BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, vs. AVISTA CORPORATION Respondent.	)	DOCKET NO. UE-991606
THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, vs. AVISTA CORPORATION, Respondent.	)	DOCKET NO. UG-991607 VOLUME XIV Pages 1760 - 1966

A hearing in the above matter was held on July 13, 2000 at 9:41 a.m., at 1300 South Evergreen Park Drive Southwest, Olympia, Washington, before Administrative Law Judge MARJORIE R. SCHAER, Chairwoman MARILYN SHOWALTER, Commissioners RICHARD HEMSTAD and WILLIAM R. GILLIS.

The parties were present as follows:

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

AVISTA CORPORATION, by DAVID J. MEYER, General Counsel, East 1411 Mission, Spokane, Washington 99202.

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

NORTHWEST ENERGY COALITION, by DANIELLE DIXON, Policy Associate, 219 First Avenue South, Suite 100, Seattle, Washington 98104.

Kathryn T. Wilson, CCR

Court Reporter

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P R O C E E D I N G S

JUDGE SCHAER: Let's be on the record. This is a hearing before the Utilities Commission on Dockets UE-991606 and UG-991607, which are rate increase requests from the Avista Corporation for its electric and gas utilities in the State of Washington. I'll note that the appearances appear to be the same this morning. We have Mr. Trautman, Mr. ffitch, and Mr. Meyer, and is there anyone on the bridge that is wishing to appear this morning? Hearing no response, we'll proceed.

The first matter that we have scheduled then for this morning is a discussion of how to proceed in study of water normalization, and I believe since we met yesterday, the Commission Staff and the Company have put together a proposal that would settle this issue between them, so I'd like to, at this point, mark for identification as Exhibit 740 a two-page document entitled "Stipulation," and ask that -- which counsel wishes to speak to this first?

MR. MEYER: I can lead, but I would hope that Staff would chime in.

JUDGE SCHAER: Why don't we start with your presentation of this document, Mr. Meyer, and Mr. Trautman, then I will expect to hear from you, and you then, Mr. ffitch, I would like to hear where Public Counsel is in all of this.

MR. MEYER: Thank you. As you appropriately stated, the parties were invited to discuss after the recess yesterday how this issue ought to be handled. In lieu of motions, in lieu of waivers of statutory suspension periods, in lieu of further contentious debate on the process in this proceeding, Staff and the Company have reached a stipulation as to this issue for purposes of this proceeding only.

The Stipulation itself is fairly short, fairly to the point. I'll briefly summarize Points 1, 2 and 3. Item 1 for purposes of this proceeding only, Staff and Avista will stipulate to the continued use of that rolling 40-year average methodology for purposes of normalizing the hydro adjustment for rate-making purposes.

The purport of that is that we would not be asking this Commission when it issues its final order in this proceeding to disturb that methodology or to change that methodology for purposes of this case. The second item is that in terms of the revenue requirement impact to this stipulation, for purposes of this proceeding only, there has been a compromise between the revenue requirement impact of Staff's position on the water year issue and the Company's position. That's reflected in Item 2, so the Staff's adjustment that would have reduced power supply expenses in the State of Washington by $3,952,000 would be adjusted downward to $1,976,000 as reflected in Item 2, and then that figure would be plugged into whatever total power supply adjustment is ultimately adopted by the Commission in this proceeding.

Thirdly, in order to be sensitive to what we understand are the Commission's concerns that the direct filing may not have incorporated enough information, there is a commitment here that should the Company choose to propose any modification to the continued use of the 40-year rolling average, we would in such future proceeding provide in our direct case full documentation supporting any change to that methodology.

With that, we would ask for a determination on this single-issue stipulation sooner rather than later. It doesn't have to be today, but we would need to know if this would be acceptable before we start the briefing in this case. I think that concludes my opening.

JUDGE SCHAER: Are there any questions for Mr. Meyer before we proceed to Mr. Trautman? Go ahead, Mr. Trautman.

MR. TRAUTMAN: Thank you, Your Honor. I think Mr. Meyer accurately has described the provisions of the Stipulation that we've entered into. Staff is aware that the Commission has indicated an interest in this issue, and that interest was generated by much of what was provided in Mr. Norwood's rebuttal testimony, and Staff recognizes that the Commission would like to address this issue in full, given full opportunity and full presentation of the issues.

Due to the time constraints that have been presented in this docket as well as the staffing constraints, Staff feels that this particular docket at this point is not the best proceeding to fully litigate this, should this issue need to be litigated, and we therefore believe this stipulation provides a reasonable settlement of this issue for this proceeding recognizing that in a future proceeding that the merits of the 40-year rolling average versus a 60-year period could then be debated, so for purposes of this proceeding, Staff would recommend that the Commission accept this stipulation and that it issue its determination as expeditiously as possible.

JUDGE SCHAER: Mr. ffitch, did you wish to join us at this time in this discussion?

MR. FFITCH: Yes, Your Honor. Thank you. Public Counsel does not oppose adoption of this stipulation. We would concur with the description by Staff counsel of the reasons why the Stipulation is a reasonable approach at this point in time. Public Counsel has -- and I believe we've expressed those yesterday -- concerns about the manner in which this and the timing in which this issue was raised, given the existing Commission clear precedent on this issue, and we believe that in cases where Commission precedent of this type developed in earlier proceedings with participation of all companies affected, as was the case with the '92 Puget decision and some of the earlier decisions addressing this issue, that when the issue is going to be revisited, it should be clearly teed up with an opportunity to be revisited in a similar generic fashion.

Given the procedural possibility here, that's not possible, so we believe this is a reasonable resolution at this time for purposes of this case. We are supportive of Clause 1, which specifically retains the rolling 40-year average methodology established by Commission precedent, not only in the cited docket, which is the Water Power docket, but established by the '92 Puget decision to which Water Power was a party.

In addition, we are appreciative of the Company's representation in Clause 3 that it does believe that it's appropriate in the future to tee this issue up, to use a nonlegal term, in a fashion that would provide for the better preparation of a record for Commission decision, so for those reasons, we do not object to the Company and Staff's Stipulation. If the Commission rejects this stipulation, Public Counsel reserves all rights to make any necessary or appropriate motions or to otherwise litigate the issue.

JUDGE SCHAER: Commissioners, do you have any questions of the parties?

COMMISSIONER HEMSTAD: I would just make a comment. Mr. Trautman's statement, I believe he said the Commissioners had indicated we would like to take this up, but it's not a matter of whether we would like to. It's a matter of what issues the parties put in front of us. I don't think we have any other choice other than to take it up because it was presented to us through Mr. Norwood's testimony.

JUDGE SCHAER: Just a moment.

(Discussion off the record.)

JUDGE SCHAER: The Commission will take this under advisement at this point, and we will get back to the parties as soon as we are reasonably able to do that. Let's go ahead this morning then with the two illustrative exhibits; Mr. ffitch?

MR. MEYER: Has this been admitted, Exhibit 740, or just marked?

JUDGE SCHAER: It's just been marked, but do you move its admission at this time?

MR. MEYER: I do.

JUDGE SCHAER: Any objection? That document is admitted. Thank you.

MR. FFITCH: Your Honor, I'm presenting nine copies of the two replications of the two large drawings that were made yesterday by Mr. Hill. Would you like me to take four copies back to Judge Caille?

JUDGE SCHAER: Yes, please.

MR. FFITCH: And again, for the record, it's my understanding that Mr. Meyer on behalf of the Company has reviewed these and does not object to the smaller size recreations of the documents which were prepared by Mr. Hill. Your Honor, as I stated off the record, we will submit the actual drawings for the Commission's file as well.

JUDGE SCHAER: These documents were identified yesterday, and let me again indicate that the document which says "Avista" at the top has been marked as Exhibit 628, and the next document which has

"BP equals five" at the top has been marked for identification as Exhibit 629, and those were being offered for illustrative purposes so that they could accompany the cross-examination testimony of Mr. Hill. Did you want to put these in by stipulation at this point since Mr. Hill is on the stand?

MR. FFITCH: Yes, Your Honor. I would like to put those in by stipulation between Public Counsel and Avista, and I believe Staff has no objection:

MS. TENNYSON: That is correct.

JUDGE SCHAER: These documents will be admitted for illustrative purposes, so I believe at this point we are ready to proceed with the testimony of Dr. Lurito.

(Witness sworn.)

DIRECT EXAMINATION

BY MS. TENNYSON:

Q. Good morning, Dr. Lurito.

A. Good morning.

Q. Have you prepared and filed what has been marked for identification in this proceeding as Exhibits T-632, 633 and 634?

A. Yes.

Q. Have you also prepared an errata sheet and

revisions to several pages of your testimony?
A. Yes.
Q. Were these documents prepared by you or under your supervision?
A. Yes.
Q. If I were to ask you the questions contained in these documents, if I were to ask you those questions today, would your answers be the same?
A. They would.
Q. Do you have any further revisions to make to your testimony at this time?
A. No, I don't.
MS. TENNYSON: I would move the admission of Exhibits T-632, 633, and 634.
JUDGE SCHAER: Any objection?
MR. MEYER: Possibly. In the revisions which were dated June 28th which were received shortly after that date by the Company, there are several substantive changes, including, as you could see from the revised pages, updates of certain information. I would not object to those revisions as long as when Dr. Avera takes the stand, I'm allowed one or two brief questions to allow Dr. Avera to again briefly respond to this supplementation.
JUDGE SCHAER: Ms. Tennyson?

MS. TENNYSON: I think I would reserve any objections. It's hard to say without hearing the questions whether I would have an objection to the questions. I would ask Dr. Lurito about the purpose of the updates and the changes to his testimony if it would help clarify it at this point.

MR. MEYER: Your Honor, I can save the suspense. I'm going to ask the question, "Do you have any reaction, Dr. Avera, to what has been filed as revised testimony," and he can respond accordingly. I don't think there is any mystery about it.

JUDGE SCHAER: At this point, I'm going to go ahead and admit the documents, and then we'll deal with that question when it comes, but I will indicate to you as long as we don't go off on a vast venture, it is probably appropriate to be allowed to get a response to that kind of question, Mr. Meyer.

MR. MEYER: With that, I have no further objection.

COMMISSIONER HEMSTAD: In view of the extensive number of changes, it would be helpful if the witness were asked what the purpose of these fairly extensive changes are.

MS. TENNYSON: Make I inquire?

JUDGE SCHAER: Go ahead.

Q. (By Ms. Tennyson) Dr. Lurito, the first change to your testimony is contained on Page 2. Can you describe the change for us and the purpose or the reason for that change?

A. Yes. The changes predominantly are occasioned by the update --

JUDGE SCHAER: Just a moment.

MS. TENNYSON: I'm referring to the revised Page 2 of the testimony at this point.

JUDGE SCHAER: Exhibit T-632.

MS. TENNYSON: The page that I'm looking at says "revised 6/28/00."

Q. Do you have the question in mind, Dr. Lurito?

A. Yes. The great, great majority of the changes that have been made are the result of a change in a cost of debt between the time Dr. Avera prepared his testimony and the year end. Because that occasioned a change in the cost of debt and a slight change in the cost of preferred, I had to change my overall rate of return. I did not change my capital structure. I did not change my views as to the cost of equity, but because of those changes which I had to make, that caused a rather large errata sheet which had to do with various coverage ratio changes and other measures of financial viability and integrity, and

that's the real cause, and this starts on Page 2 of my testimony, to answer your question, Ms. Tennyson, because there, I have to note that I'm lowering my overall rate of return recommendation to 8.64 percent from the 8.82 percent largely occasioned by the decline in the cost of debt that Dr. Avera provided to us via, I believe, a response to a data request by Public Counsel.
Q. Turning to Page 5 of your testimony with the "revised 6/28/00," is this basically where you explain the reason for those changes?
A. Exactly. I go through and explain why the cost of debt has been changed and why I have made a slight change in the cost of preferred. I recommend in this case I increased it slightly for the very reasons I just gave.
Q. In the errata sheet, as Commissioner Hemstad noted, there are numerous changes. Are those changes to the numbers to incorporate the numbers that are reflected on Pages 2 and 5?
A. That's largely the cause, yes.
Q. It wasn't a change in your analysis?
A. Not at all.
Q. Thank you.
MS. TENNYSON: The witness is available for

cross-examination.
JUDGE SCHAER: Go ahead, Mr. Meyer.

CROSS-EXAMINATION
BY MR. MEYER:
Q. Good morning. Would you turn to your exhibit, I believe it's 634, which contains a listing of cases in which you testified?
A. Yes.
Q. Would you turn to Page 8 of 8 of that, please?
A. I have it in front of me.
MS. TENNYSON: Your Honor, I have that marked as 633; am I incorrect in that?
MR. MEYER: It is 633.
Q. (By Mr. Meyer) This exhibit contains a resume of cases in which you've testified; does it not?
A. It does.
Q. Does Page 8 of 8 contain the most recent listing of cases in which you've testified?
A. Yes.
Q. The very last entry you show there is 3/96. Was that testimony in connection with Northwest Pipeline Corporation?
A. It was.

Q. The jurisdiction you list is Washington; you mean the other Washington?
A. Yes, the FERC.
Q. So that was an interstate pipeline set of testimony; correct?
A. It was.
Q. And then the last electric case in this jurisdiction in which you testified was the Puget Sound case in '93; correct?
A. Yes.
Q. That was listed as Docket UE-921262; is that correct?
A. Yes.
Q. That was approximately seven years ago?
A. That's how it subtracts out.
Q. Dr. Lurito, in the last seven years since you last testified on electric matters in this jurisdiction, would you agree that taken as a whole, the electric industry has undergone some rather significant changes?
A. Sure.
Q. Among those changes, would you agree that during that seven-year period, there has been an increased level of competition both at the wholesale and retail level?

A. Yes.

Q. Would you agree that there has been a substantial amount of diversification in the industry at large?

A. Yes.

Q. Would you agree that there has been a significant consolidation?

A. Do you mean by mergers?

Q. Yes, mergers and acquisitions.

A. Yes.

Q. Would you agree that there have been substantial efforts in the area of asset divestitures?

A. There have been several utilities that have undergone a lot of those.

Q. Would you agree that transmission unbundling has occurred based on FERC directives?

A. Yes.

Q. Would you agree that even more recently there has been substantial increase in the last few years of power market price volatility, power volatility?

A. To be honest with you, I have not made a study, and I'm not aware of any studies in that area. I'm not saying there hasn't been, but I couldn't say yes or no because I haven't done a study of that.

Q. Are you generally aware of power price

spiking in various regions of the country over the last few years?
    A.   I've certainly read about this.
    Q.   Dr. Lurito, have you followed recent volatility or variability in power prices in this region?
    A.   Again, I have not made any study. I have read accounts of this occurring, the reasons for which perhaps is a matter of opinion among experts. I'm certainly not an expert in this area, but I've read about these things, yes.
    Q.   Would it be fair to characterize that volatility in power prices in this region as substantial?
    A.   I don't know.
    Q.   Again, I'm not asking for anything by way of a precise estimate or precise recall, but do you have any recollection of the recent range of power prices at either the Mid-C or at COB?
    A.   No.
    Q.   Did you have reason before taking the stand today to read the rebuttal testimony of Mr. Kelly Norwood?
    A.   No, I did not read that.
    Q.   One other matter before I get into some of

the particulars of your testimony. Did you testify, as I believe your resume indicates, in a Washington Natural Gas Docket UG-920840?
A. If it's on that piece of paper, then I did.
Q. Do you recall?
A. I think I remember.
Q. Fair enough. Do you recall whether or not in that case your overall recommended rate of return recommendation was precisely the same as that of Public Counsel witness Mr. Hill?
A. In that case?
Q. Yes.
A. I have no recollection of that.
Q. Would you agree subject to check that it was?
A. Sure.
Q. And that that figure as recommended was 9.11 percent?
A. Sure.
Q. Prior to your revisions in this case, was your overall rate of return recommendation the same as Public Counsel's?
A. Yes, that's my understanding.
Q. To the basis point?
A. I believe to the basis point.
Q. Thanks. Setting the stage with your

testimony in general, are you recommending a 10.4 percent return on equity?
A. Yes.
Q. Was that based on the results primarily of a constant growth DCF model applied to a group of five other utilities?
A. Yes.
Q. For the six-month period October '99 through March 2000, did you calculate an average historical dividend yield for a proxy group of these five utilities?
A. Yes, for that group of five utilities.
Q. Didn't you also review five- and ten-year historical growth rates and earnings per share, dividends per share, and book value per share?
A. Yes.
Q. And you concluded the cost of equity for this group of five utilities fell in the range of 10.02 percent to 10.23 percent, and you selected 10.15 percent as the recommended cost of equity; correct?
A. Fair cost of equity, yes.
Q. To which you added a 25-basis-point allowance for equity flotation costs; correct?
A. Yes.
Q. Thereby producing your 10.4.

A. That's right.
Q. Among the group of companies in your proxy, you have a CH Energy Group, Inc.; do you not?
A. Yes.
Q. And RGS Energy Group, Inc.
A. Yes.
Q. Are those companies subject to the terms of industry restructuring in New York?
A. Yes.
Q. As part of that restructuring, has there been or will there be active discussions surrounding the developement of an independent system operator, an ISO?
A. Yes. That's being discussed and that's what's involved, yes.
Q. With regard to those two companies, would you agree that in New York, retail markets are scheduled to be open to competition by June of 2001?
A. Yes, that's the plan.
Q. CH Energy is among your group?
A. Yes.
Q. Will CH Energy begin auctioning off its nonnuclear generating capacity?
A. Yes. It will be a company that will have little or no native generating capacity.
Q. Isn't that company also formulating a new

holding company structure that will focus more on nonutility activities?
A. Sure.
Q. Back to RGS Energy, has it entered into a competitive opportunity settlement that allows for the opening of electric markets, if you know?
A. I think it has. That company, as you know, owns generating capacity, unlike what used to be CH Energy.
Q. Your answer is yes?
A. Yes.
Q. Hawaiian Electric Industries, HEI, is it engaged in expanding its investment in international independent power operations?
A. Yes. It's in the process of doing that.
Q. Does it presently maintain on a diversified basis ownership in savings bank operations?
A. Yes. It owns American Savings Bank for a long time and has recently made an acquisition in what used to be a Bank of America operation, and it accounts for the great, great majority of its nonregulated activities; although, it's regulated in a certain sense, but not a utility.
Q. Of those nonregulated operations, can you agree subject to check that the savings bank operations

of HEI account for approximately 27 percent of consolidated revenues and approximately 70 percent of assets?
A. Yes, I would agree with that.
Q. Next, is United Illuminating Company a member of your group?
A. Yes.
Q. Would you agree that that company is expanding into the competitive sector through its unregulated subsidiaries?
A. Sure.
Q. Do those unregulated subsidiaries deal in the areas of bill payment?
A. Yes. They have a very wide range of activities.
Q. Among those activities are specialty electric, electrical telecommunications, and mechanical contracting services?
A. Sure.
Q. Also, would you agree that UIL -- that's United Illuminating Company -- is expanding it's nonregulated operations to include participation in fiber optic networks?
A. Yes.
Q. And the sale of energy management services?

A. Yes.

Q. Do you know, does it plan to place its transmission holdings into an independent transmission company by 2001?

A. I don't know that. I know that it has or will have virtually no generating capacity. What it does with its transmission I'm not exactly sure if that's been decided or not.

Q. We've gone through a litany of your five companies. We've talked about what they are doing in the competitive arena, the restructured arena, or through diversification. Were you attempting to, through your selection criteria of your proxy group, identify companies with stable pasts and futures?

A. Yes. Certainly stable pasts. When we talk about futures, we are talking about what a reasonable investor can rationally expect given the facts as we stand today.

Q. Return for a moment to HEI. Were you aware that in their pending rate case that the Division of Consumer Advocacy filed testimony in May of that year recommending a rate of return on equity of 11 percent?

A. I don't know that, but as I recall, there was a band put around, to put a one-percentage-point band around that. I believe that's what they are trying to

do. That is what's proposed.
Q. Can you accept that subject to check?
A. Sure.
Q. Did that same Division of Consumer Advocacy combine that recommendation with a capital structure of almost 49 percent for common equity?
A. I don't know that.
Q. Would you accept that subject to check?
A. Yes.
MS. TENNYSON: Counsel, do you have information from which he could check that?
MR. MEYER: Yes, we can provide that.
Q. (By Mr. Meyer) All else being equal -- let's ask this question in the abstract. All else being equal, does a 42-percent ratio for common equity imply greater financial risk than a 49-percent equity ratio?
A. If you say everything else the same?
Q. Yes.
A. Well, everything else the same, sure, but usually everything else isn't the same.
Q. Let's go deeper into capital structure. Did Avista's consolidated cap structure at year-end '99 consist of 43.2 percent common equity after adjusting for the conversion of the convertible preferred?
A. Yes. Just for the record, what that means is

if the amount of outstanding preferred at that time which ultimately was converted had been considered common equity, would the equity ratio have been 43.2 percent, and if that's your question, the answer is yes.
     Q.   And that preferred was converted; correct?
     A.   Yes, it was.
     Q.   You've arrived at an equity ratio of 42 percent, haven't you?
     A.   That's my recommended capital structure containing 42 percent common equity, yes.
     Q.   Would you turn to your Exhibit T-632, Page 26, please? I'll direct you to Lines 14 through 16 of that, so that's Page 26, Lines 14 through 16. I'll read, quote, "In my opinion, Avista Corporation's year-end 1999 capital structure with the preferred conversion taken into account has somewhat too much common equity capital, given the relatively low risk of Avista utilities, electric, and gas operations," end of quote. Have I accurately read that?
     A.   You did, yes.
     Q.   Is this 42 percent below the average common equity ratio for the five companies that you otherwise relied upon for the purpose of establishing the cost of equity?

