And those  
9 would be such as the company described in its original  
10 filing, ones like Rathdrum, that basically sell into a  
11 market, so that when the market was high you would be  
12 getting the benefit of Rathdrum. In my testimony, I  
13 raised the issue, and the issue was more associated with  
14 a PCA that would be solely water, and therefore Rathdrum  
15 would be out in that instance.

16           Q.       So initially when you filed your testimony,  
17 you had, I won't call them technical objections, but I  
18 will call them at least objections as to two dimensions  
19 of this PCA as originally filed; is that correct?

20           A.       Concerns is what I would define them as.

21           Q.       Concerns?

22           A.       Yes.

23           Q.       Okay. Now is it true that on rebuttal the  
24 company proposed or is proposing through Mr. Johnson a  
25 simplified version of a PCA that does these two things.

01327

1 Number one, it removes the PURPA changes, and secondly,  
2 that the company is now proposing to remove any changes  
3 in thermal generation and Rathdrum fuel costs?

4 A. Yes, and that's also I was attempting to just  
5 describe that if a PCA such as what's on the rebuttal  
6 case was adopted where market prices are a large factor  
7 in it, then I would recommend that Rathdrum be back in  
8 and similar resources that would sell into the market.  
9 And, you know, it was the original testimony, like I  
10 said before, was only entered toward, in my, mind,  
11 thinking of one that was solely related to water and not  
12 necessarily tied in heavily to market prices.

13 Q. But you understand the company has --

14 A. Yes.

15 Q. -- realized --

16 A. Yes.

17 Q. -- its proposal?

18 A. Yes, and they did, and to give the company  
19 credit, it did address the issues that I brought up in  
20 my direct case, yes.

21 Q. Now at the bottom of page 46, you state that  
22 market prices such as posted prices at trading hubs are  
23 beyond the company's control. Is it your position that  
24 the company does not have sufficient market power to  
25 control prices at market trading hubs?

01328

1           A.       Yes, my testimony is that and a little bit  
2 more. It's that the company obviously can not or I  
3 don't believe controls, at least in situations that I  
4 have heard of, the prices at any of the hubs it has  
5 access to. What I'm trying to say in the testimony is  
6 that it does control what it does acquire, you know. It  
7 does -- it does control whether it acquires a day of  
8 power, whether it buys capacity, whether it does, you  
9 know, purchase of X size during X time and those issues,  
10 so it does have control over that.

11           Q.       Do you believe that the Dow Jones Mid C  
12 Index, Mid Columbia Index, those prices are a good  
13 estimate of short-term energy prices in the Northwest?

14           A.       I haven't completed analysis that I can say  
15 for sure. I mean given the company's rebuttal and also  
16 recent events, that was one of the purposes for taking  
17 this issue perhaps out of the rate case is to explore  
18 those issues.

19                    We have had, the Commission has had some  
20 issues with these indexes before in that it often is a  
21 basket of products, and I think you have to be careful  
22 in making sure that apples are apples and the prices  
23 that you obtain from the index equate to the type of  
24 power that you're trying to follow or mimic or whatever  
25 you're trying to do with it. So I'm not prepared at

01329

1 this time to answer yes or no on that. That's an issue  
2 that I think we need to explore.

3 Q. Need to explore. Mr. Buckley, the company  
4 when it originally filed this case proposed a PCA,  
5 correct?

6 A. Yes.

7 Q. And, of course, you have had the company case  
8 before you for approximately eight months already,  
9 haven't you?

10 A. Yes.

11 Q. You have asked data requests of the company  
12 concerning the PCA, have you not?

13 A. Some.

14 Q. You have asked some, and the company has  
15 responded to those data requests?

16 A. Yes.

17 Q. Okay. And is it your position that a general  
18 rate case, some general rate case is the better time to  
19 implement a PCA?

20 A. Is that my testimony?

21 Q. I'm asking you, is that your position?

22 A. That a general case is the best place?

23 Q. Yes.

24 A. Not necessarily. We have kind of hashed over  
25 these issues for a few years with the company.

01330

1 Q. Hashed over these issues for a few years with  
2 the company or with --

3 A. Well, let me --

4 Q. Mr. Buckley, you have testified that we're  
5 eight months into this process. Mr. Buckley, you have  
6 testified that you put data requests to the company.  
7 You have also testified, Mr. Buckley, that the company  
8 in response on rebuttal corrected for certain concerns  
9 that you had. Hasn't this PCA been fully ventilated in  
10 this case?

11 A. Not at all. I guess let me go back, and I  
12 think hashed out might have been a rough term. Many  
13 years ago Mr. Norwood and I think myself and some other  
14 people discussed -- have discussed the possibility of a  
15 PCA, and I believe this was I think before the Sierra  
16 merger. And, you know, we in very loose, general,  
17 informal terms discussed why the company wouldn't want  
18 it at that time, which I think is a little different  
19 than now. But out of that, no filing, no, you know, I  
20 don't think any kind of documents really ever came out  
21 of that process.

22 Then there was probably a, I don't know, I  
23 guess maybe even a three, maybe even a four year break  
24 between that and the filing in this case, and the two  
25 are not necessarily at all the same, at least from our

01331

1 early discussions of what it might look like.

2 And so I do not believe that the PCA has been  
3 fully explored in the rate case. And I think that our  
4 testimony, or my testimony in this and staff's position,  
5 is that it shouldn't be, that a litigated proceeding  
6 such as this with formal data requests and such and  
7 limited by discovery and everything is not the proper  
8 place to, I guess, come to a consensus on something that  
9 has such a great effect on the customers.

10 Q. Mr. Buckley, do you feel in any way or have  
11 you felt in any way limited by discovery in this case in  
12 a manner that would not allow you to ask whatever  
13 question you wanted to ask on discovery on a PCA?

14 A. Yeah, I don't think in an issue like this  
15 that again has severe end use customer impacts that  
16 there has been an opportunity in the rate case to, you  
17 know, sit down in a consensus building manner and  
18 discuss the PCA and, you know, how one might be formed  
19 and how it might meet some of the Commission  
20 requirements that the Commission has set forth in  
21 previous orders.

22 I mean there's no doubt that some discussions  
23 could have and, you know, taken place. But in our  
24 opinion, to get all of the parties in there, I don't  
25 think they would have wanted to hire attorneys or get

01332

1 involved in this kind of rate setting process when  
2 something on the line of an IRP collaborative or some of  
3 the other efforts we have or something we believe more  
4 appropriate for this particular issue.

5 Q. Mr. Buckley, isn't a rate case opportunities  
6 for cross-examination and discovery the very best forum  
7 for testing in that forum whether a PCA makes sense or  
8 not?

9 A. I don't think so.

10 Q. Mr. Buckley, are you aware that the company  
11 currently has a PCA mechanism in the state of Idaho?

12 A. Yes.

13 Q. Would you accept subject to check that that  
14 mechanism has been in place since 1989?

15 A. Yes.

16 Q. Would you agree, Mr. Buckley, that the PCA  
17 mechanism proposed by the company in this proceeding is  
18 very similar to the mechanism currently in place in  
19 Idaho?

20 A. Yes. The rebuttal --

21 Q. Yes.

22 A. -- version?

23 Q. Yes.

24 A. Yes.

25 Q. Do you know whether Idaho Power Company for



01333

1 its part has a power cost adjustment mechanism in the  
2 state of Idaho?

3 A. I don't know.

4 Q. Would you agree subject to check that they  
5 do?

6 A. Yes.

7 Q. Would you agree that the power costs related  
8 to hydro generation and short-term market prices that  
9 the company proposes to include in the PCA are by their  
10 very nature unpredictable?

11 A. Could you restate the question?

12 Q. Would you agree that the power costs related  
13 to hydro generation and the short-term market prices  
14 that the company proposes to include in the PCA are  
15 unpredictable?

16 A. I don't think they're entirely unpredictable.  
17 You added in there related to hydro production. I think  
18 that, you know, cost related to -- you basically know in  
19 advance what kind of water year you might have from one  
20 period to another. There's a certain amount of guess on  
21 when exactly the metal might come and the flows might  
22 come, but, you know, I can't say that it's entirely  
23 unpredictable. I would say more recently there's  
24 evidence that market costs have very little to do or  
25 market prices have very little to do with cost, water,

01334

1 or anything else.

2 Q. Mr. Buckley, in August of any year, do you  
3 know what snow pack you will have for the next year?

4 A. No.

5 Q. Okay. And so you don't, you can't predict in  
6 advance with any degree of precision, can you, stream  
7 flows for an ensuing period, can you?

8 A. Not in August, but you certainly can probably  
9 by January, February, March, going into the summer,  
10 excuse me.

11 Q. And I believe --

12 A. It's a matter of degree.

13 Q. And I believe you testified earlier that  
14 short-term market prices are not something, whether at  
15 the Mid C or otherwise, are not something over which the  
16 company has a great deal of control, correct?

17 A. Right.

18 Q. Okay. Now, Mr. Buckley, let's return to one  
19 area of questioning that sort of puzzled me. At the  
20 outset, you indicated that at least for this proceeding  
21 and perhaps for the PacifiCorp proceeding you're the  
22 primary staff power supply witness; am I correct?

23 A. Yes.

24 Q. Okay. And to do that work, to do that job  
25 requires at least some -- requires more than a passing

01335

1 familiarity with the specifics of each company, whether  
2 it's Avista or Pacific or Puget, correct?

3 A. Yes.

4 Q. Okay. Mr. Buckley, did you attend the recent  
5 lease cost planning technical advisory committee meeting  
6 in Spokane which was held on June 22 of this year?

7 A. No, other staff people are following that.

8 Q. Okay. Would you agree that the purpose of  
9 these meetings is for the company to present information  
10 to external stake holders relating to its resource plans  
11 and to receive input from these stake holders?

12 A. Sure.

13 Q. Mr. Buckley, did you attend the lease cost  
14 planning technical advisory committee meeting held on  
15 November 18 of 1999?

16 A. No.

17 Q. Did you attend the lease cost planning  
18 technical advisory committee meeting held on August  
19 19th, 1999?

20 A. No.

21 Q. And is it true that of the three technical  
22 advisory committee meetings held during the past year,  
23 you have attended none of them?

24 A. That's correct.

25 MR. MEYER: That's completes my cross. Thank

01336

1 you.

