

01967

1 BEFORE THE WASHINGTON UTILITIES AND
2 TRANSPORTATION COMMISSION

3 THE WASHINGTON UTILITIES)
4 AND TRANSPORTATION COMMISSION,)
5 Complainant,)
6 vs.) DOCKET NO. UE-991606
7 AVISTA CORPORATION,) VOLUME 15
8 Respondent.) Pages 1967

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9 THE WASHINGTON UTILITIES)
10 AND TRANSPORTATION COMMISSION,)
11 Complainant,)
12 vs.) DOCKET NO. UG-991607
13 AVISTA CORPORATION,) VOLUME 15
14 Respondent.) Pages 1967
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15 A hearing in the above matter was held on July
16 14, 2000, at 9:30 a.m., at 1300 South Evergreen Park
17 Drive Southwest, Olympia, Washington, before
18 Administrative Law Judges MARJORIE R. SCHAER and KAREN
19 CAILLE and CHAIRWOMAN MARILYN SHOWALTER, COMMISSIONER
20 RICHARD HEMSTAD, and COMMISSIONER WILLIAM R. GILLIS.

21 The parties were present as follows:

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

25 Joan E. Kinn, CCR, RPR
Court Reporter

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1 AVISTA CORPORATION, by DAVID J. MEYER, General
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3 NORTHWEST ENERGY COALITION, by DANIELLE DIXON,
Policy Associate, 219 First Avenue South, Suite 100,
4 Seattle, Washington, 98104.

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

7 INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES,
by S. BRADLEY VAN CLEVE via bridge line, Attorney at
8 Law, Duncan, Weinberg, Genzer and Pembroke, 1300
Southwest Fifth Avenue, Suite 2915, Portland, Oregon,
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1 P R O C E E D I N G S

2 JUDGE SCHAER: Let's be on the record. This
3 is a hearing on July 14th, 2000, in the Commission's
4 hearing room number 206 in Olympia, Washington regarding
5 Dockets Number 991606 and 991607, which are rate
6 increase requests by Avista Corporation. Appearances
7 here appear to be the same as they were yesterday, that
8 would be Mr. Meyer, Ms. Dixon, Mr. ffitch, Ms. Tennyson,
9 and Mr. Trautman.

10 There are a couple of housekeeping matters
11 that I would like to take care of. Would you like to do
12 that before we finish the witness, Mr. Meyer, or would
13 you like to complete the testimony of this witness and
14 then move into those?

15 MR. MEYER: Why don't we do that first.

16 JUDGE SCHAER: Do?

17 MR. MEYER: Your housekeeping first.

18 JUDGE SCHAER: All right. Just I have two
19 things. The first is I put together a list last evening
20 of the remaining witnesses and of the time estimates,
21 and I need to apologize to the room, I already
22 apologized to Mr. Meyer, I was getting kind of grumpy
23 yesterday on some of his cross because we were getting
24 beyond the estimate. I hoped to be farther along than
25 where we are this morning. Would counsel look this over

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1 and let me know if any of your estimates are different
2 than what is shown.

3 I believe, Ms. Dixon, you had indicated a
4 change. Go ahead.

5 MS. DIXON: Yes, we had not planned to cross
6 Mr. Matthews.

7 JUDGE SCHAER: Okay.

8 MS. DIXON: But we did plan to cross
9 Mr. Hirschhorn, and it would be the estimate that was
10 listed under Mr. Matthews.

11 JUDGE SCHAER: Okay.

12 MS. DIXON: Ten minutes.

13 JUDGE SCHAER: Okay.

14 MR. FFITCH: Your Honor, public counsel has
15 changes.

16 JUDGE SCHAER: Okay, just a minute. Go
17 ahead, Mr. ffitch.

18 MR. FFITCH: Your Honor, we have for
19 Mr. Matthews 15 to 30 minutes.

20 JUDGE SCHAER: Okay.

21 MR. FFITCH: Maybe on the shorter end of
22 that.

23 JUDGE SCHAER: Any other changes, Mr. ffitch?
24 I kind of -- I had trouble with yours, because you kind
25 of had an estimate that went with arrows through several

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1 people, so if you could get those more specific, that
2 would be helpful.

3 MR. FFITCH: Yes, that's what I was going to
4 do, thank you. I think for Mr. Dukich about 15 to 30,
5 just say 30, and I think we're going to be a little
6 under that.

7 JUDGE SCHAER: Okay.

8 MR. FFITCH: Johnson we have nothing except
9 the -- we don't have cross, we just have exhibits.

10 JUDGE SCHAER: Okay.

11 MR. FFITCH: To get in. Mr. Falkner we would
12 have again 30 minutes, which is probably 15 minutes if
13 we can do it efficiently. Mitchell, 15 minutes is
14 shown, that's, well, 15 minutes for us and Feltes, 15
15 minutes, both of those are probably more like 5.

16 JUDGE SCHAER: Good, okay.

17 MR. FFITCH: And Hirschkorn is accurate at 15
18 to 30.

19 JUDGE SCHAER: Okay. Any other changes to
20 the time estimates?

21 MS. TENNYSON: Your Honor, for Mr. Dukich, we
22 will have basically one question. It will probably take
23 five minutes total.

24 JUDGE SCHAER: Thank you. The second
25 housekeeping item that I had to bring up this morning is

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1 the Commission advisory staff has discovered that we
2 don't have the numbers we need to look at
3 Mr. Schoenbeck's requested adjustments and figure out
4 how they were calculated. So I have passed around Bench
5 Request Number 2, which I have identified as Exhibit
6 741, and this Bench Request is being faxed to
7 Mr. Schoenbeck and his counsel this morning, and we're
8 asking for an answer by a week from today. I would
9 intend to admit this at this point as a late filed
10 exhibit, but if anyone has concerns about that, I would
11 like to hear them, or we can discuss a protocol for
12 allowing parties to object to late filed exhibits if any
13 feel they need to do so. So any concerns about Bench
14 Request Number 2?

15 MR. MEYER: There are not. Just for the
16 record, of course, we haven't seen what it looks like,
17 but the procedure we do not object to.

18 JUDGE SCHAER: Okay. And I'm guessing this
19 is something that everyone else has, because you get
20 work papers and we don't. But if you see something that
21 concerns you, I am certain you will let me know.

22 MR. MEYER: Right.

23 JUDGE SCHAER: And we will deal with it from
24 there. So I'm going to admit Exhibit 741, which is the
25 Bench Request that's before you and the response to the

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1 Bench Request.

2 Are there any housekeeping matters by other
3 parties at this point?

4 MR. FFITCH: Your Honor, I have one other one
5 and hopefully in aid of shortening cross, we would like
6 to inquire about reference to company tariffs in the
7 brief. We have the desire to refer to two of the
8 company tariffs which we obtained through discovery, and
9 as long as the Commission takes official notice of the
10 tariffs that are on file with the Commission, we would
11 not need to cross Mr. Hirschhorn about that, and that
12 would save us about ten minutes or so.

13 JUDGE SCHAER: Does anyone have a problem
14 with that? I think it is correct that we can take
15 notice of our tariffs, so we will go ahead and proceed
16 in that manner, Mr. ffitich.

17 MR. FFITCH: Thank you.

18 JUDGE SCHAER: Anything else before we get
19 started?

20 Then why don't we have the witness come to
21 the stand, and we will conclude our cross-examination
22 from yesterday.

23 MR. MEYER: Bruce, would you retake the
24 stand.

25 JUDGE SCHAER: Good morning, Mr. Folsom.

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1 Remind you that you have previously been sworn on this
2 matter.

3 THE WITNESS: Good morning.

4 JUDGE SCHAER: We were at the point where you
5 were asking redirect, Mr. Meyer.

6 MR. MEYER: I believe at this point we have
7 some housekeeping to do, follow ups from Danielle.
8 Overnight we were able to get a little bit of the
9 information that she -- there was a couple of open
10 questions, so we talked this morning, and she's going to
11 put a few questions first.

12 JUDGE SCHAER: Go ahead, Ms. Dixon.

13

14 Whereupon,

15 BRUCE W. FOLSOM,
16 having been previously duly sworn, was called as a
17 witness herein and was examined and testified as
18 follows:

19

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

21 BY MS. DIXON:

22 Q. Mr. Folsom, yesterday we had spoken about the
23 \$1 Million in energy efficiency and fuel efficiency
24 assistance, and you had indicated you would be able to
25 tell me how much of that money was in fuel efficiency

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1 assistance and how much was in energy efficiency
2 assistance. Could you do that now?

3 A. Yes, I took the question to be what is the
4 split of energy efficiency between weatherization and
5 fuel switching. The amount of energy efficiency dollars
6 that were contributed to Washington jurisdictional low
7 income customers in 1999 was \$919,598.18. 92% of those
8 energy efficiency dollars through the tariff rider were
9 attributed to fuel switching, which is \$843,333.34. The
10 remaining 8% went to weatherization of low income, and
11 that amount equals \$76,264.84. The remaining balance to
12 get to \$1 Million includes, I believe, approximately
13 \$20,000 in company contribution to project share.
14 That's a basis of a data request, and I think Tom Dukich
15 could give you a precise number on that. And then with
16 company overheads, that brings the total to over \$1
17 Million.

18 Q. Okay, thank you. And I spoke with your
19 counsel a little bit earlier about also following up on
20 the one question that I had started to ask you
21 yesterday. You were referring to a document at the
22 time, and to try and shorten cross, I had just asked you
23 to provide me with that document. Counsel has agreed
24 that I can just do a couple of very quick follow ups on
25 that. The document did not actually include the

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1 information that I was seeking, and I will shorten the
2 question still from what I was going to ask yesterday to
3 just a couple of quick pieces. And this again is
4 referring to your rebuttal testimony, page four, lines
5 six and seven.

6 A. I'm there.

7 Q. Great. Can you tell me what electric rate a
8 Central Maine Power Company customer living at 75% of
9 poverty would pay in Maine?

10 A. Well, I believe yesterday you asked me about
11 Baltimore.

12 Q. Yes, I did ask about Baltimore.

13 A. So now you're asking about Central Maine?

14 Q. Yes.

15 A. Could you reference my testimony again where
16 I mentioned Maine?

17 Q. You do not mention Maine specifically. You
18 state on page four, lines six and seven that Avista's
19 rates are less than any rates resulting from rate
20 discount programs run by other utilities to your
21 knowledge, and what I am trying to determine is the
22 background for that statement.

23 A. Could you please turn to my testimony page
24 six.

25 Q. Okay.

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1 A. On page six, I represent about seven states
2 other than Washington, and I represent about, I don't
3 know, 20 utilities and their rates. So this is what I
4 was referring to to my knowledge. And I show that the
5 Washington current Avista rate is significantly below
6 these East Coast states.

7 Q. Okay. Then I will just do one other, which
8 does refer to a utility you have listed in your table on
9 page six.

10 A. Mm-hm.

11 Q. For Duquesne Light Company in Pennsylvania?

12 A. Right.

13 Q. Can you tell me what electric rate a Duquesne
14 Light Company Customer living at 50% of poverty would
15 pay in Pennsylvania?

16 A. I believe the way Pennsylvania has their rate
17 structure set up, if you give me just a second, such a
18 customer would receive a 50% reduction in their first
19 500 kilowatt hours of service. So if you take the rate
20 that I show for Duquesne at 11.38 cents per kilowatt
21 hour, just simply cut that in half, that would be 6 1/2
22 cents and change, which would still be about 20% above
23 what our proposed rate would be in this case if the
24 Commission adopts our case in chief.

25 MS. DIXON: Okay, thank you. I have no

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1 further questions.

2

3

E X A M I N A T I O N

4 BY CHAIRWOMAN SHOWALTER:

5 Q. What was the date of the Pennsylvania
6 information that you were relaying?

7 A. I'm referring to a report called State by
8 State Overview of Low Income Restructuring Legislation
9 and Implementation dated December 1999, compiled by the
10 Lihey Clearing House. And you can find this on the web
11 site at www.ncat.org. It's a 33 page summary.

12 Q. But what would the data, what year would the
13 data come from?

14 A. This would be 1999 low income energy
15 expenditures, I believe. Yeah, this would be relative
16 to 1999.

17 CHAIRWOMAN SHOWALTER: Thanks.

18 JUDGE SCHAER: Is there anything further for
19 Mr. Folsom?

20 MR. MEYER: Nothing.

21 JUDGE SCHAER: Thank you for your testimony.

22 THE WITNESS: Thank you.

23 JUDGE SCHAER: Mr. Meyer, go ahead.

24 MR. MEYER: I call to the stand Mr. Matthews.

25

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1 Whereupon,
2 THOMAS M. MATTHEWS,
3 having been first duly sworn, was called as a witness
4 herein and was examined and testified as follows:

5
6 JUDGE SCHAER: Go ahead, Mr. Meyer.
7 MR. MEYER: Thank you.

8
9 D I R E C T E X A M I N A T I O N

10 BY MR. MEYER:

11 Q. Mr. Matthews. For the record, would you
12 please state your name and your employer.

13 A. My name is Thomas M. Matthews. I'm employed
14 by Avista Corporation.

15 Q. And have you prepared and have you pre-filed
16 a rebuttal testimony marked for identification in this
17 proceeding as T-14?

18 A. Yes, I have.

19 Q. And the errata sheet, for the record, has
20 been distributed to all parties. With that errata
21 included, if I were to ask you the questions that appear
22 in your pre-filed rebuttal testimony, would your answers
23 be the same?

24 A. Yes, they would.

25 Q. Are you also sponsoring what has been marked

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1 as Exhibit Number 15?

2 A. Yes, I am.

3 Q. And does that contain true and correct
4 information?

5 A. Yes, it does.

6 MR. MEYER: Your Honor, I move for the
7 admission of Exhibits T-14 and 15.

8 JUDGE SCHAER: Any objections?

9 Those documents are admitted.

10 MR. MEYER: With that, Mr. Matthews is
11 available for cross.

12 JUDGE SCHAER: Do you have questions,
13 Ms. Tennyson?

14 MS. TENNYSON: I do not.

15 JUDGE SCHAER: Mr. ffitch.

16 MR. FFITCH: Yes, thank you, Your Honor.

17

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

19 BY MR. FFITCH:

20 Q. Good morning, Mr. Matthews.

21 A. Good morning.

22 Q. Simon ffitch with the public counsel section
23 of the Attorney General's office.

24 First I would like to ask you to turn to page
25 nine of your rebuttal testimony, that's been marked and

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1 admitted as T-26, and to take a look at line three on
2 page nine.

3 JUDGE SCHAER: I believe that's T-14,
4 counsel.

5 MR. FFITCH: You're correct, Your Honor, I'm
6 sorry, I misspoke.

7 JUDGE SCHAER: Go ahead, please.

8 BY MR. FFITCH:

9 Q. There you state Mr. Matthews that it is,
10 "generally understood by our customer base" as to the
11 need for the increases of magnitude; is that correct?

12 A. That's correct.

13 Q. And then at line 11, you indicate that at
14 least based upon the appearances at the public hearing,
15 there's a suggestion that there's no public outcry
16 regarding the proposed rate increase, correct?

17 A. Correct.

18 Q. Would you accept subject to check that the
19 Commission has received in the neighborhood of 250
20 letters on this rate case?

21 A. Subject to check, I would accept that.

22 Q. And again subject to check, would you accept
23 that a majority of those letters oppose the rate
24 increase?

25 A. I would accept that.

01990

1 Q. Now I would like to ask you to take a look at
2 line 20 on that same page.

3 A. Okay.

4 Q. And there you point to a Standard & Poor's
5 credit wire announcement, and you quote from that
6 announcement essentially to show the weakening effect of
7 a rate reduction ruling by this Commission in this case,
8 do you not?

9 A. Yes, I do.

10 Q. Now I would like to ask you to turn to what
11 has been marked for identification as Exhibit 16.

12 A. Okay.

13 Q. Do you have that?

14 A. Yes, I do.

15 Q. And that's a data request from public counsel
16 to Avista number 158, right?

17 A. I do not know.

18 Q. It's a two page exhibit, and the first page
19 is our actual data request.

20 A. It does say request for public counsel, yes.

21 Q. And there we asked you to provide a complete
22 copy of the Standard & Poor's credit wire announcement,
23 and you provided that, and that's page two of the
24 exhibit, correct?

25 A. Correct.

01991

1 Q. I would like to take you to that exhibit and
2 have you look at I guess I would say it's the second
3 full paragraph that begins the ratings for Avista.

4 A. Okay.

5 Q. Now could you please read that sentence and
6 the sentence that follows it.

7 A. The first sentence in that paragraph says:
8 The ratings for Avista are based on the
9 company's consolidated average business
10 profile which reflects the utility's low
11 risk hydroelectric operations,
12 competitive electric rates, and moderate
13 rate needs. These strengths are
14 tempered by the company's participation
15 and the inherent risk in non-regulated
16 energy trading businesses through Avista
17 Energy, Inc., as well as other
18 non-regulated ventures including
19 telecommunications, Internet based
20 services, energy technologies, and power
21 project development.

22 Q. Thank you. And then the next sentence also
23 states, does it not, that Avista's hydroelectric
24 generation contributes to a cost structure that's among
25 the lowest in the nation?

01992

1 A. Yes, it does.

2 Q. Now could you please turn to the next page of
3 your rebuttal testimony, page 10. There you assert at
4 line 13 that the company is only earning a 7.51% rate of
5 return. That's a proforma rate of return in the test
6 period; is that correct?

7 A. That's correct.

8 Q. Now it's true, is it not, that according to
9 Mr. Parvinen's testimony in this case, the per books
10 rate of return was 8.39%?

11 A. I don't know. I haven't read his testimony.

12 Q. I will ask you that subject to check, and the
13 reference is Parvinen MPP-1, column B for counsel. And
14 if you would like, I can give you the exhibit number.
15 Will that be necessary?

16 A. No, I will accept it subject to check.

17 Q. And also subject to check, the staff case
18 shows that Avista is currently earning 10.48% on a fully
19 restated and proformed basis. Would you accept that
20 subject to check?

21 MR. MEYER: That that's what the staff case
22 shows?

23 MR. FFITCH: Yes.

24 A. Yes, subject to check, I will accept that's
25 what the staff case shows, yes.

01993

1 BY MR. FFITCH:

2 Q. Yes, and that's reflected in MPP-1 in
3 Mr. Parvinen's exhibit again, column double N, N as in
4 Nancy.

5 JUDGE SCHAER: That is Exhibit 609, counsel.

6 MR. FFITCH: Thank you.

7 BY MR. FFITCH:

8 Q. Now I would like to have you turn to page 11.
9 Beginning at line 3, you talk about the company's
10 treatment before the Idaho Commission and just generally
11 reference favorable treatment before that Commission in
12 that Q and A, do you not?

13 A. Yes, I do.

14 Q. It's the case, is it not, that the company
15 did not disclose the PGE transaction during or prior to
16 the Idaho rate proceeding to the Idaho Commission?

17 A. The Idaho Commission would have received the
18 same sort of notifications from FERC and others that the
19 Washington Commission did.

20 Q. Now we heard from Mr. Eliassen yesterday on a
21 number of issues, and you testified regarding the
22 earnings warning issued by the company. And just to
23 pick up that thread, Avista did issue an earnings
24 warning in June of this year, correct?

25 A. Correct.

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1 Q. And this was based on losses in trading in
2 the wholesale energy market in April and May plus
3 expected future losses, correct?

4 A. Plus higher than anticipated power costs for
5 the purchase power expenses we have for the utility
6 itself.

7 Q. Right, and those, as I understand it, total
8 \$90 Million for the regulated utility and then an
9 additional \$50 Million of loss expected in the third and
10 fourth quarter of this year; is that correct?

11 A. The total of \$140 Million was the estimate at
12 that time, but the \$90 Million was split between two
13 pieces. Part of that was in trading, and part of that
14 was purchase power supply for the native load and the
15 system load. And then the same for the rest of this
16 year, that \$50 Million is split between -- part of it
17 was some on trading positions, and part of it was for
18 native load and system load.

19 Q. And what's the specific split of those
20 amounts?

21 A. I think that Mr. Eliassen or somebody's
22 testimony was that of like the \$50 Million remaining, we
23 anticipate probably \$30 Million of that is for system
24 load, and \$20 Million is for trading. And of that \$30
25 Million for system load, probably about \$20 Million of

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1 that is for the state of Washington and \$10 Million is
2 for other jurisdictions.

3 Q. Now following that issuance of that earnings
4 warning, Avista held a conference call with Wall Street
5 analysts and media on Wednesday, July 21st?

6 A. Yes.

7 Q. And you participated in that conference call
8 with Mr. Eliassen, correct?

9 A. Correct.

10 Q. And the purpose of that in general was to
11 discuss the reasons for the losses and to answer
12 questions regarding the company's financial situation;
13 is that a fair characterization?

14 A. That's correct.

15 Q. Now in that call, you discussed several
16 topics, and I will direct you to Exhibit 17 so that you
17 have this in front of you before we go any further.
18 Exhibit 17 for identification is a transcript of that
19 conference call, is it not?

20 A. Yes, it is.

21 Q. Do you have that handy?

22 A. Yes, I do.

23 Q. And again, you discussed several topics with
24 the analysts and the media in this call including the
25 volatility of the energy market?

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1 A. Correct.

2 Q. And the company's current Washington rate
3 case; is that correct?

4 A. That's correct.

5 Q. And the current PCA request in Washington; is
6 that correct?

7 A. That's correct.

8 Q. And in general the reasons for the trading
9 losses that we have just referred to?

10 A. That's correct.

11 Q. And the impact of the Centralia sale?

12 A. Correct.

13 Q. And capital structure issues; is that
14 correct?

15 A. I think Mr. Eliassen discussed capital
16 structure issues, right, in the conference call.

17 Q. Yes. And were there any other topics, major
18 topics, that I haven't covered in my list?

19 A. I don't recall. I think we had some
20 discussions about generation addition needs and
21 generation plans and new power supply plans.

22 Q. Yes, I believe that's correct, yes.

23 Can I ask you to turn specifically to page 37
24 of Exhibit 17.

25 A. Okay.

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1 Q. And look at your answer, which is in the
2 middle of the page. In the last two sentences there,
3 you address the capital structure question, you state:

4 We will still be above 40% common equity
5 at the end of the year, and we do not
6 have any debt covenant restrictions or
7 problems.

8 Correct?

9 A. Correct.

10 Q. Can you state how much above the 40% common
11 equity you expect the company to be?

12 A. I think part of that conference call, the
13 review I had with Ron Peterson and John Eliassen, the
14 estimate was still in the mid 40's, into the 44% range.