A. Yes. That average was 43.4 percent at year-end 1999.

Q. So for one purpose, you use that group to establish cost of equity, but you did not use that group for purposes as a proxy for establishing the equity component of the cap structure; correct?

A. I wouldn't say that's true. If you mean by that that 42 percent is somewhat lower than 43.4, it's hard to disagree with that, but it's very much in line with the capital structure of the group of five that I selected for analysis. It's very much in line with what the capital structure that Avista had with the adjustments you and I have discussed at year-end '99. It's above what Dr. Avera had testified to by way of a reasonable capital structure in his testimony in Idaho in 1998, I believe, which had considerably less common equity than I'm recommending in this case.

Q. You familiarized yourself with Mr. Hill's testimony?

A. Yes.

Q. In a similar fashion, he developed a proxy group for purposes determining cost of equity, didn't he?

A. Yes.

Q. But did he, if you recall, use that same

proxy group and develop an average for purposes of proposing a specific equity component of the capital structure?
A. I don't recall that one way or the other. I know his recommendation was around a 39 percent equity ratio for regulatory purposes, but I don't recall if it was based on an average of his proxy group or not.
Q. Thanks. Dr. Lurito, does Avista's lack of a power cost of adjustment clause in this jurisdiction impose more uncertainty on Avista than would be the case if it had a PCA?
A. That's a good question, and I think the answer is, I don't know, but I would say to the Commission and to you as follows: We have a very unusual circumstance with respect to Avista utilities to the extent that it has -- its operating in a jurisdiction, Idaho, which has had a PCA, and it obviously operates in Washington state where it has not had a PCA. The Company has the same sources of power for both jurisdictions.
If I were the Company, what I would have done is I would have done a study of the volatility of the operating results -- obviously, adjust it for regulatory matters -- in Idaho and compare it to Washington state, because it's a perfect laboratory

test as to whether or not the absence of a PCA in Washington has led to more volatile operating results, appropriately adjusted, of course, as opposed to Idaho, but I don't see any study. Maybe the Company has put one in and I've missed it, but if I were the Company, I think this is a great way of saying this shows what having a PCA or not having a PCA in a company that is operating in two jurisdictions.

So I can't answer the question, but it would seem to me that that would be an important thing to look at, and I think the Company, instead of saying that the PCA is going to minimize volatility and going to lead to less risk because it's going to stabilize earnings, if I took that position, and I were the Company witness, to be honest with you, I would do a study to show that that's the case if I could.

Q. Dr. Lurito, did you testify in the Puget case Docket No. UE-920433?

A. It sounds like I did, yes.

Q. In that docket, Dr. Lurito, did you argue that the existence of a pram resulted or in your view should result in a reduction in the cost of equity?

A. I don't recall if I did, but I remember though that the pram was a little different concept, as I recall, than the PCA here. Now, it's been a long

time so you will have to excuse me, but I believe that the pram was a little different mechanism.
     Q.   Did it serve to capture through a tracking measure some level of volatility?
     A.   That's always the case, so it would have to.
     Q.   In power prices?
     A.   Sure.
     Q.   But you are not proposing in this case -- so I gather at least your vague recollection is you did propose something by way of an adjustment to cost of equity based on the existence of a pram-like mechanism; correct?
     A.   I've got to be honest with you; I don't recall my specific testimony in that case, so if you had it and you handed it to me, I'd be happy to, but I don't recall, and I don't want to testify to what I really don't recall.
     Q.   That's fair enough.
           MR. MEYER: That's all I have. Thank you.
           JUDGE SCHAER: Thank you. Did you have questions for this witness, Mr. ffitch?
           MR. FFITCH: I do not, Your Honor.
           JUDGE SCHAER: Do the Commissioners have any questions of Dr. Lurito?

CROSS-EXAMINATION

BY CHAIRWOMAN SHOWALTER:

Q. I have a question, but it's almost as if you are going to have to help me with my question. I know what I want to get at, and that is if you consider today's environment and its effect on regulated utilities or the regulated portions of broader companies, it seems without question that there are greater uncertainties operating on them today than there were 10 years ago. Am I correct on that? If I'm wrong there, I can't ask the rest of my question.

A. No. I know what you are asking me, and I think it's really important. I'm a person who when asked any question, I search for the principle, because I think we can get confused by what we see in sound regulatory principles.

It's been a sound regulatory principle, at least as long as I've been in this area, that each bucket stands on its own bottom, and what that means is that if I were a commissioner, when I analyze a regulated operation, I must put blinders on and ask myself the following question: What are the risks of this regulated operation? Forget about whatever the company might be doing. They might be doing some very risky things, and that leads to uncertainties of all of those things. There is no question about that, but the issue before us or me, I think, is what is a fair and reasonable return? What is a fair and reasonable capital structure for the regulated operations of this company?

Q. Before the spot leaves my brain, I want to interrupt you. You are getting right at the issue that I'm concerned about and what I hadn't followed up yet with you and I interrupted my own question was what I am trying in my mind to analyze is how to separate the risks and uncertainties that attach to the nonregulated part from the risks and uncertainties that attach to the regulated part, and my gut says it's not appropriate to pretend that the regulated part is just like it always was, because I don't think it is, and yet, as soon as we are talking about risks and benefits and uncertainties and competitive ventures and deregulation, it's very difficult to analyze what part of this is really just the result of a company's going off on various competitive ventures, which it's entitled to do, and there are many more opportunities for in this day and age, versus if there ever were, and they are just a plain old regulated utility, it nevertheless would be subject to price spikes and things like that, so I'm just wondering what

conceptually how you've dealt with that issue.
A. I've dealt with it by trying to select a group of companies which are as of now as untouched, as pristine as you can imagine to compare to Avista Utilities. If you look at Avista Utilities, I think it's fair to say -- I'm talking about the regulated operations now -- that it's largely intact relative to what it was. We don't have any retail competition, at least at this point, and if it is, it's certainly off sufficiently in the future where no rational investor would say, "We are going to have it in year 2003 on May 31st," kind of thing.
Q. There is a much higher probability of that occurring than, say, five years ago. You have to take that risk into account.
A. That's interesting that you say it's a risk. Everybody keeps telling me it's such a wonderful opportunity. I understand what you are saying, but what I'm saying is that investors tend to put their money where their mouth is, meaning they try not to guess too much, "Oh, I think this company is going to get into nonregulated operations and is going to make all this money." I don't think rational investors do that. They wait and see. They look at what they have in front of them, and when things begin to change, yes

they change.

I agree with you. It's much harder today for a witness like myself or Dr. Avera or Mr. Hill or anyone else to get on the witness stand and find a group of what we would call comparable companies. There is no doubt about that. I don't think anyone would disagree. However, there are more comparable companies as opposed to others, and as you probably know, I criticize Dr. Avera because I felt the group he chose and the assumptions he was forced to make involved a lot of guess work. I tried to choose a group where that wasn't the case.

Avista Utilities is largely, largely untouched by many things that are going on around the rest of the country with respect to risks, and I'm saying to you that in my judgment, the companies I have chosen are of comparable risk, and Avista Utilities itself is not a high-risk utility in the United States, given the changes that we've seen, but I agree; you cannot take this in total isolation of everything else, because the world in which we live is changing and it's complex.

Q. Is your approach to look at other companies that are also largely utility but have some nonregulated aspects to them and then just say, "Well, those are comparable," or does your effort go one step further and try to separate out the regulated part?

A. You can't do that. It's like trying to unscramble an egg once its scrambled. You have to take the utility for what it is, but if you look at my testimony, you see I did my utmost best to choose companies which were as untouched as possible. For example, high payout ratios, earning the allowed rate of return, very low amounts of nonregulated activities, so I tried to choose companies that an investor could rationally analyze and say, This is what a reasonable person would expect, as opposed to a company that is off into so many things like Avista is where only 14 percent of its revenues come from regulated operations, for openers.

Q. So you didn't try to unscramble the egg, but you said these companies have the same amount of cheese and mushrooms in them, one being regulated and one being nonregulated?

A. Exactly. You try to get as close as you can to ideal. You are never going to hit it, but you don't mix apples and oranges by taking companies that are already -- there are a lot of companies that are further down the line in this regard than Avista. I want to take them out, because frankly, I don't know

what investors are thinking in that regard, and I don't think anyone does. I'm trying to choose companies that are much easier to analyze.
Q. But of the companies you chose, did you choose companies that don't have much nonregulated or have about the same nonregulated as Avista?
A. Worlds less.
Q. So you were trying to get as close to the nonregulated component as you could in the real world.
A. Exactly. And the only one that you would say has kind of a high one, which is Hawaiian Electric, which Mr. Meyer and I discussed, but that operation is a banking operation which has its own forms of regulations, as you know. It's not something like they are off building fiber optic cable. I chose companies that have small nonregulated operations.
Q. So you are saying the regulated component of Avista should be viewed as comparable to this other set of companies that doesn't have very much nonregulated.
A. Exactly.
Q. Thank you. One other statement you make, there was talk about looking in the past and future of what had been stable in the past, and then Mr. Meyer asked you a little bit about what you meant in the future, and you said some words about reasonable

expectation, and what I was unclear about is the investor looks to the future and says, What is the reasonable expectation of stability or nonstability, and you are saying, If you look at those comparable companies, it looks pretty stable; is that what you were saying?
     A.   Yes. As far as any rational person can see. I'm not saying that change isn't going to overtake even some of these companies in the future. That would be a silly thing, but I'm saying right now an investor puts his money on what he can see and measure.
           For example, we have higher dividend yields of these companies than the growth Dr. Avera chose, and that suggests the growth prospects are less than the ones he's talking about. He had to make a lot of inferences about the growth in the earnings per share, the nonregulated sector, the regulated sector. Who knows? What I'm saying is, let's take a group that we can reasonably anticipate as being stable for the foreseeable future.
     Q.   Are you looking at a group that's going to be stable in the future, or you looked at a comparable group and it's going to be stable in the future, therefore --
     A.   I looked at a group that I think rational

investors would expect would be reasonably stable in the foreseeable future.

Q. Is the reason you were looking at that is that you feel Avista's regulated component will be stable?

A. Yes. Reasonably stable in the foreseeable future, sure.

Q. Now I do want to put the blinders on. I'm not thinking about the nonregulated side. I'm just thinking about the regulated component, and I'm looking at today's environment, and there have been bills in the legislature for restructuring, although declining interest rather than increasing interest over the last four years, anyway, but there are various activities that the federal and state level that one would call "emerging competition," I guess, so that seems to be for Avista, as well as other regulated utilities in the country, maybe more so for other parts of the country, a measure of instability or a probability of instability. Since all regulated companies are subject to this environment but some more active than others, how are you dealing with that issue? Are you at least taking it into account in some way?

A. There is one very clear way to do that and that is to look at what investors do. We look at what investors do for the market prices they are willing to pay for these companies. What's interesting about the group of companies I selected, in my view, is set out on Page 16 of my testimony, and I think it's very, very instructive. What it shows is that the group of companies that I selected for study, they are earning virtually the same as their allowed rate of return.

Now, what that means is that a rational investor cannot be expecting significant increase in earnings or dividends per share because the company will go from a sub power earner to an allowed rate of return earner or even above. Now look at the market-to-book ratio. That's where the rubber meets the road. The market price that investors are willing to pay for these companies is 15 percent above their book value. What I have indicated is that we only need a regulation only need target of 1.04 market-to-book ratio for reasons I've given in my testimony, but what this tells is, is the investors in these stable companies, which are earning their allowed rate of return, investors are putting a 1.15 market-to-book label stamp on those companies, meaning they are willing to put their money up 15 percent above book value to buy those companies.

Q. So you are saying you didn't just decide on your own that you think Avista is going to be stable. You are basing that on what the market is doing.

A. Right. For companies that I have tried to show are of comparable risk to Avista utilities operations as I can get.

Q. One other question. I'm still in just the regulated utility mode and its environment. What do you do about actual behavior, for example, trading in the regulated utility, which exposes the utility to a lot more risk? Is that a decision by a company that we disregard because it doesn't have to be done or maybe other companies are not doing it? How do you incorporate decisions in the utility to take on more risk?

A. The first thing you have to do to analyze that is to ask yourself, What kinds of things do people who are responsible for making those power purchases and energy purchases, what is different about the environment in which they operate today as opposed to five or ten years ago, because as you know, this company has never had a PCA.

What's different about what those buyers, the people that are responsible for making these purchases, what is it about the market that they face that puts it more subject to risk? That's the right question to ask, it seems to me. I'm not sure we've heard the answer to that. People make bad decisions, and you can blame the market, but it may not be the market at all. It could be the individual. It could be that individuals are straying from what used to be more conservative principles, if you will, in making these purchases. I don't know. I haven't done a study of this, and I do not have the knowledge to get into the specifics, but if I were sitting in your chair, I would be asking myself, What is it about the market in which these people need to make the decision today that differ, Question No. 1.

Question No. 2 would be, Will a PCA guard against or reduce the risk that they face? It doesn't necessarily follow that even if they are operating in markets that seem to be riskier that a PCA would solve that problem. That may not be the case at all.

Q. Well, it would shift the risk, wouldn't it?

A. Shifting the risk is one thing, but solving the problem is another, if you see what I'm saying. If we say, Well, consumers will pick up the risk, that's nice, but does that mean that those people are going to make better decisions because of that? Are they going to be more careful? I think that's something we really have to think clearly about.

Q. We have to take a break at 10:45, but I'll tell you what the question is going to be. One more basic question and it's very basic, and it's just explain the difference to me conceptually of constant DCF, nonconstant, and multistep.

A. I'd be happy to.

JUDGE SCHAER: We are going to take our morning recess at this time. Please be back promptly at 11 o'clock. We are off the record.

(Recess.)

JUDGE SCHAER: Go ahead with your questions, Chairwoman Showalter.

Q. Give me a thumbnail distinction, constant, nonconstant, and multistep?

A. I think the best way of doing this is just to take this piece of paper, and this is time in this dimension, and this is percentage growth in earnings per share or dividends per share or what have you. In the old days when we were in a more stable world, you could analyze historical behavior in these components and say, We are standing right here at a hearing, and the idea was, How fast are these earnings per share going to grow?

Well, in those days when we had a reasonable amount of stability, people could pick a range, and they might say, I think earnings per share or dividends per share are going to grow between three percent and three-and-a-half percent into the indefinite future. Investors are viewing the world as reasonably stable so they contemplate, as far as they can see, a relatively stable earnings per share or dividends per share growth.

Then with the advent of all the things that Mr. Meyer talked about and you've asked about, the competition and other things, people said, Well, unfortunately, the utility is not, perhaps, going to face this kind of stability into the future because they are going to get involved in many other things other than utility operations, and even within that sector, it may be that things like generation will become competitive and transmission and distribution continue to be regulated, so they said, The way we have to do this is view the world in stages. For example, I could see a reasonable stability for a five-year horizon, but then, something is going to change so that going forward, we are not going to be growing at this constant rate but growing at a new perhaps higher rate, so they introduced a second stage instead of just one constant stage, two stages that would be a two-stage DCF model. The only complication of a multistage is where, perhaps, they contemplated even something else out further so they had to deal with three stages of growth that in their view the investor was thinking about one growth rate for a certain period, then another one for another period, and then perhaps a third or fourth beyond that. (Witness indicating.)

Q. On that multistage scenario, is it that that's an ideal or you don't want to invest unless you see this stairstep of growth, because I as an individual investor were looking in the future and things were getting competitive, I would assume somebody wasn't going to grow. Somebody was going to go down the tubes, so does that mean I'm looking for the company that is going to grow or an industry is going to grow?

A. You put your finger on the real problem and that is this: Just because we have now a multistage model doesn't mean you and I know any more at all. In fact, one of the reasons we may introduce it is because we know less about the future. We weren't as confident as though people back then that said, "Three, three and a half, that's it folks," because they lived in a different world, so what you are suggesting and you are right, what this model has done is it's trying to capture changes in risk and in perceptions, and they go up and down when in fact, we don't know, and that's the reason why I said about Dr. Avera that his model had to make so many assumptions about what investors were expecting to hear for the future. No one in my judgment can foresee that kind of thing, so what I tried to do is pick companies, few though there were, that I still could be more confident in their growth rate, because I don't know how to do this. I don't, and it's just a measure of our ignorance, really.

Q. So you picked companies that you could be confident with stay in that more stable period, and to get back to our earlier discussion, you feel it's legitimate to hold the regulated part of Avista to that kind of standard because of not just your opinion about the regulated part of Avista but what you say investors are actually doing.

A. Exactly. For example, one of Dr. Avera's companies is Pico Energy, which is earning 35 percent on equity and has a very large book to market ratio. I have no idea if that company is going to earn 35 percent on equity in the future. How do you analyze that company? I have no idea, and I don't think any person has one. That is a risky situation. I want to choose companies that I can be reasonably confident that their growth rate is within a reasonable boundary, and that should measure the risk of something like Avista, the utilities portion of Avista's operations.

Q. Just so I'm clear, I understand constant, but what is nonconstant versus multistage or are they the same?

A. Nonconstant is just a part of a larger set called multistage. Multistage, I put three of them up here. Theoretically, there could be an infinite number, but that falls into the set called nonconstant. Anything that has more than one stage that is different is obviously nonconstant. That nonconstant could have three stages, 15 stages, whatever the period.

Q. So nonconstant and multistage are the same. Is there some other kind of nonconstant other than multistage?

A. It's just that multistage could be two or ten or whatever, but the way to break it down is constant and nonconstant, and within nonconstant, it could be two or more.

CHAIRWOMAN SHOWALTER: Thank you.

CROSS-EXAMINATION

BY COMMISSIONER HEMSTAD:

Q. Do you have an opinion as to whether or not hydrobased utilities are more or less risky than other types?

A. Everything else the same, they should be less risky.

Q. Why?

A. Because presumably, the only thing you have to worry about is water flow and what have you, but over the long term, that should average out as opposed to other forms of power generation which could mean different kinds of competition have things happening to them that are a lot more unpredictable than what might happen to hydroelectric power, it would seem to me.

Q. I was interested in your conversation with counsel about PCA and comparing the possibility of comparing Washington and Idaho, and you would agree -- assume that with a PCA. I think you stated that risk is shifted away from the shareholders to ratepayers.

A. Right, and then the Commission in a PCA hearing has to decide whether or not a spike or some aberrant market phenomenon, was that something that a rational trader, marketer should take into account? Should he have known that or she known that?

In other words, then you start having to decide what phenomenon you will consider something that yes, no rational person could have expected that, or yes, a rational person should have expected that. We

are not going to allow that cost, so then PCA hearings become forums for trying to figure out what the utility should or should not have known or done, and that in itself becomes a complex exercise, it seems to me.
     Q.   With or without a study, the question is were we to adopt a PCA, then does that require a lower rate of return because it's less risk for the shareholders?
     A.   My answer to that was in the case here, I don't know the answer to that. It might, it might not, and that's why I suggested I would like to see a study, because we have a wonderful laboratory example here because we have the same company operating in two jurisdictions, one with a PCA and one without. Why don't we look at a 10-year, whatever, horizon of volatility of earnings to see whether or not the PCA seems to do what its alleged to do.
     Q.   We don't have that study.
     A.   That should tell you something right there.
     Q.   But isn't it inherent or intuitive that there would be less risk for shareholders despite your point about the complexity of measuring a PCA, in any event, but it does have the reality of shifting risk.
     A.   It certainly has the reality of shifting risk, but the reason I don't know about the first, and let me explain why. You would agree -- I'm getting a

little beyond my area of expertise, but I think we would agree that it does depend upon what is built into rates.

To take a ridiculous example, suppose we built a very, very high fuel cost into rates. Then you wouldn't be causing more volatility. The real question is if you build in what you consider to be a rational level, how volatile is reality around that level, and that's why I was saying if we had a study in Idaho and a study in Washington, we might get some insight into that. I don't think that sitting here and making a statement, Yes, it's going to reduce risk, I don't know that I can say that. I'm not saying it won't, but I don't know.

Q. I take it in your world you don't have a view as to whether a PCA is a good idea. You are only evaluating or addressing the consequences were we to have one.

A. Yes. And I'm saying you may find yourself substituting one set of problems for another, because it seems to me if the Commission is going to do its due diligence in PCA hearings, it's going to have to look into decisions made by management, their power purchasing, selling decisions, and what do you do when you get a decision you don't think is prudent? Does a

PCA solve that problem? I don't think so. If you just ignore it and pass it on to the consumer it does, but I don't think that's doing our jobs.

Q. I asked this question of Mr. Hill yesterday so I'll ask it of you also. Your testimony, not surprisingly, makes a rather strong recommendation as to what we should do. Do you have any sense of your track record where your recommendations have been adopted as to what actually happened?

A. I would say in the jurisdictions that have adopted what I have recommended that the utilities have done well, meaning they have sustained reasonable market-to-book ratios, but as Mr. Meyer's pointed out, I have not testified a lot in the last five years where there has been a lot of change, so I'm not going to tell you I'm some sort of guru.

The only thing I can say to you is I believe in the years in which we had more stability that the recommendations that I made, if followed, produce reasonable market-to-book ratios for the utilities, which is fair to both investors and consumers, but maybe it's just a self-serving statement. I think I've done a reasonable job of that.

Q. The ultimate recommendation of the consequence of the mix from your recommendations and

Public Counsel ended up being identical. Was that coincidental?
A. Absolutely. I saw Mr. Hill today for the first time in six or seven years, and we haven't spoken in any way, shape, or form. I suppose if it's a fortuity -- I don't know what else to say to you. What's interesting is that, as you know, his capital structure recommendation is different than mine. It just so happens that the combination of different cost rates and what have that you've got the same number, but we certainly didn't talk about it.
COMMISSIONER HEMSTAD: That's all I have.
COMMISSIONER GILLIS: No questions.