2 JUDGE SCHAER: Okay, Mr. ffitch, did you have  
3 questions of this witness?

4 MR. FFITCH: I do, Your Honor, thank you.

5 JUDGE SCHAER: Go ahead please.

6

7 C R O S S - E X A M I N A T I O N

8 BY MR. FFITCH:

9 Q. Good afternoon, Mr. Buckley.

10 A. Good afternoon, Mr. ffitch.

11 JUDGE SCHAER: Oh, one moment.

12 Mr. Meyer, you had identified several  
13 exhibits, and you did not offer any of them. Was that  
14 an oversight on your part?

15 MR. MEYER: I didn't know if you wanted to do  
16 it now or at the conclusion of the witness. We can do  
17 it now.

18 JUDGE SCHAER: It would be up to you.

19 MR. MEYER: I will move for the admission of  
20 Exhibits 547 through 552.

21 JUDGE SCHAER: Any objection, Mr. Trautman?

22 MR. TRAUTMAN: No objection.

23 JUDGE SCHAER: Those documents are admitted.  
24 Go ahead, Mr. ffitch.

25 MR. FFITCH: Thank you, Your Honor.

01337

1 BY MR. FFITCH:

2 Q. Mr. Buckley, I would like to get some  
3 clarification on your testimony regarding the Rathdrum  
4 plant and the PGE capacity contract, and I'm referring  
5 to that testimony that begins on page 12 of your direct,  
6 which is Exhibit T-540. Just in general, I would like  
7 to first of all just capsulize the testimony. As I  
8 understand it, you're saying the company has continued  
9 to treat the Rathdrum PGE contract according to the way  
10 it was originally written even though it has made a  
11 better deal and is proposing to keep the difference for  
12 shareholders. Does that get at the crux of the matter  
13 according to your testimony?

14 A. The PGE capacity doesn't -- isn't really  
15 associated explicitly with Rathdrum. It stands on its  
16 own. There's an analysis that looks at the benefits of  
17 Rathdrum, and those analysis it certainly is tied into  
18 the PGE capacity sale, but this, I think this  
19 transaction is independent of anything to do with  
20 Rathdrum.

21 Q. All right. And is that analysis essentially  
22 reflected in your response to Exhibit 119 that's been  
23 admitted in this proceeding previously? That's your  
24 response to public counsel data request 45.

25 A. Yes.

01338

1 Q. I would like to ask --

2 JUDGE SCHAER: Excuse me, Mr. ffitch, I  
3 believe that these documents have been identified but  
4 not admitted at this point.

5 MR. FFITCH: Your Honor, this reference is to  
6 a document that's been, I will double check this, but my  
7 belief it was admitted in the first round of hearings.

8 JUDGE SCHAER: Excuse me, I was looking at  
9 exhibit for identification 555, which appears to be a  
10 staff response. Excuse me, that's -- I'm sorry, go  
11 ahead. Could you give us the exhibit number again,  
12 please.

13 MR. FFITCH: It's Exhibit 119, Your Honor.

14 JUDGE SCHAER: All right.

15 BY MR. FFITCH:

16 Q. Now if you could turn to Exhibit 561,  
17 Mr. Buckley, which is 561 for identification. And first  
18 of all a housekeeping matter, this exhibit is  
19 identified, is it not, as the staff response to Avista  
20 Corporation data request number two?

21 A. Yes, it is.

22 Q. And that's not correct, is it? This is the  
23 staff response to public counsel data request number  
24 two?

25 A. Yes, it should be public counsel there under

01339

1 requester.

2 Q. And, in fact, that's true for Exhibit 562 and  
3 Exhibit 563?

4 A. Yes, they should all read under requester  
5 public counsel.

6 Q. Thank you. Now in going back to 561, the  
7 first of those three, in that data request we asked why  
8 you did not include interest on the amount that the  
9 company received from the PGE monetization transaction,  
10 and you responded that you were providing some level of  
11 benefit to the company. Do I correctly understand that  
12 what you're proposing is to allow the company to keep  
13 the benefit of having received \$143 Million in cash and  
14 only begin flowing that money back to rate payers with  
15 the effective date of the new rates?

16 A. Yes.

17 Q. Maybe you could help me with a little bit of  
18 confusion I'm having about some of the testimony here.  
19 The company's testimony says that your proposed  
20 treatment would require a \$9 Million write off, and I'm  
21 referring to testimony of Mr. Dukich in rebuttal at page  
22 three. On the other hand, you say that your, as we have  
23 just covered, you're giving the company a \$12.6 Million,  
24 excuse me, you're giving the company \$12.6 Million of  
25 benefit for the use of the \$143 Million up until the

01340

1 effective date of the new rates. Now these seem to be  
2 contradictory perspectives, and I'm wondering if you can  
3 explain the difference between these positions.

4 A. I think staff's position was, I will cover  
5 that first, was that the -- at the end of 1998, the  
6 company received a cash payment. And barring any filing  
7 here or by the company relating to any kind of  
8 accounting treatment and that, for purposes of our  
9 testimony, we just simply carried forward that balance  
10 into the beginning of the -- beginning of what's called  
11 the rate year.

12 And in looking for ways to I want to say  
13 reward the company, if you will, for doing the  
14 transactions, which I think was a good transaction to  
15 do, we felt that not attaching or not adding interest or  
16 return to that in that period would give them some  
17 benefit and as would the, I guess, the recovery of the  
18 Wood Power unamortized balance that the company did not  
19 request in its rate base. So we were looking for ways  
20 to give benefits to the company.

21 I believe, and again, I deferred part of this  
22 question or the majority of it, I believe, to  
23 Mr. Parvinen on the understanding of the write off, but  
24 I think that's related to that if we carried forward  
25 \$143 Million that the company has amortized a portion of



01341

1 that balance already to meet the difference between the  
2 old contract rate and the new contract rate to benefit  
3 rate payers, that they would be in effect writing off  
4 that \$9 Million amount that was referred to. That's the  
5 -- where the two dollar amounts come from. But on that  
6 particular, again, on that particular issue, I think a  
7 better person would be Mr. Parvinen.

8 Q. Is what you're saying when you refer to the  
9 amortization portion of this amount, did the money  
10 amortized actually go to rate or to shareholders rather  
11 than rate payers?

12 A. Well, we can't say where it went. I mean the  
13 -- barring the company didn't come in with anything at  
14 the end of 1998, I don't want to presume where it went.  
15 It was a -- I can't say that the -- during this period  
16 the contract rate for the PGE contract would have  
17 resulted in \$1.8 Million worth of revenue. And the  
18 company, even though it wasn't in here in the filing at  
19 the time, has amortized the difference between the \$18  
20 Million and the \$1.8 Million. So I don't really feel  
21 comfortable saying that it went to the rate payers. I  
22 don't know, or went to the shareholders, I'm sorry.

23 Q. Okay, thank you. I would like to refer you  
24 to your response to Avista data request 28, which has  
25 been marked for identification as Exhibit 553, which I

01342

1 believe you should have there, and there you -- I'm  
2 sorry, do you have that?

3 A. Yes.

4 Q. There you explained that the company's  
5 approach would give all of the time value of money going  
6 forward to the company rather than the rate payers. Is  
7 that a correct reading of that response?

8 A. Yes.

9 Q. I would like to turn to the area of  
10 hydroflexibility next, Mr. Buckley. This deals with  
11 your testimony which begins on page 29 of your direct.

12 A. Yes.

13 Q. And if we look at testimony lines 14 through  
14 20, you there have made adjustments of about \$1.6  
15 Million to incorporate the time of day variations of  
16 power costs into the power supply analysis. Is that  
17 approximately correct?

18 A. Yes.

19 Q. What percentage adjustment to the off system  
20 sales and purchases does this reflect?

21 A. I haven't calculated the percentage number.

22 Q. If you, perhaps I can assist you by directing  
23 you to your appendixes or appendices. If I can direct  
24 you to page one of your exhibit APB-1, which is I  
25 believe Exhibit 541.

01343

1 A. Okay.

2 Q. If I could direct you to line 32 as compared  
3 with line 2 of that exhibit. Line 32 shows the  
4 approximately, excuse me, line 2 shows the \$1.4 million  
5 that's --

6 A. It's about 1%, around 1%.

7 Q. So the answer to my question is that the  
8 percentage adjustment to off system sales is about 1%?

9 A. Yes.

10 Q. And then if you turn back to --

11 A. Well, let me rephrase that. The percentage  
12 adjustment would be -- that's related to total account  
13 55, which would be short-term purchases and all the  
14 different purchases there, which some of those can be  
15 considered long-term, if you wish, to be the total --  
16 would be the effect on total purchase power.

17 Q. All right. Can you please turn to page four  
18 of that same exhibit, and then if you compare line 86  
19 with line 107, can you state the percentage that you  
20 would derive from that portion of the exhibit?

21 JUDGE SCHAER: I'm sorry, counsel, I'm lost.  
22 We're looking at page four of four?

23 MR. FFITCH: We're on exhibit, or excuse me,  
24 page four of exhibit -- page three of four.

25 JUDGE SCHAER: Thank you, I'm with you now.

01344

1 MR. FFITCH: Page three of four of APB-1.

2 BY MR. FFITCH:

3 Q. And, Mr. Buckley, are you with me?

4 A. Right, about \$4.8 million as compared to \$131  
5 Million, so --

6 Q. I'm asking you to compare line 86 to line  
7 107.

8 A. Oh, 86, I'm sorry. A very small percentage,  
9 less than 1%, probably less than 1/10 of 1%.

10 Q. And your testimony, again back on page 29,  
11 states that the company can basically buy during low  
12 price hours and sell during high price hours because of  
13 the flexibility of their hydro resources; is that  
14 correct?

15 A. Yes.

16 Q. And if you could turn to Exhibit 562.

17 JUDGE SCHAER: And again, that's for  
18 identification.

19 MR. FFITCH: That's for identification.

20 BY MR. FFITCH:

21 Q. And just a brief point with regard to that  
22 exhibit.

23 A. I'm there.

24 Q. At 562, you give a numerical example of that  
25 flexibility, do you not?

01345

1 A. Yes.

2 Q. Now if we turn to Exhibit 563, you show the  
3 off peak and on peak variations of price for some recent  
4 months, correct?

5 A. Yes.

6 Q. And I'm just going to walk us through a  
7 couple of examples there in Exhibit 563. If we go back  
8 to the second page of the attachment, the heading Mid C?

9 A. For the month of April?

10 Q. For the month of April. Do you have that?

11 A. Yes.

12 Q. Now if you look at that, the ratio of firm on  
13 peak, off peak, excuse me, off peak prices ranges from  
14 about 1 -- well, actually, let me start over again.