15 Q. Do you know what your common equity as you
16 show is today?

17 A. I do not.

18 MR. FFITCH: May I have a moment, Your Honor?

19 JUDGE SCHAER: Go ahead, Mr. ffitich.

20 MR. FFITCH: I don't have any more questions,
21 Your Honor.

22 I would like to offer Exhibits 16 and 17 for
23 the record.

24 JUDGE SCHAER: Any objections?

25 MR. MEYER: None.

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1 JUDGE SCHAER: Those documents are admitted.

2 MR. FFITCH: And I don't have any further

3 questions for Mr. Matthews.

4 Thank you, Mr. Matthews.

5 THE WITNESS: Thank you.

6 JUDGE SCHAER: Did you have any questions for

7 Mr. Matthews, Ms. Dixon?

8 MS. DIXON: No.

9 JUDGE SCHAER: Commissioners, did you have
10 questions?

11

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

13 BY CHAIRWOMAN SHOWALTER:

14 Q. I think your testimony on page 11 just

15 prompts an issue I started thinking about.

16 Unfortunately I tend to think about issues after I have

17 heard witnesses testify, and then they aren't there for

18 me to ask the questions. It's sort of the old in the

19 shower question I wish I had asked.

20 But I think your testimony on page 11

21 essentially says do a gut check on the results of the

22 rollups of a lot of technical adjustments. So that both

23 the company and the staff and public counsel have all

24 provided a lot of testimony on ROE and other indicators

25 and as applied to many different issues, Rathdrum,

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1 Centralia, et cetera, and you roll it all up, and it
2 produces a result, and the results have been different
3 in the cases of the three parties.

4 But it seems to me what you're saying on your
5 sentence beginning on line 17, you say:

6 It is as if staff and interveners simply
7 add all of the adjustments, big and
8 small, together to arrive at a \$16.4
9 Million decrease without ever analyzing
10 or addressing the question of whether
11 this is a fair end result given the
12 context.

13 And then you go on to site the context, which
14 is that you haven't had a general rate relief for more
15 than a decade, that your rates are the lowest in the
16 nation, and inflation has increased, et cetera, and you
17 have received other awards.

18 A. Right.

19 Q. And the more I think about this question, I
20 wonder if what's being juxtaposed here is on the one
21 hand a regulatory approach that the parties are familiar
22 with, and that is supposed to be a substitute for market
23 to arrive at some result.

24 And on the other hand, there is looming out
25 there very close to us competition. And if in essence

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1 what's implicit in your argument, I think, is that if
2 there really were competition, that because of the
3 company's good fortune to have some good assets, perhaps
4 because of the company's past or current management
5 practices, various other advantages that the company
6 has, that the company, in fact, would be making more
7 money. That is you cite some examples of creative or
8 effective management.

9 And what I'm really wondering whether you're
10 saying is that the theoretical or the methods that our
11 regulatory structure or regulatory approach uses doesn't
12 take into account what would be the case if we really
13 did have competition.

14 A. That's correct. If we really had
15 competition, you know, we would be free to sell to whom
16 we wanted to, sell where we wanted to, and sell at
17 whatever price the market would bear.

18 Q. Well, and this is -- I think the -- this is
19 why I wish I had had the experts to ask this question
20 to, but I think -- I think their methods are based on
21 the theory that if there were genuine competition within
22 a jurisdiction, well, there would be a lot of contenders
23 there who might have advantages or disadvantages. And
24 so overall if you peg the cost of borrowing money or if
25 you look at things from the investors' point of view,

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1 overall various indicators will converge on a kind of an
2 accepted rate, and maybe a different rate per different
3 expert, but that's what they're doing?

4 A. Yeah, from a return standpoint, that's right.
5 Most people would converge to say if a company is going
6 to be viable, it's got to have a return that returns its
7 cost of capital plus a dividend plus some earnings to
8 the shareholders. And so that gets you theoretically,
9 you know, as some of the things that are worked out of
10 the FERC where I used to work with a lot, they begin to
11 get into -- focus on almost a target deemed return that
12 you wouldn't argue about anymore.

13 You wouldn't argue about cap structure. You
14 wouldn't argue about returns on equity, accept the fact
15 it ought to be 11% to 11 1/2% return on the equity,
16 ought to be able to get a 10 overall return, because
17 that's what the market would expect if you were going to
18 be out floating a, you know, first mortgage bonds and
19 other bonds for the corporation investments and things
20 like that.

21 It's sort of like a -- I guess it's sort of
22 like a results based regulation, here's what the result
23 we want, now you figure out how to get there.

24 Q. Well, it, you know, we're having this
25 regulatory discussion and debate, and then we're -- then

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1 there is also another very active discussion going on,
2 which is essentially about deregulation, and this state
3 has been reluctant to embrace it. Because, I think, we
4 know that our state and customers of Avista in
5 particular actually enjoy the benefit of cost based
6 rates, and if we really went to market, well, we have
7 seen, in fact, we don't even need to look beyond our
8 state, we can look at customers in our state who are at
9 market, and we can see what is happening today now.
10 Market prices can go under cost too. But that's, I
11 think, in a theoretical sense or abstract sense, market
12 rates can be above or below cost in general, and we have
13 seen market rates go above or below say Bonneville's
14 costs.

15 A. That's right.

16 Q. Or some other utilities cost but --

17 A. And people can use it to try to buy into a
18 market, do all sort of things with market rates, but
19 you're right.

20 Q. But part of what I think is going on here is
21 that with respect to Avista in particular, I think we
22 generally recognize that if we were really, really in a
23 true market, whether it's Washington state or the region
24 or the country, some of that value that the customers do
25 enjoy would be transferred to the company.

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1 A. For certain.

2 Q. And I'm kind of --

3 A. Or they may not exist from the standpoint if
4 Washington deregulates, it's almost certain that the
5 Washington rates will go up.

6 Q. Right.

7 A. Because there will be open competition for
8 the low cost hydro power.

9 Q. So I guess the question that I'm struggling
10 with, and maybe since Mr. Dukich is coming after you and
11 he is a little more of a regulatory expert he can answer
12 this question, how do you square the regulatory approach
13 that we do have, which is fair? It is oriented toward
14 giving a fair return. I'm not saying it's an unfair
15 system at all. I think it's a fair system, but it
16 really is right today being juxtaposed against an almost
17 immediate prospect of a market. It's not a theoretical
18 matter of what would happen if the company were in a
19 market. We kind of know, which is why we are avoiding
20 it, but I think some of your issues are getting to that
21 prospect.

22 A. And one of the reasons is because Avista
23 right today you might say is uniquely positioned
24 compared to some other utilities around here in that we
25 are power short. You know, through the years, Avista

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1 enjoyed low cost hydro power, feed most of its own load.
2 But then during the public power days, you know, the
3 fight that went on, Avista lost its hydro dams in Grant
4 County and Chelan County and things like that, and its
5 low cost hydro went down in the PUD fights. During the
6 PGA days as they changed arbitrarily some of their
7 calculation methods, we lost access to the federal power
8 system. You know, we didn't get the benefit of
9 residence exchange. You know, like Puget today gets
10 almost 1,000 megawatts of power. We get zero. And it's
11 almost like the federal power system benefits everything
12 in King County and the west, but nothing in Eastern
13 Washington.

14 So what has happened, we're out on the open
15 market purchasing more and more, so more and more of our
16 system is exposed to the market, because we don't have
17 access to you might say the low cost, artificial low
18 cost, of the federal power system. So we're exposed to
19 the market volatility now in a way we never have been
20 before right at the time when all the other deregulation
21 is going on in the West Coast. And we're exposed to the
22 volatile prices in a regulatory system that has not
23 recognized that in the past.

24 And that's why that, you know, the
25 corporation as a whole for its survival has got to have

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1 a way to recognize the power cost adjustment mechanism
2 in the same way that this Commission and other
3 Commissions recognized the need for a purchase gas
4 adjustment clause when it became obvious after gas
5 deregulation what was happening to natural gas prices
6 and that if companies were not allowed to game the
7 commodity, you might say, and earn money on it, then you
8 had to have a way to step back and let that flow through
9 and run your system better.

10 And the thing that from a regulatory system
11 that is, you know, in my history, I have worked with I
12 think 16 state commissions and the federal regulatory
13 commissions, because I have run LDC's, both power and
14 gas, and interstate pipelines around this country. I
15 have not seen in the other 16 states the way this case
16 has gone through where people have sort of picked and
17 choose little pieces.

18 It's almost like a one side of a column we
19 said here's what they asked for, and then if we could
20 cut everything and here's what they've got, that's sort
21 of maybe what we have an incentive based on with staff
22 or public counsel somewhat.

23 And that's the thing that's been disturbing
24 me is that there's been no fair just looked at it like,
25 you know, it's obvious Y2K expenses, those are logical

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1 expenses. Other expenses that, you know, I can roam
2 around this building and see brochures on team
3 incentives that the State pays out, team incentives that
4 the State follows, team incentives or things they call
5 brain storm incentives. But yet in here we want to
6 throw out all incentives, they're not proper. You know,
7 they're proper for the taxpayers to pay but not proper
8 for rate payers to pay. And so you go on and on like
9 that.

10 And I heard witness after witness talk about
11 no, I haven't done any studies, I haven't done any
12 analysis, haven't gone to any meetings, I'm not aware of
13 what the market is doing right now, I don't know what
14 Mid C and COBB is, but this is what I want to do. To me
15 that's just a disconnect from what's going on in the
16 real world today.

17 So that's sort of the thing I was talking
18 about as people just sort of simply picked and choose
19 and added up something, just sort of pulled it out of
20 the air a lot of these issues on, you know, volatility
21 factors or dispatch credit factors, you know, without
22 any real logic or studies or analysis of where they came
23 from. And so that's what I'm talking about.

24 There ought to be a rule of reason that says,
25 okay, after we're through this, what does it really look

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1 like. And that's a concern I have had about the process
2 we have gone through with this, because it impacts
3 Avista worse than any other utility in the Northwest
4 because of our innate natural short position, the fact
5 we lost some of our dams back in the '50's.

6 The fact is today we have more restrictions
7 on our hydro systems over in the Spokane River systems
8 and the Clark Fork systems after our relicensing, that
9 we are more exposed to open market because we do not
10 have access to the federal power system like the other
11 major utilities here in this state do with PacifiCorp
12 and Puget. We're exposed to the market and the market
13 volatility in a way that they're not, and if we can't
14 figure out how to handle and manage the volatility with
15 a rate structure, then we probably won't survive.

16 Q. You have offered a lot of criticisms that I
17 really didn't mean to imply in my question. That is, I
18 don't really disagree with the methodical
19 particularization of different elements and adding them
20 all up. It just seemed to me that when you asked, for
21 example, for the 25 basis point addition that the
22 company is putting it into sort of the old regulatory
23 language. But I think in essence what you're asking is
24 a recognition that in a competitive world, you would be
25 making more money. That's the simplest way I can put

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1 it. And I think that is -- and I'm not -- I'm actually
2 I don't mean by my question to be critical of that or
3 not critical of it. I'm just raising it.

4 A. Yes, but I'm also saying in a proper
5 regulatory scheme, we would be making more money too.

6 Q. Right.

7 A. Because we would be allowed to back away, you
8 might say, from commodity volatility we can't control.
9 And so I recognize that a PCA that we could implement
10 tomorrow would improve the stability of the company.
11 And for that, yeah, we probably ought to give up 10 or
12 15 basis points for that, because it does change the
13 look of the return on equity in that way.

14 But what I'm saying is that even in a proper
15 regulatory stream, just like when the Commission put in
16 PGA's, that was a change in the regulatory scheme,
17 recognizing the volatility of natural gas prices coming
18 from Canada and the Rockies. Well, that's what's
19 happening now on power prices. You have a power supply
20 that's been deregulated, and for over half of our power
21 right now we are not a generator or producer, so we're
22 exposed to the market. And that's the same sort of
23 logic that went in on the PGA. And I'm saying from a
24 proper regulatory scheme, that logic has to be applied
25 to power also.

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1 Q. Well, thanks, I think I might raise this a
2 little more with Mr. Dukich. Thank you.

3 A. Thank you.

4

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

6 BY COMMISSIONER HEMSTAD:

7 Q. Good morning, Mr. Matthews.

8 A. Good morning.

9 Q. Your testimony seems, well, quite clearly
10 emphasizes the stability of Avista's rates and contrasts
11 that with what's happening with the CPI over the last 13
12 years ever since 1987. You conclude from that that you
13 think that Avista's rates should be tracking the CPI?

14 A. No, it shouldn't be, because theoretically
15 the company ought to be making more and more operating
16 efficiency improvements so that you can always beat
17 inflation somewhat. The problem with Avista is, you
18 know, it should have been in here filing rate increases
19 a lot more often than it did.

20 Q. That's another question I was going to raise.
21 You haven't been here for 13 years, but there was
22 nothing that was preventing you from doing so?

23 A. No, the company had a philosophy at that time
24 that they thought they could keep their rates
25 competitive with public power, and so they did

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1 everything they could to keep low rates competitive to
2 public power, and that's when they began to get very
3 involved in the wholesale marketing business to try to
4 -- with the spot surplus they had, to try to earn
5 additional revenues to offset cost increases. And that
6 worked for a while until the world changed on marketing
7 and pricing of power. And so through the years, the
8 last ten years, you know, they have really tried to use,
9 you know, cost reductions and off system marketing as a
10 way to improve, you know, the cost structure and revenue
11 structure so they didn't have to come in for rate
12 increases. Because the prior chairman had a philosophy
13 that the rates had to be competitive with public power
14 in the Eastern Washington area.

15 Q. Well, I suppose that at least in part to the
16 questions asked by the Chair here, but in a competitive
17 market, of course, there's lots of low cost alternative
18 hydro based power in the Northwest with which you would
19 compete; isn't that true?

20 A. Theoretically. But in Eastern Washington,
21 very few of the people have anything other than their
22 own dams, you might say, and a little BPA power to the
23 co-ops. But with the franchise territory agreements and
24 things we have agreed to that, you know, the competition
25 is at the boundaries, you might say, when you're looking

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1 for small commercial business development as to which
2 territory they go into.

3 And even though on those businesses right now
4 that our rates are higher, that we find that we win nine
5 out of ten times because Avista's service is better, and
6 particularly when they see the things that they can take
7 advantage of without tariff riders and energy
8 conservation help and things like that.

9 Q. And I suppose ultimately when you put it all
10 together, you're competitive?

11 A. With the total picture that those customers
12 view that we are competitive, and so the public power
13 argument and the co-op argument really doesn't hold any
14 more.

15 Q. Yeah. Of course, in a certain sense,
16 ultimately what we do here will -- seems to be dependent
17 upon what the evidence demonstrates, but to the extent
18 that you get what you're asking for, you will tend to be
19 less competitive at the margins, won't you?

20 A. Somewhat. But again, right now it's
21 generally price is not the issue that brings those
22 competitive customers to us. You know, people were
23 telling me the other day just recently, some new fast
24 food stores that went into one of the gray areas between
25 us and a couple of co-ops out in the Spokane Valley, and

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1 even though these people had lower rate offers from the
2 co-ops, they all came to us, because they're more
3 concerned about long-term stability, long-term service,
4 and service outages, and help on other things that we do
5 through energy efficiency and energy conservation. And
6 they're Wendy's and McDonald's and things like that came
7 to us rather than going to Modern Vera or Cootney.

8 Q. Back to the first point that I was raising,
9 how is the relationship between the CPI over the last 13
10 years and Avista's rates, how is that relevant to what
11 we want to do with your --

12 A. It's only relevant from the gut check
13 standpoint, saying that when you look at what has
14 happened that does it appear reasonable at this time
15 that there ought to be a price decrease when you look at
16 what we have done on controlling costs or offsetting
17 costs for the last 12 years. And you just look at the
18 continued separation between the CPI and what our rates
19 are. You look at that from just a rule of reason.

20 Q. Well --

21 A. Does this look logical.

22 Q. I suppose if we took a longer time frame and
23 compare unit prices and inflation say since 1900, over
24 the last century, and unit costs and costs of
25 electricity, unit costs of electricity have dramatically

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1 fallen.

2 A. From the unit cost of electricity. If you
3 tie around that the cost of the operations, service,
4 metering, billing, and all those sorts of things, those
5 are the things that have risen that you have continued
6 to try to find efficiencies in.

7 Q. But I mean if you took at look at what a
8 customer paid for electricity in 1900 on a per unit
9 basis as to what a customer pays in the year 2000,
10 surely the unit cost has fallen dramatically, hasn't it?

11 A. Probably has with the few customers that were
12 back then trying to support the system, right.

13 Q. I understand, but in a competitive market
14 such as with computers, we don't talk about pricing in
15 comparison to the CPI, because unit costs have fallen
16 breathtakingly, haven't they, over say the same period
17 of 13 years?

18 A. The cost of the basic CPU, the computer, has.
19 The way the computer industry has made their money is
20 through the software and services.

21 Q. But my point is that when I buy a computer
22 today, as when I bought one 13 years ago, the unit cost
23 of that is dramatically lower, isn't it?

24 A. That's correct. You know, but the computer
25 industry, of course, is in an open free market that they

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1 can sell where they want to through what channel they
2 want to at what price they want to.

3 Q. And the CEO's of those companies don't argue
4 that their prices for those computers should somehow
5 relate to what's happening with the CPI?

6 A. No. Also those companies, they don't have to
7 deal with regulatory screening on how they price or
8 manage or run their business.

9 Q. But they also have effectively in competitive
10 choices are available to -- numerous choices are
11 available to their customers?

12 A. That's correct, and the common scale, you
13 know, the law of technology where, you know, speed
14 doubles and price gets cut in half every five years and
15 continues.

16 Q. And we see that rather clearly in the
17 telecommunications industry where prices continue to
18 fall significantly?

19 A. That's correct, but they're technology based
20 also. The problem is I can't really improve the
21 technology of my 1909 dams and turbans. They're there.

22 Q. Well, my point only is I don't quite
23 understand why this Commission should look at the CPI
24 and therefore conclude whether your rates should be
25 going up or going down.

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1 A. I agree. I said that CPI chart was provided
2 because of what I think the average guy on the street
3 will look at from a gut check as to what's fair and
4 whether or not there's a disconnect when it comes into a
5 regulated business that's supposed to be a cost based
6 business, and anybody that knows cost knows that costs
7 do often track CPI. A lot of people's wages track CPI,
8 you know. A lot of people that are in the social
9 security, a lot of people in civil service, a lot of
10 people in government programs like school teachers,
11 their wages track CPI, COLA tracks CPI. So that chart
12 was provided from a standpoint of sort of just a rule of
13 reason, you know, what looks fair, should there be some
14 sort of an upward movement as costs have gone up, or
15 should it be a mandated decrease.

16 Q. Assuming simply as a point of discussion that
17 a utility has an authorized rate of return that is
18 sufficient to attract capital to meet its needs, should
19 its rates be set higher than that?

20 A. So long as its overall -- so long as its
21 total return is greater than the cost of capital plus a
22 dividend. That's sort of the bench mark.

23 Q. And but then, for example, how does that
24 relate to your request for a 25 basis point adder?

25 A. It relates to that because that's a

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1 regulatory practice around the country, looking at
2 companies that have tended to perform in the upper
3 quartiles, you know, the same things in the states
4 around us, that different states have awarded those sort
5 of adders to recognize higher performance levels on cost
6 efficiency and recognition of customer programs.

7 Q. Okay. Chairwoman Showalter asked you about
8 your testimony at page 11 at the bottom of the page
9 where you say at line 17:

10 It is as if staff and interveners simply
11 added all of the adjustments, big and
12 small, together to arrive at a \$16.4
13 Million decrease without ever analyzing
14 or addressing the question of whether
15 this is a fair end result given the
16 context.

17 Well, what would you have in the sense of
18 methodology in front of a utility commission? How would
19 you have it be done differently other than to add up the
20 pluses and minuses as the costs of the company are
21 evaluated, other than there can be substantial
22 disagreement about what those appropriate costs are?
23 And I'm not making any inferences to the merits of
24 issues, but on the process, how would you have us do it
25 differently?

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1 A. Well, you have to do that as you work through
2 it if you work through that sort of micromanaged detail.
3 But the end result you have to look at is sort of a gut
4 check as does this appear fair. In some of the states
5 like you take the state of Texas, if you can't get to a
6 result in 108 days, the results of -- the rates go into
7 effect automatically with no challenge. And so what
8 happens there is people look more at big chunks as to,
9 okay, you know, is this a reasonable expense, okay, put
10 it away, is this a reasonable return, that you use, you
11 know, deemed CAT structures without arguing about it so
12 that you just get to a end result the quicker you look
13 at it, does that look reasonable, yeah, that looks
14 reasonable, then you go ahead with it.

15 Q. Well, okay, but what if you measurably miss
16 the mark in that regard in favor of the company,
17 speaking hypothetically at this point, and the
18 consequence is that rates are higher than they would
19 have been otherwise? I'm sure you would agree that your
20 customers wouldn't be cheering at that, would they?

21 A. No, they would not. That's what the judgment
22 of the Commission comes into commissioner level, you
23 know, as to what looks logical and reasonable within the
24 light of the situations of the day, what does the market
25 require in the way of returns, and is it reasonable or

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1 not reasonable. And, you know, I guess my thoughts with
2 the Commission has to apply a rule of reason, not just
3 absolute penny by penny cost based management.

4 COMMISSIONER HEMSTAD: All right, thank you.
5 That's all I have.

6

7

E X A M I N A T I O N

8 BY COMMISSIONER GILLIS:

9 Q. I wanted to pursue with you a little bit your
10 comment about the previous corporate business context of
11 viewing public power as legitimate competition and the
12 results you described of driving efficiencies, of
13 lowering costs, and innovation, and off system
14 developments as well as some of the service quality
15 initiatives that the company had taken. But what's
16 wrong with that, and why would either consumers or
17 shareholders want to change that? It sounds like an
18 outcome that we would expect and desire from
19 competition.

20 A. Yeah, and that's probably true. All we can
21 say is we're about at the end of our rope doing that.
22 And so at this point in time, we're saying we --
23 particularly because of the way we offset cost increases
24 is primarily through off system marketing. And with the
25 change in deregulation of power pricing and the

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1 establishment of the liquid power markets here in the
2 Northwest, off system marketing from a utility like ours
3 right now is not an appropriate risk to take. It does
4 not have the earnings opportunity there to offset cost
5 increases, and that's why -- and there was evidence of
6 this spring when the price ran up.

7 You know, that some of the things, you know,
8 we made, like we talked about in our analyst conference
9 call, we made a bunch of dumb decisions, and because we
10 didn't think the prices were going to jump like they
11 did. And now that the fundamental power business in the
12 entire Western States Coordination Counsel has changed,
13 we can't play that game anymore. So our ability to
14 offset cost increases through revenue small system
15 marketing is just not existent any more. Therefore, we
16 have to look at the fundamental utilities, what it costs
17 and what it can sustain on its own.