CROSS-EXAMINATION

BY JUDGE SCHAER:
Q. Dr. Lurito, getting back to a question that Commissioner Hemstad just referred to, I believe that you responded to a question from Mr. Meyer saying that your overall return recommendation was the same as Mr. Hill's, and that was in the original, was it not?
A. Yes.
Q. With the revisions that you've made to your testimony today, it's no longer identical; is that correct?

A. That's correct, unless Mr. Hill makes some change. I wasn't here, so I don't know what happened, but the only thing I can say is if he stayed with his 8.82 percent recommendation, then I am below him now at 8.64.

Q. And the changes that you made were to the preferred stock return?

A. Slightly, yes.

Q. And to the long-term debt figure?

A. And the long-term debt was occasioned by a company change, not by a change that I initiated. In response to a data request by Public Counsel, Dr. Avera was asked to update the cost of debt to year-end '99 and I believe to March 31 this year, which he did do in response, and I simply took Dr. Avera's downward adjusted cost of long-term debt for purposes of my revised testimony and with respect to overall rate of return.

Q. Then the third change was a slight increase, again, to your short-term debt rate?

A. Yes, to recognize the slight increase that we've seen in short-term rates, which, by the way, is something the Commission, since it's seeking to separate for a reasonable period in the future, should take note of the fact that we are living through right

now a rather aberrant period of history driven by federal reserve decisions, as you know, to raise short-term rates, so what we have now is called an inverted yield curve, which only happens very periodically where short-term interest rates are actually higher than long-term rates. That situation, in my view, once the federal reserve calms down its rate increase activities which I think it's going to be doing, we'll probably see a restoration of more traditional yield curves where shorter-term rates are lower than long rates, at which time -- that's why my beta recommendation is to use a six percent cost of short-term debt. It is below what the market is today, no question, but I'm indicating that the market is where it is today because of federal reserve policy, which I believe is in the process of going back to less active in the short-term interest rate market.
Q. Finally, I want to explore with you just a little more the risks that are being discussed as being new risks for electric and gas companies, and your group of comparables, and I guess I'm going to ask you to assume that there are some new risks for all utilities due to the new environment. If that's true, then would this risk that applies to all utilities already be picked up in the comparable companies' rates

for money?

A. Yes. This is what I was trying to say to the chairwoman, not very eloquently. The market price ultimately tells us what investors perceive, perceive by way of good things, perceive by way of bad things, risk. And what's interesting is that utilities today, if you look at their beta ratios, and not necessarily a great measure of risk, and I don't want to get into that, but what's interesting is they are not higher; in fact, they are somewhat lower than they have been historically, but that means that, yes, utilities have picked up risk, but so have a lot of other companies in the market, and we are playing a relative game.

For example, look at what's going on in the Internet area. There are certainly a lot of risks being taken by investors there. We didn't have that 30 years ago either, so that what you have to look at from the investors' point of view is not whether or not utilities might be facing new risks. I don't know deny that, but whether those new risks are less or more risky than the risks that other companies are facing, and that's something that the market price tells us about, because we can sit here and exchange prejudices all day about it qualitatively, but we have a quantitative measure, the market price investors are

willing to pay, and that's why I made the statement that the group of utilities I selected have a reasonable market-to-book ratio. They are earning their allowed rates of return, and that tells me my measure of cost of equity is a good, accurate view of what investors belief, new risks notwithstanding. It's all factored into the market price. That's the key.
JUDGE SCHAER: Is there any redirect for this witness, Ms. Tennyson?
MS. TENNYSON: I do have a couple of clarifying questions.

REDIRECT EXAMINATION

BY MS. TENNYSON:
Q. Dr. Lurito, Mr. Meyer asked you about your listing of cases in which you've testified, and I just wanted to clarify, is that the last time you've testified in any proceeding, or what is that list?
A. That list is a list of the public utility cases in which I've given testimony in my career.
Q. So when Mr. Meyer asked you the last time you testified was 1996, you were referring to utility proceedings?
A. I was.
Q. The chairwoman asked you some questions about

the separating out the utility-only capital structure and the overall company capital structure, and I think you referred to it as having the blinders on. When looking at setting the cost of capital and the capital structure for utilities, why do we put the blinders on?
A. That goes back to the issue that it's only fair that ratepayers pay for the risks that is inherent in providing them service, not the risks of some other group of consumers consuming an entirely different product. Those people should bear the risks and the prices they pay.
What I'm focused on and what we should be focused on is the regulated portion of the utility, what is a reasonable capital structure, what is a reasonable return on capital to that portion, and I say that it's interesting that Avista Corporation, which is, as you know, largely involved in nonregulated activities, had a capital structure for the whole corporation, not just the utility, the whole corporation, virtually the same as the capital structure I'm recommending being used in this case.
Now, that was at year-end 1999, so what I'm saying to you is if for the whole corporation, all these nonregulated activities, if the capital structure that management found reasonable and prudent at

year-end '99 for the whole company, why would it not be prudent for the regulated portion of the company which is clearly less risky than their totality of Avista's operations.
Q. Finally, with regard to the changes in the cost rate for long-term debt and short-term debt and for preferred stock, I believe you indicated that was because of an update to a response by Dr. Avera to a Public Counsel data request. For cost of long-term debt, how did you calculate that figure?
A. I accepted Dr. Avera's updated cost of debt, long-term debt figure, which is in that response to the Public Counsel's data request. I accepted it.
Q. So you didn't modify it or change it?
A. Not at all. I accepted his figure.
MS. TENNYSON: I have no further questions.
JUDGE SCHAER: Is there anything further for Dr. Lurito?
MR. FFITCH: We have nothing further for the witness, Your Honor.
JUDGE SCHAER: Thank you for your testimony. I believe the next witness is Dr. Avera. Would you like to call him, Mr. Meyer?
MR. FFITCH: Excuse me, Your Honor, and pardon me, Mr. Meyer. While Dr. Avera is taking the

stand, I want to bring up an exhibit matter. I had conferred with Mr. Meyer regarding a document that was shown to Mr. Hill during his cross-examination but which was not made a part of the record. Public Counsel requests that this document, which is a two-page Standard and Poor's report, be made a part of the record, and I believe that the Company does not object. We don't have that available right at this moment to actually distribute, but I wanted to, just while we are in the cost of capital phase and not too soon after Mr. Hill, I'd like to get that to the Bench's attention.

JUDGE SCHAER: Is this something that all of the parties have agreed is appropriate to go into the record? Have you talked to Ms. Tennyson?

MR. FFITCH: I have not yet.

MR. MEYER: The Company doesn't object to putting that into the record. As you recall yesterday, I was trying to use that document to essentially refresh the witness's recollection for purposes of a subject-to-check question, and that seemed to occasion a rather strong protest from Public Counsel, but I certainly don't have an objection to that going into the record.

MR. FFITCH: I'm advised that Staff has no objection to that, Your Honor. I'd offer that as Cross Exhibit 630, the next number for Mr. Hill.

JUDGE SCHAER: You indicated you don't have copies at this time?

MR. FFITCH: That is correct. Mr. Meyer courteously offered to attain that from their files and we would duplicate and it present it during the hearing.

JUDGE SCHAER: Why don't we wait to get it marked and entered at the time you have the document here.

MR. FFITCH: Thank you, Your Honor.

(Witness sworn.)

JUDGE SCHAER: Go ahead Mr. Meyer.

DIRECT EXAMINATION

BY MR. MEYER:

Q. For the record, would you please state your name?

A. William E. Avera.

Q. Have you been retained by this company to provide rebuttal testimony?

A. Yes.

Q. Has that been marked for identification as Exhibit T-135?

A. I think so.
Q. Have you also proposed what has been marked for identification as Exhibit 136?
A. Yes, sir.
Q. If I were to ask you the questions that appear in that prefiled rebuttal testimony with the revisions taken into account in the errata sheet, would your answers be the same?
A. They would be.
Q. Is the information contained within your Exhibit 136 true and correct?
A. Yes, sir.
MR. MEYER: Your Honor, I move for the admission of Exhibits T-135 and 136.
JUDGE SCHAER: Any objections?
MR. FFITCH: No objection.
MS. TENNYSON: No objection.
JUDGE SCHAER: Those documents are admitted.
MR. MEYER: Are we to continue with this witness then right up to the lunch hour?
JUDGE SCHAER: Yes.
MR. MEYER: Then as I indicated before, I do have one question to put to this witness concerning his reaction to the updates of Dr. Lurito. May I put that question?

JUDGE SCHAER: Go ahead and ask the question and we'll see if there are any objections.

Q. (By Mr. Meyer) Dr. Avera, you were in the hearing room earlier when Dr. Lurito sponsored testimony that contained certain revisions?

A. Yes, sir.

Q. Those revisions went to updated debt numbers?

A. Yes, sir.

Q. Do you have any comment or reaction to that updated material?

A. Yes. There are two substantive changes that Dr. Lurito mentioned while he was on the stand that go beyond merely incorporating the updated numbers that were provided in the data request.

The first substantive active change is Dr. Lurito took the preferred trust certificates and rolled them into debt for the purposes of determining the weighted average imbedded cost of debt --

MS. TENNYSON: Your Honor, I would raise an objection at this point. If Meyer had these questions about changes to, Mr. Lurito's testimony, it would have been appropriate to ask Mr. Lurito on cross-examination of those questions rather than have Dr. Avera characterizing changes that Dr. Lurito made in his testimony, and the changes speak for themselves, but I think it's inappropriate to have another witness characterize the changes when the prior witness was available for cross-examination.

MR. MEYER: The nature of rebuttal testimony, other than through cross-examination of counsel, of course, is to provide the reaction of that person to the testimony he's rebutting. Dr. Avera is our rebuttal witness. He's simply responding to his reaction to some late-filed revisions of the Staff witness. The question has been simply put, and he's giving his reaction.

JUDGE SCHAER: I'm going to ask you to rephrase the question in the terms that you've just indicated, if you want to refer to lines or portions of Dr. Lurito's testimony.

MR. MEYER: I simply asked for his reaction to the testimony. That's rebuttal.

MS. TENNYSON: He asked him his reaction. What the answer was was not responsive to that question. He was saying what Lurito said, not his reaction to it.

MR. MEYER: I think we are engaged in pretty fine hair splitting here. The witness is entitled to respond, as he's attempting to do, to how he feels, what he think's, how he's reacting to that testimony.

That's the essence of rebuttal.
JUDGE SCHAER: I agree with you, Mr. Meyer, and that is why I asked you to restate the question in the terms that you've just used, and I would ask you, Dr. Avera, to respond in that manner rather than responding in a way that might be characterizing testimony, or at least refer to what you are looking at when you make that statement, please.
THE WITNESS: When Dr. Lurito rolled in the debt cost, as he testified here live and as he explains on the revised Page 5 of the testimony, he did not change the amount of preferred stock in the capital structure, so he is, in essence, double counting the preferred stock. He's saying the preferred stock that's in the capital structure now will go down to debt, but he believes it will be replaced by other preferred stock.
That's a very important issue, because if you will remember Mr. Hill yesterday was counting the preferred stock as equity when he was talking about the debt ratio of Avista not being out of line, he thought, with the S and P guidelines. The second substantive change besides the reclassifying of existing preferred stock to debt, is Dr. Lurito proposes to use a projected cost for preferred stock and a projected cost

for short-term debt. That is a departure from imbedded cost, and it's particularly troublesome with respect to short-term debt.

Dr. Lurito believes that Mr. Federal Reserve is going to change his policy and do something differently than he's been doing about raising interest rates. I don't know if Dr. Lurito is right or not. If Dr. Lurito has the capability of predicting federal reserve policy, there are rich rewards available for him on Wall Street. I don't think this commission should set the short-term rate based on a prediction of what short-term rates are going to do in the future.

I think that's a substantive change. That's not what I did in my testimony. I based short-term rates on what they actually were. My update updated based on new experience through March of 2000. Dr. Lurito has embodied in this change a prediction of what the company would get as a yield on short-term debt in the future reflecting a change in federal reserve policy, and he has also projected a yield on preferred stock not yet issued which he believes will be part of the capital structure and will achieve an 8.22 yield in the future. That is a projection, not an imbedded cost.

MR. MEYER: Thank you. With that, the

witness is available for cross.

JUDGE SCHAER: Ms. Tennyson, do you have questions at this time?

MS. TENNYSON: Not at this time. Mr. ffitch is going to precede me, and I may have questions after that.

CROSS-EXAMINATION

BY MR. FFITCH:

Q. Good morning, Dr. Avera. Simon ffitch, Assistant Attorney General for the Public Counsel office?

A. Yes, Mr. ffitch. It's good to see you again.

Q. You have in front of you, Dr. Avera, , a set of cross-examination exhibits numbered 137 through 150 for identification, and Your Honor, I will remind the Bench that we had a placeholder in the previously distributed exhibits for 213, and we have now been able to obtain the actual exhibit document, and we have that available to distribute at this time?

JUDGE SCHAER: You just said Exhibit 213. Are you talking about Data Response 213.

MR. FFITCH: Data Response 213, Exhibit 141.

JUDGE SCHAER: Go ahead and distribute that, Mr. ffitch.

Q. (By Mr. ffitch) Have you had a chance to look through those responses to public counsel data request, Dr. Avera?
A. Yes, I have, Mr. ffitch.
Q. In fact, each of those documents is an Avista Company response to the designated public counsel data request, is it not?
A. Yes, it is.
Q. Were those responses prepared by you or under your direction?
A. I would have to check to make sure they were all my responses. They are all Company responses, but I'm not sure that I was responsible for each and every one of them.
Q. If you would like to take a moment to check, you may. I would represent that they are, in fact, all prepared by you with the exception of 149. The responder is listed as Mr. Faulkner and you are listed as the witness.
A. Yes, sir. I would accept that representation.
Q. Are the answers to these data requests true and correct to the best of your knowledge?
A. Yes, sir.
MR. FFITCH: Your Honor, I would offer

Exhibit 137 through 150.

JUDGE SCHAER: Any objection?

MR. MEYER: None.

JUDGE SCHAER: Those documents are admitted.

MR. FFITCH: Your Honor, we don't have any further questions for Dr. Avera.

JUDGE SCHAER: Ms. Tennyson, do you have questions of Dr. Avera?

MS. TENNYSON: I do not, thank you.

JUDGE SCHAER: Commissioners, do you have questions?

COMMISSIONER HEMSTAD: I'll start.

CROSS-EXAMINATION

BY COMMISSIONER HEMSTAD:

Q. You don't attempt to break out Avista utility-only in your evaluation and structure, do you?

A. In the evaluation of capital structure, I do not. I develop a group of comparable companies, and the capital structure recommendation is based on the capital structure of those comparable companies so there will be a match between my cost of equity estimate, which is based on those companies, and the amount of equity in the capital structure for those same companies.

Q. Those comparables then are companies like Avista that blend regulated and unregulated activities.
A. Yes, sir. They are identified by Value Line as being in the electric utility industry. They have various degrees of other activities in addition to the regulated activities, but they are predominantly regulated gas and electric utilities. I believe one of the requirements to make it into the group was that most of the revenue come from electric and gas operations.
Q. Is it your view that the unregulated activities are either so little that they have no impact or that the unregulated activities don't add additional risk?
A. I believe that it is very difficult at this point to sort out the risk of the unregulated activities from the regulated activities for these companies. I think these companies are predominantly utility operations. That's the way they are viewed by the financial community, so I think we can use the results of their stock prices and their bond yields and the other capital market information as a basis for inferring what the cost of equity is. I do not believe that there exists a back water of pure-play utilities. On that, Mr. Hill and I are in agreement. In fact, our

groups overlap, so I don't think it's possible, and I don't think Dr. Lurito has been successful, as I outlined in my rebuttal testimony, finding an untouched pristine group of companies. I don't think that exists.

And I think further that it is not the case that there is a clear demarcation of relative risks between the utility operations and the nonutility operations. My perception, and more importantly, investors' perceptions is that the risk of being in the utility business has dramatically increased the last several years because of changes in the industry. We have a national policy of open access in electric and gas. We have large jurisdictions like California that have deregulated and structured those industries, so utilities all over the country are being affected in their utility operations, including those here in the Northwest.

So I think there is clearly increasing risk in the companies, but I think it is wrong to say that that risk is being driven solely by the unregulated activities. I think it is being driven by both the unregulated and regulated activities.

Q. Take the reality of the stock price of Avista over the last six months or so. It has tripled and

then collapsed back to something where it was before. Would you expect that of a pure utility?
     A.   I think that's one of the reasons I didn't use Avista. I used a comparable group, and even though I think Avista's volatility has been pretty extreme, I think if we look specifically at Avista and what investment analysts, people like Merrill Lynch, Standard and Poor's, Moody's are saying about Avista, they talk about the unregulated activities but they also talk about the regulated activities. They talk about the recommendations in this case, for example. They talk about the absence of a power cost adjustment factor, so I think the volatility we see in Avista is extreme, and I think that's a good reason to not use its cost of equity or capital structure as a benchmark in this case, but I think it also proves the reality that the risk we are seeing is driven both by the regulated and the unregulated activities, and I think we can see in other utilities -- in fact, in my rebuttal, I mention one of Dr. Lurito's utilities that has experienced a 25-percent change in its stock price in the last year because of the reaction to what's happening in New York, so we are seeing more volatility across the board. Some of it driven by diversified activities but some of it driven by the regulated

activities.

Q. Do you think that price spike in Avista stock is reflective of its regulated side?

A. I think the action is reflective of both. I think some of the big run-up was because of enthusiasm about some of its unregulated activity, but I think the subsequent collapse has been driven by concerns about the regulated activity. I have with me, for example, a Merrill Lynch report issued 19 June that according to CNBC had a big effect on the price where they take Avista off of their sizzle list and put it on their fizzle list, and in enunciating the reasons, they talk about the power spikes. They talk about this case. They talk about the PCA. They also talk about other things happening in their business, so I think as to Avista, you can see this both kinds of events are causing investors to revise their expectations.

Q. Is the document you are referring to, is that part of the record?

MR. MEYER: No.

THE WITNESS: I think it's very helpful for understanding an example of how the largest investment advisory organization reacts and looks at both the regulated and the unregulated events in making its assessment of the Company.

MR. MEYER: If you like, we could make copies and have that introduced.
COMMISSIONER HEMSTAD: I think that would be helpful.
JUDGE SCHAER: That would be Exhibit 151 for identification, then.
Q. (By Commissioner Hemstad) When you say that now all utilities have great risk, in this state, we haven't had the misnomered deregulation that has occurred in other states, and Avista Utility as with the other utilities being regulated are still rate-based and rate-of-return regulated, so are you suggesting that the risk in that environment is equivalent to utilities in other states where substantial restructuring legislation has occurred?
A. I'm not suggesting it's equivalent, but I'm suggesting that the regulators here in Washington cannot shield their jurisdictional utilities from the effects of decisions made in the other Washington or in Sacramento or other places because we do have integrated power markets and integrated transmission systems, so things like price volatility that didn't prevail in the Northwest is now prevailing, I think, in part because of the spillover of effects beyond the boarders of the state.

So there are elements of risk in this business that are driven not by state regulatory actions but by federal regulatory actions and things that happened in the neighboring states, and I think that's one of the kinds of things that reflects the reason that Standard and Poor moved Avista from a business position of three when I testified in Idaho in 1998 to a position of five now, which is right in the middle of the pack.

For years and years, the perception was that companies up here and especially the old Washington Water Power were in a world apart from a lot of the things that were affecting electric companies around the other states. I think that has eroded, and I think Standard and Poor's in May of 1999 recognized that when they put Avista in the middle of the pack in terms of relative risk.

Q. So that I understand your bottom line position, you use a group of comparables that have some roughly equivalent unregulated activities comparable to Avista, and as a best benchmark on the grounds that you don't believe that it is realistic or possible to isolate the utility activity in the contemporary world.

A. I don't believe it's realistic or possible. I think Dr. Lurito has made an attempt, and I think if you look carefully at the results of his attempt that he has not been successful, because I don't think it's possible to find pure play.

There are two conceptual ways. When I teach finance at the university, there are two ways to do it. You either look for pure-play companies out there that are strictly in the business you are interested in and evaluate their financial parameters and infer that's true of the business you are looking at. The other is the top-down approach where you evaluate the business, the parent, and you try to sort out the cost within the business.

I don't think either method is feasible. In fact, Mr. Hill showed you a picture yesterday which was for Moody's that he represented, I believe, was kind of a disaggregation, but when you look at the Moody's publication, it's really looking at pure play and hypothetically what pure-play relative risk would be.

Q. But there are still pure-play regulated utilities in the marketplace.

A. Mr. Hill mentioned yesterday water utilities, and yes.

Q. How about electrics?

A. No, sir.

Q. Are there none at all?

A. I can't identify a company that's both a pure play and has the kind of information that we use in doing DCF analysis. There is Green Mountain Power, which is a very small relatively pure-play electric utility, but it's not followed by Value Line. It doesn't have the bond ratings. It doesn't have analysts who make predictions and IBS and Zach's, which Dr. Lurito and Mr. Hill and I use as a basis for investor expectations.

So if you go to a utility that's large enough to be able to make the observations you need to implement these models, you move to utilities that are no longer Dr. Lurito's pristine untouched utilities. It is my opinion -- and I think Dr. Lurito's experience points that out -- there are no pristine untouched utilities that are large enough to have the market information you need to make this kind of analysis which we are using to estimate the cost of equity in the capital structure.

Q. But your position would appear to be that, at least in the comparables that you are able to look at where there are other unregulated activities presumably of greater risk, that the regulated utility ratepayers are not burdened with any additional risk from that activity.

A. Not that is perceptible and in the view of investors. When Value Line says, Are these an electric and gas utility, they say yes. When Moody's and Standard and Poor's puts them in boxes, they put these companies in the box of regulated electric and gas utilities. Yes, they have other activities, but they are not material enough to make a difference to those investment advisory organizations, and in my view, they are not material enough to change the answer, and Mr. Hill and I used very similar companies because that's what's out there.