15 And let's take a look at the first line of  
16 the exhibit, and let's look at the firm on peak and off  
17 peak prices for April 30th, and the two prices shown are  
18 18.6 and 16.05; is that correct?

19 A. Yes.

20 Q. And that's a ratio of about 1.2 to 1?

21 A. Yes.

22 Q. Now if we look at April 13th, we see that the  
23 two, the off peak, excuse me, the on peak firm and the  
24 off peak firm respectively are 25.64 and 13.37, and  
25 that's a ratio of approximately 2 to 1, is it not?

01346

1 A. Yes, it is.

2 Q. So is that not a variation in the range of  
3 from 20% to 100% not the 1% to 2% that you assumed at  
4 page 29 of your testimony?

5 A. That's what that indicates, yes.

6 Q. Now if we could turn the page to the May 3rd  
7 entry on the next page of the same exhibit, it's near  
8 the bottom, third line from the bottom. And again, the  
9 firm on peak price is 63.76, and the off peak is 26.02;  
10 is that correct?

11 A. Yes.

12 Q. And that is a ratio of about 2 1/2 to 1?

13 A. Yes.

14 Q. Is it not?

15 A. Yes.

16 Q. And so that's about 150% variation, correct?

17 A. Yes.

18 Q. Now I would like to move on and refer you to  
19 Exhibit 558.

20 MR. FFITCH: And, Your Honor, at this point,  
21 I have an apology and a correction to make. I had  
22 earlier at the prehearing conference this morning  
23 indicated that pages attached to Exhibit 560 should have  
24 been attached to 558.

25 JUDGE SCHAER: Yes, you had.

01347

1 MR. FFITCH: And I was wrong. The exhibits  
2 were just fine the way they were, Your Honor, and I have  
3 misdirected everyone to try to re-sort those papers.  
4 And actually 558 is just fine by itself, and 560 needed  
5 to retain those three pages.

6 JUDGE SCHAER: Well, I will indicate that the  
7 Bench feels at this moment that sometimes you get it  
8 right, because I had not yet made the shuffle, so go  
9 ahead, Mr. ffitch.

10 MR. FFITCH: So as you were everyone.

11 BY MR. FFITCH:

12 Q. All right, well, referring to the single page  
13 Exhibit 558, there you indicate that the flexibility of  
14 the hydro system was defended or strongly defended by  
15 the company in its FERC process. And then in Exhibit  
16 560, you give some examples of that by providing  
17 excerpts of FERC applications. Is that a fair summary  
18 of those two exhibits?

19 A. Yes, it is.

20 Q. Now the three pages that you attached to  
21 Exhibit 560, company documents or your documents?

22 A. Company documents.

23 Q. Have you been following the power market  
24 since the end of May when the data you provided us in  
25 response to Exhibit 563 was prepared?

01348

1           A.       Yes, I believe access to June information is  
2 now available similar to the April, May information that  
3 we provided to you.

4           Q.       And would you agree that the prices have  
5 become even more volatile in June and July than they  
6 were in April and May?

7           A.       When I looked at the June results that was  
8 handed to me several days ago, it looked like that the  
9 peak prices were definitely there was some very strong  
10 peaks in those peak prices, so I think the volatility  
11 has increased, yes.

12          Q.       So if you were preparing this analysis that  
13 you discuss on page 29 of your direct today, would you  
14 incorporate a greater amount of price volatility from  
15 day to night than you included in this testimonial  
16 analysis?

17          A.       I think it could be justified. However, I  
18 would be very careful, because I have already testified  
19 to Mr. Meyer that, you know, we're setting normalized  
20 rates here and that, you know, these are short term,  
21 shorter term fluctuations. And I guess I would have to  
22 try to remain conservative, try to recognize that and to  
23 figure out or attempt to figure out if they are indeed  
24 something that's going to remain, you know, permanent.  
25 So I think I would have to say just given, you know, one



01349

1 or two months, I mean I would certainly consider it, but  
2 whether I would change the recommendation for that  
3 reason, you know, I can't say.

4 Q. Well, if you did decide to incorporate that  
5 additional price volatility in your analysis, would that  
6 produce a larger benefit than the \$1.6 Million that you  
7 have mentioned here on page 29?

8 A. Yes, it would.

9 Q. Have you made an estimate of how much more  
10 that would be?

11 A. No.

12 Q. Do you think it would be a lot more or a  
13 little more?

14 A. I used a 4 mil differential. I think it  
15 could be significantly higher.

16 Q. Thank you.

17 MR. FFITCH: Your Honor, I don't have any  
18 more questions. I would like to offer public counsel's  
19 cross-examination exhibits at this time. And to that  
20 end, I do have a question or two for the witness  
21 regarding the data requests.

22 JUDGE SCHAER: Go ahead, Mr. ffitch.

23 BY MR. FFITCH:

24 Q. Referring, Mr. Buckley, to Exhibits 553  
25 through 563 marked for identification, are you familiar

01350

1 with those data requests?

2 A. Yes, I am.

3 Q. And were those prepared by you or under your  
4 direction?

5 A. Yes.

6 Q. Are the answers true and correct to the best  
7 of your knowledge?

8 A. Yes.

9 MR. FFITCH: Your Honor, at this time, I  
10 would like to offer exhibits 553 through 563.

11 JUDGE SCHAER: Any objection?

12 MR. TRAUTMAN: No objection.

13 MR. MEYER: None.

14 JUDGE SCHAER: Those documents are admitted.

15 MR. FFITCH: Thank you, Your Honor.

16 CHAIRWOMAN SHOWALTER: Before you leave,  
17 Mr. ffitch, can I just ask a clarifying question on your  
18 last question. You said it would produce a larger  
19 benefit. Benefit to whom did you mean? And you  
20 probably understood each other, but I didn't understand.

21 MR. FFITCH: Just let me check back at my  
22 notes to the point that I was at, Your Honor.

23 JUDGE SCHAER: Go ahead.

24 MR. FFITCH: Perhaps it may be better to ask  
25 the witness what he meant when he answered my question

01351

1 in that way.

2 CHAIRWOMAN SHOWALTER: Okay.

3 MR. FFITCH: Since I shouldn't be testifying.

4

5 E X A M I N A T I O N

6 BY CHAIRWOMAN SHOWALTER:

7 Q. All right.

8 A. The benefits I'm referring to are what would  
9 be increases in -- actually, it would be decreased power  
10 supply expense, and that would be either a function of  
11 increased sales or decreased purchases. But the overall  
12 effect would be a decrease in the purchase power  
13 expense, so a decrease in revenue requirement. It  
14 wouldn't benefit the company from the standpoint of rate  
15 payer dollars.

16 Q. You were taking it as a benefit to rate  
17 payers because of a decreased revenue requirement or  
18 just you just meant decreased revenue requirement?

19 A. Well, I would say it was a benefit as  
20 compared to the company's existing case, which doesn't,  
21 I believe, incorporate this issue into their model.

22

23 R E C R O S S - E X A M I N A T I O N

24 BY MR. FFITCH:

25 Q. And perhaps just to clarify additionally,

01352

1 Mr. Buckley, your statement at page 29, lines 18 and 19  
2 describes this benefit or adjustment as a decrease in  
3 the short-term purchase costs?

4 A. That's how the adjustment in the model was  
5 implemented, and we had a discussion earlier with  
6 Mr. Meyer that that is the way that it's incorporated,  
7 but it's not what it represents.

8 Q. But you have a decreased cost, therefore you  
9 have a decreased revenue requirement, and that's in  
10 essence a benefit to rate payers; is that correct?

11 A. Yes.

12 MR. FFITCH: No further questions. Thank  
13 you, Your Honor. Thank you, Mr. Buckley.

14 JUDGE SCHAER: Okay, are there any counsel  
15 that are appearing on the bridge at this moment?

16 Hearing no response, I will ask  
17 Commissioners, did you have questions of Mr. Buckley?

18 MR. MEYER: Excuse me, before the  
19 Commissioners go, may I have just a short line of  
20 additional cross based on public counsel's questioning?

21 JUDGE SCHAER: Go ahead, Mr. Meyer.

22 MR. MEYER: Thank you.

23

24 R E C R O S S - E X A M I N A T I O N

25 BY MR. MEYER:

01353

1 Q. Would you agree, Mr. Buckley, that in 1998  
2 prior to the monetization of the PGE contract, the  
3 company was receiving approximately \$18 Million per year  
4 relating to that agreement?

5 A. Yes.

6 Q. And would you agree that beginning in 1999  
7 with the monetization of the agreement, the company  
8 began receiving a payment of only \$1.8 Million related  
9 to the agreement?

10 A. Yes.

11 Q. And in addition to the \$1.8 Million, would  
12 you agree subject to check that the company is  
13 amortizing \$8.8 Million per year of the balance of the  
14 monetization arrangement for a total revenue of  
15 approximately \$10.6 Million?

16 A. Yes, that's my understanding of the  
17 company's --

18 Q. Okay. So beginning in 1999 with the  
19 monetization arrangement, there is a shortfall to the  
20 company of approximately \$7.4 Million, which is the  
21 difference between \$18 Million and \$10.6 Million,  
22 correct?

23 A. This is where the company and staff may have  
24 some terminology difference. The Commission or the  
25 company may call it a shortfall but --

01354

1 Q. There is a difference, whether we call it a  
2 shortfall or not.

3 A. If you're not including any interest of being  
4 applied to the \$143 Million or \$45 Million, yes, if you  
5 just use a straight line amortization.

6 Q. Okay. Now is it also true that by giving  
7 customers the benefit of \$18 Million per year while only  
8 recording \$10.6 Million per year, the company is in  
9 effect giving customers an interest benefit of  
10 approximately \$7.4 Million per year? Do you accept that  
11 subject to check?

12 A. Yes.

13 MR. MEYER: Thank you, that's all I have.

14 JUDGE SCHAER: Commissioners, did you have  
15 questions?

16 CHAIRWOMAN SHOWALTER. I have some.

17

18 E X A M I N A T I O N

19 BY CHAIRWOMAN SHOWALTER:

20 Q. I probably will be skipping around, because I  
21 have some from before your cross and some after. But as  
22 a general matter, I know the Bonneville allocation was a  
23 small amount for Avista, but did you or the company  
24 incorporate it into your projections?