18 Now we're still doing the things to do that
19 in that, you know, one of the things that's changed in
20 the public use in the last two to three years is that
21 they recognize a change in the world too. And they're,
22 you know, you have people all the way from Ponderay,
23 Ashton Utility help them on control their coordination
24 on their power dispatch. You have cities like Bonners
25 Ferry asking us to help them on building. We have

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1 cities like Spokane asking us to -- the utility to help
2 them on emergency data storage. You have PUD's like
3 Cowlitz, Grant, Chelan, Douglas asking utility to help
4 them on coordination of their business and power
5 dispatch and how to understand the transmission business
6 there.

7 And so that Avista recognizes right now we're
8 not necessarily the competition with these public power.
9 We're in partnerships with them more or less right now.
10 And so that issue is sort of off the table.

11 And now the other issue is that we used to
12 offset cost increases with off system marketing. With
13 the change in market, that issue is off the table. So
14 what does it take to sustain the utility in its
15 fundamental reasonable cost based regulations to give us
16 a return that's higher than the cost of capital.

17 Q. Well, perhaps I misunderstood you, but what
18 caught my attention was it sounded like that you viewed
19 the business context as changed in that regard and that,
20 in fact, the need for Avista as a private utility to be
21 competitive with surrounding public entities is not as
22 pressing as it may have been in the past, or at least
23 you could view it differently on a going forward basis.
24 And intuitively I don't understand that if that's what
25 you are saying, that it strikes me that in a scenario

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1 where open markets are more likely than they were in the
2 past that it would be even more important that Avista be
3 a competitive enterprise relative to the public
4 enterprise, which are your nearest competitors.

5 A. But some of it has changed, you know, from
6 the standpoint you can look back several years in many
7 places in our system that literally PUD's and co-ops, if
8 we had a power line on one side of the road and they
9 were totally duplicating the facility and another line
10 on the other sides of the road, because they don't have
11 any regulation that controls where they invest their
12 money. They would totally duplicate facilities on both
13 power and gas. So anything that came in, new building
14 on the west planes by the airport or out in the valley,
15 the PUD or the co-op wanted to make sure they had
16 facilities there ready also.

17 And what has happened is most of the co-ops
18 and PUD's have seen that was probably a waste of money,
19 and their public owners are raising fusses, because all
20 of them are facing very, very large rate increases right
21 now. And, of course, those commissioners, those PUD's
22 very quickly get voted out of office when they start
23 raising rates.

24 So what has happened is there has been a
25 change of behavior of the publics. They're not building

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1 duplicate facilities. They're not wasting money like
2 they used to, and now we're beginning to work on a
3 cooperative basis and not in dog eat dog competitive
4 situations on price across the road from each other.

5 Q. Okay. Well, do you believe that your
6 described outcomes from at least a perceived competitive
7 price here in the past decade or so has positioned the
8 company better for whatever comes in the future than
9 would have been the case if that perception and pressure
10 from that competition had not been there?

11 A. No, primarily because the pressure in the
12 past, the company did some things on cost management and
13 things like that, on some issues of technology. Some
14 issues of maintenance and things like that we're
15 catching up with. You know, the new management team I
16 have in the operations side of the utility has got a
17 challenge right now to go through and make sure that our
18 whole utilities system is continued to be maintained,
19 upgraded. We've got a lot of old, old stuff in our
20 utility system, because being 109 years old, we
21 literally have some turbans that are 100 years old. We
22 have some improvements we've got to do on a lot of our
23 dams on the things that deal with silt, things that deal
24 with better water flow, better fish pastures, you know,
25 a lot of things we've got to do on our underground

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1 systems in Spokane and places like that.

2 In years past, perhaps we should have been
3 spending even more money on capital investments that we
4 didn't because of the cost pressure to compete against
5 the PUD's and the co-ops. So it has probably prepared
6 us well from a competitive standpoint on understanding
7 competition and services and what you have to do, but
8 not necessarily from the things we did on cost cutting
9 through the past years.

10 Q. Your point being that you believe there's
11 postponed investments?

12 A. Yes, I do.

13 Q. I wanted to ask you about one other thing.
14 The kind of overtone of your rebuttal testimony is a
15 questioning of a variety of regulatory recommendations
16 from the staff. And has the company -- does the company
17 have interest in an alternative form of regulation that
18 would -- yet to be discussed, that would provide more
19 flexibility on the details? But I'm not sure what it
20 would even look like, but let me just ask it that way.

21 A. Well, the answer is yes, you know, that we --
22 just like we moved from the PGA, what the Commission
23 allowed us to do on some of the things we now do on the
24 gas side with the bench mark, that sort of performance
25 based regulation that we have on our gas pricing and

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1 sharing of benefits under the PGA, the way we're
2 managing our gas costs, the same thing would be there on
3 power.

4 Once you set in sort of the base of how you
5 run a PCA, and you get those established right away,
6 then you could move to some sort of performance based
7 regulation that would look at how you run the business
8 as related to certain targets or bench marks. And I
9 think that eventually if we can figure out how to do it,
10 performance based regulation is the way to go if you
11 don't make it too complicated. But if you wind up
12 embedding a system that you spend more effort tracking
13 everything on certain comparisons than you're really
14 saving, then it's not a wise move.

15 But I think that, you know, the company is
16 interested in performance based regulation. We had
17 those discussions early on this last year with the
18 staff. And but just like when the gas side, before you
19 can put in performance based regulation, you have to put
20 in some sort of base that recognizes the commodity world
21 change. And so once we put in something like a PCA or
22 something that recognizes the commodity world change on
23 power, then yes, we would be interested in moving toward
24 the PBR.

25 Q. Well, and several things within your current

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1 case are issues that could potentially be addressed in a
2 performance based regulation approach, a more
3 comprehensive approach. And I'm wondering why that
4 wasn't proposed here, why you have chosen to kind of
5 offer some piecemeal or piecemeal individual components
6 of what might be a part of a performance based --

7 A. Primarily --

8 Q. -- since this is part of a rate case?

9 A. Primarily because we've been out of rates so
10 long, we've got to get new rates established that are
11 reasonable to sustain the company, and then we would
12 look at performance based regulations, so that's
13 primarily the reason. My intent was we have got to
14 reestablish our base rates at a more reasonable level,
15 and then we can talk about PBR.

16 Q. Would you anticipate doing something along
17 those lines in the future after a rate case, or is that
18 something you will see what happens in the rate case and
19 then --

20 A. I think we need to see what happens in the
21 rate case, we need to see what happens to PCA, we need
22 to see how the commodity part of the PCA works, and then
23 we're ready to go on to the next phase.

24 COMMISSIONER GILLIS: That's all I have.

25 JUDGE SCHAER: I have just a couple of

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1 questions, Mr. Matthews.

2

3

E X A M I N A T I O N

4 BY CHAIRWOMAN SHOWALTER:

5 Q. I have just a follow up on the example of the
6 PUD or your PUD neighbors as your competitor, and I
7 think that has been the case and it still is the case.
8 It's the -- that that exerts in the immediate sense a
9 downward pressure on the company, because the PUD's also
10 have access to hydro power and don't make a profit.

11 But I guess what I see the paradigm as having
12 shifted is the other form of competition, which is
13 California and Oregon, et cetera, and that's doing
14 something quite different, that's the demand for your
15 resources. Now it's not there. We don't have it in
16 this state, but I don't think you would be requesting
17 this kicker and things like that if say this were a
18 declining cost industry like telecom or there was
19 nobody, you know, there were no other examples around of
20 more expensive power.

21 But it just seems to me that that is what the
22 tension is here, that it's really the cost based rates,
23 which is our system, versus the awareness of a
24 significant delta, if you will, between costs and a
25 market out there that's -- that everybody can see. Now

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1 as I say, it's not necessarily always going to be there,
2 but you're dealing -- it's really your revenue side
3 rather than your cost side and that -- I'm not really
4 proposing an answer to this, but we can either look at
5 our state and our system and what a market quote would
6 be in our system, or we look at a real market out there,
7 which would look quite different.

8 And we're in our state, with justification,
9 wary of it, because I think we know what would happen.
10 We would start gravitating toward the COBB index. In
11 other words, it wouldn't be that the PUD's would beat
12 you out. You would go and sell your hydro power to
13 somebody else. And how to incorporate that fact or even
14 whether we should, I guess, is the question I happen to
15 be thinking about.

16 A. That's an issue, you know, one of the things
17 with PUD competition is that we have changed is we have
18 learned that every customer is not a good customer. And
19 so whereas it used to be in the competitive zones that,
20 you know, we would viciously fight for every customer,
21 well, sometimes you don't want those customers. They
22 don't pay their way.

23 For instance, you know, there are even --
24 there are commercial industrial customers if their loads
25 right now are very volatile and you have to cover their

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1 peak loads and really go out on an open market and buy
2 power to cover their peak loads, they're not a good
3 customer. Because that means I'm really having that
4 customer at a loss. The other customers are going to be
5 subsidizing the new customer just -- so we have learned
6 in the competitive zones is that every customer is not a
7 good customer, and we're doing a better job on that.

8 But then the second thing, you're right, is
9 that for companies like us that purchase power in the
10 open market and other companies in there, that COBB and
11 Mid C have turned into very liquid, very volatile
12 trading points. Now unfortunately it's because some of
13 the marketing and trading businesses that have been set
14 up with California regulation are gamed in the system.

15 One example might be is that the COBB
16 Intertie has a certain amount of capacity going between
17 Washington, Oregon, California. The California system
18 allows, it might be a certain marketing company, Enron
19 or whoever, can go in say if there's 3,000 megawatts
20 available on Intertie, they'll go in and bid 5,000
21 megawatts. May not even need it, but they'll bid it and
22 say we need that 5,000 megawatt capacity.

23 You've got more capacity wanted than is
24 available, you immediately go into congestion pricing.
25 Their model shuts down everything on both the south side

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1 and the north side, and so people then for a period of
2 time say there's going to be a finite pool of power
3 available. If you want power to run your system, you've
4 got to bid the prices high. So the marketers wait until
5 the price gets up to where they want it, lock in their
6 deals, and then release the capacity. But in that way
7 they can game the system, get any price they want.

8 And the merchant plants seeing them there,
9 then they will play the game too is they will not
10 dispatch generation until the price reaches a certain
11 price point at a straight point. And so that sort of
12 artificially constrains the market. But that's the
13 behavior that's going on right now, you know, because of
14 the California system. And that's the reason why now
15 why all the Northwest senators have demanded an
16 investigation from FERC, and they want field hearings in
17 Washington and California to figure out how this
18 California experiment is totally damaging the Northwest
19 economy because of the gaming of the system that's been
20 allowed and these different price caps that are moving
21 around.

22 And, you know, we saw it even in May in
23 retrospect, you know, after this Commission approved the
24 sale of Centralia. Well, something happened in that,
25 because Centralia was still running when it was bought

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1 by the other company. It was taken off line. It's
2 obvious some marketer bought a -- put a call on the
3 output of Centralia and had the right to tell them don't
4 produce. And so Centralia power was ramped down,
5 because they had a price target, we're not going to run
6 Centralia until the price is above \$60 a megawatt.

7 And that's the sort of real world that now a
8 regulated utility in the Northwest has got to operate
9 in. And with that real world happening, that unless we
10 can have some sort of a pass through in a reasonable
11 method of those sorts of power costs that, you know,
12 that we will be in here on a rate case every day trying
13 to track the new base costs of power.

14 Q. So I didn't mean to summarize, I think that
15 the underlying tension is between the rate based
16 regulation and a market that is operating.

17 A. In the same state in the same --

18 Q. And meanwhile, you have an obligation to
19 serve, because I don't want to forget that that's there.
20 If there was a true, open free market, you might not
21 even have that.

22 A. That's correct.

23 Q. So we are essentially needing to adapt or
24 adjust our cost based regulation to adequately address
25 this environment?

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1 A. That's correct.

2 CHAIRWOMAN SHOWALTER: Thank you.

3 JUDGE SCHAER: I have just a couple of
4 questions, Mr. Matthews.

5

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

7 BY JUDGE SCHAER:

8 Q. I thought I heard you say a couple of times
9 that Avista is short, in a short position on power; is
10 that correct?

11 A. Yes, because of our hydro operations. You
12 know, that we from a systems supply standpoint, our
13 generation capacity as well as the hydro contracts we
14 have from the Mid Columbia don't provide enough power
15 supply to meet our loads for two quarters of the year.

16 Q. And I --

17 A. The second quarter and third quarter.

18 Q. And I heard you discussing company philosophy
19 before you became chairman about not coming in for rate
20 cases and indicating you thought that perhaps the
21 company should have been here more frequently; is that
22 correct?

23 A. That's correct.

24 Q. The company also provides biannual reports on
25 its integrated resource planning to the Commission; is

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1 that correct; do you know?

2 A. I don't know.

3 Q. Do you know when the company last did an
4 integrated resource plan?

5 A. As I recall, it was 1997 I think was the last
6 one I looked at.

7 Q. And did that plan show you becoming short?

8 A. Yes, it showed a short. And that's the plan
9 we're using right now. Discussed it with staff, and I
10 think we filed that IRP and an IRP for power yesterday
11 or today here with the Commission to try to move forward
12 on our next power supply.

13 Q. So you knew in 1997 that you were short, and
14 you're starting this week to look for power to meet
15 that. Is that what I'm hearing you say, sir?

16 A. Yeah, in 1997, the markets were such that
17 they could purchase power on open market cheaper than
18 they could in building new plants, and so what has
19 changed is today that's no longer the case.

20 Q. Let's just say as a hypothetical that the
21 Commission thought that company had made some poor
22 decisions by not trying to acquire either through the
23 market or through building its own more generation to
24 meet its short position. If you had a PCA in the form
25 that you contemplate, would the result of that bad

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1 decision, hypothetically bad decision, flow through to
2 customers because they would have to pay for the power
3 that you're getting now because of the short position?

4 A. Not necessarily. I mean it would depend on
5 what you do with the PCA. In most PCA's, what you do is
6 you track a public market price. So for the 40% of the
7 power that we have to buy on the open market, you would
8 probably always be exposed on Monday morning
9 quarterbacking as to whether or not you should have
10 bought that -- do I buy the power I need for next June
11 today, do I buy it in January, do I wait until next May,
12 or do I wait until next June. And so you're always
13 going to have that decision alternative, and you'll
14 always be subject to Monday morning quarterbacking.
15 Sometimes you will win, sometimes you will lose. Just
16 like has happened on our PGA, same way. Sometimes we
17 pass through big refunds, and sometimes we pass through
18 big cost increases.

19 Q. But isn't the purpose of your least cost
20 planning or integrated resource planning to have you ask
21 those questions and try to put together good answers
22 ahead of time?

23 A. That's what it does. I mean what it looks at
24 is that it tries to make a reasonable judgment as to
25 what's the next lowest cost provider of power. Is it

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1 purchasing on the open market, which in 1997 it looked
2 like that, 1998 it looked like that, and even as late as
3 May of 2000 it looked like that. Today in July of 2000,
4 it looks like no, you got to build facilities with your
5 own moneys or with somebody else's money so that you
6 have physical generation to provide that. Because the
7 market has changed that just like Chairwoman Showalter
8 talked about.

9 Q. And then you said something about the
10 problems that the company had this spring and said that
11 you thought that the company had made some poor
12 decisions. Did I hear that correctly?

13 A. Oh, on the trading side, yes.

14 Q. Okay.

15 A. And all those trading dollars were taken out
16 of the shareholders' pocket.

17 Q. I understand that. I'm more concerned about
18 the relationship between possible poor decisions on the
19 utilities side and the PCA, and I'm just trying to think
20 through myself how -- what would happen if you made poor
21 trading decisions for the customers or poor purchase
22 decisions for the customers, but everything went into a
23 PCA?

24 A. Those poor trading decisions were made by one
25 individual who is no longer with the company or no

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1 longer living. And so -- and those decisions won't
2 happen again, because we're not going to be in that
3 business, and that individual is not there. Now on the
4 power supply standpoint for the utility, the whole
5 decision is when do you purchase power to cover a
6 utility load.

7 Now if I could guess that exactly when the
8 right time to do it, I would be pretty brilliant, but I
9 can't. And so I don't know like right now, we're -- so
10 we're short in August, should I buy power today to cover
11 August, which would cost me about \$100 a megawatt, or do
12 I hope that the weather will soften a bit, and maybe I
13 can buy it for \$60. Or knowing that whatever decision I
14 make, somebody is going to do a hindsight look and say,
15 well, that was a bad decision, that was a good decision.

16 Same way right now, do I lock in all the
17 power I need for the year 2001 right today. If I do
18 right today, it costs me \$64 a megawatt, so then I lock
19 in half my power supply today at 6 1/2 cents or not, or
20 do I wait. And sometime down the road, somebody is
21 going to have the right to look back and say, was that a
22 right decision, was that a wrong decision, or should I
23 have made a different decision.

24 But, you know, you got to put aside the
25 trading decision that just one individual made that

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1 violated company policy, went beyond our limits, was
2 caught, but by the time it was caught, power prices were
3 skyrocketing, and it cost us a lot of money. That's a
4 different deal than power supply management for the
5 utility.

6 Q. I completely understand that that's
7 different. I'm just worried about -- what I'm trying to
8 figure out is under the current system, it appears to me
9 the risks for poor decisions on the utilities side rest
10 with the company. The company has the ability to manage
11 those risks. Now I'm wondering under a PCA if the
12 incentives will be less because costs can be shifted
13 through. Because it's not just looking at a price and
14 an index. It's looking at how much you're short and how
15 the company planned. And I'm not saying it's good or
16 bad. I don't know. I'm just saying that it looks to me
17 like you get into more micromanaging decisions trying to
18 follow a PCA than you might under the current system,
19 and I'm trying to understand how your thoughts on how
20 that would work.

21 A. I disagree with you. The only thing you say
22 the company not planning well, look back and you have --
23 maybe if you look at the 1997 IRP, you could have said
24 the company should have obviously go built a power
25 plant. If we would have started building a power plant

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1 back then, it takes, you know, right now two years
2 through F sect to get any permits, and then it takes one
3 year to build it. So in this state, it would take you
4 at least three years to build a new power plant.

5 So if we would have had perfect hindsight
6 decisions in 1997, we would have a plant coming on
7 sometime next year in the utility to cover. Well, but
8 the economics in 1997 said, if you look at power prices
9 that have been flat in the \$20 to \$22 range for the last
10 eight, nine years, you would have said that we think
11 it's more reasonable to buy power on the open market
12 than it is to go out and invest more money and ask for
13 higher revenue streams to offset investments.

14 Now going forward, that's the decision that
15 got made, but it's -- but controlling the risk, I can't
16 control the risk of what's happening on the California
17 power market or the COBB Index or the PV Index or the
18 Mid C Index, and I can't control what BC Hydro is doing
19 on whether or not they're moving power across the
20 Canadian border or not. I can't control what's
21 happening on the hydro power operations of BPA when they
22 decide to stop generating and refill reservoirs.

23 And so that's the things that's happened this
24 year differently. I can't control those. Those aren't
25 management decisions. That's not a management risk.

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1 Those aren't bad judgments by the utility. Now the only
2 bad judgment by the utility would be, you know, when do
3 you cover your short position. And you're always going
4 to be subject to hindsight on that. It's almost like,
5 you know, when should you sell your stock, and no
6 decision is going to be perfect. You hope it's always
7 going to be reasonable and rational based on the time,
8 but you're always going to be subject to hindsight.

9 And you just got to, you know, PCA that we're
10 saying as a corporation, if we're a regular utility
11 that's constrained on how we operate, how we invest our
12 money, the prices we can charge, that those sorts of
13 risks are not reasonable for us to have to take as a
14 corporation. The only way we can do that is to be in
15 here filing a new rate case every day to try to track
16 power prices up and down and hope we can survive in the
17 meantime.

18 JUDGE SCHAER: Okay, I think we should take
19 our morning break at this time. Please be back at
20 11:15, and we're off the record.

21 (Recess taken.)

22 JUDGE SCHAER: Let's be back on the record
23 after our morning recess.

24 Did you have any redirect for Mr. Matthews,
25 Mr. Meyer?

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1 MR. MEYER: Yes, briefly, Your Honor.
2 JUDGE SCHAER: Go ahead, please.

3

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

5 BY MR. MEYER:

6 Q. Mr. Matthews, expressed in percentage terms,
7 roughly how much does the company rely on short term
8 market purchases, that is on the open market, to satisfy
9 system load requirements?

10 A. Right today we got requirements I guess it's
11 about 9%, somewhere between 9% and 10% of our volumes
12 are purchased on the open market.

13 Q. And then briefly just to recap your PCA
14 discussion, what two elements is that designed to track
15 essentially?

16 A. The PCA we filed in this case tracks two
17 elements. One is the proforma volumes that will be
18 agreed to in this case and public market prices of
19 power.

20 Q. Okay.

21 A. And so to the extent volumes changes or
22 public markets changes, that's the only two things that
23 are readily tracked by the Commission.

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

25 JUDGE SCHAER: Is there anything further for

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1 Mr. Matthews?

2 MR. FFITCH: I have a question or two, Your
3 Honor.

4 JUDGE SCHAER: Go ahead, Mr. ffitich.

5

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

7 BY MR. FFITCH:

8 Q. Mr. Matthews, it's fair to say that investor
9 perception is important with regard to Avista's
10 financial situation; is that correct?

11 A. That's correct.

12 Q. And one of the purposes of the conference
13 call that you held with Wall Street analysts and media
14 was to attend to investor perception of the company in
15 light of the trading losses; isn't that right?

16 A. That's correct.

17 Q. And in response to the judges' questions
18 regarding those losses, you indicated that the trading
19 decisions of a single individual were significantly
20 responsible for those losses, didn't you?

21 A. Yes, I did.

22 Q. And that was discussed in the conference call
23 that was held, the transcript of which has been admitted
24 as Exhibit 17, correct?

25 A. Correct, in generalities.

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1 Q. And are you generally aware of the responsive
2 perception in the investment community to the conference
3 call that you conducted?

4 A. Yes, I am. I'm in daily discussions with
5 them. I even talked this morning to our two biggest
6 shareholders of the company, so I'm in daily contact
7 with the investors.

8 Q. And are you familiar with an article in the
9 Dow Jones news wires column by Mr. Mark Golden --

10 MR. MEYER: Object, this is the article that
11 Mr. ffitch sought to introduce yesterday, and my
12 objection to that article by Mr. Golden was sustained.

13 JUDGE SCHAER: And I don't believe I have an
14 offer of an exhibit at this point, Mr. Meyer. I'm going
15 to let the witness answer whether he's familiar with
16 that.

17 MR. MEYER: Just so the record is clear, do
18 you understand the nature of my objection is to this
19 line of questioning? I understand that he has not
20 offered that exhibit. It's objection to the question.

21 JUDGE SCHAER: I believe that this area of
22 questioning about investor perception is within the
23 scope of the cross that has been asked of Mr. Matthews.