Q. What is your view about the relative degree of risk of a hydropower based company as against the essentially nonhydropower?

A. I believe the risk is at a parity. I think you have to look at the other characteristics of the utility. You just can't say, If you tell me it's hydro, I know it's less risk, because even though hydro has many wonderful characteristics, it has its own set of risks. It has environmental risks. It has the weather risk in terms of stream flows, and it has the risk that when the hydro is not available, you have to go out in the market and replace it so you become subject to the market for replacement power, so there was a time when, I think, investors perceived there to be a significant disparity between the risk of hydro utilities and non hydro utilities, but I think that has disappeared in part because of the hydro risks have increased, and in part because some of those other risks, like Mr. Hill mentioned yesterday, nuclear risks, but there was a time when the market was extremely sensitive to nuclear risk, but as we've gone past construction and now we're in operation, we actually have companies that are willing to buy nuclear power plants from our companies.

So I think the disparity that once existed has been narrowed, and now you have to look at other characteristics, and one clear characteristic is because of the inherent volatility of hydropower, then the absence of a power cost adjustment with hydropower certainly increases the risk because the availability of hydropower is affected by conditions beyond management's control. You can't manage around the weather, so I think its clear that investors say, and again, we can look to investors and listen to them. Moody's, Standard and Poor, and this Merrill Lynch all say there is a clear distinction between Idaho and Washington where there is a PCA in Idaho and there isn't one in Washington, and clearly, if you have variability in costs because of the hydro, and in

Idaho, you knock off the tops and you fill in the valleys, you are going to see less variability in earnings than you do with the same system, the same company in Washington where in good water years, you get less cost and bad water years, more cost.

Q. I asked this question of Dr. Lurito. So if we were to adopt a PCA, does that reduce the risk, and therefore, the rate of return?

A. I think adoption clearly changes the risk and it clearly should be fed back into the allowed cost of equity. In my analysis, I attempted to do it predicated on the PCA being adopted because my benchmark group has similar adjustments, and seven of Mr. Hill's companies have similar adjustments, so I think if you use these groups that are protected from this kind of risk, the cost of equity already has built in that adjustment, but I'm very clear -- I want to be very clear with you -- that all else being equal, there is more risk without a PCA than with. I think the investment community has told us that clearly and concisely.

COMMISSIONER HEMSTAD: Thank you. That's all I have.

CROSS-EXAMINATION

BY CHAIRWOMAN SHOWALTER:

Q. I have just got a follow-up to Commissioner Hemstad's questions on the regulated and nonregulated aspects of your comparison. I heard you say that your group represents about the same ratio of nonregulated to regulated activity, roughly, or what it should be?

A. I think it depends on what you use. In terms of revenues, certainly Avista has a larger percentage of revenues from nonregulated activities than any of my groups, because my group had to be predominantly regulated activities. In terms of assets of investment, Avista really has -- and you can see this from Mr. Hill's Schedule 2; that their asset concentration in nonregulated activities is not that great.

I didn't endeavor to make a comparison with these companies and Avista. What I used was what the investment community does in terms of characterizing these companies, and these are the companies that are characterized by the investment community as electric utilities that have the same bond rating as Avista has of a single A.

Q. Then just not looking at Avista but looking at your group and looking now at the nonregulated side of things, does it make a difference or should it make a difference what those nonregulated activities are; in other words, not all nonregulated activities are the same, I take it?

A. I absolutely agree, and three years ago I was hired by the Public Utility Commission of Hawaii to look at Hawaii Electric and the nonregulated diversification of Hawaii Electric and to determine if that was having an effect on the parent's ability to raise capital such as they weren't able to support their underlying utilities, and part of that analysis was to look at the particular businesses that like American Savings Bank that Dr. Lurito was talking about earlier today, and clearly from that experience and my other reading, investors don't perceive all unregulated businesses as being the same and having the same risk and having the same interaction with the regulated business, but that being said, again, my benchmark is one that's kind of already passed the smell test of the investment community because these are companies that have been put in to do the regulated electric and gas box with single A credit, so I believe that whatever unregulated businesses are incorporated in those 11 companies are not such that the bond rating agencies or Value Line say that they need to be excluded from the

family of regulated and electric gas companies.
Q. That may be, but aren't you asking us to basically hold Avista to the same standards of this other group?
A. I'm asking you to accept the capital structure of this other group and the return on equity requirements of this other group in setting the rates for Avista, because I believe this represents a reasonable estimate of the cost of capital to a electric and gas utility.
Q. But your calculation includes, it factors in these nonregulated aspects, and how do we know the degree of influence that the nonregulated aspects had in that group or how different they may be, or that is, is one is banking and the other is satellite telecommunications, or did you take that into account?
A. Well, I did review the Value Line and I did review the 10-K's for each of these companies to see if there were any reason to exclude them, and I saw no reason to exclude them.
One thing I think is important, and this goes back to Mr. Hill's picture and the original picture that was in the '98 Moody's publication. He left out a very important bubble, the biggest bubble of all, which is the integrated utility, because what Moody's said

was, if you had a pure transmission company, it would probably be here. If you had a pure distribution company, it would here. If you had a pure generation company, it would be above, and the pure trading company would be further out, but they had the biggest bubble in the middle was the integrated utility, and the integrated utility is on the line with all of these because it incorporates all of these. (Witness indicating.)

Q. But then there is the wild card, which is the nonregulated completely, the telecommunications nonregulated or the banking activity?

A. Yes, Madam Chairwoman, there is a wild card, but I think we need to put the size of the wild card in perspective. It's the 53rd of the 52, or however many wild cards in have in the deck.

For most of these companies, for all of these companies, while they have unregulated activities, the magnitude in terms of revenues, assets, and risk exposure is not such that investors put them in a category other than electric and gas. They do have these other activities, and investors do talk about them when Value Line tells investors what this company does. It has a couple of lines about its unregulated activity, but the bulk of the conversation in the Value

Line and in the 10-K's and the bond rating analyses is about their regulated utility. That's the doll and there is a tail, but the doll, I think, predominates in defining what investor return requirements are, and that's the way I've approached it and the Mr. Hill has approached it; that these firms are as good as you can do, and I think while there is probably some effect from the unregulated activities, at present, given investor expectations, it is not so large as to distort the capital structure and the cost of equity that we derive from market information.

Q. One last question. Maybe your answer would be similar to the one you just gave, but how do you take into account management philosophy in your comparable companies regarding the nonregulated side? In other words, if they want to have a risky business and take a lot of risks in the nonregulated side, that's okay, but I imagine that the investors are looking at that, so again, the question is, does that sort of unknown or external to the regulated world of factor overly affect our regulated judgments if they are not excluded?

A. Well, I think as to my comparable companies, I think if you did have a management declaration, that that led investors to believe that this is not your father's utility anymore, that there was going to be a significant change, and that materially affected investors' perceptions of the company, I think the investment community would put it in a different box than regulated electric and gas.

Certainly, management opinions have an effect. One of the things that Moody's talks about in the article that Mr. Hill was referring to that came from my work papers is that management statements -- let me read it to you because I think it goes directly to the point. Here on Page 7: "A senior executive of one of the larger utilities in the country recently stated at an analysts' briefing that investments in power marketing, global, IPP development, and nuclear consolidation are not necessarily riskier business enterprises than the regulated utility subsidiaries. This type of intangible management factor that contributes to negative outlooks for the company bond ratings. The statement may be one true from a shareholder perspective, but it does not give comfort to the bondholders."

So Moody's clearly listens to those statements and reacts accordingly. The companies that I've looked at as my comparable group have the same bond rating as Avista, so I think the bond rating agencies have tracked what management is saying, and they incorporate that into their evaluation of the company.

CHAIRWOMAN SHOWALTER: Thank you.

CROSS-EXAMINATION

BY COMMISSIONER GILLIS:

Q. You were discussing the increased risks that Avista faces in the current environment. Are the drivers of that risk due to general trends in the industries, or are they due to specific factors unique to the Company?

A. Well, I think they are a combination of both and an interaction of both. I think the general increased volatility of electric prices is a national trend that is caused by a number of things, primarily the open access and the coming of the power exchange in the state of California and this part of the world, but I think that interacts with some uniquely Avista characteristics in that it is so dependent on hydro relative to Puget, relative to Idaho Power and other utilities in this part of the world that the volatility of the power market when you have to replace hydropower, and especially when you don't have a PCA, interacts to increase the risk, so you have a national phenomenon, which is volatility, and a regional phenomenon, which is the California effect, we'll call it, and that interacts with the resource mix of Avista and the regulatory framework in which Avista operates, so you put all of those together and the outcome is more risk, so when S and P said Avista moves from the low risk end of the class to the middle of the class with respect to risk, those are the kinds of phenomenon it talks about. Some national, some regional, and some particularly pertinent to the characteristics of this company.

Q. As far as the national factors, those would be accounted for in investor decisions with respect to most any energy company; is that right?

A. Any energy company, and I think particularly electric and gas companies that are like those in my comparable group because I think the open access of electric and gas is affecting companies in every region of the country, some in different ways, but I don't think any region of the country is spared the increased uncertainty about the cost of electricity and the cost of gas.

Q. In defining your comparable set of companies, would the ideal be to find, noting your earlier statement that you don't really see pure play as a realistic concept, but companies as close to possible as pure play as the company that we are making a regulatory decision about, isn't that what we want to have for our comparable companies, and I guess to follow that, wouldn't it be correct to assume that any, as long as they are energy companies with electric, gas, energy companies that the national risk changes are already going to be built into the risk, so wouldn't we want to avoid any comparable companies that reflect in this area the company-specific risk factors you've described?

A. Well, there is a trade-off when you are coming up with your comparable group. On one hand, you want a group as similar as possible and you want to eliminate extraneous influences that would affect your ability to identify the risk and return you are seeking.

On the other, you want a large enough group so that if you miss your reading on one, it doesn't distort the financial result. Mr. Hill has a good discussion of the fact you want a large, not a really small sample because of just the sampling effect of minimizing your sampling era.

The other problem is you need to find companies where you have all the information you need, like the growth forecast from investors, so that you can make an informed projection. I agree with what Dr. Lurito said that it's very difficult for me to get inside investors' heads, but fortunately for larger companies, investment analysts make public predictions of what they think the earnings are going to be in the short term and the long term so you can use those objective published analyst estimates to inform your guess, because I agree with Dr. Lurito. You are not interested in what I think. You are interested in what the investor that supplies the money thinks.

When you limit yourself to those companies where you have this kind of rich information environment, you eliminate a lot of companies that otherwise you might say are pure play or closer, so I believe that in light of these trade-offs, the 11 I've chosen are as good as you can do in terms of having the information you need, closeness to Avista utility operations but a large enough sample so that one incorrect reading does not throw off your result that much.

COMMISSIONER GILLIS: I can't think of anything else to ask.

JUDGE SCHAER: We are going to take our lunch recess at this point and be back at 1:30. We are off

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the record.

(Lunch recess at 12:15 p.m.)

AFTERNOON SESSION

(1:30 p.m.)

JUDGE SCHAER: Are there any other questions from the Commissioners for Dr. Avera? I have just one question for you.

CROSS-EXAMINATION

BY JUDGE SCHAER:

Q. We have asked to two previous cost of money witnesses about their track record and how their predictions have proven out, and I feel it's most fair to give you a chance to say something about that as well, if you would.

A. First let me say that the last two times I've testified on a rate of return besides this case was the Nevada Bell case, and the Commission agreed with my recommendation, notwithstanding the Staff and Consumer Counsel testimony to the contrary.

Similarly, last month, the Connecticut Department of Public Utility Control agreed with my recommendations for Southern New England Telephone's rate of return, notwithstanding extensive contrary evidence, but I really don't think whether they accept my recommendation or not tells you whether the recommendation was good. I testified 25 consecutive times as a staff member of the Public Utility Commission of Texas, and for 25 consecutive times, the Commission agreed with me.

But that doesn't mean that my recommendations were sound; although, I would say that the Texas companies continue to prosper, and since leaving the Commission, I've continued to be hired by the Commission as a consultant, and as recently as Monday, consulted with the Commission on a policy matter, so I think the fact that my advice has been sought over time by the same regulatory agencies would suggest that there is some credibility given my advice, but let me quickly also say that we live in a dynamic and world, and I would certainly not live by the advice or the rates of return or the capital structure or any other specific recommendation I made in the past to be applied now. I think we are in a very difficult situation, and I appreciate this commission's wrestling with the situation of we are moving into unchartered waters. The dynamics of change in electric and gas industry are being dictated by forces that I don't understand and I'm not sure anybody understands, and I think the best we can do in this uncertain period is -- the best judgment we can make and be ready to be flexible and revise our opinions if events prove us wrong.

CHAIRWOMAN SHOWALTER: I just remembered I have one more. You may have covered this in your rebuttal testimony, but it came up when Mr. Lurito was mentioning that the debt equity he is recommending is above what you were recommending or testified to in the Idaho hearing. Is that statement generally accurate, or could you make it accurate and then what is your response?

THE WITNESS: The statement is accurate, and Mr. Hill mentioned the same thing. In 1998, I proposed a capital structure with 38-percent equity, which was based on taking consolidated Avista and pulling out the unregulated investment, assigning the equity to the unregulated investment plus the identifying debt that went with the unregulated investment and then assuming everything else was the utility.

That was an assumption because Avista is not a holding company. It doesn't have a separate capital structure, but there are four reasons why I don't think what I did in Idaho doesn't apply here. One, in Idaho, there has been a history of not accepting hypothetical capital structures but instead working from the capital structure of the company, and this is the way they treated Avista in the past and this is the way the

Staff indicated they wanted to treat Avista this time. This is unlike this Commission, which has a history of accepting hypothetical capital structures.

The second difference is that in Idaho, I was very clear in saying that if you accept this capital structure, which is out of line with my comparable group and out of line with the industry, it is extremely important that you adjust the rate of return on equity to fit the new capital structure, so you would need a higher rate of return on equity than the comparable group because you are applying it to a capital structure with more financial risk with less equity. I made that argument many times in my testimony.

The third difference is I pointed out in the Idaho testimony that the capital structure I was recommending would barely supports a single A rating because at that time, the S and P risk profile was three, which is at the lower end of the risk, and if you look at that matrix we were talking about yesterday with Mr. Hill, the capital structure would be sufficient but barely sufficient to maintain any rate. Currently, is Avista is a five. In the summer of '99, S and P revised its business profile to move Avista up, so now that capital structure will not support a single

A, so I don't think it is an appropriate capital structure even in a jurisdiction that tries to work with the existing capital structure.

The fourth and final reason is that in Idaho there is a power cost adjustment factor which offsets the greater risk of a lower equity ratio, and that factor, I think, should be considered in assessing the capital structure as well as the return on equity.

CHAIRWOMAN SHOWALTER: Thanks.

JUDGE SCHAER: Is there any redirect, Mr. Meyer?

MR. MEYER: There is none. I do have a housekeeping matter. Commissioner Hemstad had asked that for the benefit of the record that we introduce as an exhibit the sizzle to fizzle Merrill Lynch report dated June 19th, and that has previously been marked as a document as Exhibit 642 but was not admitted. I would move for the admission of that at this time.

JUDGE SCHAER: Any objection? The document is admitted. Is there anything further for this witness?

MR. FFITCH: Your Honor, this is one other housekeeping matter. With regard to Public Counsel's cross-examination exhibits for Dr. Avera, Exhibits 138 and 142, Your Honor, make reference to specific documents. 138 refers to a Moody's report that both Dr. Avera and Mr. Hill have talked about in their testimony. It was not attached to our exhibit, and we've got copies of that to supplement the existing cross exhibit.

Exhibit 142 makes reference to an AG Edwards electric utility stock update by reference, and we became aware that we had not provided that with the DR itself, and we are going to supplement that exhibit also so that the actual referenced study is part of the record. I've conferred with Mr. Meyer. I don't believe the Company has an objection to these documents. I don't believe Staff has an objection either, Your Honor.

JUDGE SCHAER: Why don't you distribute those at this time, please, Mr. ffitch. Is there any objection to the supplementation of those two exhibits Mr. Meyer or Ms. Tennyson?

MS. TENNYSON: No.

MR. MEYER: No.

JUDGE SCHAER: Then those documents will be admitted and included as a portion of Exhibit 138 and 142.

MR. MEYER: May the witness be excused?

JUDGE SCHAER: Is there anything further for

this witness? Hearing nothing, thank you for your testimony, Dr. Avera. Would you like to call your next witness, Mr. Meyer?
MR. MEYER: Yes. Dr. Jon Eliassen.
(Witness sworn.)
JUDGE SCHAER: Go ahead, Mr. Meyer.

DIRECT EXAMINATION
BY MR. MEYER:
Q. Would you please state your name and employer?
A. My name is Jon E. Eliassen, and I'm employed as senior vice president and chief financial officer of Avista Corp.
Q. In that capacity, have you prefiled rebuttal testimony identified as Exhibit T-520?
A. I have.
MR. MEYER: I should note for the record that we have distributed an errata sheet for that testimony.
Q. With that errata sheet in mind, if I were to ask you the questions that appear in that prefiled rebuttal, would your answers be the same?
A. Yes, they would.
Q. Are you also sponsoring what has been marked for identification as Exhibit 521?

A. I am.

Q. Does that information contain true and correct information?

A. Yes, it does.

MR. MEYER: With that, Your Honor, I move for the admission of Exhibits T-520 and 521.

JUDGE SCHAER: Any objection? Those documents are admitted.

MR. MEYER: The witness is tendered for cross.

JUDGE SCHAER: Ms. Tennyson, do you have questions for Mr. Eliassen?

MS. TENNYSON: Yes, I do.

CROSS-EXAMINATION

BY MS. TENNYSON:

Q. Can you tell us what Avista's capital structure as of year-end 1999 was, and what I'm primarily interested in was the percentage of common equity?

A. Yes, I can. The percentage of common equity at the end of 1999, and that included a full conversion of the recons, the convertible preferred to common, and also reflects a year-end write-down of one of our subsidiaries was 43.6 percent.

Q. In your testimony, you assert that in determining the capital structure for Avista that the Commission should exclude consideration of short-term debt; is that correct?
A. Yes, I state that.
Q. Now, do you disagree with Mr. Hill that Avista does consistently use short-term debt as a financing mechanism.
A. We definitely do use short-term debt, and I think one of my exhibits shows the amount of short-term debt that has been outstanding. It does vary from amounts that may exceed 100 million. It's also at zero many times, so on average, it's a much lower figure than you would find at a capital structure at a point in time at year-end.
Q. In referring to Exhibit 521?
A. Yes. I believe that's Page 2.
Q. Looking at Page 3 of Exhibit 521, on this, you list the monthly cost of short-term debt from January 1999 to May 2000.
A. That's correct.
Q. Would you accept subject to check that the average of those amounts, those percentages you have indicated, is 5.79 percent?
A. I would accept that subject to check. I

would also point out that that represents rates that were in effect last year as short-term rates continued to rise, and even as Dr. Lurito talked about this morning, short-term rates are at higher levels today than they were a year ago.
     Q.   This does include four months out of this year, does it not?
     A.   Yes, it does.
     Q.   This only provides us for the last year and four months. Mr. Hill had figures that allow us to calculate the average amount of short-term debt outstanding over two years, three years, four years; correct?
     A.   I would accept that. I don't know how his calculation worked.
     Q.   Yet in your testimony, you have used the cost of short-term debt as seven percent; is that correct?
     A.   I think that's representative. It's actually a little bit lower than what the effective cost of short-term debt to the Company was at the point in time we filed this testimony, but I used that as a representative rate that we expected that we could see including the commitment fees on lines of credit for the 12 months or 18 months that these rates might be in effect from this proceeding.

Q. But at this point, you haven't shown that you have incurred short-term debt at seven percent a this point?
A. Oh, yes. The actual cost -- and you must include the commitment fees. There are always fees associated with lines of credit, so if you take into account the actual borrowing costs plus any fees associated with the line plus any usage fees that may be associated with the line, the actual cost at the end of, taking that all into account, costs as of May 26, was 7.49 percent.
Q. Mr. Eliassen, you were a witness in Washington Water Power's case brought before this Commission in 1985, were you not?
A. Yes, I was.
Q. Do you recall what the outcome of that case was? I can ask you a more specific question here. In the Commission's order in that case, U85-36, and that order came out in April of 1986, isn't it true that in that case, the Commission allowed Water Power a 12 percent overall rate of return?
A. I would accept that. I don't have the order with me.
MS. TENNYSON: I do have copies of it available if the Bench would like to have those

distributed.
THE WITNESS: When you say "rate of return," that was on overall rate of return?
MS. TENNYSON: Yes. Your Honor, this is one of the matters that we referred to earlier that I have copies available. We haven't made it an exhibit. We can. There is a placeholder in the exhibit list for it if you would like to have it made an exhibit, and I do have copies.
JUDGE SCHAER: When you say there is a placeholder, are you saying it's been identified?
MS. TENNYSON: Not exactly. There is an empty number. Exhibit 522 I had indicated we would have an exhibit to be provided by Staff, but it has already been admitted. That was admitted as Exhibit 149 under Dr. Avera, so I did not submit an exhibit nor did we mark that again as Exhibit 522, so if you would like to have this order as 522, we can insert it at that point.
JUDGE SCHAER: What I have been following is what I'll call the rule of convenience rather than strictly legal interpretation, and if there are portions of orders we may take judicial notice of them, but often it's useful if you provide them now so we have an easier time finding them when we look for them.