25 A. No, the subscription amounts from what

01355

1 perhaps is going to come as the result of the last  
2 month, the Bonneville rate case going on now was not  
3 incorporated into either my case or the company's case.  
4 I think we agree that, in our discussions with  
5 Bonneville, it's indicated that as a condition to either  
6 settling or assigning the exchange contracts that  
7 there's clauses that set forth that the benefits would  
8 be, with Commission action or Commission help, be  
9 identified and set forth through the rates, so. But in  
10 this particular rate case, we did not even -- there's no  
11 Bonneville Power associated. There's no benefits from  
12 Bonneville being implemented into the rates.

13 Q. I guess I'm asking the question because I  
14 have forgotten what the amount is, the allocation.

15 A. About 90 average megawatts of power.

16 Q. Okay. I mean it is available or will be  
17 available at some price with some conditions which might  
18 affect the company's judgment about whether it does it,  
19 but it seems like it's an amount of power that's  
20 available that's a distinct amount and rough price.

21 A. Right.

22 Q. I guess why wouldn't it go into this  
23 calculation?

24 A. Well, for one reason, this is setting base  
25 rates, and whatever benefits come out of Bonneville, and

01356

1 let's just assume for a second that's its 100% financial  
2 benefits for Avista, that that would be passed through  
3 on, you know, I can not say for sure, because we haven't  
4 talked with it, but we sort of assume that it would be  
5 passed through a tariff similar to what we have with the  
6 utilities that are having -- have existing exchange  
7 agreements and processes. So it would be some kind of a  
8 credit to the bill on a pass through. That's being  
9 required by Bonneville.

10 I think the tricky issue is going to be how  
11 we incorporate the benefits from power. So if the  
12 benefits come in the form of below market power, and in  
13 the case of Bonneville it's a little bit easier because  
14 the market has been set and the price has been set so we  
15 know what the benefits are going to be, we will have to  
16 come up with an arrangement to identify how much dollar  
17 benefit that is, how to identify it on the customers'  
18 bills, and how to pass that through to the customers.  
19 But that was not meant to be part of base rates. It  
20 would be separate than that.

21 Q. Okay. So if we set a base rate not including  
22 that, is it discretionary, would the company -- whether  
23 they go out and take advantage of either cash or power  
24 benefits? And if it's discretionary, might it just  
25 never show up?



01357

1           A.       Well, I think that if the company chose not  
2 to receive -- not to I guess settle in this case, let's  
3 just talk about settlement on the exchange issue with  
4 Bonneville, that I guess the Commission would certainly  
5 have to look at that from a prudency standpoint. But I  
6 can't imagine that scenario will happen. I mean the  
7 company has fought well and hard for those benefits and  
8 has been very good about trying to get as much as they  
9 can. And from all indications that they will partake or  
10 will probably come to a settlement amount, that they  
11 will be at probably around 90 average megawatts.

12                 It's just a matter of how we incorporate  
13 those benefits passing through getting to the customers  
14 is the issue that we really haven't discussed with the  
15 company yet.

16           Q.       But from your comments, it seems that you're  
17 comfortable not addressing it in this issue or in this  
18 forum feeling that there is another place later to do  
19 that?

20           A.       I think so, given the company's record and  
21 how they have been dealing in this issue very well. I  
22 don't have any doubt that we won't have any problem.

23           Q.       Okay. Going to the water issue, the  
24 commissioners who have been here longer remember these  
25 issues and may have more questions, and I noted your

01358

1 testimony that said that a prior Commission order said  
2 we have spent too much time on this issue, but  
3 nevertheless I wasn't there, so I have a question. And  
4 that is on the debates of, you know, 40 years, 50 years,  
5 160, obviously whatever set of years you go with, you're  
6 going to get a different result. Why has it never been  
7 looked at as a bell curve where the most extreme years  
8 on either end were chopped off before doing the average?  
9 I think that's a fairly common way to do averages in  
10 other settings, so you just don't get that issue of,  
11 well, if we use 50 years we get one result and 40 we get  
12 another. Now that would be true probably, but you  
13 eliminate the extremes that can cause this difference.

14 A. Right. You know, on that issue, I don't  
15 know, I don't believe in the record that I have looked  
16 at that any such proposal like that has been made. I  
17 mean there's been proposals made from 115 years, 60  
18 years, 50 years, 30 years, 40 years, everything else it  
19 seems like. I don't think that that methodology has  
20 been -- has been looked at. I think it might have some  
21 merit. The problem I have is putting too much emphasis  
22 on those outlier years.

23 Q. Right.

24 A. And the company brought up some of these  
25 Northwest Power Planning Counsel studies and I -- to me,

01359

1 the reason why I haven't overly considered or I haven't  
2 considered those as evidence that we need to change  
3 methodologies is because their reliability studies,  
4 they're there to determine how much power is there or  
5 the lights will go off, and that is entirely different  
6 than what you would set detail rates on. You're kind of  
7 attempting to capture an average.

8           So I guess in that sense, your -- that kind  
9 of proposal where you might cut out some of the years  
10 and something might be something to look at. As far as  
11 I know, it hasn't been looked at, and there might be  
12 complications that I'm not aware of that you do that on.

13       Q.       Obviously I'm just thinking up here on the  
14 Bench, so I don't have any more background than my head,  
15 but it seems like if you chopped off the highest, if you  
16 had 40 years and you chopped off the highest 2 and the  
17 lowest 2 or you had 60 and you chopped off the highest  
18 3, somehow the highest, the worst, the most extreme 5%  
19 on either end, you might get something that's a little  
20 more average.

21       A.       I think from a staff perspective, this thing  
22 isn't necessarily equal on both sides. And I explained  
23 that, that if you're in an extended draught period, for  
24 example, and the earnings of the company are hurt by  
25 those critical water years and there for an extended

01360

1 period of time, there certainly are -- I mean there are  
2 rate relief ways that those things can be handled.

3           On the other hand, if you have an extremely  
4 good year and the company perhaps, and this now is  
5 getting iffy because I don't know if there's any  
6 relationship between market prices and water anymore,  
7 but assume they had a lot of water to sell and made lots  
8 of money, the likelihood of the Commission filing a  
9 compliant and bringing them in are slim.

10           But on the same hand, I guess to be fair,  
11 certainly it is the company's desire to come for some  
12 kind of emergency relief is probably slim too. So maybe  
13 that methodology does have some merit.

14           Q.     You touched on another question I wanted to  
15 ask you. You were focusing on the purpose of the  
16 institution looking at the range of water years, and I  
17 understand that the power counsel is looking at  
18 reliability issues and we're looking at rate issues, but  
19 I'm having a hard time with the next step. Well, okay,  
20 then in that case, why is 40 years more appropriate for  
21 us and 50 years more appropriate for them? What  
22 difference does the function that the institution has  
23 make in terms of what range of years they should be  
24 picking?

25           A.     Well, if you get away from whether it should

01361

1 be 40, 50, or 60 years for a second, I think getting  
2 back to your original question on this bell curve issue,  
3 I think that if you were setting retail rates and trying  
4 to get a reasonable amount for some period, that's  
5 definitely different than if you're concerned of keeping  
6 the lights on.

7 Q. So the power counsel wouldn't want --

8 A. Now it may not be different to the company.  
9 I mean it's an important issue to the company. Don't  
10 get me wrong, you know. It certainly, you know, affects  
11 their requirement. But from the standpoint of, you  
12 know, if, for example, you could, for purposes of  
13 keeping the power on, you could almost just look at the  
14 critical years and ignore everything else.

15 Q. Give them the lobbed off years, and we'll  
16 take the rest.

17 A. And forget about everything else, because  
18 it's only the critical years that are important to  
19 keeping the power on, you know.

20 On the other hand, when you go to other  
21 entities like Bonneville, I'm sure there's some reason  
22 or whether it be arbitrary or some other reason why they  
23 use the 50 years. But again, their institution is  
24 different too. They have -- they have different  
25 requirements as far as meeting their treasury payments

01362

1 and different models that they use and et cetera.

2           You know, our testimony, staff did not  
3 attempt to re-look at the effort. We looked at the  
4 decision that had been made in the past and kind of  
5 relied upon that, although we were free to -- we did, I  
6 think, look at what the company brought up in its use of  
7 the 60 water year, but we just didn't see in our  
8 opinion, I guess, a reasoned approach that 60 years was  
9 any better than 40 years other than it gave more  
10 revenue.

11           Q.     You also talked about the function of the  
12 institutions being different with respect to Colstrip  
13 availability with NAERC had 82 point something percent.

14           A.     Right.

15           Q.     Tell me again why is it --

16           A.     Some of the same reasons. NAERC looks at it  
17 for reliability purposes and what it plans as far as  
18 available power and what's available for reserves and  
19 all of those reliability issues. One of the reasons why  
20 I chose to make an adjustment to that was that when I  
21 looked at the data that underly the outages, really my  
22 adjustment relates to a single transmission related  
23 adjustment or transmission related outage, I'm sorry,  
24 with one of the Colstrip units, and that pretty much was  
25 -- what that told me was it was out for kind of other

01363

1 issues perhaps and that that kind of made, at least to  
2 me, an anomalous number for that particular year.

3           And yeah, the -- yes, the higher -- the  
4 number we chose ended up being higher than the  
5 company's, but I also think it reflects the last kind of  
6 five year, four year time frame where there has been  
7 much more, I believe, of an emphasis to operating these  
8 coal plants at higher and more efficient levels. And  
9 that's one -- been one of the major pushes is to get the  
10 availability up of all units, and I think that's been  
11 successful. That's why, you know, just kind of two  
12 reasons why it didn't incorporate the past 14 years  
13 worth of data.

14           Q.     Another issue, this is on page 19 and 20 of  
15 your testimony, and it's about the Potlatch contract  
16 purchasing price where you have applied an energy rate  
17 of 29.7525 mils, which is up on line 1 of page 20, and  
18 you may have gotten at this question when you were  
19 answering Mr. ffitch, but did the recent price  
20 volatility cause you to reconsider that, or is it  
21 subject to some of the same arguments you were making  
22 about high and low and --

23           A.     I think it's subject to the same arguments.  
24 I mean this is such a short term. What we would be  
25 doing if we used a higher rate than the 29.29 is, I

01364

1 guess, embedding -- you would be assuming that let's say  
2 the Potlatch contract when it was over would be resigned  
3 or reassigned or would I guess continue on at some  
4 higher rate that would be closer to whatever market is  
5 at the time.

6           At the same time, if you made that  
7 adjustment, you would also be lowering the I want to say  
8 credit, if you will, that we're trying to apply and that  
9 the company fully deserves recovery of these costs.  
10 We're not saying that they're not. We just didn't want  
11 it embedded in long-term rates, so therefore you're  
12 using the PGE monetization line to do that.