24 Go ahead, Mr. ffitch.

25 MR. FFITCH: Thank you, Your Honor.

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1 BY MR. FFITCH:

2 Q. Mr. Matthews, would you like to have a copy
3 of Exhibit 531 to refer to before I ask any further
4 questions?

5 A. I don't know what Exhibit 531 is.

6 Q. I'm sorry, that is the article. And I will
7 back up a bit, because I realized before I got into my
8 question very far to explain what I was talking about,
9 there was an objection. So I think what I asked you was
10 if you were familiar with a Dow Jones news wire column
11 by Mark Goldman dated June 23, 2000?

12 A. No, I'm not.

13 MR. FFITCH: Your Honor, if I could have the
14 witness take a look at what has been marked for
15 identification as Exhibit 531 to determine whether his
16 memory could be refreshed about this particular
17 document?

18 JUDGE SCHAER: I will allow you to show him
19 the document to see if it's something he's seen before,
20 but if it is not something he has seen before, then I
21 think we will need to move on, Mr. ffitch.

22 MR. FFITCH: Your Honor, I would acknowledge
23 that the title of this document is unfortunate. This is
24 a difficult area to inquire into. However, I believe
25 that it is relevant. I believe that this area has been

02043

1 opened up by questioning with regard to this particular
2 set of trading losses and causes for those losses and by
3 discussions regarding the investor perception of
4 Avista's financial situation.

5 BY MR. FFITCH:

6 Q. And with that, Mr. Matthews, let me ask you
7 again, in light of your comment that you are attentive
8 to investor perceptions and that you have been
9 continuing to be in touch with those, now that you have
10 had a chance to look at Exhibit 531 for identification,
11 is it still your testimony that you have not seen this
12 article before?

13 A. That's correct, I have not seen this article
14 before.

15 Q. Could you take a look at the article
16 nevertheless and --

17 MR. MEYER: Your Honor, just so I'm clear if
18 I haven't already been clear --

19 JUDGE SCHAER: Why don't you just state your
20 objection briefly, and then we'll have a response.

21 MR. MEYER: The objection was that this
22 article yesterday was tendered first of all to
23 Mr. Eliassen. The Bench ruled yesterday that it was not
24 admissible. Today, a day later, the same article which
25 was thrown out yesterday as an exhibit is being

02044

1 introduced through this witness, and he seeks to
2 cross-examine on an exhibit that was not admitted
3 yesterday by ruling of the Bench. We're back to where
4 we were yesterday.

5 JUDGE SCHAER: Mr. ffitch.

6 MR. FFITCH: Your Honor, we are not in
7 exactly the same situation as yesterday. First of all,
8 we have a different witness on the stand. And secondly
9 and more importantly, this witness has specifically
10 testified on examination from the Bench regarding the
11 specific reasons for the trading losses, and more
12 particularly regarding the allocation of certain
13 responsibility to one individual for those losses. In
14 addition, we have had testimony regarding investor
15 perception throughout this hearing.

16 And, Your Honor, I would simply intend to ask
17 one or two questions about this letter and then offer it
18 as an example of investor perception, not for the truth
19 of the matters asserted in this document, but as an
20 example of investor perception akin to other documents
21 already in the record, for example, Exhibit 16, which is
22 a Standard & Poor's news wire column only a month before
23 this particular document, the Sizzle to Fizzle document
24 that's in the record. I believe this is of the same
25 type, Your Honor.

02045

1 And I understand your ruling, and I
2 acknowledge and accept your ruling of yesterday and did
3 not bring this forward on initial cross because of your
4 ruling. However, in light of the witness's raising of
5 this particular issue in the manner that he did, I
6 believe this document is important, so that the comments
7 can be placed in context, and the Commission can have
8 more context to consider the characterizations of the
9 trading losses and their causes and the impact on the
10 company's financial prospects.

11 JUDGE SCHAER: The Commission is going to
12 sustain your objection, Mr. Meyer.

13 Mr. ffitch, the Commission is concerned, as
14 we were yesterday, about the fact that this exhibit was
15 not pre-distributed last week at the time the cross
16 exhibits were distributed. We note that the article is
17 a couple of months old and should have been available to
18 you then. And also the Commission does not view this as
19 particularly helpful to us in our decision because of
20 the nature of what this is, being a newspaper article
21 and being the thoughts of someone who is not present
22 here to discuss those thoughts with.

23 Go ahead, please.

24 MR. FFITCH: Your Honor, I accept the ruling.
25 If I may make one comment, Your Honor, to explain public

02046

1 counsel's treatment of this exhibit. We did not
2 anticipate the extensive references to this incident
3 that have subsequently come from the company witnesses
4 throughout this hearing. And while we were aware of
5 this document, we therefore did not mark it as a
6 cross-examination exhibit.

7 I think also I would like to just note for
8 the record that while the marking of cross-examination
9 exhibits in advance of the hearing is certainly a very
10 useful and efficient procedure and we support it, this
11 Commission on the record in this proceeding and other
12 proceedings has indicated to counsel that it is not an
13 exclusive process, and that as the hearing develops,
14 there may arise occasions where certain
15 cross-examination exhibits can be brought forward and
16 presented in the interest of preparing a complete
17 record.

18 And again, we brought this forward at this
19 point only when this witness on redirect from or on
20 recross from the Bench addressed this particular issue,
21 your Honor.

22 I accept the ruling, and I have no further
23 questions for the witness.

24 MS. TENNYSON: Your Honor, if staff might
25 also join in the statement of Mr. ffitch's concerns. We

02047

1 also were aware of this, we had copies of it, did not
2 submit them in advance as cross exhibits because we did
3 not intend to get into their recent events.

4 I think Mr. Matthews' extensive references to
5 this event and to the one person, these sort of
6 statements, cause us concern with not having this other
7 perception of the issue being admitted into the record.

8 As I said, we deliberately did not intend to
9 inquire into these areas, but I believe several of the
10 company's witnesses have brought in extensive
11 information about it. We had taken the position at the
12 outset it was not relevant to these proceedings.

13 But if these matters are to be considered by
14 the Commission, we are concerned with not having the
15 full information in the record. We do accept the ruling
16 on the exhibit, however. Thank you.

17 JUDGE SCHAER: Ms. Dixon, did you have
18 anything further?

19 MS. DIXON: No.

20 JUDGE SCHAER: Is there anything further for
21 Mr. Matthews?

22 Thank you for your testimony, sir.

23 MR. MEYER: I call next to the stand

24 Mr. Thomas Dukich.

25

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1 Whereupon,

2 THOMAS D. DUKICH,

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

5 JUDGE SCHAER: Thank you. Go ahead,

6 Mr. Meyer.

7 MR. MEYER: Thank you.

8

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

10 BY MR. MEYER:

11 Q. Mr. Dukich, for the record, your name and
12 your employer?

13 A. Thomas D. Dukich, and my employer is Avista
14 Corporation.

15 Q. Have you prepared rebuttal testimony
16 identified as T-84?

17 A. I have.

18 Q. For the record, an errata sheet has been
19 distributed with regard to that testimony. Mr. Dukich,
20 if one were to incorporate the errata and if I were to
21 ask you the questions that appear in your pre-filed
22 rebuttal, would your answers be the same?

23 A. They would.

24 Q. All right. Are you also sponsoring what
25 would have been marked as Exhibits 85 through 89?

02049

1 A. Yes.

2 Q. Were those prepared by you or under your
3 direction and supervision?

4 A. They were, yes.

5 Q. Does the information contained therein remain
6 true and correct?

7 A. It is.

8 MR. MEYER: Thank you.

9 With that, I move the admission of Exhibits
10 T-84 as well as 85 through 89.

11 JUDGE SCHAER: Any objections?

12 MS. TENNYSON: No.

13 MR. FFITCH: No objection.

14 JUDGE SCHAER: Those documents are admitted.

15 MR. MEYER: With that, Mr. Dukich is
16 available for cross.

17 JUDGE SCHAER: Go ahead, Ms. Tennyson.

18 MS. TENNYSON: Thank you, Your Honor. I do
19 have an exhibit I would like to have marked for
20 identification.

21 JUDGE SCHAER: Please distribute it.

22 MS. TENNYSON: (Complies.)

23 JUDGE SCHAER: Mark this Exhibit 95 for
24 identification.

25

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

2 BY MS. TENNYSON:

3 Q. Mr. Dukich, you have before you what has been
4 marked as Exhibit 95 for identification. Now this is a
5 response to a data request that was asked by the
6 commission staff of you; is that correct?

7 A. Correct.

8 Q. And the answer, you prepared the answer or it
9 was prepared under your supervision?

10 A. I did, yes.

11 Q. And is it true and accurate to the best of
12 your knowledge?

13 A. It is, yes.

14 Q. Now this refers to, and the question has an
15 inappropriate page and number on it.

16 A. Right.

17 Q. But the testimony, your rebuttal testimony on
18 page 21, lines 11 and 12; is that correct?

19 A. Yes.

20 Q. And what I would like to do is refer you to
21 that page, this page, and your errata.

22 A. Okay.

23 Q. And ask that you start with page 21 as the
24 data response would, read the question, and then from
25 the errata read the answer, so we can be clear as to

02051

1 what --

2 A. Okay, yes, I basically I think I included
3 Mr. Lurito in the -- when I cut and pasted a bunch of
4 questions, I accidentally got Mr. Lurito's name in there
5 a bunch of times, and it should be omitted. So on line
6 11, the question I think should read, how do you respond
7 to Mr. Lazar's and Mr. Hill's claim. Does that make
8 sense?

9 Q. Plead proceed, please read that and the
10 answer.

11 A. Okay.
12 How do you respond to Mr. Lazar's and
13 Mr. Hill's claim that your testimony
14 focuses primarily on the fact that
15 Avista has relatively low rates?
16 And then the answer should say, answer, and
17 first of all, we should strike staff and interveners and
18 then insert:

19 Both Mr. Lazar and Mr. Hill have chosen
20 to falsely claim that the company's
21 management proposal relied primarily on
22 Avista's low rates.

23 MS. TENNYSON: Thank you. I would move the
24 admission of Exhibit 95.

25 MR. MEYER: No objection.

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1 JUDGE SCHAER: That document is admitted.

2 MS. TENNYSON: And I have no further

3 questions for Mr. Dukich.

4 Thank you, Mr. Dukich.

5 JUDGE SCHAER: Okay. Do you have questions,

6 Mr. Ffitch?

7 MR. FFITCH: Yes, Your Honor, thank you.

8

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

10 BY MR. FFITCH:

11 Q. Good morning, Mr. Dukich.

12 A. Good morning.

13 Q. Hopefully we can get finished before the
14 lunch hour here.

15 A. Good.

16 Q. Give it a fair shot in any event.

17 First I would like to talk about the Fitch
18 study. I will just note that the gentleman seems to
19 have spelled his name incorrectly.

20 A. He has the gall to use a capital letter.

21 Q. Clear indication that the gentleman is no
22 relation.

23 During the test period, the company had some
24 very significant national energy trading operations,
25 didn't it?

02053

1 A. I assume -- I will accept that subject to
2 check. You know, I don't know the amounts, but okay.
3 Yes, I will accept that subject to check.

4 Q. All right. Well, would you accept that in
5 general the energy trading was about twice as big in
6 terms of kilowatt hours as the retail operations?

7 A. I will accept that subject to check, sure.

8 Q. It's pretty unusual for a utility, you're a
9 big energy trader but a small distribution utility in
10 1998; isn't that true?

11 A. I guess if you compared us to Duquesne and
12 Southern and LG&E and everybody else, it may not be so
13 unusual, no. I didn't -- haven't done a comparative
14 analysis of what all of the utilities' proportion of
15 these kinds of trading would be in today's environment.
16 I suspect some of the companies are even bigger.

17 Q. Even bigger than two to one?

18 A. Yeah, I would guess. I would think Duquesne
19 would be, wouldn't you?

20 Q. Well, I'm not testifying.

21 A. Oh, I'm sorry.

22 JUDGE SCHAER: That could speed things up
23 quite a bit, wouldn't it.

24 MR. FFITCH: We can take all the question
25 marks off of these.

02054

1 BY MR. FFITCH:

2 Q. Those energy trading revenues and volumes, in
3 any event, are likely to be much smaller in the next
4 year because you have eliminated the out of region
5 energy trading, and because you have made a decision to
6 greatly reduce the level of energy trading to only that
7 needed to meet the energy requirements of your retail
8 customers; is that correct?

9 A. As a corporation though, the company is still
10 trading through Avista Energy and the WSCC.

11 Q. And you don't expect energy trading revenues
12 and volumes to be smaller in the next year?

13 A. Compared to what they were in the test year,
14 Mr. ffitch, I'm not trying to clever or anything, but I
15 really don't know how next year's trading volumes will
16 compare to the test year's trading volumes.

17 Q. Now the national energy trading kilowatt
18 hours did not flow across the company's distribution
19 system, or did they?

20 A. Distribution system?

21 Q. Correct.

22 A. Probably not, but I think there -- the
23 question of what distribution is and what level and
24 whether or not distribution is sometimes used for
25 transition, I don't know the total answer to that, no.

02055

1 Q. Well, in fact, many of those kilowatt hours
2 the company was associated with during 1998 were not
3 even in the Pacific Northwest at all; isn't that
4 correct?

5 A. Probably not, no. And they may not have even
6 traveled anywhere. They were -- may have been
7 displacement. Who knows how they really -- whether the
8 physical molecule or electron I should say made it from
9 one place to another.

10 Q. If all of the energy trading were to cease
11 entirely, how much would that reduce the cost of
12 operating and maintaining the company's electric
13 distribution system, the poles, wires, the transformers
14 that get the power from the transmission system to the
15 customers?

16 A. Could you ask that again?

17 Q. If all the energy trading were to cease
18 entirely, how much would that reduce costs of the
19 distribution system, that system, the poles, wires, and
20 transformers, that get power from transmission to a
21 customer's premises?

22 A. Well, the actual book cost may actually
23 increase it if there's any credit to retail rates that
24 go through trading, and there has been in the past.
25 Trading on the utilities side could actually end up

02056

1 lowering the cost if it produced some credit to the
2 company somehow, I suppose. It could work the opposite
3 way of what you're thinking, because the revenues would
4 be credited to sales to offset purchases, purchase
5 price.

6 Q. But it doesn't change the inherent cost of
7 the distribution system itself?

8 A. From an accounting standpoint, probably not.
9 But on an actual booked basis, it might. And it may
10 even affect what we would file in this rate case to
11 recover for that matter.

12 Q. You're basically talking about an offset,
13 right? I mean there may be some costs, but they might
14 be offset by other --

15 A. Right, but that still would be what rates are
16 based on.

17 Q. All right. But I'm asking you simply about
18 the cost of the distribution system. And again, the
19 question is, if the energy trading were to cease, is
20 there a reduction in the cost of the distribution
21 system?

22 A. No, other than on a booked basis. On a pure
23 accounting basis, you wouldn't expect that to happen. I
24 don't think so, nothing I can think of, but.

25 Q. Now in '98, the total company kilowatt hours

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1 were 27 billion plus, and here I will pause a moment and
2 direct you to Exhibit 90 for identification.

3 A. Is that one of mine?

4 Q. It's line 17 on Exhibit 90, which is your
5 response to public counsel data request 136.

6 A. Oh, there it is, okay.

7 Q. Line 17.

8 A. Oh, I see, oh, okay. Yes, got it, okay.

9 Q. Line --

10 A. Yeah, great, I'm sorry.

11 Q. That's all right. Now on that exhibit, line
12 17, we see total kilowatt sales of 27 billion plus,
13 correct?

14 A. Right.

15 Q. Does that include the energy trading kilowatt
16 hours or just the retail sales kilowatt hours?

17 A. Probably total sales.

18 Q. Now if you could turn, you probably want to
19 keep your finger on that exhibit, but if you look at
20 page 22 of your testimony.

21 MR. MEYER: I'm sorry, excuse me, had you
22 given your answer, or were you still checking?

23 A. No, I'm a little embarrassed, Mr. ffitch,
24 that I don't actually know all those numbers, but I
25 would accept that subject to check if you can assure me

02058

1 that what you have asked me is correct.

2 Q. Absolutely, I can assure you of that.

3 A. Okay. Then I will absolutely accept that,
4 that it includes all kilowatt hours.

5 Q. Right.

6 A. I can't find a line that shows that on here.

7 Q. Well, for subject to check purposes, I can
8 direct you to page 13 of the company's 10-K, which is
9 Exhibit 5 in this proceeding.

10 A. Okay.

11 Q. And on that page under the heading electric
12 energy requirements, you see a total of 27 billion
13 kilowatt hours for 1998.

14 A. Okay.

15 Q. Now again, I want to sort of tab that
16 exhibit, but I'm going to lead you back to page 22 of
17 your rebuttal.

18 A. Okay.

19 Q. Which is T-84, Exhibit T-84, lines 15 through
20 21.

21 A. Got it.

22 Q. And there you state that this study, the
23 Fitch study, "far exceeds the analytical rigor" of the
24 studies Mr. Lazar has offered as evidence, right?

25 A. Yes, I do state that.

02059

1 Q. Now in your replication of the Fitch study
2 results, you divided the company's distribution costs of
3 \$103 Million on line 12, and again, I'm flipping back to
4 the cross Exhibit Number 90.

5 A. Total distribution line?

6 Q. Correct.

7 A. Got it.

8 Q. That shows company distribution costs of \$103
9 Million. And in your replication of the Fitch study
10 results, you divided that amount by the total of 27
11 billion kilowatt hours on line 17 that we have just
12 seen.

13 A. Right.

14 Q. To get the result of .379 cents per kilowatt
15 hour for distribution costs, which is the same level
16 that Mr. Fitch or the Fitch study computed; isn't that
17 right?

18 A. Yes. And, in fact, maybe we could speed it
19 along to say that just to -- you did ask for us to
20 replicate the numbers in the study. We did that, and
21 they came out very close, so we were -- we did replicate
22 the study using FERC Form 1 data.

23 Q. All right.

24 A. And I might add that that same data was used
25 for all other companies, so whatever -- whatever changes

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1 are made to our way to replicate that would not be made
2 in all the other 108 utilities listed. So you would
3 need different sales figures or different investment
4 figures or whatever you would like to change for all
5 108. So any subsequent comparisons between the change
6 in these numbers and all other 108 utilities would not
7 be valid, because you wouldn't be doing an apples to
8 apples. You would be doing retail sales versus
9 everybody else's total sales.

10 Q. Are you aware of what the Fitch study did
11 with regard to all those other companies?

12 A. I presume, we didn't replicate each and every
13 one through Form 1's, but I presume that they used --
14 well, they claimed to have used this same methodology
15 for each and every utility, all 108 utilities. And, in
16 fact, went so far as to even use the same rate of return
17 for everybody.

18 Q. You're presuming, but you didn't replicate
19 the study for any of the other companies?

20 A. No, I did not. I think the Fitch Service has
21 a pretty good reputation as a reliable and a high
22 quality research organization.

23 Q. Now referring you back to Exhibit 5, which is
24 the company's '98 form 10-K, you may not have that handy
25 there, would you accept subject to check that the 10-K

02061

1 shows that the company had 7.9 billion kilowatt hours of
2 electric energy sales?

3 A. I will accept that, yeah.

4 Q. And would you accept subject to check that
5 Mr. Hirschhorn's Exhibit 493 in this case shows 4.9
6 billion kilowatt hours of electric energy sales in
7 Washington?

8 A. Okay.

9 Q. So that means there are probably 3 billion
10 kilowatt hours of sales in Idaho, doesn't it?

11 A. Right.

12 Q. And it's this sum, 7.9 billion kilowatt
13 hours, that actually flows across the company's
14 distribution system at the retail level, correct?

15 A. And perhaps more somewhere. Again, depending
16 upon -- and I'm just saying that I have -- seem to
17 recall somewhere where there -- the definition of
18 distribution and sometime -- actually used these as
19 almost a transmission system in a way, but I will accept
20 that, sure.

21 Q. All right. And now you have agreed a little
22 earlier this morning that the level of energy trading
23 revenues has little or no effect on the cost of the
24 electric distribution system that serves the customers.

25 A. No, it's probably fixed, and what you do is

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1 you push more kilowatt hours over a fixed system, so
2 your unit cost goes down.

3 Q. So if we were to divide the \$103 Million in
4 the distribution system costs, again that's from line
5 12.

6 A. Mm-hm.

7 Q. Of Exhibit 90, divide that by -- instead of
8 dividing it by the 27 billion total kilowatt hours, we
9 divide it by the 7.9 billion retail kilowatt hours that
10 actually went to distribution system customers, you get
11 something more like 1.3 cents per kilowatt hour in
12 distribution costs, don't we?

13 A. Probably. You could just ratio it up if you
14 decreased -- if you decrease the denominator
15 mathematically, you're going to change all the numbers,
16 yeah.

17 Q. Okay.

18 A. But I would add you would have to do that for
19 every other utility, all 108 utilities in the study.

20 Q. Okay.

21 A. By, you know, even by jurisdiction for that
22 matter, because a lot of these are multijurisdictional
23 utilities.

24 Q. And all those other companies would have a
25 different ratio of retail to wholesale sales, wouldn't

02063

1 they?

2 A. They would. Well, I presume they would,
3 sure.

4 Q. So this 1.3 cents per kilowatt hour is about
5 three and a half times as much as the Fitch study shows?

6 A. Sure, because if you used a smaller
7 denominator arithmetically, that's the totalogy
8 basically. It's going to happen for everybody depending
9 upon what you do.

10 Q. But the smaller denominator is not just a
11 number picked out of the air. As we have seen, it is,
12 in fact, shown in the company's 10-K as the number
13 reflective of the electric energy sales.

14 A. Right, and you would do that for every other
15 utility, all 108 of them, it would work out that way.

16 Q. Now if you need access to this exhibit, let
17 me know. Exhibit 474 was marked and admitted for
18 Ms. Knox. We asked her to compute certain costs for the
19 cost of service study that the company submitted in the
20 rate case.

21 A. Right, I think you submitted that as --
22 predistributed that.

23 Q. Let me check.

24 A. I think it's your production request number
25 148.

02064

1 Q. That's correct.

2 A. Okay, I have that.

3 Q. Now on the cover sheet of that, she computes
4 seven different unit costs. Do you see that?

5 A. Right.

6 Q. And I would like to compare her work on the
7 non-generation items to the results you show in the
8 Fitch study in your Exhibit 89, which is your exhibit
9 5-TDD-5 to your rebuttal.

10 A. Right, okay.

11 Q. And if you just follow me through here, for
12 transmission O&M -- I'm, sorry I will wait until you
13 have the document.

14 A. Mr. Fitch, in an effort to speed things up,
15 I would agree to the fact that if we use a different
16 denominator and divide all the kilowatt hours through
17 that these calculations are probably correct. I would
18 just agree to that subject to check.