If you would like to do that at this point, go ahead and distribute that.
JUDGE SCHAER: So I'm marking as Exhibit 522 for identification a document which is entitled, Third Supplemental Order, Cause No. U-8536, Washington Utilities and Transportation Commission versus the Washington Water Power Company, and this is an order with 54 pages.
Q. (By Ms. Tennyson) Mr. Eliassen, if you could refer to Page 41 of this order that I've just passed copies out.
A. Yes.
Q. The Commission in that case allowed Washington Water Power a 12 percent overall rate of return; is that correct?
A. That is correct.
Q. Based on a 35-percent effective tax rate, the before-tax interest coverage consistent with that overall rate of return was 3.36 times, isn't it?
A. Yes.
Q. Turning back to your testimony on Page 2, in that case, you conclude that the evidence here continues to support the Company's 9.93 percent proposed overall rate of return; is that correct?
A. I believe it does in this case, yes.

Q. That 9.93 percent rate of return was based on the 7.83 percent cost of long-term debt that Dr. Avera had testified to in his original testimony; correct?
A. Yes, that is correct.
Q. So you did not adjust the 9.93 percent based on the lower cost of long-term debt?
A. No. This is based on the original filing of Dr. Avera.
Q. Turning to Page 5 of your testimony, and specifically, Line 21. Here you state that the utility operations of Avista continue to have a need for external capital; correct?
A. That's correct.
Q. In Avista's 1999 Form 10-K to the SCC, the Company, on the other hand, stated that the Company estimated internally generated funds would provide all the funds needed for the its capital expenditures; is that correct?
A. Yes, and that was filed in March of this year based on 1999. Some situations have changed since then though.
Q. So which of these statements is correct? You told the stockholders and the SCC you wouldn't. You would internally generate all the necessary funds, and here, you say you have a need for external capital.

A. We are generating internal funds, at least at this point in time when the 10-K was filed and the point in time when this was filed, we could generate enough internal cash to cover our Cap X but not cover all of the additional debt maturities and preferred maturities as well, so the Company will be net financing capital requirements for the utility over this next three-year period. I think those two statements are consistent.
Q. Turning to Page 6 of your testimony, you noted that Standard and Poor's gives the Company's business risk a position rating of five?
A. That's correct.
Q. You are referring there to Avista Corporation as a whole, not just the utilities portion; correct?
A. That's correct.
MS. TENNYSON: I have no further questions at this time.
JUDGE SCHAER: Mr. ffitch, did you have questions of this witness?
MR. FFITCH: Yes, Your Honor.

CROSS-EXAMINATION

BY MR. FFITCH:
Q. Good afternoon, Mr. Eliassen.

A. Good afternoon.
Q. I'd like to ask you first to turn to Page 4 of your rebuttal, which is Exhibit 520, and just to note that there, you indicate that the average equity ratio for electric utilities has increased from 41 percent to about 45 percent from 1989 to 1998; is that correct?
A. Yes.
Q. Has the average equity ratio of the electric industry over the 10-year period of your report ever been as high as the 47 percent you are requesting in this proceeding?
A. I don't believe it has, no.
Q. The capital structures you report in your rebuttal cover a period which ends in 1998; right?
A. Right. That was the latest information we had available from Moody's, and we didn't have any better information available from any other source at that point in time.
Q. What are the average electric utility equity ratios expected to be in 2000 and 2001?
A. Based on Moody's expectations in this report, they looked as though they were going to be dropping off, and I think maybe that is reflected in part by what's going on in the industry itself with the

vertically integrated utility being broken apart, more transmission distribution companies maybe leveraging themselves differently going forward reflecting the risk of that part of the business, but again, these are just Moody's estimated of what they expect to see going forward, not necessarily what's actually occurred.
Q. At this point then I'd like to refer to you what's been marked for identification as Cross-Examination Exhibit 523.
A. Could you tell me which of the data request numbers that was offhand?
Q. Response to Public Counsel No. 165. Just to refresh your memory, this response provides the source for the capital structure data we've been discussing, does it not?
A. I believe it does, because what I have marked as 165-A does have the Moody's industry outlook from year-end 1998.
Q. Yes, thank you, and I was referring to 165-A. Thank you for the clarification. If you look at the first Moody's page contained there, which is three pages back into the exhibit itself, you will note that the Moody's project average electric utility equity ratios in 2000 and 2001 are 39.9 percent and 41 percent; is that right?

A. Yes, that's correct. Again, these were estimates made by Moody's at the end of 1998 based on what they were perceiving may happen in the industry at that point in time. I doubt now they have updated any of the numbers for anything that's actual, and I doubt they fall into those levels.

Q. Let's turn now to the second page, the attachment which is the next page, and we see there that that is a page from the 1995 Moody's Investor Service Report, is it not?

A. Yes, it is.

Q. And we see there under the projections for 1997, in the far right-hand column the last number in the tables, we see a projection of 44 percent for 1997, do we not?

A. That is correct. The actual they report here was 44.7 for that same period.

Q. That's pretty close, is it not?

A. The actuals came in a little higher than what their estimates were.

Q. Only .7 percent higher though.

A. I think what happens though is if you look at their report from 1998, there is one paragraph that starts to talk about how they see the divergence of the industry taking place, and we see that ratings within power company families diverging from one another, so I think within distribution and transmission utilities versus IPP's and generating companies, you may start to see different capital structures being utilized, and I think that's what we are looking at here, and that's in the Moody's report from 1998.

Q. Do you think these numbers are wrong that we are seeing on these pages?

A. No. I'm just saying that I think that what's they were using at that point in time to start to look at different cap structure and leverage rates might be used in the industry.

Q. Mr. Hill reports at Page 18 of his testimony that the average equity ratio, a combination gas and electric companies, was 40 percent of total capital. I don't know if you need to check that or not.

A. That's the number he got from the CA Turner report.

Q. Did you directly address that fact anywhere in your rebuttal?

A. No, I don't believe so, not that report.

Q. Now could you please turn to Data Request 167, and that's been marked for identification as Exhibit 524. There, we asked, did we not, if it was your testimony that Public Counsel's recommended

capital structure was an inaccurate representation of how Avista capitalized its utility operations, and your answer was that it was accurate, quote, "as of a point in time." -- I'm referring to the last sentence -- end quote?
A. Yes.
Q. But was not sufficient to maintain an investment-grade credit rating over time. Is that a fair characterization?
A. Yes, it is. It's one of the concerns that we had about picking a capital structure at a point in time rather than taking something that's more representative of the industry, perhaps either Mr. Hill's group of companies and looking at actual capital structures that they've employed, or Dr. Avera's capital structures based on companies that are actually operating and are actually successfully operating and earning reasonable returns on their equity, and that's really what we have to have as a proxy for what we need going forward, not our capital structure at any given point in time.
Q. You are aware, aren't you, that Mr. Hill's capital structure recommendation is based on a six quarter average utility-only capital structure for Avista?

A. Again, during that six-quarter period --
Q. Excuse me. You are aware it's based on a six quarter?
A. Yes.
Q. So when you use the phrase "point in time," you mean the period which comprised the average utility capital structure September '99 through December of '99?
A. You can take it that way, because there have been a number of things the Company has done during the last 18 months that have changed the equity structure of the total company and of the utility, including stock buyback last year, including conversion to recons this year, and the elimination of some common equity, and including some write-off's at the end of last year that reduced the common equity of the entire company. So during this 18-month period, there have been a number of things that have impacted that ratio.
Q. Just to correct my question, the six-quarter period I referred to was September of '98 through December of '99.
A. Again, some of those things I mentioned, including the recons and the repurchase of common equity would have impacted those periods. It would have decreased the common stock outstanding and driven

down the total common equity, including the portion that would have been allocated and used to support the utility business.
Q. You were the chief financial officer of Avista last year when you filed the rate case in Idaho; correct?
A. Yes.
Q. And you filed that case in 1998?
A. The Company filed it. I was not a witness in that case.
Q. The Company filed the case in '98, and you were employed by Avista at that time, were you not?
A. Yes.
Q. The equity ratio, the capital structure you filed in Idaho last year was 37.4 percent, which is below Mr. Hill's recommended 39 percent in this proceeding; correct?
A. That is correct, and Dr. Avera, of course, testified as to the reasons why we filed that way.
Q. That 37.4 percent utility-only equity ratio was based on Avista's year-end '97 capital structure; correct?
A. I'll accept that.
Q. So we know that at least for the past three years, you've capitalized your utility operations with

a capital structure which has an equity ratio below 40 percent; correct?

A. If you take the balance sheet and allocate the equity to the subsidiary companies and allocate the remaining capital to the utility, that is in effect what's happened in the last two-and-a-half years. We have done that to earn adequate returns on the equity we have employed in the utility business.

Q. You don't expect that to change this year, do you, Mr. Eliassen?

A. What to change?

Q. The equity ratio below 40 percent for the utility operations.

A. I would tell you that the equity ratio for utility operations will stay below 40 percent this year; however, we have filed and have orders in the three states necessary to issue up to 3.7 million of additional shares of common equity. We may not do that this year. We'll basically look at market timing to do it.

Q. We'll get to that, Mr. Eliassen. At this point, I'd like to ask you to turn to response to Public Counsel Data Request No. 171 that's been marked for identification as Exhibit 525. In this data request, we asked Avista to provide your most recent report to senior management or the board regarding how you intended to capitalize your utility operations, and you said in your response that you didn't prepare a separate report for the utility, and then you supplied your year 2000 capital structure projections, and that's the second sheet of the exhibit. So let's take a look at those projections.

If you look at the line near the bottom, so now I'm turning you to the second page of the exhibit, the balance sheet, look at the line near the bottom where it says "total capitalization" three lines up, we see that the total amount of capital used by Avista in 2000 is expected to be very similar, a little less than the Company used in 1998; is that correct. It's 1.57 billion in 2000 versus 1.59 billion in 1998.

A. Yes.

Q. Now if you look at the line a little further up, four lines up "total debt," there we see that Avista projects that it will use a little more debt in 2000 than used in '98, 740 million versus 685 million. Is that a fair statement of the exhibit?

A. Yes, it is.

Q. We also know that the very large amounts of preferred stock that you show in 1998 and 1999 are mostly the convertible preferred, which you have said

should be treated as common stock; is that right?
A. I don't know the exact number, but something in the range of 260 and 280 million that would be treated as common.
Q. Just for the record, that's a reference to Page 10, Lines 6 and 7 of your rebuttal testimony.
Now, if you could take a look at your response to Public Counsel Data Request No. 175. It's marked for identification as the next exhibit, No. 526.
A. Yes.
Q. In that exhibit, you recognize that this is the way the Public Counsel treated that capital also.
A. That's correct.
Q. My point is, absent consideration of that convertible preferred Avista -- excuse me. Absent consideration of that convertible preferred, Avista's preferred stock has been essentially constant over that three-year period; is that right?
A. Yes, that's correct.
Q. So if the total capital is lower, the total debt higher, and preferred stock constant -- are you with me so far?
A. Yes.
Q. -- the amount of equity with which Avista is to be capitalized in 2000 is projected to be a lower

percentage of total capital than it was in 1998; correct?
A. Again, I would say that's at a point in time and not a level of common equity the Company can sustain long-term.
Q. But with your qualifications, that is a question, is it not?
A. Yes. At this point, in time, that's what it represents.
Q. I'm just going to refer you back to the preceding exhibit again to the balance sheet schedule in Exhibit 525. If we take a look there at the "total capitalization" section of the exhibit, the equity capital shown on that schedule is 43.3 percent for the year 2000. Would you accept that subject to check?
A. Yes, I would. Basically, it's the same level as the end of 1999.
Q. That includes Avista's equity investment in its unregulated subsidiary operations; right?
A. It does at that point, yes.
Q. Now, we see in the upper half of this page in the line "investment and subsidiary companies," and that's essentially in the center of the assets portion of the exhibit, six lines down in the assets listings, see there that Avista is projected to reduce its

investment in subsidiaries somewhat from 271 million in 1998 to about 220 million in 2000.
     A.   That's correct.
     Q.   But the level of subsidiary investment in 2000 is not much different from the level that existed in '99, is it?
     A.   About 10 million dollars less according to this.
     Q.   Would you go back to your response to Data Request 165, which we've identified as Cross Exhibit 523. Now I'm referring you to part Part C of that, so we are just looking at the first page, the response to the data request cover sheet.
           In part C of that, we asked to you describe the differences between the manner in which the utility-only capital structure you presented in Idaho and the utility-only capital structure presented by Public Counsel in this proceeding are different, and you provided no description of differences; is that correct?
     A.   Yes, that's correct.
     Q.   Your answer is, We believe the counsel has all the information and data needed.
     A.   You had the original filing in Idaho, and you had the information from your current filing.

Q. Are there any substantial differences?
A. I didn't go back and check substantial differences. I'm not following your question, I guess.
Q. Well, the question is the same that was posed in the data request, and I'm just asking you again if there are any substantial differences you wish to identify between the utility-only capital structure presented in Idaho and that presented by Public Counsel in this case?
A. No. I think Public Counsel has taken from our records a utility-only snapshot of the capital structure at any point in time, and my only point is --
Q. I understand that you've made some arguments in this case about why you don't believe that's an appropriate approach to take, but nevertheless, you are not able to identify any differences.
A. There is a difference of time, but I'm not sure there would be any difference in methodology in terms of the numbers.
Q. That's what I'm asking you.
A. The point is though --
MR. FFITCH: I don't have a question pending at this time, Your Honor.
MR. MEYER: As long as the witness has been allowed to complete the answer to that question. Do

you have anything else to add, Mr. Eliassen?

THE WITNESS: No, not right now.

JUDGE SCHAER: Go ahead, Mr. ffitch.

Q. (By Mr. ffitch) I'd like to turn now to the issue of Avista's 1999 stock buyback program, and you state at Page 10 of your testimony that the common equity ratio was temporarily depressed due to Avista's stock buyback program; right?

A. Yes.

Q. That's your rebuttal testimony I'm referring to; is that correct?

A. Yes, that's correct.

JUDGE SCHAER: I believe that's the only testimony we have in this proceeding for Mr. Eliassen, Mr. ffitch.

MR. FFITCH: I believe you are right, Your Honor. I just wanted to make sure the record was clear and my mind was clear.

Q. If one were to put that equity back into Avista's '99 consolidated capital structure, the equity ratio would be about 48 percent; is that correct?

A. It would be between 48 and 49, yes.

Q. Now, according to your response to Data Request 176-C, and here I'm referring you to the next cross exhibit, which is 527 for identification. I'm

referring to the first page of that exhibit.
A. I'm not sure what 176-C is though.
Q. Again, according to your response there, the stock buyback program commenced in May and ended in November of 1999; right?
A. That's correct.
Q. Do you have a copy of Mr. Hill's direct testimony with you?
A. Just a second. I have rebuttal but not direct.
MR. MEYER: May I approach the witness?
MR. FFITCH: I'm referring you to his Schedule 2, Page 2 of 6, and he has only filed direct testimony in this case.
JUDGE SCHAER: What's the exhibit number again, Mr. ffitch?
MR. FFITCH: Exhibit 623, Your Honor, Page 2 of 6.
Q. (By Mr. ffitch) At the top of the page, we see that in March 1999 before the outset of the stock buyback program, Avista's equity ratio was as 47.12 percent of total capital; are you with me?
A. Yes, that's correct.
Q. At the bottom of the page, the March '99, what was the equity ratio attributable to Avista's

utility operations?
A. At the bottom of the page utility, only, 40.46.
Q. Thank you. Am I correct to understand that the reason for the share buyback was because you thought the Company could make money by doing that?
A. In a sense, but we think the stock was substantially underpriced at $15 to $17, so we started the buyback program because of that with the intent that then stock could be reissued in future years at higher prices so that fewer shares would have to be outstanding to replenish the common equity of the Company.
Q. Anything else, any other reasons that the share buyback occurred?
A. Strategically, it was a good way to improve earnings. In the short term, many utilities were doing that in the last couple of years. We were one of probably 50 or 60 across the country that had share buyback programs either in place actively or inactively, so it was a way to improve the earnings and the return on existing equity at that point in time, but also as the price of stock moved up, a very cost effective way for us to reissue equity later on at a rate of return as the cash we had invested.

Q. Anything else? Those are the reasons for the buyback?
A. Primarily.
Q. At Page 11 of your rebuttal testimony, you indicate the Company is now planning to issue common equity; correct?
A. We have filed for and gotten approval to issue common equity. Basically, the same amount of shares we were able to retire through the calling of the recons preferred stock in February of this year. We remember able to reduce the common equity outstanding by 3.7 million shares, and we filed and got approval to reissue those shares at some point in time into the future.
Q. Now please turn to DR 178, and that's Cross Exhibit 528 for identification. There we ask you to provide a copy of your report to Avista's board of directors seeking authorization to issue 3.7 million shares of stock, did we not?
A. Yes.
Q. You answered in Sub Part A, No written report was provided to the board. So the board authorized the Company to seek permission to issue 3.7 million shares of stock on the basis of no written information?
A. There was no specific report provided to the

board of directors around this. What we talked about though was the fact that we could call recons at a price that was very cost effective to the Company, reduce the outstanding shares by the 3.7 million, which it did, and then get the authority to reissue those shares because we knew we would need that much additional common equity at some point in time, so there were reports given to the board, but not in the context of what you are asking for here.

The board did have the forecast for the year. They knew how much common stock was outstanding, knew that the recons had to be called mandatorily within 18 months, and this was just a matter of taking them out of a point in time but needing then to replace that equity.

Q. Now you are indicating that there was some written material?

A. I don't recall that it was written. It was a verbal record to the board, and they get monthly statements, financial statements of the Company, internal statements of operations, but nothing specifically to this. It's pretty easy to see what we had done with recons.

In terms of calling recons, it was very specific in terms of the amount of number of shares it

could be removed, in effect, from the capital structure through the conversion of the recons. That was documented and given to the board. That had nothing to do with this, but it led to the need to replace that common equity.
Q. So as I understand your answer, there was no written report to the board regarding this authorization. There was discussion, and the board had other general information available to it in various forms.
A. Yes, and over a period of time.
Q. You also stated that the reason you requested the 3.7 million shares to be issued is that in early 2000 when you converted to convertible preferred that reduced common shares by 3.7 million; is that correct?
A. Yes.
Q. So when and if you issue this equity, it will simply restore the number of shares that existed prior to the conversion of the recons; is that correct?
A. That's correct.
Q. You go on to explain the additional equity should be used to fund a portion of the Company's capital expenditures and investments. Have I read that correctly?
A. Yes. It says that the purposes would include

issuance of common stock to fulfill requirements of existing employee and director-related stock option plans or stock plans and other offerings that might be approved by the board in the future. We would still require board approval for the use of proceeds.

Q. Again, I'm referring to your testimony on Page 11 there, am I not?

JUDGE SCHAER: Just a moment, Mr. ffitch. I would like the witness to check that because it appeared to me he was reading something out of Exhibit 528.

THE WITNESS: I answered in the context of what was in Exhibit 528, yes. It's the same answer.

Q. (By Mr. ffitch) Capital expenditures and investments is not what the board understood the equity would be used for, is it? If you look at the board minutes that are provided in response to Part B of this same DR, and again, we are in Exhibit 528 for identification.

A. Right. That's why I answered it the way I did. The board would authorize any issuance -- all the board authorized here was the initial filings with the state, get the approval from the state, and then the subsequent issuance would be subject to further discussion with the board and further approvals.

Q. But I'm talking about the purpose of the stock issuance, and the board minutes indicate that you told the board that the equity was needed to supply employee and director-related stock option plans; isn't that right?

A. That was a near term and plan that had been approved by the board or had already been put in place by the board, so we needed stock for those plans plus other purposes for the Company going forward, but anything we would do going forward for Cap X or for investments, quote unquote, would be subject to further board approval.

Q. But that's basically a yes. They informed the board that the equity was needed to supply those employees and director stock option plans, and what I'm referring to, if you would like to look at the exhibit, is the third page of the Cross Exhibit 528, center paragraph there, first full paragraph. The page says 178B at the top, and that's what I'm referring to.

The board also says that those stock option plans are currently being satisfied through stock repurchases. Is that a different stock repurchase plan than we were discussing earlier?

A. Yes, it is. We have some plans that we have open-market purchase options on. We can use open-market purchase or new-issue stock, depending on whether or not we have a new-issue stock available to us.

Q. Reading on, it's true, isn't it, that the board recognized their approval was not an approval to actually increase the number of shares outstanding, but was solely for the purpose of making such filings with the aforesaid Commissions?

A. Yes, that's correct. So any issuance under this has to have further approval by the board for whatever specific plan or use is intended.

Q. So that's why when we asked you for a draft prospectus in Data Request No. 134, which is marked for identification as Exhibit 529, you indicated that one didn't exist, and you did not provide one; isn't that right?

A. Right. None has been prepared.

Q. I'd like to go back and pick up one thing I skipped and then I think we are done, Mr. Eliassen. At Page 5 of your testimony, Lines 15 through 18, you state that risk can be mitigated through a power cost adjustment mechanism, but if I refer you to Exhibit 530 for identification -- again, it's a response to Public Counsel Data Request No. 166 -- Avista hasn't prepared any analysis that might quantify that risk; is that correct? That's what that answer infers us?

A. I think we provided significant analysis about the risks that we're incurring in commodity costs through Mr. Norwood's testimony and others, the reasons why some kind of mechanism allows us to recover commodity cost changes as necessary. I think this was interpreted to be something equating to a reduction and return on equity or rate of return related to that.

We have not prepared any definitive studies that a PCA would reduce the return on equity or rate of return. What an adjustment mechanism does, very similarly to what happens with a purchase gas adjustment, is allow the company to recover the actual costs of the commodity, which does reduce risk, does reduce volatility of earnings, and long term, will reduce the cost of capital.

Q. But the Company has not prepared an analysis to quantify that risk and has not provided that in response to this data request; is that correct?