13           So you might be raising rates at one point,  
14 but you would be lowering that amount. And, you know,  
15 that number, there's no magic to that number other than  
16 as the company had demonstrated it was a -- it was a  
17 figure that was out there for a block of power.

18           Q.    Okay. Going to page 22 of your testimony  
19 about Rathdrum, well, actually starting with page 21,  
20 line -- wait a minute, oh, no, I already asked that  
21 question. Oh, yeah, going to starting with page 23, can  
22 you just explain to me, you say the lease is being  
23 treated as an operating lease for book purposes and a  
24 financing lease for tax purposes. That's on line 16 of  
25 23. Can you just explain that to me.



01365

1 A. Can I wait for Mr. Parvinen to explain it?

2 Q. Oh, okay.

3 A. I know the difference between an operating  
4 lease and a capital lease, but these differences are not  
5 something that I'm that familiar with.

6 Q. Okay. Have the costs of Rathdrum ever been  
7 or have they been in the company's rates thus far?

8 A. No.

9 Q. So have the rate payers been subject to any  
10 risk for Rathdrum thus far?

11 A. No, no, I think it's fair to say the  
12 company's probably received some benefits from Rathdrum.

13 Q. And I guess --

14 A. In the form of, you know, potential revenues  
15 that came in as a result of Rathdrum and that are their  
16 rate and cost, and hopefully they have benefited from  
17 that, and the company has kept out, you know, kept from  
18 coming up for a rate case. So, you know, but as far as  
19 having explicit risk at this point, haven't.

20 Q. So what I'm getting at really I think is risk  
21 and reward and those sorts of issues.

22 A. In this case, the company is proposing that  
23 just the cost associated with Rathdrum be put in rate  
24 base. Rather than return on rate base and book value,  
25 you have a lease payment that's been levelized for the

01366

1 period of time. So you -- it's treated a little bit  
2 differently. It's treated more as I'm going to say  
3 almost as an expense item in a way rather than a rate  
4 base item.

5 Q. I guess are you proposing that the rate  
6 payers receive benefits from the monetization of PGE in  
7 some way that rewards them for risks they have not  
8 incurred? I think that's the nature of my question.

9 A. No, this is -- this is different, I believe,  
10 than that normal discussion that comes up when you sell  
11 an asset such as Centralia. This issue is, in my mind  
12 and I think in staff's mind, is more in the line of an  
13 opposite side than like buying out a PURPA contract, for  
14 example. That in that example, you have -- you have  
15 made -- you have -- you are purchasing above market, and  
16 you come in and you pay a certain amount of money and  
17 buy that contract down. Avista has done it with Wood  
18 Power. Puget power has done it with several of its  
19 contracts.

20 So you have a cost to the company, and  
21 typically those costs have been recovered through rate  
22 payers, because there's a benefit, a long-term benefit  
23 in buying that contract out to a lower rate. That's the  
24 way it's been handled in Puget, and that's the way that  
25 it was proposed to be handled by Avista with the Wood

01367

1 Power.

2           This is the opposite of that. So it's not a  
3 risk and reward issue, although in this case the company  
4 as is -- as in the other case, did take some initiative  
5 and I think should be rewarded for it in doing a  
6 transaction which in effect preserves, like the company  
7 says, the benefits of the over market transaction and  
8 preserves that but brings the benefits up front  
9 essentially.

10           And, you know, staff's proposal was to do  
11 something with that money. I mean we're willing to  
12 knock down the price of the contract from \$18 Million to  
13 \$1.8 Million for requirements, but then the kind of the  
14 net present value, the benefits if you will, the net  
15 benefits of the transaction, our proposal was to sort of  
16 share that with the company and with the proceeds at the  
17 same time we were lowering the revenues from \$18 Million a  
18 year to \$1.8 Million. We were trying to resolve and  
19 clean up other issues associated with the company's  
20 power supply expenses and DSM with the cash.

21           Q.     And on those issues, how much are you saying,  
22 you know, if you take the contract and the monetization  
23 and you kind of apply it to something, it all comes out  
24 in the wash, which is different than analyzing the  
25 different components of what you're doing.

01368

1           A.     Well, there's a benefit, and I think we  
2     calculated it, and Mr. Parvinen might have a better  
3     number on this, but I think it was a \$12 Million a year  
4     benefit to doing it the way staff has proposed. Now  
5     there might be some adjustments that are properly made,  
6     you know, based on the company's rebuttal case that  
7     should be made to that, but it would still benefit.

8           So the benefit of paying off Rathdrum, if you  
9     will, and doing the Potlatch adjustment and eliminating  
10    DSM and writing off some additional, not writing off,  
11    but eliminating additional rate base items or some items  
12    would -- that effect on rate payers would have a  
13    long-term beneficial effect, we believe.

14          And I think those numbers, again, I think  
15    were identified in Mr. Parvinen's testimony. He might  
16    be able to give you some more numbers on those.

17          Q.     Then turning to page 29 on your -- the  
18    dispatch credit where you assumed 50%, is it peak or  
19    high? I don't know if there's a difference. But  
20    anyway, 50% high and 50% low, is that for purposes of  
21    simplicity, or what's the foundation for doing that?

22          A.     Simplicity. You know, I -- this issue as I  
23    -- as I first brought up, there's other ways to do it,  
24    and I can comment on that in a second. But yeah, the  
25    methodology that I ultimately adopted was one very

01369

1 conservative, I felt. And I believe based on the  
2 company's rebuttal case that it ended up being very  
3 conservative.

4           And we haven't addressed this issue, or it  
5 wasn't addressed on cross-examination, but at the very  
6 beginning of my testimony, I described that the best way  
7 to do this would be to model using an hourly model and  
8 that I started to do that. The company -- obtained the  
9 model from the company but just did not have time to do  
10 that.

11           And the company in one of Mr. Dukich's  
12 exhibits, I think it's Exhibit Number 4, for other  
13 purposes submitted a study that was essentially or would  
14 be essentially exactly as I proposed for determining  
15 this dispatch credit. And it comes up with a number on  
16 the \$6 Million range. So I guess I felt based on the  
17 company's own study of this issue, even though it wasn't  
18 identified as such in that exhibit, that that's exactly  
19 the study I would have performed, and the number I would  
20 have come up with, you know, I'm assuming would have  
21 been about the same.

22           So they sort of did the study that I said I  
23 didn't have time to do, and the number ended up beng  
24 greater, so I felt pretty good about the conservative  
25 number I used.

01370

1 Q. I'm not sure what you mean by conservative.

2 A. Well, in this case where you're -- a  
3 conservative -- I mean throughout our testimony we tried  
4 to be conservative on some of these adjustments, you  
5 know, recognizing that as a matter of policy and as a  
6 matter of operations, I have no doubt that this dispatch  
7 credit is a proper adjustment, given the model that's  
8 used that I don't believe captures the hourly  
9 differences and what you -- how you can work it. So  
10 given that, a natural tendency in my mind is to try to  
11 develop a conservative number.

12 Q. Do you mean a number that is a smaller  
13 variation --

14 A. A smaller --

15 Q. -- from the --

16 A. It would be smaller in this case.

17 Q. -- from the Company's case or --

18 A. Well, the company does not even -- does not  
19 -- this issue is not even one that the company has.  
20 They -- the company has no credit, if you will, or  
21 adjustment that's related to this issue.

22 Q. You mean a smaller adjustment --

23 A. Right.

24 Q. -- than you might otherwise have?

25 A. Right.

01371

1 Q. It might be a bigger adjustment.

2 A. Right.

3 Q. But a smaller adjustment, it would be more  
4 conservative?

5 A. Right. If I had exhibit, Mr. Dukich's  
6 Exhibit Number 4 in front of me under the case now, my  
7 recommendation would have probably been \$6 Million a  
8 year instead of -- or something instead of the one that  
9 I have.

10 Q. Okay. Because yeah, the other question I was  
11 going to ask you is that Mr. Norwood points out that  
12 your results yield a result much lower than the prices  
13 you have included for Potlatch, which is 29 mils, so is  
14 your response that maybe the model Mr. Dukich later ran  
15 would be better?

16 A. Yes.

17 Q. Okay.

18 A. For this purpose.

19 Q. On page 33, you raise issues about long-term  
20 contract power sales, and I noted those examples. I'm  
21 unclear about your purpose. Is it to show that these  
22 are risky transactions? And if so, what do we do about  
23 it?

24 A. I think -- no, I think the purpose is twofold  
25 is that these type purchases, and they have been put

01372

1 under the category of long-term purchases, so therefore  
2 they have been included in the model and for revenue  
3 requirement determination. What I am trying to say in  
4 this whole section is that some of those are very  
5 similar to what I believe are the acceptably risky  
6 acceptable transactions that the company can do without  
7 a lot of risk.

8           So the purpose here was to identify ones, for  
9 example, some of these are straight buy-sell  
10 arrangements for the company, buys here and then sells  
11 here and either makes money on a margin or makes money  
12 on commonly its differences of splitting the  
13 transmission losses. That might be a way to make money  
14 by a margin on these.

15           So you may have the same rate, you buy here,  
16 sell over here, but this buyer had been paying  
17 transmission losses, and you may split them somehow with  
18 Avista because of their transmission location. Or there  
19 could be a mark up on some of these. And so that was  
20 the first reason to have the section, to identify those.

21           And the second reason is just sort of -- is  
22 just to identify that there is some -- that these  
23 issues, that these purchases and sales are important.  
24 And in the -- in the, for example, the past prudency  
25 cases, there have been questions about whether certain



01373

1 purchases were priced right, prudently acquired. And  
2 given some of the time constraints of this case, you  
3 know, I did not look at a lot of these, although, you  
4 know, I -- and I described several of them when I did  
5 look at them, looked good. It was just sort of to  
6 request that the -- or to remind the company that in the  
7 next rate case, we may want to be looking and make sure  
8 that when we make a wholesale sale or purchase that we  
9 need to have the analysis that shows that it is making a  
10 positive profit, that it doesn't just get kind of thrown  
11 in and assume that it's prudent for purposes of setting  
12 rates and putting in the power supply model.