19 Q. Okay. Well, maybe I can get through this
20 pretty quickly. I guess first of all, my question, the
21 Knox cost of service is what the company is actually
22 requesting from the Commission in this case, right?

23 A. Right, and I might add that in that study
24 also, the majority of O&M non-production costs are
25 spread on usage. They're not spread on -- it's

02065

1 consistent with the Fitch study in the sense that
2 they're spread on demand and energy, and I think that's
3 the study that public counsel agreed to for the purposes
4 of rate design. So the methodology is somewhat
5 consistent with that.

6 Q. Let me just run through a comparison here
7 between the Knox exhibit and your Exhibit 89. For
8 transmission O&M expense, Fitch is .07 cents, Knox is
9 .177 cents, so Knox is more than twice as big as Fitch;
10 is that correct?

11 A. Yes.

12 Q. For distribution O&M expense, Fitch is .06
13 cents per kilowatt hour, Knox is .38 cents, so Knox is
14 more than six times as big as Fitch, correct?

15 A. I can't actually find that one on my exhibit,
16 but I will accept that subject to check just to speed
17 things up.

18 Q. All right, you'll find these on the exhibit.
19 Distribution customer service, and we can make these
20 subject to check.

21 A. Okay.

22 Q. Distribution customer service, Fitch is .08
23 cents per kilowatt hour, Knox is 0.146 cents, so Knox is
24 almost twice as big, correct?

25 A. Could you refer to the A, B, C lines for me

02066

1 to help me out?
2 Q. Line F.
3 A. And you said yours was what?
4 Q. Fitch is .08, and Knox is .146.
5 A. Cents?
6 Q. Cents per kilowatt hour.
7 A. Okay, got it.
8 Q. And finally common in general Fitch is .24
9 cents per kilowatt hour, Knox is --
10 A. Right.
11 Q. -- .399 cents per kilowatt hour.
12 A. Right.
13 Q. That makes Knox about 1.7 times as big?
14 A. Okay, subject to check.
15 Q. Bottom line is that Fitch shows a total
16 company cost of service of 3.09 cents per kilowatt hour,
17 while Ms. Knox shows a total company O&M expense of
18 4.627 cents per kilowatt hour, right?
19 A. Okay.
20 Q. Mr. Hirschhorn's Exhibit 493 shows a total
21 cost of service of 5.6 cents per kilowatt hour?
22 A. I will accept that.
23 Q. And that includes the return in taxes on rate
24 base, correct?
25 A. Okay.

02067

1 Q. And again, that can be compared with a total
2 cost including both investment cost and O&M cost for the
3 Fitch study of 3.09 cents per kilowatt?

4 A. In fairness, I don't believe it actually can
5 be compared, because it's -- the Fitch study compares
6 all utilities with all sales and a different -- and a
7 same rate of return for everybody. So I don't think
8 it's a valid comparison. It's not an apples to apples
9 comparison.

10 Q. Well, that would be a point of debate between
11 the parties.

12 A. Or a point of truth.

13 Q. That's fine. Now the company is requesting a
14 10.4% overall increase in this case, right?

15 A. Okay.

16 Q. And if the company received a 10.4% increase
17 over and above the 3.09 cents per kilowatt hour, that
18 would result in a total average cost of service to your
19 customers of 3.41 cents subject to check on the math?

20 A. Okay.

21 Q. And so if the Commission ordered a cost of
22 3.41 cents per kilowatt hour, would the company be
23 satisfied and go home happy from this proceeding?

24 A. Could you repeat the question?

25 Q. If the Commission adopted 3.41 cents per

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1 kilowatt hour as the total average cost of service,
2 would Avista be with satisfied with that figure in this
3 proceeding?

4 A. If we got our total rate request, you mean?

5 Q. No, I didn't add that in to the question.

6 A. Oh.

7 Q. If the --

8 A. How would you get the rate increase then?

9 Q. Was that a no, you would not be satisfied if
10 the cost of service --

11 A. I can't answer the question, because I don't
12 understand the basis of it. I'm sorry, I don't mean to
13 be cute, it's just --

14 Q. I guess what I'm asking you is if the 3.41
15 cents is used as the basis for computing the company's
16 revenue requirement, would Avista be satisfied and go
17 home happy from the hearing room?

18 A. I'm sorry, Mr. ffitch, I have lost track of
19 the thread that's running through this line, if that
20 came as a result of getting a 10% rate increase, is that
21 or just --

22 Q. Well, to back up, I have asked you if a 10.4%
23 increase was applied to the Fitch study results, which
24 are 3.09 cents per kilowatt hour.

25 A. Oh, I see.

02069

1 Q. The study which you have testified is more
2 analytically rigorous than the evidence of Mr. Lazar,
3 for example.

4 A. Yes, but you have changed it by using a
5 different denominator. So I guess the answer would be
6 no, I think we probably would not be satisfied, because
7 you have changed the study.

8 Q. Are you sure that you're answering the
9 question?

10 A. No, I'm not, because I see Mr. Lazar
11 scowling, so.

12 Q. That's always a good sign or a bad sign.

13 A. That's true.

14 CHAIRWOMAN SHOWALTER: Mr. Ffitch, I hope
15 that you could just be more open in what your
16 assumptions behind your question are so that Mr. Dukich
17 can understand them and we can understand them, or more
18 explicit might be a better way to put it.

19 MR. FFITCH: Your Honor, perhaps just by way
20 of clarification, Mr. Dukich is testifying in this
21 proceeding that the Fitch study is appropriate support
22 for the company's position as analytically rigorous and
23 produces a 3.09 cent per kilowatt hour total company
24 cost of service that is shown on Exhibit 90 at line 17.
25 The point that I'm trying to get at with Mr. Dukich is

02070

1 if the requested percentage increase of 10.4% is granted
2 and applied to the 3.09% on line 17 --

3 THE WITNESS: Oh, I see what you mean, okay.

4 BY MR. FFITCH:

5 Q. Yielding an average cost of service of 3.41%,
6 is the company satisfied with that amount as the basis
7 for computing its revenue requirement in this case?

8 A. No, Mr. ffitch, the study was, in fact, I'm
9 not sure that the study exhaustively accounts for each
10 and every cost that we filed for, so I would have to
11 think about that on a proforma looking forward basis,
12 number one.

13 Number two, it was not offered as a rate
14 making exhibit in the sense that it was used as a cost
15 of service document, a rate of return document, a
16 revenue requirement document, or anything else. It was
17 offered as a comparison of relative cost between our
18 utility and 107 other utilities across the United States
19 in different categories. So to that extent, it wasn't
20 meant to be a revenue requirements document. It was
21 meant to be a document to support the management
22 incentive of 25 basis point.

23 Q. I guess just --

24 A. Relative to the other utilities on the basis
25 of this study.

02071

1 Q. Right. As I understand it then, you're
2 saying this is offered to show, just sort of to
3 paraphrase, that Avista is a low cost utility and that
4 because as a result of management actions it is a low
5 cost utility, there should be the equity, so-called
6 equity kicker to reward the low costs?

7 A. It's being offered as, one, as a rebuttal.

8 Q. Excuse me, is that a yes first?

9 A. It was like a five part question, so you
10 would have to break it into pieces then.

11 Q. It was not a five part question, but I was
12 paraphrasing your answer. As I understand your answer,
13 this is not being offered to support rates, it's being
14 offered to support the equity kicker; is that correct?

15 A. To the extent the equity kicker affects
16 rates, it's being offered to support rates.

17 Q. I thought you just testified it was not being
18 offered as part of the rate making calculation.

19 A. Not in terms of cost of service and
20 accounting numbers in the sense that you would use it as
21 a substitute for incurred distribution costs or incurred
22 wages and salary or incurred purchase power.

23 Q. All right. And so it's being offered in
24 support of a portion of your rate making request?

25 A. Yes, I misunderstood your other question, I'm

02072

1 sorry about that.

2 Q. And that portion is the so-called equity
3 kicker.

4 A. Yes.

5 Q. Correct?

6 A. Yes.

7 Q. And the reason it's being offered in support
8 of that is because in Avista's view it demonstrates
9 management's ability to produce power at low cost; is
10 that correct?

11 A. It demonstrates -- not total, that's not the
12 total answer. It demonstrates various elements compared
13 to other utilities, yes.

14 Q. Demonstrates that --

15 A. Our costs are -- in offer and rebuttal as to
16 some of what Mr. Lazar said, that our costs are
17 relatively low to other utilities.

18 Q. Thank you.

19 JUDGE SCHAER: Mr. ffitch, how much more do
20 you have?

21 MR. FFITCH: Your Honor, I have maybe five
22 minutes actually.

23 JUDGE SCHAER: Go ahead, please.

24 MR. FFITCH: I even have less than five
25 minutes it looks like, I think.

02073

1 JUDGE SCHAER: That's even better. Go ahead,
2 please.

3 BY MR. FFITCH:

4 Q. Now if you could turn to page 27 of your
5 rebuttal, I just have two other points, Mr. Dukich,
6 regarding Kettle Falls.

7 A. Okay.

8 Q. There you indicate that Washington Water
9 Power was aware of the 2% equity bonus for cost
10 effective renewable resources when Kettle Falls went
11 into service; is that right?

12 A. That's yes, approximately that time or
13 somewhere around there. We may have been -- went into
14 service -- at some point in the rate making process, we
15 probably were aware of the fact that we could have filed
16 for the kicker, yeah.

17 Q. Did the company request this bonus in the
18 original case when Kettle Falls went into rate base in
19 Cause U-83-26?

20 A. We did not.

21 Q. Did the company request the bonus for
22 conservation in that rate case?

23 A. I can't recall.

24 Q. Would you accept subject to check that the
25 company did, in fact, request that bonus?

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1 A. I would.

2 Q. Did the Commission grant it? You may not
3 remember that if you don't remember if it was requested.

4 A. No, I don't remember.

5 Q. Would you accept subject to check the
6 Commission did grant the request for the bonus for
7 conservation?

8 A. All 2%?

9 Q. Yes.

10 A. Sure.

11 Q. Subject to check. Did the company request
12 the 2% equity bonus for Kettle Falls in Dockets U-84-28,
13 U-85-36, or U-86-99?

14 A. What was 99?

15 Q. U-86-99.

16 A. Oh, no, I don't think we have requested it
17 until now.

18 Q. Just one other question. If you could look
19 at Exhibit 94 for identification, which is Avista's
20 response to public counsel data request number 182, and
21 there your response seems to indicate -- well, let me
22 back up.

23 The question is:

24 Should utility rates be based on the
25 actual costs incurred by the utility or

02075

1 on the general level of inflation? Why?

2 And your answer there seems to indicate that
3 you believe that rates should be inflation based rather
4 than cost based; is that correct?

5 A. No, I said it might be. I didn't say it
6 should be. I think the answer for that, for instance in
7 the English system, that I think in the cost -- you take
8 base rates, you apply inflation index of some kind, and
9 then subtract a productivity index. And that same
10 approach is used in Oregon, I think. And so in that
11 sense, inflation or some measure of increased costs are
12 applied to certain costs to set rates. So it could be
13 used as an index, and then it's an index to beat, and
14 that certainly has applied not only in the United States
15 but all over the world, I think.

16 Q. Of course, the English drink warm beer too,
17 don't they, Mr. Dukich? Strike that question.

18 A. I'm glad you did that.

19 Q. Just to be clear, do you believe that utility
20 rates in this case should be based on the actual costs
21 incurred or on the inflation rate?

22 A. I think in light of the prior discussion that
23 happened, if you will allow me to answer that that way,
24 that it can be viewed as one index of efficiency. And
25 when you beat that index, you can ask why you beat it.

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1 You may have beat it because of technological
2 improvements, or you may have beat it for other reasons.
3 But if you look at certain costs that are really related
4 to the inflation or general cost increases like the cost
5 of pencils or something, if you beat it, you might say
6 that's a measure of efficiency, and so it could be used
7 to set rates and the kind of gut check that Mr. Matthews
8 talked about, or even in a system like Commissioner
9 Gillis talked about in terms of a PBR system where that
10 may actually be the index that's set to beat, so it
11 would set rates, yes.

12 Q. While I appreciate your thoughts on how it
13 might be set in general in other cases or in the future,
14 again, my question was, are you recommending to this
15 Commission in this case that it base rates on actual
16 costs or on inflation?

17 A. I'm recommending in this case that the
18 Commission consider as one of the factors what's
19 happened to general costs over the -- since we have
20 filed last and that into account in reaching a judgment
21 about what's fair and just rates for the company. So I
22 guess the answer is yes, I do think they ought to at
23 least consider that as an element.

24 Q. All right. Now we have been through most of
25 these data responses. If you need to take a look at

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1 them, that's fine. Exhibits 90 through 94 are Avista
2 company responses to public counsel data requests, are
3 they not?

4 A. Yes.

5 Q. And those were prepared by you or under your
6 direction?

7 A. They were.

8 Q. Are the answers true and correct to the best
9 of your knowledge?

10 A. Yes.

11 MR. FFITCH: Your Honor, I would offer public
12 counsel Exhibits 90 through 94.

13 JUDGE SCHAER: Any objection?

14 MR. MEYER: No objection.

15 JUDGE SCHAER: Those documents are admitted.

16 MR. FFITCH: Thank you, Your Honor. I have
17 no further questions.

18 Thank you, Mr. Dukich.

19 JUDGE SCHAER: We're going to take our lunch
20 recess at this time. Please be back promptly at 1:25,
21 and we will start with the questioning at 1:30.

22 We're off the record.

23 (Luncheon recess taken at 12:15 p.m.)

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AFTERNOON SESSION
(1:30 p.m.)

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JUDGE SCHAER: Let's be back on the record after our lunch recess.

I have one housekeeping matter to address. This morning we passed out Bench Request Number 741, and then in reading the second paragraph of what we asked for, we discovered that we hadn't asked for a spreadsheet in the right software, so we now have a revised Exhibit 741 that has been distributed, and that is the only change. But I don't want anyone to be surprised by reading something that isn't what they thought they saw in the hearing room.

And then is there anything else we need to look at at this point?

I know that you had passed out an exhibit, Mr. Meyer, but we're going to try to get a clearer copy of this, I understand, so we'll take that up after the next break; is that appropriate?

MR. MEYER: That would be great.

JUDGE SCHAER: Okay.

So, Ms. Dixon, did you have questions of Mr. Dukich?

MS. DIXON: Yes, I do, and there are only two

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1 of them, and they're very quick.

2 JUDGE SCHAER: Okay. Ask them slowly so the
3 court reporter can get them down.

4

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

6 BY MS. DIXON:

7 Q. Mr. Dukich, if you could refer to your
8 rebuttal testimony, page six, lines one to two.

9 A. The proposal also contradicts the line
10 beginning with that?

11 Q. Yes.

12 A. Okay, yes, I've got it.

13 Q. And could you please explain what you mean by
14 the phrase timely customer information on usage is key
15 to conservation?

16 A. I think the theory goes that without feedback
17 on whether your usage is going up or down, you can't
18 really modify your behavior to save electricity.

19 Q. So you would agree then that it is possible
20 to send price signals to customers to conserve energy
21 through sending them these bills on a timely basis?

22 A. At the minimum usage whether -- price would
23 be something else, but certainly price and usage both,
24 yes.

25 MS. DIXON: And that's it.

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1 JUDGE SCHAER: Thank you. Commissioners, did
2 you have questions of Mr. Dukich?

3

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

5 BY CHAIRWOMAN SHOWALTER:

6 Q. Well, I have a one sort of policy issue
7 maybe. There are a number of, or maybe it's only two or
8 three, issues where I think staff is saying you failed
9 to come in on time, particularly in the ice storm and
10 PGE. I think there's another one that is not coming to
11 mind at this minute, but where the company failed at the
12 time, oh, maybe Kettle Falls, to advise the Commission
13 that it would or might seek an incorporation into the
14 later rates.

15 A. Right.

16 Q. If an expense or a cost is a legitimate one
17 for the company to recover, but the company did not come
18 in at least the best time or the most ideal time, I
19 think we're put in a position where if we do allow the
20 cost recovery, we're in effect rewarding or at least not
21 punishing the company for coming in late and saying,
22 well, now we want the money. And we do want to
23 encourage timely notification of issues that will affect
24 rates. At the same time, if we say, well, sorry, you're
25 too late in the door, you didn't do what you should have

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1 done, even if it wasn't strictly required, we may be
2 punishing the company too much.

3 So I guess my question is, if these are
4 legitimate costs that should be recovered and we do
5 allow recovery, then what's your recommendation for how
6 we send the right signal to you and other companies
7 that, you know, you can't just wait until the last
8 minute, or you shouldn't just wait until the last
9 minute? What do we do about that side of things?

10 A. I think in this instance the time and the
11 place for, I think, if I'm not incorrect, for all of the
12 issues that have been brought up in the terms of the
13 issue of timeliness, that the time and the place for
14 them was a general rate case in that sense. I don't
15 think that the Commission would normally rule on the
16 prudence of a resource even if we told staff early or
17 got an accounting order.

18 I mean normally the orders don't come out and
19 say, okay, not only -- well, I shouldn't say normally,
20 they don't ever say that. In fact, I think the
21 Commission has gone out of its way to say that, you
22 know, we will not preapprove things, and so when you're
23 ready to really put it in to rates, that's when we will
24 make the judgment.

25 Now that doesn't mean you can't work on it

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1 ahead of time with staff or with the Commission. But in
2 general, I think that in this case, the things we have
3 asked for are of that nature. They would not have been
4 preapproved in any regard regardless of what happened,
5 how early they came in. And I don't think that it was
6 at the last minute. I mean all of these issues have had
7 up to now maybe eight months of time to examine and
8 litigate and extensive testimony, so in that sense I
9 think we're okay.

10 But all that said, I do agree that in general
11 working ahead of time is better, and but on the other
12 hand, I also don't want to be in a position of asking
13 for someone's input with the full intention that you
14 already know what you're going to do. I hate to -- I
15 mean that sounds --

16 Q. I'm not sure what you mean by that.

17 A. Well, if the company has decided that it
18 really thinks it ought to do this and it's really the
19 best thing to do, and then it -- I don't know how to say
20 this. It asks for input that you intend not to take
21 into account, and I don't want to say that like in your
22 face thing, but there's a kind of a balance there.

23 And in that regard, I think even in terms of
24 the PGE thing, if you look at the kinds of issues we had
25 to look at, there was a lot of internal debate in terms

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1 of the I will use the word the deal, even though its
2 kind of not a good term, but to do the agreement. There
3 was different discussions about whether it covered the
4 entire term of the lease, or I think it's actually two
5 years short of the entire lease, exactly how the
6 payments would be structured.

7 We had the issue of now that's come up, I
8 think, with the buyback of the \$46 Million and whether
9 or not that had to be refinanced and how that would
10 happen. And we don't think the staff took that into
11 account. Well, we know they didn't that that into
12 account. That changes the structure of the agreement.
13 So there's many of those things are debated internally.

14 So there's this notion that somehow the
15 company is just this monolith that has this big scheming
16 plan years in advance, when as a matter of fact, that
17 isn't always true. And until the internal debate is
18 resolved, it may not see even the Commission -- so
19 there's all of those things balanced together.

20 And if they're big decisions, and I guess I
21 have said already, I don't need to repeat myself, but if
22 this is the time and the place, that's what we did.
23 It's proposed now, and I don't know if I think like
24 Commissioner Hemstad said earlier on, what would have --
25 how would it have ended up any different if we had filed

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1 any of these issues earlier. I don't think any of them
2 would be teed up any differently as far as I can tell.
3 Now maybe they would be, but we have had that amount of
4 time, it seems, to do that, so I guess that's the
5 answer.

6 Q. Okay. And then to your point that you say
7 because the company has operated creatively and
8 efficiently in a number of situations to save the
9 customers money over perhaps a less creative company, we
10 should take that into account.

11 A. Right.

12 Q. And your solution is the 25 point kicker?

13 A. One way.

14 Q. One way?

15 A. In my direct testimony, I have -- I cited,
16 and I don't recall it off the top of my head, there is
17 the I think one of the general RCW's about the
18 Commission discretion to set rates that are just and
19 reasonable, and I think it says something compensatory
20 for the services offered. I think that they're -- if
21 you take a broad notion of what the Commission has the
22 discretion to do, it could conclude that providing,
23 which is a fairly modest amount, to be the third
24 quartile of where returns are or whatever.

25 And I think on my rebuttal testimony, I have

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1 outlined how even one or two of these issues has more
2 than offset what the equity adder would be, and not only
3 in the short term, but in the hydro relicensing for 50
4 years. It's not a matter of this happening once. This
5 is a long-term gain, and I don't think there will be
6 anything out of line for the Commission to say the
7 services provided to Avista customers, this is fair
8 compensation for those services. Frankly, I think it's
9 less than fair, but in the sense of the amounts, we're
10 not asking for the full amounts, but it's certainly
11 modest. I think I have outlined just in two items
12 probably \$5 Million or \$6 Million a year for a long time
13 that will accrue to customers.

14 Q. So the --

15 A. So what we think are pretty creative
16 solutions to DSM tariff rider hydro relicensing, for
17 instance.

18 Q. So there were, I'm not sure what the right
19 phrase is, but it's kind of like the opposite of
20 opportunity costs or opportunity profits or something,
21 but in some manner your argument is that you have
22 created value in a way that's not reflected in the
23 price, because it lowered what otherwise would have been
24 your costs?

25 A. They're actually lower, and there is no way

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1 to reflect that value. It's much like decreasing a
2 purchase expense that the company doesn't earn on that.
3 It doesn't have any rate base to earn on like a gas
4 bench mark, for instance, and it creates value to
5 customers by cutting that expense. And so what -- how
6 is the company compensated for that in the long term.
7 First rate case expenses reduced. It does seem to me to
8 be that it's good public policy to say that those --
9 somehow that maybe could be rewarded, and it's a benefit
10 to customers. It's just that our traditional way of
11 rate making with rate base regulation has a very
12 difficult time reflecting that.

13 Q. Well, then that actually leads to my next
14 question. If we weren't doing traditional rate making
15 here and we were engaged in something else such as
16 performance based rate making or some other thing.

17 A. Right.

18 Q. Then you would be, the company would be
19 rewarded for those sorts of things in the sense that it
20 would save money but not necessarily have to lower its
21 price.

22 A. Right. Depending upon the nature of the
23 system, and we did -- we did approach staff a couple of
24 times early on and asked them if they saw any preference
25 to the kinds of mechanisms they would want, but some of

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1 the mechanisms were basically you set a cost target and
2 you have to beat it. It may not necessarily reflect all
3 the kinds of creative things like the hydro relicensing.
4 So the mechanism itself is pretty important.