A. Yes. We have not done anything that quantifies the risk in terms of the amount of reduction in the cost of capital.

Q. Thank you. Now, we've been through these data requests, and these are data requests provided by Avista to Public Counsel, are they not, and you are

identified as the witness in each of the data requests; is that correct?
A. Yes.
Q. Are you generally familiar with all of these data request responses?
A. Yes.
Q. Were these prepared by you or under your direction or control?
A. Yes.
Q. Are the answers true and correct to the best of your knowledge?
A. Yes, they are.
MR. FFITCH: Your Honor, I would offer Exhibits 523 through 530.
JUDGE SCHAER: Any objections?
MR. MEYER: None.
JUDGE SCHAER: Those documents are admitted.
MR. FFITCH: I have no further questions, Your Honor. Thank you, Mr. Eliassen.
JUDGE SCHAER: Ms. Tennyson, looking as my exhibit list, I have failed to note whether you offered what you had marked for identification as Exhibit 522, which leads me to believe you may not have.
MS. TENNYSON: I did not, and I'm not sure we had actually marked it.

JUDGE SCHAER: I do have a note that I did mark it for identification.
MS. TENNYSON: I did not have it marked so I didn't offer it. I would offer it, what's been marked for identification as Exhibit 522.
JUDGE SCHAER: Any objections?
MR. MEYER: None.
JUDGE SCHAER: That document is admitted. Is there anyone on the bridge line that had questions of Mr. Eliassen? Commissioners, do you have questions of Mr. Eliassen?
CHAIRWOMAN SHOWALTER: I just have one.

CROSS-EXAMINATION

BY CHAIRWOMAN SHOWALTER:
Q. Dr. Lurito made the observation that Avista is in a perfect laboratory situation except that it's real life where it can compare Idaho to Washington, and Idaho where it has a power cost adjustment and here where it doesn't. Has the Company made any analysis of comparison of Idaho versus Washington regarding that factor?
A. I think I would suggest that we have, and I'll give you an example. As we projected, commodity cost changes are going to impact the Company in July,

August, September, and on through this year. We are looking at increased cost to serve retail load this year because of increased prices that have happened since May and June of this year, and we are looking at increased costs of 30 million or more in Washington.

The Idaho power cost adjustment mechanism will allow us, given our assumptions of prices at that point in time to recover about seven million dollars of the Idaho portion of the increased cost from that same period of time. So to that extent, we have a very real example that is alive today that we do have a mechanism in Idaho that allows us to recover and pass through some of the changes in the commodity costs, and it's not shifting risks as what is suggested earlier today. It's basically allowing commodity costs to be passed through, just like we do with gas adjustment, to the customer.

In Idaho, we're estimating a seven-million-dollar benefit in the short term. In Washington, we have nothing today, and that's one of the problems we face. Over time, the Idaho mechanism has probably evened out over the eight or ten years that that mechanism has been in place. There are years it has very much benefitted the Company, and there are years where, in terms of reducing volatility of

expense, there have been years when it's benefitted the customer as we've been able to pass through or costs, but at times like this when we've suddenly seen unprecedented changes in commodity costs in this industry, we are finding that it's going to be very difficult to continue to basically buy power and pass it through at a price that only recovers 20 to 30 percent of what it's actually costing us on a daily basis. So yes, we have a real live laboratory as Dr. Lurito suggested. It's live today. We can compare what we do in Idaho compared to what we are trying to accomplish in Washington.
Q. I'm not sure what you meant by it does not increase the risk to the ratepayer. Why doesn't it?
A. It increases the cost to the ratepayer if the ratepayer continues to choose to use energy, and you can see the examples here with Kaiser, with Vanalco (phonetic), and others in the Northwest. They've said that they cannot afford the price of energy, so they basically shut down or cut back operations. Maybe that's passing on risk, but I'm not sure there is anyone else that should bear that cost for the aluminum industry, and I'm not sure the utility, especially not given the cap structure and the kind of returns that are allowed today, is in any position to bear that kind

of risk either, especially when prices today or prices earlier this week, if you needed to buy a heavy-load product to meet August load, prices were $120 a megawatt hour. That's 12 cents a total hour. Our prices today and the rates that have been approved in this state allow us to recover about 2.1 cent for the commodity, so we are basically losing 10 cents a total hour for a portion of the power we are required to provide to our customers in the month of August.

We are naturally short in August. There has been a significant -- people talk about no risk in this business. We sell the same amount of kilowatt hours today that we sold 22 years ago for our retail load, the same amount, but they are different customers, different patterns. We have a summer peak now that we didn't use to have, and it's getting to be very, very expensive to manage our resources around the actual load. It's not shifting risk. It's just passing on costs to those that are actually using the product.

Q. Your answer is confusing to me, because until your last sentence, I would have said that it seemed to me your answer just acknowledged that not only does it shift risk, but it sounds as if you think it may be appropriate to shift risk to customers, but isn't passing on costs the same as shifting risks, or not?

A. Well, if the risk is that if costs continue to rise we have no way to recover them, you basically have to shut down operations, as the aluminum companies did, obviously, that's a risk. But the point is, we really need to be able to pass on what we are incurring in terms of actual cost of commodity, and as we look forward for the next 12 months, we see commodity costs at three and four times the levels that they've ever been historically.

Q. But aren't you saying that the reason you need to pass on the cost is you can't except the risk of absorbing that cost at a previously set rate that you are authorized? Isn't there a risk? I would have thought it was obvious that a PCA does shift risk, but you said it doesn't, so I wanted to explore that.

A. It depends on how you define risk. The risk to the Company is that costs go up dramatically for an extended period of time, which they are, and we have no way of recovering those costs, and we have the obligation to serve. We have the obligation to follow load, so we basically buy power -- and we aren't the only ones. This is impacting companies with WSCC, so we have the obligation to provide the commodity at the at the set price that the customer pays.

Q. If a PCA is authorized, do you agree that

risk is reduced for the Company?
     A.   Yes, definitely. It reduces risk to both the bondholders and the shareholders of the Company by allowing us a better opportunity to recover the actual costs of serving our load, but I'm struggling a little bit in how to answer the difference between serving load at any cost. That's a risk that you can't bear in the long term no matter what kind of business you are in.
     Q.   Back to my original inquiry which is Washington versus Idaho. I think your answer started out by saying yes, we can see that we have a PCA in Idaho and we don't in Washington, and I think the issue that Dr. Avera posed is what about overall effect on the Company? Your example of right at this minute you can pass certain costs on to Idaho customers that you can't to Washington customers is by definition true, but I wondered if you had taken a step beyond that to analyze how overall in Washington versus Idaho in the last X years, five or six years, it has affected the Company?
     A.   If you go back five or six years, and this is the real crux of the issue that faces the utility industry in the West Coast and the Northwest. Last year, prices were relatively flat. We've seen prices

in the $25, $30, $35 range, and we could manage around those kind of prices.

What we are seeing now is prices in the $80 to $125 range. A heavy-load product for 12 months for the year 2001 is now in the range of $60 to $65. The same product is priced in Mr. Norwood's testimony in this case at $22, so to the extent that a portion of our load has to be met with purchase power, we are going to see a 30- to 40-million dollar increase to certain loads in Washington, everything else being equal, next year compared to the base case in this case.

It's a huge number, but overall, it's a less than 10-percent cost of increase in total price of commodity this company provides. We still have all of our generation. We still have our long-term contracts at a very low cost, but that increment that we have to buy in the market, or we're going to have to build plants to replace -- we have to do something -- that increment, we already believe, based on today's forward pricing, we know it will cost somewhere between 30 and 40 million dollars more, and that's with loads that don't grow as much.

That's Washington. Idaho allows us some recovery because the PCA mechanism does allow us to pass some portion of the increased cost of commodity to the customer. The pieces that we can't control here are hydro conditions, and we can't control the market price of energy, and those are the things that are hurting us the most, and it's a risk to the Company and yeah, we do need to pass it on, but I view it as not passing on a risk but having the price of the product truly reflect its costs.

CHAIRWOMAN SHOWALTER: Thanks.

CROSS-EXAMINATION

BY COMMISSIONER HEMSTAD:

Q. If there is no PCA and your power costs continue to be substantially above where they have been, of course you can file another rate case, can't you?

A. Yes. Part of the problem is that we are already incurring those costs today to meet retail load today, and the cost in Q-3 and Q-4 of this year will run 30 million dollars or more. That's on top of losses that for other reasons, we have already incurred that have nothing to do with meeting retail load, and beyond that, going forward, because of lack of enough generation or market conditions or whatever else is driving this market, we are going to see that 30- to

40-million-dollar increase in power costs over the next two to three years.

The only answer for us is to have access to other generation, additional generation on our system that we can actually dispatch and control. That's not a free answer, in a sense, because even today with the price of gas double what it was a year ago, generation with natural gas and our turbines, the variable cost is somewhere around $45 a megawatt hour just for the price of gas. Better than paying $80 or $90, but still twice as much as we are allowed to recover.

Q. The question in part is how quickly is a recovery obtained, but if costs are going to be turning higher over time, the system has to pay for it one way or the other.

A. Yes. One of the interesting opportunities you have with power cost adjustment mechanism that's properly structured is you can put the right amount in base rates, and today we are talking $21, $22 megawatt hour in base rates to the Company. Well, maybe going forward that needs to be $26, and it still won't be the exact rate. It won't be a huge increase, but it is a change from today. The power cost adjustment mechanism let's you then move and reflect actual commodity costs around that as we meet actual load, and that's the kind

of protection we need for bondholders and shareholders, and I think to some extent, it's the message we need to send to customer as well.
Q. Changing the subject, you conclude that the short-term debt costs should be higher than that of Dr. Avera.
A. Yes.
Q. Does Dr. Avera agree with your position or disagree, or have you conversed with him about it?
A. Maybe I misspoke. I meant Dr. Lurito, and he had mentioned something about six percent. I think short-term debt costs are going to be higher than what Dr. Lurito assumed.
Q. Doesn't Dr. Avera on the short-term debt --
A. Well, yes. I'll expand on that, yes. I think because the costs were at the point in time in Dr. Avera's exhibit, the costs today probably for short term probably are higher than when he filed his information in this case.
Q. You said the difference is one of timing?
A. Yeah. What I'm trying to do is looking forward to the next 12 to 18 months. We have seen significant increases in the pricing of short-term debt just because short-term debt rates have gone up. We've also seen changes in the commitment fees and other fees

associated with lines of credit, and those were factored into that.

Banks in general have, for all companies, been changing the spreads to liable or spreads to the base rate. The cost of money has been increasing across the board, and those have been reflected in the forward pricing.

Q. But if your short-term debt is higher, at the same time, do you support Dr. Avera's overall rate of return for the Company of 9.93, or would you, as a result of the high short-term debt, push that rate higher?

A. There maybe an offset on that because there has been other testimony that the cost of long-term debt had dropped to some extent, so that could be offset by the short-term. If you are going to use short-term debt, in my mind, we just need to be accurate in terms of reflecting the period in which we will be collecting it, not using a historical rate for short-term.

COMMISSIONER HEMSTAD: Thank you. That's all I have.

COMMISSIONER GILLIS: No questions.

CROSS-EXAMINATION

BY JUDGE SCHAER:

Q. Mr. Eliassen, you made a reference to losses that the Company has suffered that are not the kind of losses that would be recovered through a PCA. Will you tell me a little bit more about what those are?

A. As you are all aware, we issued an earnings warning on June 21st of this year, and the Company had certain short positions and index pricing positions that were causing second quarter prices for commodity purchases to be extremely high. We did incur some very, very expensive purchases of power during that quarter. That has nothing to do with what I was talking about meeting retail load, but we have incurred those expenses in the last quarter. What we are looking at in terms of retail load going forward is just specifically what it takes to provide the commodity for our customers.

Q. So looking at the short position and index price items that you've just mentioned, if there were mistakes on those kinds of things in the future, how would the Commission be able to tell with a PCA mechanism in place whether those kinds of mistakes were causing rates to go up or whether something else was causing that effect?

A. I'm not sure I can explain specifically. You might have to have Mr. Norwood come back and talk about that, but by and large, those were positions that were put on for what I would call "excess wholesale transactions" that had nothing to do with commodity to meet retail load. That kind of position or those kinds of trades are not something that the Company is going to be doing going forward, so to that extent, the Company has to take responsibility and monitor and make sure that any trading that is going on is basically around the retail load, not around selling wholesale and buying wholesale.

Q. Even meeting retail load, the Company is still going to have to actively manage how much firm, how much nonfirm when it buys a lot of other factors; would know you agree?

A. That is correct, and that amount of energy in a given year is probably about 40 percent of what our total retail load is. We have to manage another 40 percent over and above that just to match our resources to our actual commercial or retail loads, so there is that, quote -- it's resource optimization, but you can call it trading if you wish.

Q. I don't think I'd call it trading, but I'm just talking about what the Company and its managers

need to actively manage in order to get the best possible prices for its customers.
A. Then that, of course, is a product of how much generation we actually own versus how much we still have to depend on through the longer term on contracts to fill the natural short positions we have in the two quarters of the year.
The bottom line on this is the things that have hurt the Company in May and June, by and large excess wholesale transactions that had nothing to do with retail loads, and those aren't things that we will do again.

RECROSS-EXAMINATION

BY COMMISSIONER HEMSTAD:
Q. Excess wholesale transactions, you mean these are transactions that weren't needed to meet your retail requirements? In translation then, just simply speculating on the market?
A. I wouldn't say speculating. There were specific strategies built around how we operate our systems and how we anticipated weather patterns would be this year that just turned out to be wrong.
Q. When I say "speculating," I don't mean that pejoratively, but in the sense of not necessary, as you

say, had nothing to do with meeting retail load. You have to buy and sell in the wholesale market to meet your retail load requirements.
A. That's correct.
Q. But these transactions weren't related to that duty?
A. Some were in excess of that amount, and then there were also exposure to floating price, which normally has been something the Company has used at certain times of the year, particularly when the hydro systems in the Northwest are usually long power, but as it turned out this spring, the markets changed appreciably starting late May and through June, and stream flow conditions changed; markets changed. We were adversely impacted in the Northwest by many of the things going on in California and the Southwest, so there have been any number of things that impacted the price of power in the short term and driven it up, but it's that basic shortage of capacity that has impacted the WSCC going forward and impacted our individual company that's going to continue to keep prices up as we look forward to the next two or three years.
But again, the excess wholesale trading -- in the past, the Company has had the ability to do wholesale transactions at the utility level, and in

fact, I think even your Staff case included some five million dollars worth of profit from that kind of trading as an offset to commodity costs. That business won't exist going forward.

Q. I just have one more question with regard to the issue of PCA. In argument with regard to that, and the same argument is made with regard to a pure PGA, that it lessens the incentive on the part of the utility to aggressively manage those requirements because it's passed through to the ratepayer. What is your comment or reaction to that assertion?

A. If it's a pure pass through of all costs no matter how they are incurred, then it could be a concern. I think in our case, we are trying to structure something that really reflects the changes in costs over which we have really no control for the hydro system variability, for example. That by itself has always been an issue with us, but now when replacement power costs will be four to ten times what it has been historically, it's a huge hole for us. It's just hydro conditions vary.

The price of natural gas, things that are caused by weather and load shifts, things that we have no control over are really things that we need to have some mechanism to recover, and just general price increases, if the actual price of the commodity is going to move up over time, that just needs to be built into base rates.

JUDGE SCHAER: Anything further?

RECROSS-EXAMINATION

BY CHAIRWOMAN SHOWALTER:

Q. I just wanted to hear more of an answer. The part you can't control aside when you go out to buy on a market to fill that hole that has been created because of the weather, when you go out to buy, what kind of incentive is there to proceed cautiously and judiciously and not to say well, I'll take that price because after all, the Company doesn't have to pay it.

What's the mechanism that the Company could propose here to either take on some of that risk or share the risk, or surely you are in a better position to make a sound purchase than the ultimate customer who has zero control over any of it.

A. Here again, I'm not the right person to get into all the details. This may not be the place for that, but I think we could work out a fair mechanism for all involved if we had the opportunity to sit down and do that.

I think the issue going forward too is also one of balancing how much resource we actually own and operate and control and dispatch on and how much fixed cost we take on versus how much we continue to have to buy in the market. The national short position for month of August for the Company is in excess of 300 megawatt hours. That's a lot of power when you start looking at $120 pricing for it, so the issue there is a really thoughtful process through the RFP process, basically, to determine whether or not we need a combination of additional turbines and then commodity purchases that would be made probably well in advance to help fill those holes, and then to a point made earlier, we still have to manage those on a daily basis.

We are finding though that it's much better to be long in selling $50 power, which we've been doing this week, than short and buying $800 power. It's just going to take us a while to build the plant to fill part of the hole and then manage the rest of the process, but I think we could develop mechanisms that would give you some assurances.

JUDGE SCHAER: Mr. Eliassen, just one brief question. You just said there is something we need to work out in the RFP process. Did you mean to say the IRP process? What were you talking about there?

THE WITNESS: We need to be able to sit down with you all and look at integrated resource plan and then go out with our RFP's to determine what the next lowest cost or best cost of alternative is for us beyond just buying the market as we are doing today, and that process is something we need to address fairly quickly.

JUDGE SCHAER: Anything else? We'll go ahead and take our afternoon recess at this time, and we are going to take a fairly long recess because there are some matters we need to address during that time. Let's plan to be back on the record at 3:30. We are off the record

(Recess.)

JUDGE SCHAER: Let's be back on the record, Commissioners have had an opportunity to consider the Stipulation which has been entered into the record as Exhibit 740 and have determined that the Commission will accept the Stipulation, so I want the parties to know that as you continue with your presentations in this proceeding. Is there anything else we need to discuss before we start with Mr. Eliassen? Then let's have your redirect at this time, Mr. Meyer.

REDIRECT EXAMINATION

BY MR. MEYER:

Q. Thank you. First of all, how, if at all, do investors are those in the investment community recognize any difference in business risk between a jurisdiction such as Idaho with a PCA and a jurisdiction in Washington that does not embrace a PCA?

A. In general, from things that I have read and things that we have heard from analysts, the PCA mechanism in Idaho is viewed as a positive in the Company, and we have been told that in meetings with rating agencies and analysts and others; although, they haven't really quantified it.

We also know that it's viewed as a positive for Idaho Power, who has a mechanism that virtually covers all of their state operations and their company, so it takes away a lot of the volatility that they would otherwise be facing. So having are a power cost adjustment mechanism or some mechanism that allows those true costs of energy to be passed through. Things have positively been written by Merrill Lynch and other analysts, and most recently, both Standard and Poor's and Moody's have told the Company that one of the things they are looking for in the Company is having some sort of mechanism that allows the full recovery of commodity costs and for something that will reduce the volatility in the Company's earnings reflected in the commodity cost price changes.

Q. The Chair was exploring with you the questions of shifting of risks and the type of risks, if any, that we would be passing along to customers with a PCA. Do you have any further comment?

A. Yes. The risk that the Company faces and the risk that is actually growing for the Company is not only the increase in the price of the commodity that we cannot recover through today's pricing, but also the volatility of pricing, so those risks to the Company would be mitigated through a PCA mechanism, and in that sense, are passed onto the customer, but really what we are passing on to the customer is the true cost of the energy that we are serving them in their demands, the true cost of the commodity, so we are mitigating the risk and passing that risk on to the customer in that kind of mechanism.

Q. Do you see any ready analogies to PGA's in that regard?

A. I believe that the mechanism that would be put in place could be monitored and managed very similarly to what we have with our purchase gas adjustment clause, and basically there, there has been an incentive for the Company to continue to be a very cost-effective provider of natural gas. We are one of the lower priced providers of gas in the Northwest or the West Coast, even though we have an adjustment mechanism that allows us to pass through whatever the market price of the gas is.

We have the same opportunity on the electric side. There are market indices that can be followed. Electricity is being traded more and more broadly, and the process of a gas adjustment clause and a power adjustment clause can both be monitored and audited by the Commission and Commission staff before any adjustments are made up or down.

Q. In that latter regard, as the Company envisions the implementation of a PCA, would it allow for Staff review and monthly monitoring?

A. Yes. There can be monthly reporting. The process we use in Idaho is to actually file before any adjustment either to increased price in customer surcharge or a pass-through benefit; that is, there is a period of time in which the Idaho Staff can monitor or audit that if they so choose.

MR. MEYER: That's completes my redirect.

CHAIRWOMAN SHOWALTER: I've got a follow-up.

RECROSS-EXAMINATION

BY CHAIRWOMAN SHOWALTER:

Q. On your PGA, as I recall, we approved a three-year pilot PGA in which there was some kind of sharing of risks. I can't remember the details right now, but it's not, as I recall, a straight pass through. There was a way for the Company to benefit if it did well for the consumer and not otherwise.

A. Yes. I think the gas costs being passed through are tied to market, and then we are managing the gas procurement around that, so there is a sharing there, but the benefit and incentive is still to bring in the lowest cost gas possible to the consumer.

JUDGE SCHAER: Any further questions for this witness?

MR. FFITCH: Your Honor, I have a couple of questions.

JUDGE SCHAER: Did you have anything, Ms. Tennyson?

MS. TENNYSON: No.

JUDGE SCHAER: Go ahead, Mr. ffitch.

RECROSS-EXAMINATION

BY MR. FFITCH:

Q. Mr. Eliassen, you had some discussion with the Commissioners regarding the April May situation which the Company experienced involving the earnings warning. In fact, you indicated that the Company issued an earnings warning in June; is that correct?

A. Yes, that's true.

Q. Following that earnings warning, the Company, specifically, yourself and Mr. Matthews, conducted a conference call in which you made a presentation to Wall Street analysts and the media regarding the earnings warning?

A. Yes, we did.

Q. Could I ask you to turn to what's been marked for identification as Cross-Examination Exhibit 17. Now, that wasn't identified to you, and I could give you a copy of it. It was identified for Mr. Matthews, but since the topic has come up during your testimony -- if you would like, I can give you a copy, unless counsel would like to show it to you.