13 Q. So are you recommending that --

14 A. No, we're not --

15 Q. Were you making a specific recommendation on  
16 what we do with this information?

17 A. I think my recommendation on this is that the  
18 company be encouraged to submit in subsequent rate  
19 cases, you know, the analysis and prudence determination  
20 for entering into these kinds of longer term  
21 transactions. Now staff fully understands that some of  
22 these are a year and a half, you know, or 18 months or 2  
23 years and very well may be in and out during rate  
24 periods. And we understand that and don't have a  
25 solution for that. But it is a problem when they are

01374

1 there, they are -- they're not 20, 30 year contracts  
2 like we used to have in the old days. These are 18  
3 month, 2 year contracts that are important when we set  
4 rates. So I think we need to perhaps have a little bit  
5 more emphasis in looking at them next time.

6 But we're not proposing any adjustment now.  
7 In fact, we are saying that the company did, at least in  
8 the several that I looked at, a pretty good job of  
9 making these transactions.

10 Q. Okay. Going to the Centralia issue, which I  
11 think is on page 35, I understood you to be saying that  
12 it's not that you don't think Avista needed to buy some  
13 power to replace Centralia, but that that particular  
14 contract being three years and maybe in the shape of  
15 Centralia, et cetera, isn't of the type or magnitude or  
16 gravity --

17 A. Right.

18 Q. -- of looking at a longer term power  
19 replacement for Centralia.

20 A. It --

21 Q. Or is it just not the whole exercise that one  
22 might go through; is that correct?

23 A. I think that's good. It may be the type, and  
24 it's just that there hasn't been a showing that the  
25 combination of let's say a three year TransAlta purchase

01375

1 and then something else that's been determined later by  
2 an RFP process that that was the right thing to do. I  
3 mean it could have been some other combination of things  
4 that that was the proper -- that was the proper thing to  
5 do.

6           The fear here is that it's not necessarily  
7 that the company should not get recovery of this -- of  
8 the amount here. The problem is in embedding that in  
9 long-term rates. That's the problem that staff has. It  
10 very well may be after a look and analysis that's  
11 submitted.

12           Now it hasn't been submitted to date other  
13 than just assuming that it's a 200 megawatt block. It  
14 may be assumed, it may be found out that this was the  
15 best thing the company could have done, to acquire  
16 TransAlta [deleted] and then develop an RFP process that  
17 recovers cost.

18           And I don't think we would deny recovery of  
19 those costs. It's similar to the Potlatch contract,  
20 that it's a contract that they have, and we're not  
21 saying it shouldn't be recovered. What we're saying is  
22 that it hasn't been, for purposes of embedding in  
23 long-terms rates where it may be 5, 10, 15 years before  
24 the company comes in for another rate case, is that what  
25 you want embedded in rates without a I think we used the

01376

1 word, you know, a prudency determination of a  
2 potentially 200 megawatt resource.

3 Q. So you're saying that in the meantime, keep  
4 -- assume the Centralia --

5 A. Just that was our --

6 Q. -- cost level?

7 A. That was our case at the time, which was  
8 submitted, I think, the day that the Centralia case  
9 became or the Centralia sales actually finally  
10 finalized. That was our position at the time, and this  
11 was separate from any gain at issue related to the book  
12 values. This was just the power supply expenses. So  
13 our assumption is that if we keep Centralia in, it's in  
14 rate base, it's in everything else that's in there, just  
15 to hold rate payers harmless for now, if you will, of  
16 this transaction and not embed it in base rates.

17 Q. So is that proposal to hold the Centralia  
18 amount a constant until a later proceeding, is that  
19 consistent with your proposal on the PGE contract  
20 revenue where you want to show actual and not assume a  
21 constant level, or what is it that --

22 A. Well, it is --

23 Q. It seems like the purpose --

24 A. It is somewhat --

25 Q. It seems like a different approach.

01377

1 A. It is somewhat a different approach, yes.

2 Q. Is it for -- is there a justification for the  
3 difference?

4 A. It's the only way we could figure out to hold  
5 rate payers harmless of the transaction. In the PGE  
6 case, there was, at least staff thought, clear net  
7 benefits from the transaction that we were hoping to  
8 share with rate payers and the company.

9 In the case of Centralia, I was looking at it  
10 straight from a power supply expense standpoint. It was  
11 the only way, you know, that we felt at the time, again  
12 given that the sale had not taken place and that we had  
13 indications may not take place, you know, of handling  
14 that -- of the TransAlta amount. And, you know, the  
15 problem here is, like I said, we have the 30, you know,  
16 or whatever the life of Centralia was that people are  
17 predicting versus this TransAlta sale being essentially  
18 a 3 year sale which some of it had already taken place.

19 Q. The last question that I have, well, maybe  
20 it's in two parts, but it relates to both the market  
21 transaction adjustment and the power cost adjustment  
22 mechanism. Did the staff or the company consider  
23 alternative forms of regulation, for lack of a better  
24 word, that might share risks and benefits, for example,  
25 performance based in the case of the market transaction

01378

1 adjustment or some other or in the case of the power  
2 cost adjustment mechanism, some way to share risks and  
3 benefits?

4 A. No, I don't think we explicitly talked about  
5 that. I know several years ago we had talked about  
6 potential PDR type rates and, you know, just in passing  
7 with what I think with various Avista staff. And, you  
8 know, essentially we end up with that in a way by, at  
9 least it's my opinion, that if we have a resource,  
10 whether it be the company's resources or, for example, a  
11 transmission line ownership, that if you come up with a,  
12 well, a reasonable amount that you can equate with the  
13 benefits of that resource and you kind of set rates in  
14 there, and essentially you become in our environment  
15 where the companies do not come in on a periodic basis,  
16 you do by default almost have a PDR, that if the company  
17 does better than that, and this is my testimony on the  
18 market transaction side, that if the company does better  
19 on market transactions of the type that I'm referring  
20 to, then they keep the benefits, and staff would not  
21 file a complaint to at least, you know, I would  
22 recommend we didn't file a complaint to obtain those  
23 additional benefits.

24 Same thing with market or this dispatch  
25 credit. That's a slightly different issue. That's to

01379

1 me an operational issue that just isn't captured by the  
2 model. So it's not like it's utilizing technology or  
3 knowledge or other resources that the other -- that the  
4 market transaction side of does try and capture.

5           And we made the similar recommendation in  
6 some of the other cases of the utilities where they  
7 acquire a resource. Okay, well, you spend X amount of  
8 dollars on it, how do you -- what do you do about  
9 revenues. Well, you kind of embed a certain amount of  
10 normalized revenues into the rate making process. If  
11 the company does better than that, then good. If they  
12 do worse than that, then, you know, they don't come in  
13 unless there's a pressure to come in for that and all  
14 the other reasons.

15           Q.     But I guess it's a -- I think I agree with  
16 you that once you set the rates, in effect it's a  
17 performance based system unless the company wants to  
18 alter that.

19           A.     Right.

20           Q.     Then that's --

21           A.     The company can always come in a for a rate  
22 increase.

23           Q.     Right.

24           A.     So it's a little bit one sided.

25           Q.     And that's the very thing that makes one

01380

1 hesitant to load too much into that rate base, whereas  
2 if you find ways to, for things that are volatile or  
3 risky, if you find ways to have it go up and down  
4 appropriately among the shareholders and the rate  
5 payers --

6 A. Right, then you get into other --

7 Q. -- it may be a better system.

8 A. Right. Then you get into other issues,  
9 incentives and that.

10 Q. Yes.

11 A. But you end up, I think, and maybe this is  
12 the case with the PCA and perhaps other things in some  
13 kind of a tracker, that it seems like the, well, two  
14 things, it seems like that that rates, I mean rate  
15 stability has always been a big thing in this state, and  
16 that's been a desired goal and generally is I think in  
17 most states. So you do have to address those issues.  
18 You have to address the return on equity type issues,  
19 what the effect of that would be.

20 And to me, another issue that you might have  
21 to address is that as you start putting all of these  
22 costs into something that changes, why are you doing  
23 that rather than just opening up the system totally and  
24 having the company be just a distribution provider.

25 So, you know, it's -- I'm not saying staff



01381

1 has taken any position on that, but it does raise  
2 questions that if you allow a total market, for example,  
3 a total power cost to be picked up, fluctuated by some  
4 kind of a tracker, essentially we're tying in the  
5 customers to a particular provider. When if you were  
6 kind of trying to get the benefits of the market, maybe  
7 you would want to do it some other way.

8 Q. I think they are good questions, and I'm not  
9 saying that I think or believe that a different method  
10 would be better. But I think I do recall, I believe  
11 anyway, on the day we suspended this case for hearing  
12 asking that the company and the staff consider those  
13 alternatives so that they could be considered or  
14 rejected.

15 A. And a PDR --

16 Q. If necessary.

17 A. -- in my opinion is sort of the opposite way  
18 of what the company has proposed in this case with a  
19 PCA. It's opposite approaches and I, you know, staff  
20 doesn't have a position on either one. That involves  
21 some pretty heavy policy issues too on which direction  
22 you might want to go.

23 CHAIRWOMAN SHOWALTER: I have no more  
24 questions, thank you.

25

01382

1 EXAMINATION

2 BY COMMISSIONER HEMSTAD:

3 Q. First with respect to the water year issue,  
4 and I don't want to spend a lot of time on this, but in  
5 the Puget case filed in 1992 for your -- or that order  
6 and directed the use of the 40 year period, and was that  
7 the same 40 years as the time span in this case?

8 A. No, I don't believe that the way -- it's a  
9 different 40 years. They -- the Puget case was  
10 concentrating on a 40 year rolling average depending on  
11 what block of 40 years was available. And since that  
12 case, the next ten years, they do it in ten year blocks,  
13 has become available, I believe. So it's gone from, I  
14 think, '38 to '39 or '78, and we now have '79 through  
15 '88.

16 Q. So you will --

17 A. So in this case, Towers incorporated through  
18 '88 back 40 years.

19 Q. The question I was going to ask is 1988 is  
20 now 12 years ago. We have essentially the whole decade  
21 of the '90's. Why aren't we using rolling averages that  
22 would be from 1958 to 1998 rather than '88 and to '48?

23 A. My understanding is that it literally takes  
24 that long to up, redo the models and add another ten  
25 years. It's not, first of all, it's done in ten year

01383

1 increments, and it's -- and I'm not -- and we had a  
2 discussion of this, and I'm trying to recall, a long  
3 time ago with the power plant counsel on just why it  
4 took so long. But it's pretty extensive effort to  
5 incorporate a new set of data and -- because essentially  
6 you re-run a whole river system.