5 If it's a global mechanism that simply sets a
6 target rate of return and there's a sharing around that,
7 then it says like we have a, I would say for lack of a
8 better term, a criticism in our testimony that says we
9 believe that the most creativity comes from setting the
10 boundaries and the parameters, setting the boundaries,
11 and that that boundary is fair rates, just returns, et
12 cetera.

13 But maybe even in terms of compensation, for
14 instance, you set what you think is reasonable
15 compensation. Within those bounds, you let management
16 have the discretion to do that. That's where the most
17 creativity and innovation comes from. It doesn't come
18 from managing each of those sub categories individually.
19 It comes from saying, you have this, here's your space,
20 and in that space you have all sorts of latitude, but
21 still follow the general rules of the Commission. You
22 need to be fair and just, you can't discriminate,
23 there's just basic rules. But I don't know if they need
24 to necessarily be managing each and every cost category.

25 And part of the problem with PBR is it

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1 sometimes tends to do that, and so it doesn't really --
2 it is in some ways restrictive in terms of creativity
3 and innovation rather than expansive. It goes the wrong
4 way. It goes -- it gets real niggly rather than
5 allowing people to be open and creative and push the
6 envelop the way things ought to be done.

7 Q. But in any event, in this proceeding, you're
8 not proposing either PBR or some other mechanism?

9 A. No, and we think that, for instance, in terms
10 of the power cost adjudgment that -- when we did ours in
11 Idaho, the power cost adjustment for instance, and I
12 think you can draw an analogy to the purchase gas
13 adjustment, it was in place for a while. I mean the
14 purchase gas adjustment was in place for probably, what,
15 15 years before we came forward with a mechanism to try
16 to deal with how do you provide incentives for cutting
17 purchase gas costs.

18 And the same thing would be true maybe on the
19 PCA. For instance, in Idaho it was put into place for I
20 think two or three years on an interim basis with a
21 sunset clause. We worked it out, and then we made some
22 revisions, and that's the way we view this. Once you
23 get that in place, then you can work on the refinements
24 which -- like PBR and incentive rate making kinds of
25 things.

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1 CHAIRWOMAN SHOWALTER: I don't have any other
2 questions. Thanks.

3

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

5 BY COMMISSIONER HEMSTAD:

6 Q. Well, presuming some of the -- from a
7 slightly different direction, I asked Mr. Matthews this
8 morning about the issue of the relationship of costs to
9 inflation, and Mr. ffitch questioned you with regard to
10 Exhibit 94, which I suppose states it rather directly.
11 And I was interested in your response that, yes,
12 inflation should be taken into account. Now we have the
13 traditional form of rate base, rate of return
14 regulation, and as I understand it, that form is the
15 format within which the company has submitted its case
16 now.

17 A. Right.

18 Q. Unless you wanted to say that the purchase
19 cost adjustment mechanism would be a modification of
20 that. But in any event, the structure is there.

21 A. Right.

22 Q. Now there are other formats, price caps.

23 A. Right.

24 Q. In which then on a going forward basis
25 inflation is taken into account as an inflater and with

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1 some kind of determined deflator for efficiency over
2 time, and companies and commissions that argue about
3 what that kind of a deflator should be, and that's been
4 used at least in the telecommunications field.

5 A. Right.

6 Q. And perhaps in the electric industry too in
7 some places; I don't know. But even in that
8 environment, the costs are determined before that kind
9 of a scheme is put into place on a going forward basis.

10 So I come back to you and ask you quite
11 directly, in the matter in front of us now, how is this
12 Commission to deal with the assertions of the company
13 that we should take inflation into account and even as
14 we're going through the traditional process of rate
15 base, rate of return, determination of the company's
16 environment?

17 A. At the risk of supporting Mr. Lazar's
18 testimony, which I don't necessarily want to do, for
19 example, in Mr. Lazar's testimony, I think he actually
20 takes wages and salaries of Mr. Damron and uses that as
21 an indicator of why our overall wages or salaries are or
22 are not reasonable. And, in fact, as I recall, and I
23 don't recall the exact cite, he makes the statement that
24 it should be limited to the rate of inflation.

25 So in the sense that it is used as a, I don't

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1 want to say proxy, but as one indicator of
2 reasonableness, prudence, whatever in the case of where
3 it's difficult to come up with some other indices,
4 certainly it can be used as an overall yardstick to say,
5 okay, let's -- we talked earlier about computers. I
6 mean one way to do that that you mentioned a computer
7 example, which I think was a good one, you used to see
8 these numbers about how many hours you would have to
9 work to buy a computer or to buy a pair of shoes or
10 something. And you can certainly talk about that. And
11 one of the reasons we're so astounded at technology is
12 because it far exceeds what you would expect on the
13 basis of just cost increases.

14 So in that sense, you look at the company as
15 a yardstick and say, okay. You look at all the --
16 whether it's Handy Whitman index or whether it's the
17 cost of poles and wires or the cost of wages and
18 salaries, and you look at all that over a whole long
19 length of time. And your point was a good one, well,
20 how far do you go back. We went back to the last rate
21 case. And say if you had no other index, you would
22 think about maybe all this stuff would have gone up 50%.
23 As a matter of fact, it went up whatever it was, 6% or
24 7%. To me, that's indicative of our efficiency, one of
25 the measures of our efficiency.

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1 Now it may not be direct. It may be
2 something like we built Rathdrum. The customers had a
3 \$9 Million benefit built in that whole time that helped
4 keep rates down. Now that's one of the things that
5 maybe helped us beat inflation. It wasn't like buying
6 cheaper pencils, but as a net, as an overall index, you
7 looked at that and said, well, all things equal, you
8 might expect this much, once you factor in the
9 technology and whatever, and it tells us that we did
10 better than what you might expect in terms of general
11 increase in prices.

12 And customers frequently come in and say that
13 when they talk about their COLA's and their Social
14 Security or whatever, and they're worried about rate
15 increases. They compare -- they sense that. Everything
16 is going up, and my pay is only going up at the rate of
17 inflation.

18 And I'm not saying it's the perfect
19 indicator, and I don't think we're making that claim.
20 It's just that as a general yardstick, it can be used as
21 a -- I don't mean as a -- as a test of reasonableness, a
22 proxy for prudence sometimes, even in some instances an
23 actual incentive mechanism to beat this.

24 Attrition example is a good example. We
25 haven't dealt with this in a while, but we used to -- we

02093

1 have had in the past in this jurisdiction some attrition
2 adjustments. And what we did is we trimmed it. It was
3 basically boiled down to almost a forecasted test year
4 when things were changing very rapidly. And some of the
5 expenses there were trended out on the basis of an
6 inflation index to set rates for the next year. And so
7 that has been used as well.

8 And so actually -- and actually set rates
9 that way. It wasn't just an academic exercise to use a
10 yardstick. So that, you know, that's the way the -- to
11 take into account the company's earnings eroding by
12 building in a forecasted increase. So I think it is a
13 good yardstick. It's a good proxy. If you didn't beat
14 inflation, if your prices were going up a lot faster,
15 you would probably stop and say, hey, what's going on
16 here. I think if you really do a lot better, you also
17 should stop and say, hey, what's going on here.

18 Q. Well, but the Commission has, you know, very
19 distinctive obviously a combination of simply mechanical
20 process here.

21 A. Right.

22 Q. Looking at the evidence and determining what
23 is the most persuasive testimony that is presented, and
24 then factor in some element of judgment.

25 A. Right.

02094

1 Q. I don't want to minimize that latter, but are
2 you suggesting then on each of the issues in front of us
3 for a determination that we should be factoring in some
4 inflation element? Or when we get all said and done,
5 look at the end result and say, well, that's too far
6 below what inflation has been, and therefore we will
7 jack up another percent?

8 A. Well, you know, I guess let me just see if I
9 can take an example. I don't know if it will help or if
10 I'm just repeating myself. But if you had a range of
11 let's take Y2K, which is a small number, within a range
12 of things from letting us collect for ice storm or
13 whatever. And one adjustment is way over here and says
14 you should get none of it. I think Mr. Schooley, not
15 only did he say that, he said we should have thought of
16 this in 1994, which to me seems like really way out
17 there, right. And then so you look at the overall cost
18 to the company. And you say, you know, allowing Y2K,
19 there's a broad latitude of discretion.

20 Q. Let me break in there. Doesn't that go then
21 to the persuasiveness of the evidence as to how we
22 should deal with the Y2K cost, which is quite different
23 from the issue of, well, gee, inflation has been
24 occurring here?

25 A. Well, I think certainly that has to overwhelm

02095

1 anything, but it seems to me that there are many issues
2 that are within the range of reasonableness whether it's
3 return on equity or whether someone should have had
4 enough insight to think of Y2K in 1994, which no one
5 else did, right, that I'm aware of, and started to
6 replace their computers in 1994 rather than the year
7 2000. And then you say, okay, so what's the
8 repercussion of allowing this in when you end up with
9 rates that are still below what inflation would have
10 been. It's a test of reasonableness.

11 And I think in that sense, there's a lot of
12 -- we made the statement that we think that a lot of the
13 adjustments are extreme and that if you stack them all
14 up, you end up with what we consider not a very
15 intuitive result. And this is what I mean by that. If
16 all of these things are pushed over here, and you add
17 them all up, I used the example if I got caught speeding
18 and we had a poll in this room and said how much should
19 he be fined. And if everybody put their numbers down
20 and then you added it all up and I was fined \$2 Million
21 for going ten miles over the speed limit, that wouldn't
22 be a reasonable outcome. You would want to take, it
23 seems to me, a range here.

24 But we have taken -- which may be the way the
25 legal system works or this adversarial system works, but

02096

1 you have taken this extreme range of possibilities here
2 and picked all the ones way over here, and you end up
3 with a huge negative number from our point of view.
4 Even in light of the fact that you look at what general
5 costs have done, and they have gone the other way.

6 And people might say that that's reasonable
7 because this is our case. We're saying that it's
8 reasonable because maybe we beat inflation. So I don't
9 think -- there's no mechanical way you can present that,
10 but I also don't think that decision making is always
11 that mechanical because of this range of possibilities.

12 I used the PGE example. I think our
13 presentation says that our approach is actually better
14 for customers. It spreads it out, it reduces risks, we
15 saved \$46 Million worth of financing costs by not having
16 to buy Rathdrum, where with the staff case, we would
17 have to spend \$46 Million more. There's a range of
18 options here.

19 Maybe you could make the argument that we
20 ought to do that or whatever, but the final end result
21 when the Commission makes a ruling says the rates are
22 fair, just, and reasonable. It doesn't have to say that
23 we applied the following mechanical devices to come to
24 that conclusion. It's a deliberative decision making
25 body that has, it seems to me, broad discretion, and you

02097

1 can look at those ranges.

2 Q. On an entirely different subject, and I have
3 only one question, after hearing the testimony and the
4 cross-examination of Dr. Hill and Dr. Lurito, is it
5 still your position you think their testimony as they
6 developed it was collusive?

7 A. Yes, and I have, if you look at the
8 Washington Natural rate case in 1992, the ROE allowed --
9 recommended -- the rate of return allowed by Dr. Lurito
10 is 9.11%, and the rate of return by Mr. Hill 9.11%.

11 Q. I asked --

12 A. Now it stretches the bounds to me to think
13 that that would happen. Once is enough, but twice.
14 Also in the 1992 case when they both testified, and they
15 have identical rates of return.

16 Q. Now I asked Dr. Lurito that very specific
17 question, and he responded that he neither corresponded
18 nor conversed with Dr. Hill at all on the testimony.

19 A. Yes, I heard that.

20 COMMISSIONER HEMSTAD: That's all I have.

21 COMMISSIONER GILLIS: No questions.

22

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

24 BY JUDGE SCHAER:

25 Q. Mr. Dukich, please turn to page 23 of your

02098

1 rebuttal testimony.

2 A. Got it.

3 Q. Beginning on line three, you represent that
4 Mr. Lazar and Mr. Damron misrepresent A&G expenses for
5 rate based items converted to leases; is that correct?

6 A. Yes, it -- it -- for instance, I think on EDS
7 Computer Systems, if we take a system that's been rate
8 based and shows up as capital and then we out source it
9 and go to a lease, the capital is reduced, but the
10 expenses go up. So you have to be careful that you're
11 not factoring in out sourcing that we have done over
12 time at the company, and so it could look like our
13 expenses are going up faster than they ought to be, when
14 in fact what's happening is a conversion from capital to
15 expense, which of course saves -- may save customers a
16 rate of return.

17 Q. Could you describe the rate base items that
18 were converted from rate base to leases, please?

19 A. I think you can try Mr. Falkner or maybe
20 Ms. Mitchell on that.

21 Q. Okay. And should I also ask Mr. Falkner why
22 they were converted, or do you know that?

23 A. Well, I think that I can say that they were
24 converted because we thought it was cost effective to do
25 so.

02099

1 Q. What type of leases are these?

2 A. Could you define that a little better; what
3 do you mean by type?

4 Q. Well, are these capital leases, operating
5 leases, financial leases? I think we heard about this
6 week you used --

7 A. I don't think they're capital leases. I
8 think they're operating leases, but you better check
9 with Mr. Falkner.

10 Q. So when you used the word leases --

11 A. Operating.

12 Q. -- you were thinking of operating leases?

13 A. Probably. Otherwise they wouldn't show up as
14 expenses, would they? They would show up as capital.

15 Q. You have to tell me that.

16 A. I would try Mr. Falkner.

17 JUDGE SCHAER: Thank you.

18 Is there any redirect for this witness?

19 MR. MEYER: There is not, thank you.

20 JUDGE SCHAER: Is there anything further for
21 Mr. Dukich.

22 MS. TENNYSON: No.

23 MR. FFITCH: Nothing further, Your Honor.

24 JUDGE SCHAER: Thank you for your testimony,

25 Mr. Dukich.

02100

1 Go ahead, Mr. Meyer.

2 MR. MEYER: I would call to the stand

3 Mr. Bill Johnson for the next testimony.

4

5 Whereupon,

6

 WILLIAM G. JOHNSON,
7 having been first duly sworn, was called as a witness
8 herein and was examined and testified as follows:

9

 JUDGE SCHAER: Go ahead, Mr. Meyer

10

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

12

BY MR. MEYER:

13

Q. Mr. Johnson, for the record, your name and
14 your employer, please.

15

A. My name is William G. Johnson, and I'm
16 employed by Avista Corporation.

17

Q. Have you caused to be prepared rebuttal
18 testimony in this proceeding?

19

A. Yes, I have.

20

Q. Has that been marked for identification as
21 Exhibit T-426?

22

A. Yes, it has.

23

Q. With the errata changes being made to your
24 pre-filed rebuttal, if I were to ask you the questions
25 that appear in that testimony, would your answers be the

02101

1 same?

2 A. Yes, they would.

3 Q. Are you also sponsoring what have been marked
4 for identification as Exhibits 427, 428, and 429?

5 A. Yes, I am.

6 Q. Is the information contained in those
7 exhibits true and correct to the best of your knowledge?

8 A. Yes, it is.

9 MR. MEYER: With that, Your Honor, I move the
10 admission of Exhibits T-426, 427, 428, and 429.

11 JUDGE SCHAER: Any objections.

12 MR. FFITCH: No objection, Your Honor.

13 JUDGE SCHAER: Exhibit T-426 and Exhibits 427
14 through 429 are admitted.

15 MR. MEYER: With that, the witness is
16 available for cross.

17 JUDGE SCHAER: Ms. Tennyson, did you have
18 anything of Mr. Johnson?

19 MS. TENNYSON: I will be very brief.

20 JUDGE SCHAER: Okay.

21

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

23 BY MS. TENNYSON:

24 Q. Good afternoon, Mr. Johnson.

25 A. Good afternoon.

02102

1 Q. Referring to your rebuttal testimony at page
2 three.

3 A. Okay.

4 Q. And starting at line 11, you described the
5 inputs and steps in the power cost adjustment
6 calculation, correct?

7 A. That's correct.

8 Q. And you refer to various inputs and you end
9 up by saying the only variables that remain in the PCA
10 are actual hydro generation and market energy prices; is
11 that correct?

12 A. Yes, those are the only inputs that are put
13 into the PCA calculation that differ from the authorized
14 levels in each month.

15 Q. So when those items vary, that's what might
16 affect whether or not there is an adjustment up or down?

17 A. Right, the adjustment that we're talking
18 about is for the roughly 90 megawatts of power that we
19 make short term purchases for to meet our system
20 obligations. And to the extent that hydro generation
21 and market prices vary from the levels established in
22 the authorized base rates, those changes are tracked
23 through in the PCA mechanism. So it is only hydro
24 generation changes and market price changes that affect
25 the changes in the PCA.

02103

1 Q. Okay. So then that's if the company's actual
2 generation is less than is incorporated into the rates?

3 A. Right.

4 Q. And the market price is higher than is
5 incorporated into the rates?

6 A. Right. If the actual hydro generation is
7 lower than the average built into base rates, then there
8 will be a greater amount of purchases. If the actual
9 market rate is higher than the authorized short term
10 energy rate, then that would also cause the purchase
11 amount to be higher.

12 Q. Does this mechanism as you have described it
13 in your rebuttal testimony differ from the mechanism as
14 described in your direct testimony?

15 A. Yes, it has -- it's conceptually the same,
16 but it's a simplified version of what I originally
17 proposed. I originally proposed to include PURPA costs
18 and some thermal generation changes. Staff and other
19 interveners had concerns about including those in the
20 mechanism. So in my rebuttal testimony, I removed the
21 issues that were of concern from staff and other
22 parties.

23 Q. Okay. And again, you refer to this as
24 relating to the approximately 90 megawatts of power; is
25 that --

02104

1 A. Right, we had talked about that. This is the
2 roughly 10% or 90 megawatts of power that we on average
3 buy to meet the -- we buy on the short-term market to
4 meet our system obligations.

5 MS. TENNYSON: Thank you.

6 I have no further questions.

7 JUDGE SCHAER: Mr. ffitch, did you have
8 questions?

9 MR. FFITCH: Your Honor, at this time I would
10 like to offer two exhibits identified for Mr. Johnson,
11 Exhibits 430 and 431. Both of those are records of the
12 Commission in another proceeding, Centralia consolidated
13 Docket UN-991255. Exhibit 430 consists of two exhibits
14 from that case, Exhibit 304 and 322. Exhibit 431 is a
15 portion of the transcript consisting of the
16 cross-examination by public counsel of Mr. Johnson. I
17 would offer those under WAC 480-09-745.74 as a record in
18 another Commission proceeding, Your Honor.

19 JUDGE SCHAER: Any objection?

20 MR. MEYER: No objection.

21 JUDGE SCHAER: Those documents are admitted.

22 MR. FFITCH: Thank you. I have no questions
23 for the witness.

24 JUDGE SCHAER: Commissioners, did you have
25 questions of Mr. Johnson?

02105

1 EXAMINATION

2 BY CHAIRWOMAN SHOWALTER:

3 Q. I had a question beginning with Exhibit 427.
4 This is a diagram of the power cost adjustment.

5 A. Okay.

6 Q. First of all, is this a diagram of your
7 current proposal to the Commission, or is this the
8 original one, or does this serve for both?

9 A. It can serve for both, but it's really a
10 diagram of the current simplified version.

11 Q. Okay. And I think I understand the top row
12 of boxes, and then it would be the case, it seems to me,
13 that only the hydro generation and the variation in that
14 is what would cause a surplus or deficit. Why is the
15 Dow Jones or Mid Columbia index price also an input into
16 whether there is a deficit or a surplus?

17 A. Well, the top lines are levels that establish
18 the megawatt hours of deficit in a month, which is our
19 net system load, our sales and purchases long-term,
20 authorized level of thermal generation, and then the
21 only input, the only variable every month would be the
22 actual hydro generation.

23 Q. Right.

24 A. And then the other input that varies each
25 month is the market prices. And simply if we're

02106

1 deficit, then that means we're purchasing, and we will
2 price that out at the market price. If we're surplus
3 from the above variables, we sell, and we will price
4 that out at the market price.

5 Q. Okay. But if you took the Dow Jones box away
6 completely, wouldn't you still know whether at that
7 point, without reference to the index, whether you did
8 or didn't have a surplus or a deficit?

9 A. Yes.

10 Q. Okay.

11 A. Without the prices, it would establish
12 whether we are surplus or deficit.

13 Q. I'm just trying to understand the documents
14 so that, just for example, if that Dow Jones box was an
15 input just below that box that is along the arrow that
16 goes down to the next -- to the box that says compare
17 actual short-term sales, it seems like that's where it
18 comes in. Is that right?

19 A. Yes, you could --

20 Q. I don't mean to be picky.

21 A. It could go either way.

22 Q. I'm just afraid I don't understand it.

23 A. It could go either way.

24 Q. Okay.

25 A. It could go in between those two boxes.

02107

1 Q. All right. So then you have, let's say you
2 have a deficit, so you need to purchase at market price,
3 so that would be the Dow Jones index. Then we compare
4 that to the authorized level, and I suppose we don't
5 know at that particular point whether it exceeds or
6 doesn't exceed the authorized level, because we know you
7 had to go out and buy power, but we don't know really
8 whether that index was below or above; is that right?

9 A. Well, when we do the calculation, we will
10 know.

11 Q. Right.

12 A. I mean the PCA will calculate whether -- the
13 actual cost with the actual deficit. Let's just say
14 we're deficit. There will be an established purchase
15 amount from the authorized case in the month, in that
16 month, if we're deficit under normal hydro conditions.
17 Under actual conditions, we will see how much we're
18 deficit given the actual hydro, price it out at the
19 market price, and then compare it to the authorized
20 amount. And that is the track, that is the PCA deferral
21 for that month.

22 Q. Okay. And that's why one of your inputs is
23 authorized short-term sales and purchases, you need to
24 know that in order to --

25 A. Right.

02108

1 Q. -- make the calculation. So then we get to a
2 difference, and then the bottom box says that when that
3 -- if those differences that built up over the months
4 accumulate to \$6 Million?

5 A. That's correct.

6 Q. There is an adjustment?

7 A. Correct, \$6 Million is approximately 2 1/2%.

8 Q. Okay.

9 A. So we have it as when it reaches 2 1/2%, then
10 we will actually make an adjustment in customer rates.
11 And the other aspect is we would limit this to two
12 adjustments at one time, so the maximum adjustment can
13 be 5%.

14 Q. And that is the PCA proposal?

15 A. That is our PCA proposal. It's completely
16 isolated to changes in hydro generation and short-term
17 energy prices, and it's about as simple as we can make
18 it. But it still does essentially everything that we're
19 asking for in a tracking mechanism and doesn't introduce
20 any trading or anything else. This is simply the
21 short-term market purchases we make to meet the system
22 obligations.