A. I may have one.

Q. It is a transcript of that call. It's been marked for identification as Exhibit 17.

A. Yes.

MR. MEYER: Your Honor, I would object at this point. Any further cross-examination with regard to that exhibit, which was identified at your direction at the prehearing conference as a cross-examination exhibit for Mr. Matthews -- you've made it abundantly clear in our discussion yesterday that you are not going to allow cross-examination on an exhibit that wasn't predistributed to the effective witness beforehand, and that's certainly not the case here, so I object.

JUDGE SCHAER: Mr. ffitch?

MR. FFITCH: Your Honor, I appreciate Mr. Meyer's observation. I will note first of all that we had intended to offer this through Mr. Matthews, but the topic has been raised in some detail already on the questioning of the Bench. The document itself has been available to Mr. Meyer and to the Company generally since the prehearing conference last Thursday on July 6th.

The document in question is a transcript of a teleconference presentation by Mr. Eliassen himself. If we wait until tomorrow, then Mr. Eliassen and his counsel won't actually have a chance to speak to this exhibit should they wish to do so. Although, we wouldn't object to Mr. Eliassen being called back if that ends up being appropriate, but for those reasons, while we do understand we are offering it out of order, we've brought it up at this time so we could attempt to

get it into the record through Mr. Eliassen.
JUDGE SCHAER: Mr. Eliassen, I believe you indicated that you were a participant in this call; is that correct.
THE WITNESS: Yes, I was.
JUDGE SCHAER: I'm going to allow counsel to question on this, Mr. Meyer, and if there are problems for Mr. Eliassen in responding, then I will let him refer freely to Mr. Matthews any answers he would prefer to have him to answer. I'm not going to rule on admission at this point but wait to see if this witness has enough familiarity, and otherwise, I will let you then wait and offer it tomorrow, Mr. ffitch, but this is a data request response from the Company prepared by the Company.
I believe the exhibits that we had concerns about earlier were actually asking witnesses who were not the party who had presented a response to possibly sponsor a response prepared by another party, and that did cause me great concern. We have had this since last Thursday, and as I indicate, Mr. Eliassen should feel quite free to refer anything he wishes to Mr. Matthews. Go ahead with your questions, Mr. ffitch.
Q. Thank you, Your Honor. First of all,

Mr. Eliassen, do you recall the presentation made during the conference call?
A. Yes.
Q. Have you actually had a chance to review the transcript subsequent to the conference call?
A. I hadn't recently, no, but I have seen, it yes.
Q. So do you have any corrections or changes to make to it? Do you generally believe that it's an accurate representation of the conversation that occurred?
A. It's an accurate transcript of that conference call on June 21st, yes.
Q. Thank you. In general, the call is described on the first page as a call regarding the impact of high power prices on your utility operations? I'm just reading from the second paragraph of the first page.
A. Yes.
Q. I know a number of topics are discussed in here. Do you discuss the PCA in this conference call?
A. Well, I haven't reviewed it enough to know exactly what may have been mentioned in here. I would need to go back and refresh my memory on that. I think we were talking about methodology though of recovering the portion of increased power costs going forward that

related to the retail business, and so it could have been mentioned, but there are no pages, so I don't know a page reference, if you had one.
     Q.   That's all right. I don't have a page reference for you. I can refer you to Page 9. I just got a page reference.
     A.   We did not have one at this time in Washington. There is reference, yes, that we did have one in Idaho and not in Washington.
     Q.   And the presentation covered a number of topics too, did it not?
     A.   Yes.
     Q.   Can you just summarize in general the topics that were covered in the presentation?
     A.   Basically talking about positions that the Company had taken as part of --
          MR. MEYER: Excuse me, Your Honor. I believe this type of recross, that type of questioning goes well beyond targeted recross based on anything that may have been suggested by the Commission in your questioning, so I object.
          JUDGE SCHAER: Objection is overruled. Go ahead, Mr. ffitch. Go ahead with your answer, Mr. Eliassen.
          THE WITNESS: Basically, I was going to say

that we started out talking about positions that the Company had in wholesale markets effective the middle or end of April, and which was also the point in time that we sold Centralia and had a certain strategy in mind for the balance of May and June and a certain expectation of what would happen with power availability and power prices. There was some exposure in that position, but obviously, not one that we thought was unusual at that point in time.

The issues though that we really addressed here is what happened in the power market starting about the third week in May with the significant run-up in prices both in the Northeast and the Southwest and the continued lack of availability of energy for the May, June, and even into the Q-3 time periods, so what we were faced with is the same thing a number of other utilities were faced with at the time, basically covering for both retail and some wholesale loads at very, very high prices. Some days we saw prices in the market in excess of $200 or $300 or $400, and these were in markets where historically, the price of energy had been in the range of $18 to $22 per megawatt hour, so in addition to prices being very high, there was basically not a lot of product available, and to cover the positions we had, both to meet retail as we will as

the wholesale obligations, we incurred significant losses in Q-2, which is what we reported to the public in the telephone conference call; that we would expect that Q-2, primarily in May and June, would cost the Company about 90 million dollars in increased power costs. Two-thirds or so of that reflecting wholesale trading, and the balance of it reflecting immediate retail load.
Q. So just to sum up, this is essentially a presentation regarding the 90 million dollars lost to the regulated utility in that time frame due to those short positions that you had taken.
A. Well, yes. Short positions or positions that were tied or priced on index where the price and the product was going to reflect the price of the market at that time.
MR. FFITCH: Thank you. Your Honor, I don't have any more questions on this exhibit, and I would offer Exhibit 17.
JUDGE SCHAER: Any objection, Mr. Meyer.
MR. MEYER: The objection has already been made. The objection was to any cross of that based on that exhibit at this time with this witness.
JUDGE SCHAER: I'm going to ask you to reoffer this tomorrow with Mr. Matthews, Mr. ffitch.

MR. FFITCH: Just a couple more questions.
Q. (By Mr. ffitch) Mr. Eliassen, are you familiar with an article by the Dow Jones news writer Mark Golden which followed up on this presentation which the article quotes you?
A. I'm familiar that something was posted on the Dow Jones interactive or something. I think that's where I saw it was on the Internet.
Q. Dow Jones newswire column on the Internet?
A. Right.
MR. FFITCH: May I approach the witness, Your Honor?
JUDGE SCHAER: You may.
Q. Mr. Eliassen, is that the document, the article that I just referred to? If you would like to take a moment to look at it.
A. I assume so. The only way I would know for sure is to compare it line by line, but I'm assuming it is.
Q. Do you know of any other Dow Jones articles by Mr. Golden regarding this conference?
A. No, I don't. The form I saw was one that was actually from the Dow Jones interactive on the Internet, so the format was totally different. I'm assuming the wording is all the same.

MR. FFITCH: Your Honor, we have not identified this article as a cross-examination exhibit. When the topic was opened up under discussion a little bit earlier with Mr. Eliassen, we determined that this would be helpful for the record, and we've provided copies during the break to Mr. Meyer for the Company. I have copies here for the Bench. I'd like to ask a couple more questions about it in aid of offering it for the record.

JUDGE SCHAER: Why don't you go ahead and distribute it at this time, and we can mark it for identification and you can ask your foundation questions before you make an offer.

Q. (By Mr. ffitch) Mr. Eliassen, have you had a chance now to look through that article?

A. I've glanced through it.

JUDGE SCHAER: You've handed me a document, it appears four pages, which is headed at the time 23rd June 2000, Dow Jones Power Points, and I'm going to mark this for identification as Exhibit 531. Go ahead with your questions.

MR. MEYER: Your Honor, I object to any continuing cross-examination on this exhibit. The reasons I expressed a moment ago in yet another context. Yesterday, you made it clear that you would not allow cross-examination on exhibits that had not been predistributed to witnesses. This hasn't been predistributed but for 10 minutes ago during a break. The rules need to be consistently applied in this regard or the Company will be prejudiced.

MR. FFITCH: Your Honor, I understand the counsel's position. I would be comfortable if the witness were called back tomorrow. I had not intended to engage an extended cross-examination on this document, simply to offer it in the same category as the fizzle to sizzle article, which is an example of press coverage of Avista's financial situation. I'd be happy to give the Company witness time to review this overnight and have an opportunity to respond to redirect from his attorney tomorrow if that would be helpful.

JUDGE SCHAER: Mr. ffitch, why wasn't this distributed with your cross-examination exhibits?

MR. FFITCH: Your Honor, we simply had not anticipated the direct discussion of this topic to the level that it has occurred at this point in the hearing, and frankly, it was not clear to us, because this incident did not take place in the test year, it wasn't clear to us how much detail would be gone into.

There has been, however, a significant amount of discussion throughout the hearing, and particularly in Mr. Eliassen's testimony about the amount of uncertainty and risk in the marketplace, references to the price spikes in April and May. We believe that these documents provide some context now for those kinds of preferences by a number of witnesses, including Company witnesses, will help the Commission evaluate the various assertions regarding those events.

I guess one other additional comment is that these kinds of documents in the investor media community, like the fizzle to sizzle document, reflect in part on the investor expectation issues that have been raised.

JUDGE SCHAER: Mr. ffitch, I'm going to sustain the objection at this time. As you indicate, this is information about something that occurred outside the test year, and as of March, no relevance to this proceeding, and it's important in this field where there is so much detail and so much information that cross-examination exhibits be predistributed so other people may have a fair chance to respond, so continue with your other questions, if you will, please.

MR. FFITCH: I don't have any other questions for this witness, Your Honor.

JUDGE SCHAER: Is there anything further for

Mr. Eliassen?
MR. MEYER: I have just one follow-up.

REDIRECT EXAMINATION
BY MR. MEYER:
Q. I don't recall whether this related to a question from Public Counsel or another participant, but Mr. Eliassen had mentioned a preearnings release and a figure of approximately 90 million dollars associated with the second quarter activity. Mr. Eliassen, do you recall that?
A. Yes, I do.
Q. How does that figure relate, if at all, to what the Company is seeking or would be seeking to recover in its accounting petition that's presently filed with but not acted upon by this Commission?
MR. FFITCH: I object. Counsel is now inquiring into this area which is outside the test year. There have been a number of references to this topic by Company witnesses. Apparently, that type of questioning is going to continue, but as I understand the ruling from the Bench, that area is not to be inquired into extensively, and it appears that Mr. Meyer is heading down that road.
(Discussion off the record.)

JUDGE SCHAER: We are going to overrule the objection and allow the witness to answer. Go ahead.

THE WITNESS: Could you please read the question back or restate it?

Q. (By Mr. Meyer) I'll restate it. We are trying to make a succinct point, and then we can move on. The 90-million-dollar figure that we've had reference to, do you know whether or not that would be included in the normalized results filed with this Commission on a semiannual basis?

A. It would not be included.

MR. MEYER: That's all I have. Thank you.

JUDGE SCHAER: Anything further for Mr. Eliassen? Thank you for your testimony. I believe at this point in the schedule we are going to hear from Ms. Hirsh.

(Witness sworn.)

JUDGE SCHAER: Ms. Hirsh, your testimony and exhibits were previously admitted on July 10th. I don't know if there is anything further that needs to be brought out before you are made available for cross-examination.

MS. DIXON: Not at this time.

JUDGE SCHAER: Does Company have any questions for Ms. Hirsh?

MR. MEYER: We do not.

JUDGE SCHAER: Commission staff or Public Counsel have questions?

MS. TENNYSON: We do not.

MR. FFITCH: Your Honor, Public Counsel does not have any questions. We had an exhibit identified for Ms. Hirsh. I'm just checking to see if that has been admitted by stipulation already.

JUDGE SCHAER: According to my notes, Exhibit 653 was a Northwest Energy Coalition response to Public Counsel Data Request No. 3 and was admitted on July 10th.

MR. FFITCH: Thank you, Your Honor. Then we have no questions for Ms. Hirsh.

CROSS-EXAMINATION

BY JUDGE SCHAER:

Q. Ms. Hirsh, I'd like to look first at your testimony, Exhibit T-649, please. Looking at your testimony at Page 5, Line 22, you asked the Commission to set the natural gas DSM tariff rider at 0.52 percent in this proceeding; is that correct?

A. Yes.

Q. Then turning to Page 6 of your testimony, you refer to cost-effective savings that should be

captured; correct?
     A.   Yes.
     Q.   Have these savings been identified?
     A.   Not to my knowledge, but the Company and others who look at energy conservation potential in the gas sector have seen, given increases in gas prices, that the potential for savings has risen.
     Q.   Do you know if these savings are estimated anywhere?
     A.   No. Although, they may have been looked at in the gas integrated resource plan that the Company is developing, I believe, right now.
     Q.   Do you provide an estimate of savings in your testimony?
     A.   No.
     Q.   On what basis then do you propose that the Commission set this charge in this proceeding?
     A.   Based upon gas prices that had originally -- that had been at a level that established a gas tariff rider when it was originally set, and now we are seeing similar prices, so we would assume that the same assessment of potential would apply, given the price level.

CROSS-EXAMINATION

BY CHAIRWOMAN SHOWALTER:

Q. So are you saying that it's the price level of gas that determines how much conservation potential there is in a given base of customers?

A. No. I think the potential is there regardless of gas prices, but it depends on what's cost-effective.

Q. If the price was a certain level and certain conservation efforts were undertaken, then a couple of years passed by and now it's back to that same level, obviously, the previous conservation efforts were undertaken, and you have to do it some more after that at that level, so how do you know, I guess, that there is yet another increment of savings out there to be gained and that would be cost effective at that price?

A. Energy efficiency is a very dynamic opportunity and resource and one we feel which is constantly evolving. Not only are industries and technologies constantly changing, creating new opportunities, but new structures are being built all the time. Structures are being renovated for new opportunities appear that weren't there before, and new ownership of existing buildings, or buildings change hands and new owners have new ideas about what things they might be willing to invest in.

So from our perspective, conservation is a very dynamic resource that has lots of opportunities, almost regardless of the price. It depends on whether it's cost-effective for ratepayers to make that investment and at what time, and that depends on the price of gas. So even though investments were made when gas prices were higher, the tariff rider has ramped down to zero and the Company has been offering no programs in this area and that, we think, leaves a lot of lost opportunities behind, and we'd like to see those captured in the future.

CHAIRWOMAN SHOWALTER: Thanks.

RECROSS-EXAMINATION

BY JUDGE SCHAER:

Q. Looking at another of your recommendations on Page 8 of your testimony at Line 3, you recommend that the current block rate design for Avista residential customers be maintained; is that correct?

A. Yes.

Q. Do you understand that the Company has testified that this rate design may actually injuring low-income space heat customers?

A. I have to say that I am not familiar with that argument by the Company. It may be in their testimony, but I'm not familiar with it.

Q. Then think about it just for a moment and let me know if you disagree with that contention.

A. They would make the assumption that low-income customers probably use electric space heat, which would put them in the higher blocks, and therefore, reduction in blocks might benefit them. We would argue that not all low-income customers are in the high-use categories, and therefore, changing to a different block, a smaller, reduced block rate would benefit them, or staying with the three-block rate would benefit them.

Q. So how do you square your support for the current block rate design with the concern you express for low-income customers on Page 12 of your testimony?

A. Again, we would argue that the Company's assertion that all low-income customers in the high-block tiers is not correct.

Q. What if a disproportion number of --

COMMISSIONER HEMSTAD: I'm sorry. I don't believe the Company's testimony is that all low-income customers would be hurt. It would be low-income customers who use space heating.

THE WITNESS: Correct.

Q. (By Judge Schaer) If there are a number of low-income customers who are in housing that has space heating or even a disproportionate proportion of low-income customers that live in housing that has electric space heating, what concerns would you have about continuation of the block rate design, if any?

A. What our sense is that those customers should be targeted for the energy efficiency programs that the I didn't tariff rider, and there should be efforts made if there is a disproportionate number of customers that are affected by the three-block system, then they should be targeted for special services, but overall, we think the three-block system sends a strong conservation message that even those customers should be listening to or trying to take one what steps they can or participate in programs that will help reduce their consumption.

Q. Looking at Page 9 of your testimony beginning at Line 11, you have recommended that the Kettle Falls plant should receive a bonus rate of return if the plant meets the criteria established by the law; is that correct?

A. Yes.

Q. Do you believe that the plant meets these criteria?

A. We have not looked specifically at the costs data from when the plant first came on line directly ourselves. However, based upon the Commission's decision on prudence in 1983 and the Department of Revenues's decision in 1990, it would seem to indicate that the plant has met those criteria, but we have not specifically looked at it ourselves.

Q. You recommend that the environmental impacts of the Kettle Falls plant could be improved if it were to rely on fuel sources certified by the Forest Stewardship Counsel; is that correct?

A. Yes.

Q. Have you provided any estimates of the availability of wood fuel meeting the certification standards you propose?

A. We have in a response to the Company's data request provided some acreage estimates for the Pacific Northwest and British Columbia, lower British Columbia, of acreage, and that appears to be approximately 150 thousand acres.

Q. Have you provided any evidence about cost differences, if any, between wood fuel that is certified and wood fuel that is not?

A. No.

Q. Do you know if there is a cost difference?

A. I do not know at this time.
Q. Turning back to your testimony at Page 13, starting at Line 5 -- actually, Page 14, Line 5, you indicate there, don't you, that the Company do more to assist its low-income customers?
A. Yes.
Q. Are you recommending specific programs or expenditures in this proceeding?
A. We are hopeful that a process will be begun in this proceeding that will establish expenditure levels based less on the expenditure level and more on the need in the service territory and that those programs and expenditures will be incorporated into this proceeding. We refer in our testimony to the testimony of Robert Colton and the recommendations that are made by about the Spokane Neighborhood Action Program.
Q. Have you yourself sponsored any exhibits describing these programs?
A. No.
Q. But you've indicated that you are aware of the recommendations Mr. Colton has made; is that correct?
A. Yes.
Q. Do you support his recommendations?

A. Yes, I do.
JUDGE SCHAER: Commissioners, do you have any further questions?

RECROSS-EXAMINATION

BY CHAIRWOMAN SHOWALTER:
Q. Beyond supporting Mr. Colton's recommendations, and I would have to say at the moment I don't remember them, what is it that you are asking this Commission to do with respect to these programs?
A. Mr. Colton's testimony refers to the fact that there is approximately a need -- well, I can't assess to the specific numbers of households at this time without referring to his testimony, but he recommends that one percent of jurisdictional revenues be devoted to low-income assistance programs and that a collaborative process be established to develop a program that would be beneficial to both the Company and the customers involved and that the expenditure of those funds be done in a way that provides a win win for both the Company and the customers.
JUDGE SCHAER: Is there anything further?

CROSS-EXAMINATION

BY COMMISSIONER HEMSTAD:

Q. When you say, provides a win win for both the Company and the customers. Are you referring to the low-income customers, or are you referring to all customers?

A. We believe it will be all customers given that often rate percentage of income payment programs or rate discount programs help reduce arrearages and collection costs and that there are other utilities in Washington state who have found that they have, in fact, reduced overall costs by establishing an aggressive low-income payment program so that all of their customers have benefited.

Q. Do you think such a program should have a criterion that it needs to be cost-effective?

A. I'm sorry. I didn't hear the end of the question.

Q. Do you have an opinion as to whether or not those kinds of programs should have a criterion that they be cost-effective; in other words, that the benefits are greater than the costs?

A. I think that probably the traditional definition of cost-effectiveness should be broadened when looking at low-income programs because there are a variety of benefits that are seen both to the community and to the constituency, the customers, that wouldn't

necessarily be incorporated in a traditional
cost-effectiveness calculation.
Q. If it is broadened beyond that call it traditional standard, and of course, other ratepayers have to absorb those costs, and doesn't it follow, even though you say community, they benefit from this program?
A. Yes, other ratepayers would absorb some of those costs, but again as I say, I think there are corresponding benefits to the Company that reduce other costs that may make the program more cost-effective than something.
Q. I understand. There is both the philosophical and also the question of whether programs such as this should cover their costs, or if they don't, whether those programs should then be formed by, call for a larger tax....
A. We believe they should be born by the ratepayer community.
CHAIRWOMAN SHOWALTER: I know you are not a lawyer, and I'm not asking you for a legal opinion, but I'm trying to recall the legislation that was passed on this topic, I guess, the session before last. Maybe it was amended last session. It seems like two sessions ago my memory is that if the company proposed something

along these lines, the Commission was authorized to approve it. That's just my memory that it had to be a company initiated proposal. Is that your understanding, or was there some amendment this year on that topic? And if you don't know, don't worry. We will look up the law for sure.

THE WITNESS: I don't know.

MS. DIXON: There was no amendment this year. It was passed in 1999 as is.

CHAIRWOMAN SHOWALTER: Thanks.

JUDGE SCHAER: Is there anything further for Ms. Hirsh?

MS. DIXON: I have a little bit of redirect.

REDIRECT EXAMINATION

BY MS. DIXON:

Q. You mentioned with the inverted block rates that for low-income customers that could be combined with some targeted weatherization. Would you also consider combining that with targeted conversions from electric space heat to natural gas where possible?

A. Absolutely.

Q. On the Forest Stewardship Counsel issue, one of the questions brought forward was whether your testimony included any estimates of cost differences.

Could you tell us what your recommendation is at this time for examining those costs and for the Company pursuing FSC certified wood for the Kettle Falls plant?

A. Yes. We think that the Commission has an obligation when looking at utility activities to look at the full life cycle of particularly power plants invested in or constructed in this region and by a particular utility, and so we would encourage the Commission to encourage the Company to engage in an evaluation of the feasibility of going with Forest Stewardship Counsel certified products in the fuel stock for its Kettle Falls project and to bring that recommendation about the feasibility back to the Commission to look at.

From our perspective, not looking at the full fuel cycle with a power plant like this and looking at those in the context of the full public interest is somewhat similar to the garment industry and their assessment that what happens overseas in the production of their product is not their concern, and so we think looking at the full fuel cycle and the conditions under which the fuel is produced makes a difference in the public interest, so we would recommended a six-month assessment by the Company of the feasibility of going with this kind of certification. We're requiring it from its suppliers.