7 Q. I understand that.

8 A. Right.

9 Q. I'm not a technician and I don't mean to --

10 A. I don't know why it takes ten years.

11 Q. I find it puzzling that --

12 A. Yeah.

13 Q. You think the annual data would be in this  
14 context relatively simple to --

15 A. I think in a lot of these cases, my  
16 understanding, I mean, you know, some years aren't even  
17 finalized until a year and a half, two years down the  
18 line of what its run off was for the -- so it's a long,  
19 long process.

20 Q. Because it's kind of troubling and puzzling  
21 that we're looking at data that ends 12 years ago.

22 A. Right.

23 Q. If you're talking about a rolling average,  
24 try to keep it updated, but apparently that's what -- it  
25 is what it is.

01384

1                   With regard to the prudence issue, I'm at  
2 this point a bit confused. What is the staff's position  
3 with regard to the company's evidence with regard to the  
4 prudence of the Rathdrum investment in the first place?

5           A.       We have avoided that issue by making this  
6 recommendation. The issue of whether a Rathdrum be  
7 incorporated into rates, whether it be through rate base  
8 or some part of the lease payments such as it is, such  
9 as the company has proposed, has always been in there  
10 because the company hasn't been in.

11                   It, on first blush, it looks like based on  
12 the ability to make the PGE sale, the original PGE sale,  
13 that Rathdrum looked like a good investment for rate  
14 payers. So at first blush. Now that doesn't address  
15 whether they could have made the sale without Rathdrum,  
16 you know, with existing resources or not. I'm not  
17 saying that. But first blush it looked like it was a  
18 good deal. And then there is the issue of whether  
19 Rathdrum should be a capital lease or not, different  
20 treatments.

21                   And we just chose I thought a very simple  
22 approach was we will just take care of that along with  
23 these other issues with this cash payment, if you will,  
24 for rate making purposes. Now that doesn't mean that  
25 the company has to go out and do this. This is for rate

01385

1 making purposes.

2 Q. So do I take it then staff has in effect  
3 finessed the issue --

4 A. Yes.

5 Q. -- of prudence by simply dealing with the  
6 proceeds? I was not asking the question with the sense  
7 of being skeptical.

8 A. No.

9 Q. Of the prudence of the transaction.

10 A. Right.

11 Q. But really simply the process.

12 A. I think that would be a good  
13 characterization, we finessed that and the other issues  
14 that are out there that we took care of.

15 Q. Now that issue with regard to the Centralia  
16 replacement resource issue, let's see, Mr. Schoenbeck  
17 urges that the Commission should direct Avista to  
18 provide additional evidence to support the prudence of  
19 that contract, I believe, and provide all parties with  
20 timely exam and respond with the evidence, and you would  
21 simply kick it forward to the next rate case whenever  
22 that occurred?

23 A. I think our approach is a little less drastic  
24 than -- even though we may believe that that is a  
25 potential to do with this, but I think we agree that

01386

1 there -- it's not a black and white issue, that the  
2 company, you know, rightly may not have been able to get  
3 a fair value, a fair price on something at the time,  
4 uncertain whether they would sell or buy Rathdrum.  
5 There's enough uncertainties in it.

6 Q. I'm sorry, Rathdrum --

7 A. Or not Rathdrum.

8 Q. -- or Centralia?

9 A. I'm sorry, Centralia, that there's enough  
10 uncertainties in that that we -- we really weren't  
11 trying to address the prudence of the TransAlta sale by  
12 itself. Our issue was more the potential prudence of  
13 the long-term transaction, which may or may not include  
14 Centralia in there as a short-term fix.

15 Q. Well, again, I really wasn't as much focusing  
16 on process here as on substance. In the Puget '92 case,  
17 I mean the issue of prudence was it ended up being a  
18 very contentious call. It's a big deal, I mean holding  
19 a special proceeding on that question to determine the  
20 prudence of those contracts. But now I hear the company  
21 hasn't been in for, again, a long time, and it's  
22 Rathdrum and now there's Centralia, there's a question  
23 of test year and so on. But is staff satisfied that the  
24 prudence questions either have been answered, or there  
25 will be a forum in which they will be addressed?

01387

1           A.       I think we're satisfied if the Commission  
2 adopts our recommendations or the majority of them that  
3 -- or the concept of what we're trying to do. There is  
4 always when you look at prudence I mean a degree in a  
5 sense. It's not always a black and white issue.

6                   And I think that when a company, you know,  
7 the company has had Rathdrum, for example, for quite a  
8 while, and there -- the staff thinks based on initial  
9 analysis that the rate payers have certainly benefited  
10 if you count that the company has stayed out from the  
11 rate increase as being a benefit, that's an assumption,  
12 and that if you -- even though the company may not have,  
13 you know, provided an exact demonstration that it was  
14 acquired in a certain fashion and at an acceptable  
15 price, it certainly from the information available  
16 appears that that would be the result. So I guess it's  
17 a matter of degree, and I think it was certainly  
18 different than the Puget case that I was involved in as  
19 far as, you know, the prudence of the resources that  
20 Puget acquired.

21                   So we tried to resolve as many of these  
22 potentially contentious issues by this overall  
23 recommendation that would still provide, you know, some  
24 benefit to everyone. And that's the approach that we --  
25 that we looked at and kind of took a long-term and

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1 hopefully kind of conservative approach. I don't know,  
2 it's a bit like a -- it's almost like an internal  
3 settlement that you obviously maybe don't resolve every  
4 single issue, but in the context of putting together an  
5 overall proposal, we thought that it flies fairly well.

6 Q. With regard to the issue of notice about the  
7 PGE contract monetization, how important was it or is it  
8 that the company didn't advise the Commission of that  
9 event?

10 A. In our opinion, we think it was fairly  
11 important that -- and I tried to explain that by  
12 comparing it to, for example, the Wood Power contract,  
13 the PURPA buyout in the Wood Power contract, and that  
14 was much less money but was a cost that the Commission  
15 did receive a letter of proposed accounting treatment,  
16 although no accounting order was requested in this  
17 jurisdiction, there was certainly some notice. And I  
18 guess given the magnitude of a, you know, \$16.2 million  
19 decrease in annual revenues and this cash payment, that  
20 we just feel like it was a substantial event that  
21 warranted a little more notice than perhaps the FERC  
22 filing slip.

23 Q. But did the consequence simply, you know,  
24 concern that the staff and the commissioners left in the  
25 dark about what's happening with the company, or does it



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1 have no real impact or consequences beyond that?

2 A. A little bit of both, I think, from our  
3 opinion. I think that we feel like staff was left a  
4 little bit in the dark, and Commission was left in the  
5 dark. And I think that as I discussed with Chairwoman  
6 Showalter that this is akin to a PURPA buyout, only the  
7 opposite, and that therefore there are benefits and that  
8 we would have been willing to discuss sharing those  
9 benefits and what to do with this if the company would  
10 have come in and --

11 Q. So it's --

12 A. A little bit of both.

13 Q. Sharing those benefits with some kind of a  
14 filing at the time, you mean?

15 A. Yes.

16 Q. I see.

17 A. And that's something that I think that at  
18 least as far as staff can tell, I mean, you know, when  
19 we did get the more responsive data requests that  
20 company staff certainly had in mind, I mean it was  
21 several places they, you know, it was in a memo saying  
22 we should notify the Commission. It was even, you know,  
23 as an example, on a document that set forth bonus  
24 percentages for rate division staff or Avista rate  
25 staff. One of the items on there was, I can't remember

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1 the exact words but, you know, accounting treatment or  
2 handling or notice of the PGE monetization contract.

3 And it was down there as X% as one of the bonus items.

4 And so I guess we're a little bit surprised  
5 given all the previous information and notice that we  
6 had that, you know, notifying both the Idaho and the  
7 Washington Commissions, although technically not  
8 required to, was something that should have been done.

9 Q. I won't pursue that any further.

10 Back on the water issue, I don't want to  
11 leave this hanging or I just wanted to pin this down, in  
12 view of what you said in the Puget order, in the stats  
13 you have, has there been any change in the industry or  
14 in the operation of the regions' river system that would  
15 undermine the suitability of the 40 year record?

16 A. In my opinion, no. I think that the changes  
17 that were -- some of the items that were outlined in  
18 Mr. Norwood's rebuttal testimony would affect all the  
19 methodologies. I mean if you -- there's a list of items  
20 in there of what I guess are called non-random  
21 variables, things that happen that would affect the  
22 river system, that would affect all of those.

23 And I think, you know, again I disagree too  
24 with the company's kind of assertion that one reason we  
25 look at it is the fact that we have different

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1 Commissioners, you know, I don't agree with that. So I  
2 don't think that any kind of material evidence that was  
3 provided would convince me to look at anything other  
4 than a 40 year or to maintain the 40 year.

5 Q. Another way of asking the question or  
6 pursuing the point just a bit further, in your  
7 professional view, do you consider the 40 year record as  
8 an accurate and realistic representation of the average  
9 water conditions appropriate for the use in the dispatch  
10 model or maybe --

11 A. I, you know, I honestly don't have -- I would  
12 have to say I don't have an opinion. Our position was  
13 that we maintained what the Commission had previously  
14 argued. I am not, you know, a statistician, and I was  
15 not associated with the consultant at the time that went  
16 through all of these issues and addressed them. And we  
17 had that, you know, I made that decision early on on  
18 this issue that it seemed to be clear that almost every  
19 feasible possibility had been addressed in previous  
20 cases from 115 years, 60, and on and on and on. And the  
21 Commission clearly made a decision based on what was on  
22 the record at the time, but the issue was more did the  
23 company provide anything additional that would do that.  
24 So I, you know, so I don't have an opinion basically on  
25 whether it does or doesn't.

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1 COMMISSIONER HEMSTAD: Thank you, that's all  
2 I have.

3 COMMISSIONER GILLIS: I don't have anything  
4 additional.

5 JUDGE SCHAER: I have just a few questions.

6 CHAIRWOMAN SHOWALTER: I have just one follow  
7 up question to that last discussion.

8

9

E X A M I N A T I O N

10 BY CHAIRWOMAN SHOWALTER:

11 Q. Does it make any difference to you that the  
12 40 years isn't as accurate as the 50 year when compared  
13 to the 114 year?

14 A. I think the more important issue if I had to  
15 look at it, and that the rolling average part of it is  
16 more important in my opinion. So, you know, 40 or 50  
17 years, I'm not, and this is my, you know, a  
18 non-statistician opinion, that a 50 years option, you  
19 know, may very be better, although I don't know why or  
20 how, than a 40 year. It's the rolling average part of  
21 it, I think. I think you do need some period, 30, 40,  
22 50 years that roll in spite of having this big lag that,  
23 you know, should be used in our rate setting process.