23 Q. Okay. So then the next question I have is
24 whether there is any incentive to act prudently or
25 disincentive or no incentive. Now your, as this is

02109

1 stated, you've got to buy on an index, so that's what it
2 is. Are there decisions to be made by the company as to
3 when it buys or how it buys, or are there decisions that
4 you make now that if made better save you money, but
5 that under this system doesn't really matter? Or is
6 there really not that much wiggle room to begin with?
7 That's my question.

8 I'm asking actually bottom line, are we
9 losing, if we voted this PCA, are we losing what is now
10 an incentive on the company to go out and make the very
11 best decisions in favor of something fairly mechanical?
12 And I'm not suggesting that the company even could make
13 terrible decisions, because it's limited to the
14 decisions here and an index. But are we losing
15 something?

16 A. I don't believe we are, because, you know,
17 this is only covering that 90 megawatts that we use
18 meeting system obligations. We're not tracking through
19 actual customer loads. So if customer loads are up 100
20 megawatts, this mechanism doesn't track that. And we
21 still have a lot of incentive to manage our costs.

22 And I think what we're saying in the long
23 run, you know, we don't have control over market prices.
24 We have talked about that. In the end, we can try to,
25 you know, we can try to beat the index, but in the end,

02110

1 this market price, published market prices represent
2 what we will probably end up paying for short-term
3 purchases.

4 Q. Okay.

5 A. So if we make a decision to buy and it turns
6 out bad, we eat it, we bought above the market.

7 Q. Why is the threshold \$6 Million; what is the
8 reason?

9 A. I think it's really because in Idaho it's 2
10 1/2% and we're, you know, we have everything in place to
11 do that. So it's an easy thing to implement accounting
12 wise too if it's always the same amount, the threshold,
13 if we implement a rate change.

14 Q. So the short answer is because this is the
15 same as the Idaho system?

16 A. Primarily we based it on what we do in Idaho.

17 CHAIRWOMAN SHOWALTER: I don't have any
18 further questions. Thanks.

19

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

21 BY COMMISSIONER HEMSTAD:

22 Q. As a result of your modifications made to the
23 proposal, I take it based on some of the criticisms
24 raised in your direct testimony, is the company's
25 position we now have in front of us everything that is

02111

1 needed to make a decision on this, said it's in the
2 affirmative and there -- and with a result of that,
3 assuming the company's position were adopted, it could
4 then be implemented, or would this require some
5 additional -- or are you asking us that we make a
6 decision that yes, a PCA is desirable and that some
7 further hearings as to its details for implementation
8 would follow?

9 A. No, we were asking to -- we were asking for
10 this PCA mechanism to be adopted and adopted in this
11 case as is. I don't believe we need any more hearings
12 or collaboratives or anything to study it. I mean
13 essentially we have gotten it down to the bare elements
14 that we feel are important for us in a PCA. You know,
15 we feel it should be adopted as is in this case.

16 COMMISSIONER HEMSTAD: Okay, thank you.

17

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

19 BY COMMISSIONER GILLIS:

20 Q. On the flow diagram you just discussed with
21 Chairwoman Showalter, Exhibit 427, now I followed it
22 down, and what happens in the scenario where the rates
23 are decreased, in other words we're building a surplus?
24 This looks like it triggers at \$6 Million when rates are
25 increasing, but when would a rate adjustment trigger for

02112

1 on the downside?

2 A. Well, the balance account works either way.
3 Every month you either have -- you have a deferral
4 amount that goes in that's either in the rebate
5 direction, which is pushing -- which means our costs
6 were lower than the authorized level, or in the sir
7 charge direction, which says our costs were higher than
8 the authorized level. Either way when it reaches a \$6
9 Million balance in either the sir charge or the rebate
10 direction, that's when you trigger a change in customer
11 rates.

12 Q. So if there's \$6 Million surplus, I guess
13 would be the right direction, then it would trigger a
14 rate decrease?

15 A. It sure would, yeah, a rebate, a rate
16 decrease.

17 Q. And if there were a \$6 Million deficit, it
18 would trigger a rate increase?

19 A. That's correct.

20 Q. And in Idaho, how does that appear on the
21 consumer's bill? Is it something that is a separate
22 line, or does it just show up on the rate increase, or
23 how does it appear?

24 A. I'm pretty sure it just shows up on their
25 bill. It isn't a separate line item.

02113

1 Q. Okay.

2 A. But subject to check, I will say that,
3 because I don't handle, personally handle, the
4 accounting side of the PCA.

5 Q. What are the significant differences, if any,
6 between what is being proposed in your rebuttal and the
7 current mechanism in Idaho?

8 A. What's being proposed in my rebuttal is
9 really a simplified version of what's in Idaho, in that
10 in Idaho, we do track through changes in thermal
11 generation, which affects the level of a surplus deficit
12 in every month. And in Idaho, we also use actual, our
13 actual purchases and sales rate calculated from our
14 booked purchases and sales, and we use that instead of
15 using the market rate as I proposed here. And we check,
16 track through the changes in our PURPA contract expenses
17 also in Idaho.

18 Q. And the figure you mentioned this would apply
19 to, the 90 megawatt hours, is that a fixed number, or
20 does it vary over time depending on some factors?

21 A. That 90 megawatts is established with the
22 case we have right now as our normalized case. Now if
23 we adopt a 40 year water, that will be a little less.
24 So but, you know, it's just -- it's the level, and it's
25 the average level for the year. It varies every month.

02114

1 That's established based on the authorized water we use
2 is where that comes from.

3 Q. Okay.

4 A. And then the actual generation determines,
5 actual hydro generation each month determines what our
6 surplus or deficit position really is.

7 COMMISSIONER GILLIS: All right, thank you.

8

9

E X A M I N A T I O N

10 BY CHAIRWOMAN SHOWALTER:

11 Q. One follow up question. You said \$6 Million
12 is 2 1/2% of what?

13 A. I believe it's 2 1/2% of the Washington
14 revenue.

15 CHAIRWOMAN SHOWALTER: Okay.

16

17

E X A M I N A T I O N

18 BY JUDGE SCHAER:

19 Q. Mr. Johnson, in light of your proposed
20 modifications to the inputs of the power cost
21 adjustment, does the company still maintain its
22 proposals for tariff administration and implementation
23 of a PCA as included in the company's direct testimony
24 of Mr. McKenzie?

25 A. I guess maybe you need to ask it again. Are

02115

1 you asking are we going to implement the account, the
2 balance in the account, the same, in the same way, given
3 the rebuttal testimony?

4 Q. Let's start with that, are you going to?

5 A. Yes, we will. That part of it will remain
6 the same.

7 Q. Okay. For example, how often would
8 adjustments be made?

9 A. Well, when the balance account reaches \$6
10 Million with, you know, the conditions we have right now
11 are that we won't have any more than two rebates or sir
12 charges in effect at any given time.

13 Q. Are there any caps on the adjustments?

14 A. Well, the cap is in each individual
15 adjustment is the \$6 Million adjustment to customer
16 rates, the 2 1/2% adjustment. So the cap is 5%, because
17 we can only have two in place at any time. But that
18 doesn't prevent the balance account from growing still.
19 The balance account could still grow even while we have
20 two rate adjustments in effect.

21 Q. So if in a month things went up \$7 Million,
22 you would put \$6 Million through in an adjustment, and
23 then you would keep the other million in the account and
24 add or subtract to that as further months showed what
25 was happening?

02116

1 A. That's correct, we would implement the rate
2 change based on the \$6 Million, and the remainder would
3 stay in the balance account.

4 Q. When you talk about using the actual Dow
5 Jones Mid Columbia index prices, do you have one number
6 for that for a month?

7 A. Well, what I propose we use would be -- there
8 isn't a given number in the month. That's a daily index
9 price. So we would use the average of the daily index
10 prices for the month.

11 Q. And Mr. Norwood told us that the company was
12 working on going to an hourly dispatch model. Would
13 that change how you could calculate this, or are those
14 unrelated?

15 A. The calculations would essentially be the
16 same even if we went to an hourly model and
17 reestablished our authorized rates. Because we would go
18 to a model that had heavy load and light load explicitly
19 modeled, and then we would have heavy load and light
20 load market rates, and it would just -- it would just
21 essentially flow through essentially the same. We just
22 would split things into heavy load periods and light
23 load periods, but the mechanism would be essentially the
24 same.

25 Q. So the mechanism would be the same, but the

02117

1 way that you measured the index price would go into a
2 lot greater detail. Am I understanding you right?

3 A. No, because I mean we will have the heavy
4 load market rate, published market rate, and the light
5 load published market rate. We're just taking an
6 average of that for this, for the purposes of what we're
7 doing now.

8 Q. So you're talking about taking a monthly
9 average but also a high and low average?

10 A. Right.

11 Q. Are those the two things that would factor
12 into the calculation now?

13 A. Well, what we do is we take the heavy load
14 price index price average for the month times the number
15 of heavy load hours, and the light load market price
16 times the number of light load hours, and we would have
17 a weighted average, which is the average price for the
18 month.

19 JUDGE SCHAER: Okay, I understand that much
20 better. Thank you.

21

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

23 BY COMMISSIONER GILLIS:

24 Q. One additional question I just thought of.
25 Mr. Matthews mentioned today that you either filed today

02118

1 or are going to file soon a proposal for some new
2 resource, owned resource generation, to try to get out
3 of your short position, move out of your short position.
4 Does that affect this in any way, the amount that you
5 would need to purchase on the market for load balancing?

6 A. It won't affect it until we make the
7 purchases, and those purchases are rolled into the new
8 authorized rates to establish new retail base rates,
9 which would happen in any rate case.

10 Q. So what you propose today would be in effect
11 at least between now and the next rate case?

12 A. Right, the base level, the authorized level
13 would be established in this proceeding. It wouldn't
14 change until we had another proceeding.

15

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

17 BY JUDGE SCHAER:

18 Q. That raises another question for me. If it's
19 say another 13 years before Avista comes in for a
20 general rate proceeding again, and if you get as a
21 result of your RFP a lot of new power coming on line in
22 two or three years, are you going to wait until the
23 general rate case to change the assumptions in this PCA,
24 or are you going to somehow do some kind of filing that
25 would incorporate that new owned generation into how the

02119

1 PCA operates?

2 A. I guess our assumption has been that you
3 would have to establish the new authorized level of
4 expenses in a rate proceeding. But I guess that doesn't
5 preclude you from trying to -- it doesn't preclude us
6 from trying to make some modifications outside a general
7 rate proceeding. But you really do need to establish
8 the authorized level of those purchases and sales around
9 meeting system load obligations in a general rate
10 proceeding.

11

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

13 BY COMMISSIONER GILLIS:

14 Q. I don't quite understand the
15 interrelationship. You have to help me with that. If
16 you're acquiring new resources to meet system load as
17 opposed -- that's a substitute for previous purchases,
18 isn't it? In other words, you're moving from a short
19 position to at least a less short position?

20 A. If we acquired some long-term resources, yes,
21 we would be less short.

22 Q. All right. But in effect, once -- whenever
23 those come on line, you would have, regardless of what's
24 happening in the rate making side of things, you would
25 have less resources you need to acquire from the market;

02120

1 isn't that right?

2 A. In a physical sense, yes, we would have our
3 requirements for making short-term purchases would be
4 reduced. But from the standpoint of a PCA, those new
5 purchases would not be part of the authorized level of
6 expenses. We're trying to track the difference between
7 the authorized level of expenses for the short-term
8 purchases and the actual amount.

9 Q. Well, let me just try to construct an
10 example, and you can tell me where I'm off. But right
11 now your estimate is that, I guess on the hydro side
12 primarily, is that you need 90 megawatt hours to do the
13 load balancing for your system requirements. Did I
14 understand that right?

15 A. Right.

16 Q. And if you would acquire additional
17 resources, that could be hydro, it could be gas, it
18 could be something else that's a part of your native
19 load system up to that point, presumably you would need
20 something less than those 90 megawatt hours being
21 purchased off system in a physical sense. Let's just
22 say it's 45. But why are we authorizing you, if we were
23 to accept this, to be purchasing on a PCA 90 megawatt
24 hours when you only need 45 megawatt hours to meet your
25 off system requirements, I mean to meet your system

02121

1 balancing requirements?

2 A. Well, I will tell you how I think of it, how
3 it would work. Let's say we are 90 short and we buy 45
4 megawatts through some longer term arrangement. Let's
5 say we buy that for 40 mils, you know, the cost is 40
6 mils. Well, what the PCA will still track is that we
7 need the 90, and it will track it through at the market
8 rates. So we will have that expense, you know, that
9 flows through PCA.

10 But, of course, at the same time really what
11 that's offsetting is the fact that that 45 megawatts
12 we're buying at 40 mils is not part of our base rate.
13 We're not recovering that in the authorized rates. So
14 to the -- only to the extent that those two rates are
15 significantly different is there going to be some major
16 under recovery or over recovery problem. Because in one
17 set, we're not recovering it in the authorized rates.
18 We're recovering purchases still in the PCA.

19 COMMISSIONER GILLIS: All right. Thank you.

20

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

22 BY CHAIRWOMAN SHOWALTER:

23 Q. Just to follow up, it seems that what you're
24 suggesting is that we would be going into this with an
25 assumption that you've got to buy 90 megawatts somehow.

02122

1 And you might buy it daily, and you might buy it
2 monthly, and you might buy it on a long-term contract,
3 and you might makes mistakes or not, or you might build
4 something that actually completely provided for it and
5 then you sold the rest yourself.

6 But you're saying we really would be putting
7 on blinders. We just -- we simply measure the 90, or
8 not the 90, but whatever surplus or deficit arises under
9 the formula and calculate it at the price of the Mid
10 Columbia index and that's it. So whatever you do well
11 within those parameters, you keep the difference. If
12 you don't do well, you eat it essentially.

13 I mean it's kind of like a -- just within
14 this PCA portion, I mean within this formula it's a, I
15 don't know if performance based is the right -- is the
16 right word here, but it's not tracked. It's just an
17 index system.

18 A. Yes, it is. It's established off what we
19 establish in this, you know, the bases will be
20 established in this case.

21 Q. Right.

22 A. And we're saying that meeting those
23 obligations, we think that it's fair that we price it
24 out at a published market rate. If we can do something
25 long term that is much less than those rates, then I

02123

1 suppose we would -- we could benefit under that. I
2 don't suspect that will be the case, because in the long
3 run, those will probably be the expected lowest costs to
4 meet those obligations possibly. We don't know. But if
5 we build a resource, I mean we will almost certainly be
6 in reestablishing the authorized levels.

7 Q. Just remind me, what is 90, is it megawatts
8 or average megawatts; what is this?

9 A. It's 90 average megawatts.

10 Q. Right, it wouldn't --

11 A. Roughly 780,000 megawatt hours.

12 Q. What is 90, what percent of your overall
13 delivery is 90 average megawatts?

14 A. It's about 9% to 10% of our net system load.
15 You know, 990 something is our net system load.

16 Q. It's interesting that it's also the amount
17 that you would be eligible to buy under the BPA
18 subscription beginning in 2001.

19 A. That's pure coincidence.

20 Q. I know it's pure coincidence. I'm just
21 trying to think of what happens then when you get to buy
22 that 90 megawatts, but suppose it may be different from
23 your surplus. But you would be coming into just that
24 amount at presumably a much lower price than the Mid
25 Columbia.

02124

1 A. I believe we will only get roughly half that
2 amount in power, and half is in dollar equivalent, but
3 yeah, we will get some power.

4

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

6 BY JUDGE SCHAER:

7 Q. And how will that factor into your PCA, I
8 think was the question?

9 A. That won't factor into the PCA. But we have
10 had some discussions the value of that has to get passed
11 through to the residential customers.

12 Q. Right.

13 A. So it doesn't really affect our position. It
14 physically reduces our purchases, but value wise, it all
15 flows through to residential customers.

16 Q. I don't quite understand that. Physically
17 you don't have to purchase, and you're not short anymore
18 because you're getting this power, even though the
19 benefit of it perhaps being lower than your average cost
20 of power has to go to residential rate payers, or
21 doesn't it also mean that you aren't going to be buying
22 on the spot market because you've got the power?

23

24

25

02125

1 EXAMINATION

2 BY CHAIRWOMAN SHOWALTER:

3 Q. I think I could ask a clarified question.
4 You may only -- you may not get it all as power under
5 Bonneville's plan. You may get half of it as actual
6 power and the other half as cash.

7 A. Right. We don't get the full 90 as power,
8 and it doesn't occur until outside our proforma year.
9 That doesn't start until October.

10 Q. I think it's also the case that Bonneville
11 will require you in order to get it, you're going to
12 have to demonstrate that the value is passed through to
13 the rate payer, so you will -- I believe you -- so you
14 will have to be coming back here somehow to do that.
15 That was the source of my earlier questions in the
16 proceeding.

17 A. I don't know all the details of this, but I
18 presume we would have to have some mechanism to pass
19 through the value.

20 JUDGE SCHAER: Is there any redirect for this
21 witness?

22 MS. TENNYSON: Your Honor, before that, could
23 I follow up on a couple of the Commissioners' questions?
24 I just want to make sure I understand what the revised
25 proposal is.

02126

1 JUDGE SCHAER: Mr. Meyer, are you willing to
2 let Ms. Tennyson go ahead of you?

3 MR. MEYER: Surely.

4 JUDGE SCHAER: Go ahead, Ms. Tennyson.

5

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

7 BY MS. TENNYSON:

8 Q. Mr. Johnson, under your proposal, if we
9 assume that the actual generation comes out the same as
10 the authorized level of generation so there's no change
11 in that part of the equation, but in that case there
12 still would be some adjustment under your proposed PCA
13 if the market price varies from those authorized from
14 this proceeding, correct?

15 A. That is correct.

16 Q. So even if all of your predictions are right
17 and this is the exact amount. So this proposal is not
18 solely a water related adjustment. It's not related
19 only to the actual generation caused by variances in
20 water flow?

21 A. No, I believe, you know, we have been fairly
22 clear that this is a hydro generation and a short-term
23 energy price mechanism, tracking mechanism.

24 Q. Does your proposal explicitly address the
25 decrease in risk to the company as a result of a PCA

02127

1 that addresses both water and market price changes?

2 A. Well, I think there's been quite a bit of
3 discussion about the change in risks to the company with
4 the adoption of a PCA. I'm not sure quite how you're
5 asking if the mechanism itself explicitly addresses a
6 risk.

7 Q. Does your testimony explicitly address that?

8 A. No, my testimony does not.

9 MS. TENNYSON: I have nothing further. Thank
10 you.

11

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

13 BY CHAIRWOMAN SHOWALTER:

14 Q. Ms. Tennyson's first question has now
15 confused me, because it seemed to me that her question
16 and your answer meant that the original diagram was
17 correct with the price of the Mid Columbia index is
18 apparently is an input into whether you do or don't have
19 a surplus or deficit? I think I was thinking of this as
20 a physical thing, that is if the hydro system doesn't
21 operate as expected, then you, let's say you -- let's
22 say it's a dry year, you've got a deficit, you've got to
23 make it up, go out and buy, and you buy or you -- you
24 may not buy, but you have a virtual buy on the Dow
25 Jones, but I didn't understand -- actually didn't

02128

1 understand Ms. Tennyson's question or your answer, but
2 it sounded as if my understanding might be incorrect.

3 A. You are correct that the hydro generation
4 determines the physical, the megawatt hours that were
5 either deficit or surplus. And what we're really doing
6 is multiplying that deficit times the published market
7 rate to determine the value of that, the dollars, the
8 purchases or sales.

9 Q. Okay.

10 A. And I will give you an example. If in
11 September under authorized water we're 50 average
12 megawatts deficit, and we have exactly authorized water,
13 we're still exactly 50 megawatts deficits. But our
14 purchase costs might go up if under the authorized case
15 the price was 25 mils and the market rate in that month
16 turned out to actually be 30 mils. Then we would incur
17 more purchase expense in that month than under the
18 authorized case. So even though water was again at the
19 authorized rate, the market rate was higher than the
20 short-term energy rate in the authorized case, so our
21 purchase expenses were higher, and that would be tracked
22 through in the PCA.

23 Q. This is confusing to me. I will probably
24 sort it out later. But is this actual hydro generation
25 yours or somebody else's? That is you're not buying it

02129

1 to begin with, so why are you calculating its value on a
2 market basis?

3 A. This is our -- this is our system -- this is
4 our hydro generation.

5 Q. Right. And you're saying this model or say
6 our decisions would assume that it has a certain value
7 that may or may not actually be its market value at the
8 time?

9 A. The authorized case, we ran our dispatch
10 model, the authorized case came in with market prices,
11 and those market prices basically determined the dollars
12 of purchases or sales that we make in every month. And
13 now if we rerun it, I say rerun it, we will do it in the
14 actual, which is the actual hydro generation versus
15 those 40 years of water we went through, and actual
16 market rates versus the rates we had from our modeling,
17 it's the differences between those two that the PCA is
18 tracking through. So it is both the hydro generation
19 differences from the physical side and the difference
20 between what our model says for authorized rates is the
21 short-term energy price model and what the actual
22 short-term energy rate is.

23 Q. Okay. So the PCA is the difference between
24 -- well, I think I will just -- I think I will leave it
25 with your answer and read it, but I think I understand

02130

1 it. Thank you.

2

3

E X A M I N A T I O N

4 BY JUDGE SCHAER:

5 Q. I'm sorry, but you have raised another
6 question for me now. Mr. Johnson, you talked about the
7 40 year study being the basis of what you're doing, and
8 I'm wondering how the stipulation that was approved in
9 this case as Exhibit 740 factors into this. The
10 stipulation split the dollar figure somewhere between
11 the 40 year number that staff had in its case and the 60
12 year number that the company had in its case, so it's
13 the number that will be in rates is higher than the 40
14 year number and lower than the 60 year number. Now are
15 you somehow going to apply that number to your --
16 through your model to figure out what the costs are, or
17 are you actually going to be adjusting to the numbers
18 that come from a 40 year case for your normalization.

19 A. No, we will simply adjust -- what I have
20 right here in my testimony and exhibits is the 60 year
21 case, because that's what we proposed. And now we're
22 working towards this other compromise, the stipulation.
23 It's simply a matter of just adjusting the purchases and
24 sales every month to match up with what we agreed to in
25 the stipulation.

02131

1 Q. Okay.

2 A. That's what will happen. It's a simple
3 adjustment.

4 Q. That's what I had expected until I heard you
5 say 40 years, and then I got worried, so thanks for
6 clarifying that.

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

9 MR. MEYER: Yes, there is.

10

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

12 BY MR. MEYER:

13 Q. There was some discussion, Mr. Johnson, from
14 the Commissioners about the 90 megawatts of system
15 requirements that are currently being met by short-term
16 purchases. Do you recall that?

17 A. Yes, I do.

18 Q. And these, the costs associated with any such
19 short-term purchases to satisfy this 90 megawatts, are
20 they or are they not already being proformed into this
21 case by means of the power supply adjustment?