MS. DIXON: Thanks. That's all I have.

JUDGE SCHAER: Anything further for this witness?

MR. MEYER: One or two quick follow-ups based on the issue of FSC certified forests.

JUDGE SCHAER: Is there a reason you didn't ask the question earlier, Mr. Meyer?

MR. MEYER: Yes. Because those were just really raised through this examination on redirect.

JUDGE SCHAER: Had you read Ms. Hirsh's testimony? Go ahead.

CROSS-EXAMINATION

BY MR. MEYER:

Q. Your argument is that we ought to look carefully at FSC certified forests for serving the Kettle Falls facility?

A. That's correct.

Q. You provided a list of such certified forestries, didn't you?

A. Yes, in my data response.

Q. To the best of your knowledge, are any of those on that list within 200 miles of Kettle Falls?

A. To the best of my knowledge, I do not know.

We selected the projects within the Pacific Northwest and southern British Columbia, so we assume that some would be within 200 miles.

Q. Would you accept subject to check, because you do have them listed in your response, that none appear to be within the 200-mile radius?

A. Subject to check.

MR. MEYER: Thank you. That's all I have.

JUDGE SCHAER: Is there anything further for Ms. Hirsh? Thank you for your testimony. I believe the next witness on our schedule is Mr. Folsom; is that correct Mr. Meyer?

MR. MEYER: May I just have a second on scheduling matters. We are trying to figure out who we can get out of here tonight.

(Discussion off the record.)

(Witness sworn.)

JUDGE SCHAER: Go ahead. I don't believe, Mr. Meyer, that Mr. Folsom's testimony has been entered yet, so you may want to ask him some sponsoring questions.

DIRECT EXAMINATION

BY MR. MEYER:

Q. For the record, would you please state your

name and employer?
A. My name is Bruce Folsom, and I work for Avista Corporation.
Q. Have you prepared rebuttal testimony identified as Exhibit T-326?
A. Yes, I have.
Q. Beyond the items mentioned in the errata sheet distributed in connection with your testimony, do you have any other changes to make to that?
A. No, I don't.
Q. So if I were to ask you the questions that appear in that testimony, would your answers be the same?
A. Yes, they would.
MR. MEYER: With that, Your Honor, I move the admission of Exhibit T-326.
JUDGE SCHAER: Any objections?
MS. TENNYSON: No.
JUDGE SCHAER: That document is admitted.
MR. MEYER: The witness is available for cross.
JUDGE SCHAER: Ms. Tennyson, did you have any questions for Mr. Folsom?
MS. TENNYSON: We have no prepared cross-examination.

JUDGE SCHAER: It appears Mr. ffitch does not, so we'll wait just a moment for the Chairwoman to return and then proceed with the questions.
MS. DIXON: Your Honor, I do have a series of questions prepared for Mr. Folsom, if you would like me to go first or after.
JUDGE SCHAER: You would go first. Let's wait just a moment and then we'll go ahead with your questions, Ms. Dixon.

CROSS-EXAMINATION

BY MS. DIXON:
Q. Good afternoon, Mr. Folsom. If you could refer to your rebuttal testimony, Exhibit T-326, and we'll start at Page 3, Line 6 through 7.
A. Yes.
Q. You state that in 1999, Washington low-income customers received over one million dollars in energy and fuel efficiency assistance; do you see that?
A. Yes, I do.
Q. Can you define what you mean by the phrase, "energy and fuel efficiency assistance"?
A. All of these dollars shown on Line 7 come from our Schedule 90, which is our energy efficiency tariffs, and these programs are both weatherization as

well as fuel switching, so low-income customers qualified through customer action programs such as SNAP can have their space heat and water heat appliances changed out from electricity to natural gas.

We have a very aggressive program in these lines, and SNAP is running somewhere between 200 and 400 units per year. My understanding is there is almost a shortage of units they can now find. Specifically, we've helped SNAP do some advertising, a brochure we put together this spring entitled, "Change The Way You Heat Your Home by 180 Degrees," is a way for us to help move even more units, but this is what the one million dollars goes to for the most part.

Q. When you say Washington low-income customers, do you mean low-income customers in Avista's Washington service territory?

A. Yes, I do.

Q. Could you please tell me how much of the one million dollars was specifically in fuel efficiency assistance?

A. I'm not sure I have those numbers with me, but I might. I just have the macro number for the total program. I don't have it broken out in front of me.

Q. Is that something that I could request from

the Company. What I would like is how much of the one million was in fuel efficiency assistance, and I'm assuming the remainder was in energy efficiency assistance, not energy assistance.
A. It's my understanding that the majority of those dollars are in fuel-switching dollars, but I can give you a specific number pretty simply.
JUDGE SCHAER: Is that something you could provide by the end of the day tomorrow, Mr. Folsom?
THE WITNESS: Yes.
JUDGE SCHAER: I'm trying to figure out how we are going to treat it if Ms. Dixon wants to make it a part of the record.
Q. (By Ms. Dixon) One more piece of this line of questioning, can you tell me for the fuel efficiency assistance where those funds came from?
A. They came from Schedule 91, DSM tariff rider.
Q. And the same then for the energy efficiency assistance?
A. Yes, with the understanding that the end-use customer is severed by SNAP, and SNAP receives some level of matching funds from both the state and the U.S. Department of Energy. Ours is a match that they can lever to make more money.
Q. Moving on to Page 4, Lines 11 through 13, you

indicate the Company does not collect information from customers on income level; is that correct?
A. Yes, for the reasons I indicate.
Q. In Exhibit 70, which I'm not sure if you have with you, but it was a Company response to SNAP Data Request No. 10, the Company segmented or categorized customers by income; is that correct?
A. Yes, it is. For the reasons that we're concerned about privacy, and this is something that customers do not like to provide unless they are required to for provision of service, such as maybe the banking industry or loan industry.
Q. If you can go back to Page 3, Line 10, you stated that in 1999, Avista made 159,069 payment arrangements for Washington customers; do you see that?
A. Yes, I do.
Q. Since you don't track the income of customers you don't know, however, how many of those payment arrangements were for low-income customers; is that correct?
A. Correct. This is pretty much for customers who are in financial distress and can't make a payment. We tend to offer payment arrangements just as a matter of course without asking what their income level is.
Q. Page 3, Line 16, you state that in 1999,

Avista had disconnection time periods of less than four hours on average; do you see that?
A. Yes.
Q. Since, again, you don't track the income of customers, you don't know what the time period for the disconnection of a low-income customer is; is that correct?
A. That's correct, but for purposes of this testimony, we would assume it's about the same. The WUTC rules on reconnection, disconnection, deposits, and prior obligation pretty much require us to keep the power on irrespective of the ability of customers to pay.
So the basis for this is the Commission staff has taken the current rules to say we cannot permanently deny service, so we go out to make a collection and basically do a reconnection at the same time, whether or not they pay or not, based upon the implementation of the Commission rules.
This is very distinct from how other states operate. Mr. Colton's testimony, as I say in my testimony, is based on models on the East Coast that have, in Avista's opinion, very different disconnection, reconnection, and deposit rules, so from an offset standpoint, it's not as if -- that's on the

East Coast where you can cut a customer off until a payment is made, and the customer may go several days without service. We don't have that situation here, so it's not as if we are a foregoing service to customers, and any revenues that would be generated would be paid for by those customers.

Q. Do you have any idea of the relative likelihood of a low-income customer having his or her service disconnected relative to a non low-income customer?

A. No, I don't. We tend to treat all residential customers the same in this respect.

Q. So you wouldn't be able to take a guess as to whether a low-income customer is twice as likely, just as likely, ten times as likely to be disconnected?

A. We've done some internal studies, and in terms of which customers use drop boxes, which customers use payment offices to make payments, and the results are somewhat surprising in that all levels of customers tend to have similar situations in terms of how payments are made.

We do have more proportion of unpaid residential accounts stemming from low income, but when it comes to payment arrangements and other issues, there tends to be an across the board with more proportion on the low-income side.

CHAIRWOMAN SHOWALTER: On that point, in those studies, how did you determine who was low income and who wasn't in terms of who uses a drop box or not?

THE WITNESS: When we get to the level of disconnections, our field people go out and chat with customers, and we have a better idea once you get talking to customers what the source of incomes are and the like. This is basically a field representation representation.

CHAIRWOMAN SHOWALTER: So it's subjective and anecdotal, not a statistical survey.

THE WITNESS: Exactly.

JUDGE SCHAER: May I clarify on that? I thought I heard you say that you were doing some kind of survey of which customers used different kinds of places to pay their bills. What would that have to do with your field reps?

THE WITNESS: I was asked percentage of low income, and we are extrapolating that onto other functions that we do. We did that survey or analysis in early 1999 when we closed some of our business offices and substituted payment office, and at that time, the results surprised us a little bit to see that there was a wider range of customers who use certain

services, so I'm just simply extrapolating that study onto some of the issue that Ms. Dixon is asking me.
JUDGE SCHAER: How was that study done?
THE WITNESS: It was done through our survey department, marketing and research.
JUDGE SCHAER: Go ahead, Ms. Dixon.
Q. (By Ms. Dixon) Again, Page 3, Line 16, but the next drop down, you state that half of all your write-off's are attributable to low-income customers; do you see that?
A. Yes, I do.
Q. If you don't track the income of your customers, how do you know how much in write-off's is attributable to low income customers?
A. That was an estimate provided by our collections department people who are on the phone making best efforts to collect.
Q. Again, in that case, would that be, like what Chairwoman Showalter was saying, subjective and anecdotal evidence?
A. Yes.
Q. On to Page 4, in Lines 1 through 3, you state that, Avista works with customers in financial need to reach satisfactory payment arrangements; do you see that?

A. Yes.

Q. Would you agree with me that one basic indicator of a satisfactory payment arrangement is that the customer successfully completes the arrangement?

A. Yes, but that doesn't always occur. Prior obligation rule in this state allows customers to not make payment and receive power, so our statistics show from a prior obligation that we can have customers who don't make payment several months and periods in a row and still have service, so while we are doing the best efforts to collect, it doesn't mean that we get collection as much as maybe you will see in other states, and this gets back to the prior obligation rule.

Q. On Page 4, Lines 6 and 7, you state that, Avista's rates are less than any rates resulting from rate discount programs run by other utilities to your knowledge, do you see that?

A. Yes.

Q. Can you tell me what electric rate a Baltimore Gas and Electric customer living at 100 percent of poverty would pay in Maryland?

A. I don't have that specific rate in front of me. What I have is a study of electric restructuring as it relates to low income, and I have a write-up here on Maryland, and I don't know if you want me to go through what the summary of this is, but I note that the Maryland Office of the People's Counsel has criticized some aspects of the bill, so I'm not sure how you want me to proceed because the Office of People's Counsel says that the bill fails to provide for a real rate cut.

Q. I'm looking for whether you are aware of what that rate is right now for someone who is a low-income customer for Baltimore Gas and Electric living at 100 percent poverty.

A. Their electric retail rate is 8.6 cents, and looking at this study, it doesn't appear that the rate reduction has kicked in yet for Maryland, according to this document dated December 1999.

Q. Can you provide me with a copy of that document that you have, and maybe that will save me from asking the next couple of questions?

A. By all means, yes.

Q. At Page 5, Line 3, you state that Mr. Colton's conclusion that the energy burden of low-income customers routinely exceeds six to eight percent of income is based on national figures, not on Avista rates; do you see that?

A. Yes.

Q. Do you have Mr. Colton's testimony and exhibits in front of you?

A. Yes, I do.

Q. Could you look at Exhibit 730?

A. What page number would that be?

Q. 48. Can you tell me what in this exhibit makes you believe that these burdens are based on national figures?

A. Yes. In his direct testimony, of which there are quite a few pages, he establishes what energy burden is and the affordability, and that's the line that I'm referring to on Line 3, and you will find that at Page 8, and this is a national representation, and then what you just referred me to at Page 48 is our Avista numbers.

Q. So you would agree then for Exhibit 730 that those are not national figures but related to Avista service territory in Washington?

A. I would agree that Page 48 is Avista, but Page 8 to which I refer is national.

Q. If we go back to Page 48, Exhibit 730, I wanted to go through these numbers a little bit with you. Mr. Colton in his Exhibit tells us specifically that the income he used for under 50 percent of poverty was set as 25 percent. Do you see that in the notes

section?
A. Yes.
Q. According to Exhibit 728, which is Page 45, poverty level for a one-person household is $8,350.
A. Yes.
Q. Using that number, would you accept subject to check that the income used in Exhibit 730 for under 50 percent of one-percent household is $8,350 times .25 or $2,088?
A. Yes. Mr. Colton and I do not disagree on the facts. In fact, if you go through my testimony and his testimony, our discussion really isn't one of factual disagreement. Our discussion is one of policy and what the Commission should do with these numbers.
If you look at the under 50 percent poverty range, that would represent about six percent of our customer base, and the question becomes, as Mr. Colton tees it up, should there be a collaborative, and if so, should there be a subsidy in the form of energy bill-paying assistance, and if so, how should that be funded, through a wires charge, through shareholders through base rates?
Then if so, do all customers get that, or is it kind of a first come first serve, so the policy issues ultimately is one that the Commissioners need to

decide should there be a subsidy, and if there is a subsidy, how much and how you do it, and that's really where Mr. Colton and I disagree.

As you read through Mr. Colton's testimony and my rebuttal, the company feels very strongly that we are doing the best practices for low-income services up to subsidization of energy bills, so the reason that in my testimony I state that we are not keen on pursuing a collaborative is a collaborative can raise expectations that if there is such --

Q. Can we stop there? I think we getting a little off track at the moment, and I may come back to some of that with my other questions. But the reason I'm bringing this question forward, you just stated that you don't disagree with Mr. Colton on the facts; however, in your testimony, and what I refer to is at Page 5, Line 3, seems to me to be a disagreement with Mr. Colton on the facts, so that's why I want to just run through the rest of these calculations and see if we arrive at the same conclusion.

So going from where we left off, subject to check, if a bill comes in that's 28 percent of income, which would be $2,088 times .28, that would mean the bill is about $580; is that correct?

A. Subject to check.

Q. Avista has annual Washington state residential revenue of about 105 million dollars; is that correct?
A. Yes.
Q. And Avista has about 180,000 residential customers; is that correct?
A. For the time period that he's mentioning, the 1999 time period.
Q. And would you accept again subject to check that if we divide 105 million dollars in essential revenue by 180,000 residential customers, we get an average annual revenue per person of about $580; is that correct?
A. Would you say that again, please?
Q. Subject to check, if we divide 105 million dollars in residential revenue by 180,000 residential customers, we get an average annual revenue per person of about $580.
A. That math is right. I use a slightly higher number at around 600 some dollars per year for residential revenue, but I don't think there is much difference between my number and your number.
Q. It could be rounding. Back to your testimony, on Page 9, Lines 2 through 3, you mention that there is an inherent cost of implementing programs

in the examples proposed by Mr. Colton. Would you also agree that there are potential financial benefits for the Company and ratepayers from implementing low-income assistance programs that could help offset those costs?

A. Theoretically, there is a possibility of having what are called offsets or savings. We went into this piece of testimony looking for such offsets, and the more we looked, the fewer savings or offsets we could find.

We have a team of about six to eight people at the Company who have looked at these issues pretty strenuously since December of last year, and we were looking for offsets for the simple reason of seeing if there are some best efforts, some better practices that we could be implementing.

To be real candid, we are not finding very many. When we are looking at keeping customers off the system for a shorter period to drive more revenues, the customers are off for only about four hours at a time. When it comes to squeezing more uncollectibles into the collectable category, we have some very -- I don't want to say aggressive, but maybe assertive bill collectors within the bounds of having deferred payments. It's kind of difficult tightrope to walk, but I cannot accept, based on the analysis we've done, that there are a lot of savings or offsets to be had.

Q. May I as you, is there actually a written analysis that you would be able to provide me with, or is this somewhat again based on anecdotal evidence to a certain extent, particularly given that the Company does not track low-income customers within residentials?

A. We in data requests have provided all we have. SNAP had some 60 data requests with which we responded with as many studies as we had, so I have no further studies to provide. The way the math works out is to take the statements that I make and then you can impute numbers to them, so I don't have a written study per se, but the facts of the matter are that if you go through some of the offsets that I have in my testimony, or the lack thereof, you can attach the numbers to them.

Q. On Page 10, both at Line 4 and again at Line 17, you mention that a low income assistance collaborative effort should be statewide in nature. Outside of a statewide initiative, are you suggesting that Avista should have no responsibility for providing energy assistance for its low-income customers, other than primarily through voluntary ratepayer contributions?

A. How do you know define "assistance to customers"? Are you talking just im terms of bill paying assistance?

Q. I'm speaking more specifically about bill payment assistance.

A. First of all, the Company is always willing to talk to customers, customer groups and stakeholders. We've had a couple of discussions in the last week with SNAP about proposals that aren't in this piece of testimony but things that we would like to work on together, so in no way should my testimony about not being interested in doing a collaborative, in no way should that mean we are not interested in discussions.

The reason I state this should be statewide in nature is there are a number of parties and entities that should be involved. For example, if we were to have a one-percent wires charge and our neighboring PUD's don't, that would, in essence, raise rates in our friend's service territories in areas that there is competition for new service, so we would be on an unequal playing field. So one reason this should be statewide is to look at some of the policy ramifications.

Other parties that should be involved would include maybe some legislative committee staff people because of issues with how the various laws are written, so we just did not want to simply have a focus on us. It seems to be a legislative issue, who pays and how they should pay, and shouldn't it be consistent across all customers in the state of Washington. Are we concerned about low-income issues and bill-paying assistance? Absolutely. It helps us out to have customers pay bills. Currently, we are helped out through the uncollectibles adjustment. We have an adjustment in this rate case for customers who don't pay their bills to have those costs incorporated into rates, so in some ways, if we go into a subsidy effort, we are simply shifting dollars out of the uncollectibles adjustment into another mechanism, and the concern we have is if we are being pretty aggressive already or assertive on bill collections, then should there be a pool of money that customers can go to in the new proposal. Would that actually increase the amount of uncollectibles because customers would have a different safety net to fall into. We don't know.

So yes, we are very concerned, but we think we are doing the best efforts under the existing Commission rules and state practices recognizing that there is a lot of policy issues involved, and the collaborative should be focused on the right questions and the right parties.

Q. One final question for you. If the Commission were to order the Company in this case to provide low-income assistance, what would be the Company's preference for the source of revenue for those programs?

A. I'm hesitant to state a Company position. The principles that we would be following is to make sure that there is earnings neutrality. We would not want to have shareholders subsidizing one pocket of customers. Once you get into should it be a wires charge, should it be in base rates, that could be similar in terms of end result, but the principles would need to include no earnings impact on the Company; making sure that from a policy standpoint there is consistent policy between us and our brethren or neighboring utilities. Those would be some of the principles we would start with, and out of that would fall some sort of funding mechanism.

MS. DIXON: Thanks. That's all I have.

CROSS-EXAMINATION

BY CHAIRWOMAN SHOWALTER:

Q. I went and found the law. It's only two sentences, so I would like to read it and then ask you a question. It is Chapter 62, Volume 99, and the whole act is two sentences. It says: "Upon request by an electrical or gas company, the Commission may approve rates, charges, services, and or physical facilities at a discount for low-income senior customers and low-income customers. Expenses and lost revenues as a result of these discounts shall be included in the Company's cost of service and recovered in rates to other customers." So my question to you is, is the Company requesting a low-income rate discount in this proceeding?

A. No, we are not.

CHAIRWOMAN SHOWALTER: Thank you.

JUDGE SCHAER: Anything else from the Commissioners? Is there any redirect for this witness, Mr. Meyer?

MR. MEYER: None.

JUDGE SCHAER: Anything further for Mr. Folsom?

MR. FFITCH: Your Honor, Ms. Dixon asked the witness to provide her with a copy of the document from which he was reading, and I would just note that perhaps it would be useful to have a record requisition made of that document so then it would be a matter of record and Ms. Dixon could offer it as an exhibit should she wish to do so after she's received it from the Company. I don't actually know the identification of the document, but I think Mr. Folsom could state that for the record.

JUDGE SCHAER: Mr. Folsom, when are you going to be able to provide the document to Ms. Dixon?

THE WITNESS: After I make sufficient copies I have in front of me.

JUDGE SCHAER: Ms. Dixon, are you planning on being here tomorrow?

MS. DIXON: Yes.

JUDGE SCHAER: I think, Mr. ffitch, if the documents are provided, Ms. Dixon will be able without a record requisition number on this to offer them tomorrow. She will have to talk to Mr. Meyer about whether Mr. Folsom needs to be recalled of whether those can go in by some kind of stipulation, but I don't see a need for a record requisition at this point. I want things to come in now because our record will probably be closing at the end of tomorrow, so I would prefer to have it handled in that manner. Mr. Folsom?

THE WITNESS: Your Honor, this has a Web Site address, which could probably be easily accessed through the Web given the Web address and the title. Would that be helpful?

JUDGE SCHAER: If Ms. Dixon wants it to be a made a part of the record in this proceeding, that wouldn't be terribly helpful. We aren't quite at that point of technological competence. Is there anything else for Mr. Folsom, other than the possibility of needing to have him here tomorrow to sponsor these documents?

MR. MEYER: Nothing, no.

JUDGE SCHAER: Thank you for your testimony. I'd like to go off the record right now to talk about scheduling for tomorrow for just a moment.

(Discussion off the record.)

JUDGE SCHAER: We've had a scheduling discussion off the record, and this hearing will resume tomorrow morning at 9:30, at which point we will take the rebuttal testimony of Mr. Matthews. Is there anything else that needs to be reflected? Then we are off the record.

(Hearing recessed at 5:15 p.m.)