24 Q. It rolls, but sort of slowly?

25 A. Yeah.

01393

1 CHAIRWOMAN SHOWALTER: Thank you.

2

3

E X A M I N A T I O N

4 BY JUDGE SCHAER:

5 Q. Mr. Buckley, I wanted to ask you about the  
6 water record as well. Your recommendation that a 40  
7 year rolling average record be used is based on  
8 Commission precedent; is that correct?

9 A. Yes.

10 Q. And what reasons or what do you understand to  
11 be the reasons that the Commission based that precedent  
12 upon?

13 A. Well, the phrase that I -- that I get back to  
14 when I re-read the testimony and I didn't -- I didn't  
15 look at the work papers and et cetera, was the lower  
16 cumulative error phrase keeps popping up as being it  
17 seems like the biggest reason why the Commission chose  
18 to use the 40 year rolling average.

19 Q. And would you tell me what your understanding  
20 is of what the lower cumulative error means?

21 A. Well, if you add up, again prefacing that I  
22 am not a statistician, make no claims to it, that if you  
23 add up the difference between the actual and the average  
24 water, that the cumulative error is less as compared to  
25 other alternatives.

01394

1 Q. So as compared to what is the actual compared  
2 to the average?

3 A. Yes.

4 Q. And accumulated over some period of time?

5 A. Yes, and beyond that, that's about the extent  
6 of my knowledge of the statistics behind it.

7 Q. That goes a few steps beyond mine, so that  
8 was useful.

9 I would like to look at your proposal for the  
10 Rathdrum lease adjustment for just a moment. Does your  
11 proposal mean that Rathdrum expenses for fuel costs and  
12 O&M will be included in rates, but capital costs will be  
13 considered fully depreciated?

14 A. Well, yes, it assumes that the fuel cost and  
15 incremental O&M are included in rate base, or not rate  
16 base, but in power supply expenses. But your second  
17 part, it was not a capital lease.

18 Q. Okay.

19 A. So it would just be the expense lease  
20 payments would be not, but all the operational costs  
21 would be.

22 Q. All right. And is it your understanding then  
23 that as an operational lease, the net book value of the  
24 facility is zero for rate making purposes?

25 A. Yes.

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1 Q. Okay. And then looking at your  
2 recommendation beginning on page 24 of your testimony  
3 concerning the Wood Power contract, was the Wood Power  
4 contract evaluated in past rate proceedings?

5 A. No. Well, I'm trying to remember. I believe  
6 the very original was, I believe.

7 Q. When you say very original?

8 A. I guess I would have to say that I'm not sure  
9 now.

10 Q. Is there someone who you believe would know  
11 that who is testifying after you?

12 A. I can find out. Mr. Parvinen would be able  
13 to tell you, and we can look it up and give it to you.

14 Q. All right.

15 CHAIRWOMAN SHOWALTER: He's going to go to  
16 the library tonight.

17 A. It won't take long to look it up. It's just  
18 that as long as I've been up here, it's hard for me to  
19 remember yes or no with any form of certainty for that  
20 particular question.

21 Q. Looking now at your market transaction  
22 adjustment proposal beginning on page 37 of your  
23 testimony, would it be accurate to characterize your  
24 proposed adjustment as an imputation of expected net  
25 revenues from trading activity?

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1           A.     I would not limit it to trading activity. I  
2 would add in there other uses of the company's resources  
3 and transmission system. Trading to me implies, you  
4 know, more of the -- that it's all buy-sell arrangements  
5 or some other activity like that attempting to capture  
6 all these -- all the different transactions.

7           Q.     Okay. Has the recent volatility of the  
8 wholesale power market prices affected in any way your  
9 view of the risks inherent in this market?

10          A.     Not for the ones that I'm talking about here.

11          Q.     And do you still believe that your estimate  
12 of net revenues to be expected from trading activity is  
13 reasonable?

14          A.     Yes, I guess lacking -- I mean to comment on  
15 that, I think that I tried to use the information that  
16 was available to us that the company had provided. And  
17 if there is other information available, we did have a  
18 problem in this issue about not being able to identify  
19 which transactions were for purposes of this and which  
20 was for that. So we had to incorporate kind of just use  
21 the data we have. And if that data was still available  
22 and still before me, that's probably the same conclusion  
23 I would come up with.

24          Q.     Okay. And then looking at the discussion on  
25 power cost adjustment, particularly the discussion that



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1 you had with Mr. Meyer about what the company is  
2 proposing on rebuttal, what is your opinion of the  
3 revised proposal presented by Mr. Johnson in his  
4 rebuttal testimony?

5 A. My comments regarding the process by which  
6 it's looked at, you know, regarding other -- other  
7 people getting involved in some process still stand. I  
8 think it's simplified. I still have concerns about it  
9 not meeting, in my opinion, some of the requirements  
10 that have been previously set forth by the Commission,  
11 and particularly the explicit handling of equity based  
12 on the differences and risks. It still concerns me  
13 about the -- that it's not entirely or maybe not at all  
14 tied in to water conditions.

15 For example, you can have large adjustments  
16 that are during years where the water is exactly the  
17 same, but the normalized test year is the -- I don't  
18 know the concerns are so much that there's concerns  
19 related to the model or to the PCA itself, and there's  
20 also kind of overall concerns given the market whether  
21 we want to do this. So I guess I have to say that I  
22 still am concerned, although it did -- it did meet some  
23 of the issues that I have addressed in my testimony.

24 Q. And finally, I would like to ask you a couple  
25 of questions about Exhibit 206 for identification, which

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1 was Mr. Norwood's KON-3 on rebuttal, and was a table  
2 that looks like this. I thought I heard some questions  
3 asking you about this being front loaded and whether  
4 this appropriately matched the revenues from the  
5 contract. In looking at the bold line down the middle,  
6 which is the company \$12,058,000 figure, is that  
7 actually what the company is receiving from PGE from now  
8 into the future?

9 A. The company, well, a separate entity is  
10 receiving \$18 Million a year from system -- on a system  
11 basis from PGE. My understanding of the transaction is  
12 that PGE is still paying the same amount, but a 1.80 of  
13 that flows to the utility and -- or 1.8 Million, not  
14 \$1.80 but \$1.8 Million, flows to the company. And then  
15 the remaining portion is used to pay off the loan that  
16 provided the \$143 Million dollar payment, so they are  
17 receiving \$1.8 Million a year.

18 Q. And so looking at the shape of the  
19 monetization to the company where they got \$143 Million,  
20 would you consider that to be somewhat front loaded?

21 A. Yes. I think the company has indicated that  
22 is the case, that the front load payment by monetizing  
23 it also reduces some of the nonperformance risk of the  
24 contract. And that's really, I'm sure, one of the  
25 reasons why they did it. And it's been identified in

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1 there in the exhibits that I provided to my testimony as  
2 one of the reasons why they did it.

3 JUDGE SCHAER: Okay, that's all I had. Is  
4 there any redirect for this witness, Mr. Trautman?

5 MR. TRAUTMAN: Yes, I have one question.

6

7 R E D I R E C T E X A M I N A T I O N

8 BY MR. TRAUTMAN:

9 Q. You were asked by counsel for the company  
10 about technical advisory committee meetings. Do you  
11 recall that one question?

12 A. Yes.

13 Q. And I believe you mentioned that there was  
14 another staff member who works on power supply issues  
15 for the staff.

16 A. Yes, we have had several people, I think, go  
17 to these meetings over the last year. I have been  
18 involved in other issues, and I think typically I would  
19 have been going to those. I have went to those in the  
20 past and went to those with the other companies.

21 Q. And did these other staff members attend any  
22 of the three technical advisory committee meetings that  
23 were mentioned by the company?

24 A. Yes, it's my understanding that I believe  
25 attended two of them, and then on another occasion, they

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1 indicated they could not make it because of other  
2 commitments. And the company had it on that date  
3 anyway, but minutes were provided.

4 Q. And do you recall who those members were?

5 A. Well, neither one of them went, but the  
6 typical ones, Doug Kilpatrick and then MacIntosh going  
7 to some. But I'm sure other staff depending on the  
8 issues.

9 Q. And did you also indicate that minutes had  
10 been provided of those meetings to the staff?

11 A. Yes.

12 JUDGE SCHAER: Is there anything further for  
13 Mr. Buckley?

14 MR. MEYER: There is a matter. I would like  
15 to go off the record.

16 JUDGE SCHAER: Let's go off the record.

17 (Discussion off the record.)

18 JUDGE SCHAER: Let's be back on the record  
19 after a brief off the record discussion. During that  
20 discussion it was decided that one page of the  
21 transcript of today's hearing will be sealed. Did you  
22 wish to say anything further about that, Mr. Meyer?

23 MR. MEYER: No.

24 JUDGE SCHAER: All right. Is there anything  
25 further for Mr. Buckley?

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1 MR. FFITCH: Just one or two questions, Your  
2 Honor.

3 JUDGE SCHAER: Go ahead, Mr. ffitich.  
4

5 R E C R O S S - E X A M I N A T I O N

6 BY MR. FFITCH:

7 Q. Mr. Buckley, with regard to the 40 years of  
8 water data, it's true, is it not, that nobody in this  
9 case used more recent data than 1988, did they?

10 A. No.

11 Q. If 1958 through 1998 data were available,  
12 would staff interpret the rolling 40 year average policy  
13 to mean that that data should be used?

14 A. Yes, we are not trying to gain the results,  
15 whatever it is.

16 Q. And with regard to the hydro flexibility  
17 area, Chairwoman Showalter asked you what you meant by  
18 the term conservative. Does conservative in this  
19 context mean more generous to the company, or isn't that  
20 one way of phrasing --

21 A. Yes, I suppose it would be one way.

22 MR. FFITCH: Thank you. I don't have any  
23 further questions.

24 JUDGE SCHAER: Is there anything further for  
25 Mr. Buckley?

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1                   Thank you for your testimony, Mr. Buckley.  
2                   Is there anything further to come before the  
3 Commission this afternoon?  
4                   Then please be here promptly at 9:30 tomorrow  
5 morning. In fact, I would like counsel and the first  
6 witness here at 9:20 so we can get preliminary matters  
7 concluded before the commissioners join us. And this  
8 hearing is adjourned until 9:30 tomorrow morning.  
9                   (Hearing recessed at 5:35 p.m.)

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