22 A. Yes, they are proformed into this case. They
23 are essentially purchased at the rate that comes out of
24 our dispatch simulation model.

25 Q. Okay.

02132

1 A. For each month.

2 Q. So you're testifying then in order to satisfy
3 that 90 megawatt deficiency with short-term purchases,
4 the company and, out of fairness, the staff for its part
5 have both recommended a level of short-term purchase
6 costs, correct?

7 A. That's correct.

8 Q. Okay. Now the PCA itself only serves to
9 track any variation from those dollar per megawatt
10 figures, correct?

11 A. That is correct.

12 Q. So if Mr. Norwood's adjustment, for example,
13 of approximately \$22 were adopted as part of the base
14 case, if there were any variation up or down, it's that
15 variation that would be tracked, correct?

16 A. That is correct.

17 Q. Okay. Now, Mr. Johnson, in what were you --
18 there were questions about where we're at with regard to
19 RFP's and integrative resource planning and that sort of
20 thing; do you recall that?

21 A. Right, yes, I do.

22 Q. Were you involved in the most recent filing
23 that has just been made with this Commission?

24 A. Yes, I have been, and my understanding is we
25 have just recently filed an IRP update and an RFP.

02133

1 Q. Based on that knowledge, will the company be
2 resource long or short even with any additional BPA
3 power over the next three years?

4 A. We will still be short even with the BPA
5 power.

6 Q. Okay. And that's even with the 90 megawatts
7 from BPA?

8 A. Well, we're really only going to get about
9 half of that in power.

10 Q. Even with whatever we get?

11 A. With what we get, we will still be purchasing
12 on a short-term market.

13 Q. Okay. And I believe we just had a clarifying
14 exchange between you and the law judge with regard to
15 what impact, if any, selection of the 40 years would
16 have on this proposal, correct?

17 A. That's correct.

18 Q. And would you agree that what we're really
19 tracking here are variations from not any number of
20 years of water data, per se, but rather the authorized
21 dollar levels of power costs that are being proformed
22 into this base case, correct?

23 A. That is correct.

24 Q. Okay. Now you were also asked about, if I
25 recall, whether the accounting had been worked through

02134

1 in order to implement this proposal. Do you recall
2 that?

3 A. Yes, I do.

4 Q. And was it your testimony that the accounting
5 entries have been worked out and essentially are in
6 place and ready to go in the event this Commission were
7 to implement such a PCA tomorrow?

8 A. Yes, we could implement this PCA tomorrow.
9 We have everything in place. It would be the way we
10 have been doing it in Idaho. So I mean literally within
11 an hour after we knew the authorized level of purchases
12 and sales, we would be ready to go with this PCA.

13 Q. And with what the company has proposed, does
14 it allow for ongoing Commission review and monitoring?

15 A. Yes, every month we send in the PCA deferral
16 along with all the calculations and all the back up.
17 And it can be audited at any time. And that's typically
18 -- that's what we have done in Idaho, and it seemed to
19 work well.

20 Q. And lastly, Mr. Johnson, would the company
21 object if the Commission were to order this PCA placed
22 into effect say on an interim basis for a three year
23 period?

24 A. No, it would not.

25 MR. MEYER: Thank you. With that, that

02135

1 completes my redirect.

2 JUDGE SCHAER: Is there anything further for
3 Mr. Johnson?

4 MS. TENNYSON: I had a housekeeping question.
5 I have on my exhibit list written in Exhibits 432 and
6 433 for Avista responses to ICNU data requests 71 and
7 72. Have those been admitted? I don't have them in my
8 book, so I wanted to know whether I had misplaced them
9 or what has happened with that.

10 MR. VAN CLEVE: Your Honor, this is Brad Van
11 Cleve, if I can interrupt.

12 JUDGE SCHAER: Go ahead, Mr. Van Cleve.

13 MR. VAN CLEVE: I was looking for a place to
14 jump in. The exhibits that have been marked as 432 and
15 433, I believe that all the parties have agreed to
16 stipulate to their admission. And that is 432 is the
17 Avista response to ICNU data request 71, and 433 is the
18 Avista response to ICNU data request number 72.

19 JUDGE SCHAER: I think Ms. Tennyson's
20 question was whether we physically have those.

21 MR. VAN CLEVE: I believe that they were
22 distributed on Tuesday.

23 MS. TENNYSON: I'm sure we can locate a copy.

24 JUDGE SCHAER: I'm not locating them in my
25 book either. We're looking for them, Mr. Van Cleve.

02136

1 And actually, we do have them here in the room, so we
2 will make sure that anyone who does not have copies
3 obtains copies. It is also my recollection that these
4 had been offered and admitted, but let me check with
5 others. If not, we will admit them twice rather than
6 not having them admitted at all.

7 And I'm not hearing anyone shouting out that
8 they see them admitted, so is there any objection to
9 Exhibits 432 and 433?

10 MR. MEYER: None.

11 JUDGE SCHAER: Those documents are admitted.

12 MR. VAN CLEVE: Thank you, Your Honor.

13 JUDGE SCHAER: You're welcome, Mr. Van Cleve.

14 MR. MEYER: May the witness be excused?

15 JUDGE SCHAER: Is there anything else for

16 Mr. Johnson?

17 Thank you for your testimony.

18 Go ahead, Mr. Meyer.

19 MR. MEYER: The next witness is Kathy

20 Mitchell, please.

21 JUDGE SCHAER: My notes show Mr. Falkner

22 next. Has that changed?

23 MR. MEYER: We'll do -- it makes it easy

24 because Ms. Mitchell is not in the room. We'll do

25 Mr. Falkner.

02137

1 JUDGE SCHAER: That's what I have written
2 down from yesterday and --
3 MR. MEYER: I think you're correct.
4 JUDGE SCHAER: -- if you've got your list. I
5 don't care. I just --
6 MR. MEYER: Let's do Mr. Falkner.
7 JUDGE SCHAER: I'm organized the other way.
8 MR. MEYER: Let's do Mr. Falkner next.
9 JUDGE SCHAER: All right.

10

11 Whereupon,

12

13 DON M. FALKNER,
14 having been first duly sworn, was called as a witness
15 herein and was examined and testified as follows:

16

17

18

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

20

21

22

23

24

25

BY MR. MEYER:

Q.

Mr. Falkner, for the record, please state
your name and your employer.

A.

Don Falkner. I work for Avista Corporation.

Q.

Are you sponsoring what has been marked for
identification as Exhibit T-268?

A.

Yes, I am.

02138

1 Q. And you have errata to that?

2 A. Yes, I do.

3 Q. For the record, those have been distributed.

4 If I were to ask you the questions that appear in your
5 rebuttal testimony with your errata factored in, would
6 your answers be the same?

7 A. Yes, they would.

8 Q. Are you also sponsoring what have been marked
9 for identification as Exhibits 269 through 274?

10 A. Yes, I am.

11 Q. And is the information contained true and
12 correct therein?

13 A. Yes, it is.

14 MR. MEYER: With that, Your Honor, I move for
15 admission of Exhibits T-268 as well as 269 through 274.

16 JUDGE SCHAER: Any objections?

17 Those documents are admitted.

18 MR. MEYER: And the witness is tendered.

19 JUDGE SCHAER: Did you have questions of

20 Mr. Falkner, Mr. Trautman?

21 MR. TRAUTMAN: I do.

22 JUDGE SCHAER: Go ahead, please.

23

24

25

02139

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

2 BY MR. TRAUTMAN:

3 Q. Good afternoon.

4 A. Good afternoon, Mr. Trautman.

5 Q. If you could please turn to what has been
6 marked as Exhibits 275 and 276.

7 A. I have it.

8 Q. Do you recognize these as being pages from
9 the electric and gas tariffs for Avista Corporation?

10 A. Yes, I do.

11 Q. Looking at the two pages in these exhibits,
12 is it correct that there are many cities and towns
13 having a tax rate of 6%?

14 A. Yes, that's correct.

15 Q. Now under the company's proposed treatment of
16 the franchise fee, all of the cities and towns that are
17 already at the 6% tax rate would also be required to pay
18 a portion of the franchise fee charged by the cities of
19 Millwood and Coleville on electric operations; is that
20 correct?

21 A. That's correct, it would be a continuation of
22 the policy we have been using for years.

23 Q. All right. And these cities and towns at the
24 6% tax rate would also be required to pay a portion of
25 the franchise fee charged by the cities of Spokane and

02140

1 Millwood on the gas operations; is that correct?

2 A. That's correct. Again, that's a continuation
3 of the procedure we have used for years.

4 Q. In this docket, has the company provided any
5 support to document the actual administrative expenses
6 incurred by the cities of Millwood, Coleville, or
7 Spokane that are directly related to receiving and
8 approving of permit license and franchise, to inspecting
9 plans and construction, or to the preparation of a
10 detailed statement under Chapter 43.1(c) of the Revised
11 Code of Washington, which relates to the State
12 Environmental Policy Act?

13 A. No, we did not. We do not have that
14 information available. The franchise fees that we pay,
15 those are these you referenced, are basically a
16 percentage applied to a revenue level, not tied to a
17 listed expense. And that is also a continuation of the
18 policy that we have had in place for years with the
19 franchise fees.

20 Q. I would like to turn now to the 1991 fire
21 storm issue. And it's your testimony that the legal
22 expenses necessary to settle this litigation should be
23 added to the settlement payment and recovered in a six
24 year average; is that correct?

25 A. Correct, it's my position that the expenses

02141

1 are inextricably tied to the settlement itself.

2 Q. I'm referring here to Exhibit 233, which has
3 already been admitted. You may or may not have it. I
4 would ask you to just accept subject to check that the
5 1998 legal or professional service expense is
6 approximately \$13,000.

7 A. I'm sorry, repeat that again.

8 Q. Oh, the 1998 legal or professional service
9 expense for the fire storm is approximately \$13,000.

10 A. Subject to check.

11 Q. Okay.

12 A. The settlement was in 1997, so that must have
13 been some additional thing.

14 Q. If you could turn to what has been marked for
15 identification as Exhibit 277 and the staff response to
16 data request 330. Do you have that?

17 A. Yes, I do.

18 Q. And this exhibit shows 1998 total utility
19 legal expenses of over \$2.6 Million; is that correct?

20 A. Correct, those would represent what we would
21 call a normal ongoing litigation that turns over from
22 year to year, yes.

23 Q. And the staff adjusted the test year legal
24 expenses by a small amount of approximately \$9,400,
25 which you have accepted in your Exhibit 274.

02142

1 A. Correct.

2 Q. Is that correct?

3 A. It was an incorrectly coded adjustment or
4 expense that should have gone to non-utility operations,
5 and we did accept that.

6 Q. And that was for Paine Hamblen, if I recall?

7 A. It was a payment to Paine Hamblen, yes.

8 Q. And would you accept subject to check that
9 the legal expenses of 1998, that is the total utility
10 expenses, less the fire storm and less the small staff
11 adjustment are still about \$2.6 Million?

12 A. Less the fire storm actuals of \$13,000 you
13 mentioned earlier?

14 Q. Correct.

15 A. Correct, it would be still approximately \$2.6
16 Million.

17 Q. And looking at Exhibit 277, the legal
18 expenses for 1998, that is the \$2.6 Million, are greater
19 than any of the other years listed; is that correct?

20 A. Correct, they're roughly \$100,000 higher than
21 1999 and a little bit higher than the average for the
22 four year period of '96 to '99, which would be about
23 \$2.1 Million.

24 Q. Turning now to the issue of the ice storm
25 damages, do you consider the normal level of weather

02143

1 damage to Avista's distribution system to be volatile if
2 one does not consider the ice storm?

3 A. Based on the review that we put together, I
4 think I'm -- has been marked for Exhibit 278, the level
5 of storm damage has not been extremely volatile over at
6 least the period we looked at, '93 through 1998, once
7 you exclude the extraordinary expenses of the ice storm
8 situation.

9 Q. And would you agree subject to check in that
10 exhibit that the annual storm expenses range from
11 approximately \$860,000 to \$1.6 Million?

12 A. I would accept that.

13 Q. And would you agree that the five year
14 average for storm expenses absent 1996 is about \$1.3
15 Million system wide or about \$74,000 more than the test
16 year expense of \$1.23 Million?

17 A. I would accept that subject to check, and
18 what you're calculating basically is normal storm damage
19 that the utility experiences are not anything
20 extraordinary as ice storm was.

21 Q. Turning now to what has been marked for
22 identification as Exhibit 281.

23 A. I'm there.

24 Q. This exhibit contains pages from inputting
25 the word Avista into searches on the Internet. Do you

02144

1 see that?

2 A. Correct, I received this last Friday, and I
3 did have a chance to look at it between now and then,
4 last Thursday. There are basically four representations
5 in here. One of them that was quoted has named Avista
6 Hotels. Just for information, it's no longer around.
7 It was bought out in 1999. One of the other ones is an
8 obscure club in Canada, and another one is a public
9 relations firm in the United Kingdom, so that's what
10 Avista brought up, as well as a small software firm in
11 Wisconsin, none of them energy related.

12 Q. And the software firm in Wisconsin is known
13 as Avista Incorporated; is that correct?

14 A. Yes, it is.

15 Q. And that is not a subsidiary of Avista
16 Corporation?

17 A. No, it is not.

18 Q. And it is not related to Avista Corporation?

19 A. Correct, and we did not find any notice of it
20 being publicly traded either.

21 Q. And I believe you indicated that Avista does
22 not have any subsidiary in the hotel business?

23 A. No, we do not.

24 Q. Avista Corporation?

25 A. Avista Corporation, and no, and the example

02145

1 here is no longer in business either.

2 Q. And does Avista Corporation provide any
3 public relations services in the United Kingdom?

4 A. To the best of my knowledge, no. And we also
5 do not sponsor a club in Canada.

6 Q. You do not. I assume Avista is not related
7 to, Avista Corporation I should say, is not related to
8 the Avista Society for the Study of Medieval Art,
9 Science, and Technology; is that correct?

10 A. No.

11 Q. Is that a correct assumption?

12 CHAIRWOMAN SHOWALTER: You never know.

13 A. Some people claim some of our practices are
14 Medieval.

15 Q. And looking to Exhibits 282 and 283, were
16 these prepared by you or under your supervision?

17 A. Yes.

18 Q. Are they true and correct to the best of your
19 knowledge?

20 A. Yes, they are. I would also like to point
21 out that 283, which is data response 337, has been
22 supplemented with additional information that I provided
23 to both staff and public counsel. We originally could
24 not find the publications in company files that was
25 requested in data request 337 where we were

02146

1 miscategorized in a national article.

2 When I found out that this was going to be a
3 cross exhibit, we took the additional step of sending
4 someone to the library, and they actually found the
5 article, the Fortune articles where we were
6 miscategorized. Out of 1,000 companies, we were one of
7 ten they put in a miscellaneous category. They decided
8 not to include Washington Water Power under the
9 utilities, gas and electric category. We were
10 miscellaneous along with a funeral services firm and a
11 tax firm and a ship building firm. However in 1999 --

12 Q. May I ask you what date was that magazine?

13 A. The original when we were miscategorized it
14 was April 27, 1998, and we had the Washington Water
15 Power name. The following year, we were correctly
16 included in the utility gas and electric category. The
17 only difference was we were under the Avista name. And
18 this is Fortune magazine, top 1,000 companies.

19 MR. TRAUTMAN: I would move for admission of
20 Exhibits 275 to 283.

21 MR. MEYER: Did counsel intend to supplement
22 I believe it was 283 with the additional materials just
23 referenced by Mr. Falkner?

24 MR. TRAUTMAN: If the company wishes, that
25 would be fine.

02147

1 MR. MEYER: I think that would be
2 appropriate.

3 THE WITNESS: We have additional copies
4 available.

5 JUDGE SCHAER: I think that would be
6 appropriate also. With that supplementation, is there
7 any objection?

8 MR. MEYER: There is none.

9 JUDGE SCHAER: Those documents are admitted.
10 Do you have that available to pass out during
11 our afternoon break?

12 MR. MEYER: Yes.

13 JUDGE SCHAER: Great.

14 And those numbers again, Mr. Trautman, just
15 to make sure?

16 MR. TRAUTMAN: Were 275 through 283.

17 JUDGE SCHAER: Thank you.

18 Mr. ffitch, did you have questions for
19 Mr. Falkner?

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

21

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

23 BY MR. FFITCH:

24 Q. Good afternoon, Mr. Falkner.

25 A. Good afternoon, Mr. ffitch.

02148

1 Q. Just a follow up on staff's last question. I
2 assume that Avista contacted Fortune after the
3 mischaracterization and let them know where to put you.

4 A. I actually have no knowledge if we contacted
5 them or not. To the fact that we couldn't even find the
6 article in the building, I'm not sure we actually
7 followed up on that.

8 Q. I see. I would like to talk about the
9 franchise fee first. I would like to ask you to turn to
10 page 18 of your rebuttal, which is Exhibit T-268, and in
11 that discussion --

12 A. Excuse me, when you say franchise fee, you
13 mean the franchise fee payment from the subsidiary to
14 the parent?

15 Q. Yes.

16 A. Okay.

17 Q. In that section, in that answer on page 18,
18 you criticize Mr. Lazar's application of a franchise fee
19 to the use of the Avista name by subsidiaries. And
20 there you note that the proportion that he seeks to have
21 attributed to the company is lower than that which was
22 imposed on Washington Natural Gas. Do you see that?

23 A. Actually the amount he's proposing is higher
24 than what was proposed for Washington Natural Gas.

25 Q. I'm not talking about the amount. I'm

02149

1 talking about the proportion and percentage.

2 A. Excuse me.

3 Q. So it's actually a lower proportion or
4 percentage you're saying in your testimony?

5 A. I'm saying that Mr. Lazar represented that it
6 was a smaller level of a fee, and what I was noting
7 there that it was actually a higher nominal dollar level
8 fee. The calculation by Mr. Lazar, if I was correct, is
9 approximately \$3 Million that is being attributed or
10 required to be paid by the subsidiaries, proposed to be
11 paid by the subsidiaries to the parent. In the
12 stipulated docket that was referenced, there was a
13 maximum of \$240,000 was my reading of it.

14 Q. Do you have a copy of Mr. Lazar's revenue
15 return, excuse me, revenue requirement testimony
16 available?

17 A. I think I do.

18 Q. And I will ask you to look at exhibit 2 to
19 that.

20 JUDGE SCHAER: Please give us an exhibit
21 number for the entire document, Mr. ffitch.

22 MR. FFITCH: I will, Your Honor. I just have
23 to locate it. It's Exhibit 693, Your Honor.

24 JUDGE SCHAER: Thank you.

25 BY MR. FFITCH:

02150

1 Q. Do you have that?

2 A. I have exhibit JLRR-2.

3 Q. Yes.

4 A. Prior to the exhibit numbers.

5 Q. And that is marked for identification, excuse
6 me, marked and admitted as 693. And you see the actual
7 level of the franchise fee he's proposed there, don't
8 you, in that exhibit?

9 MR. MEYER: Tell me what page you're looking
10 at.

11 A. It's a one page exhibit.

12 Q. One page, and you're looking at the third
13 line down across from the phrase national energy trading
14 in the rate column.

15 A. Yes, I see the rate.

16 Q. That's the level of the franchise fee there
17 is .10%, right?

18 A. Correct.

19 Q. In fact, the franchise fee imposed on
20 Washington Natural Gas non-regulated operations was 1
21 1/2%, was it not?

22 A. That was my recollection of the stipulation.

23 Q. And the franchise fee that Mr. Lazar has
24 proposed for the non-energy operations of Avista is 1%?

25 A. That's correct.

02151

1 Q. And for the national energy trading, the
2 figure we just referenced is 1/10th of 1%, right?

3 A. Right. To the best of my knowledge,
4 Northwest Natural did not have an energy trading company
5 who could generate multiple billions of dollars of
6 revenue.

7 Q. Now the company has discontinued its national
8 trading operation likewise, has it not?

9 A. Inside the utility? We have a subsidiary who
10 does national energy trading, but we will be
11 discontinuing any non-customer based trading or
12 speculative trading.

13 Q. Inside the --

14 A. Inside the utility.

15 Q. -- utility of Avista Corporation?

16 A. Yes.

17 JUDGE SCHAER: I'm confused by that question.

18 MR. FFITCH: Well, maybe I can ask a
19 clarifying question.

20 BY MR. FFITCH:

21 Q. Mr. Falkner, your testimony is that energy
22 trading will continue within the Avista family of
23 companies; is that right?

24 A. It is my understanding that energy trading
25 will continue in our non-regulated -- certain levels in

02152

1 our utility, but national levels of trading in our
2 non-regulated subsidiary.

3 Q. In which subsidiary would that occur?

4 A. Avista Energy.

5 Q. And in addition to that, as you have just
6 said, there will be some continued level of trading to
7 meet requirements within the utility which is within
8 Avista Corporation?

9 A. Correct, trading needed to optimize our
10 native resources.

11 Q. All right. And so that was my question was
12 the company, meaning Avista Corporation, has
13 discontinued national trading within Avista Corporation?

14 A. In Avista Utility, yes.

15 Q. And Mr. Lazar had attributed \$2.4 Million or
16 about half of his total system franchise fee amount to
17 the national trading operations which total \$2.4 Billion
18 in the test period, right?

19 A. Correct.

20 Q. So if the Commission were to accept the
21 franchise fee mechanism proposed by Mr. Lazar, should it
22 exclude this portion of it since these operations have
23 been discontinued?

24 A. I would think so. There would be no
25 continuation of that level of revenues. But they would

02153

1 also have to somehow or another determine if there was a
2 value that was being provided to the subsidiaries before
3 they even went forward with the franchise fee payment to
4 the subs, and there's no record or evidence that shows
5 any value that's being provided that anybody should pay
6 for.

7 Q. I understand that's your position. And my
8 question just included a premise that the Commission
9 would make that determination and then conclude in
10 principle that a mechanism should be adopted. And then
11 you have testified that in that case, there would not be
12 a fee appropriate here because of national energy
13 trading has been discontinued?

14 A. Correct, because those revenues would not be
15 there.

16 JUDGE SCHAER: Can you tell me how much more
17 you have, Mr. ffitch?

18 MR. FFITCH: Probably 15 minutes, Your Honor.
19 I have three more areas.

20 JUDGE SCHAER: Would this be a convenient
21 place to break, or do you want to ask a couple more
22 questions?

23 MR. FFITCH: I actually just have one or two
24 more questions in this area, and then we could stop.

25 JUDGE SCHAER: Okay, go ahead with those.

02154

1 MR. FFITCH: If I may just have a minute.

2 BY MR. FFITCH:

3 Q. So you have just testified that some energy
4 trading in the national market will continue in a
5 non-regulated subsidiary, Avista Energy, right?

6 A. To the best of my knowledge, yes. There has
7 been some restructure there, but their operations
8 continue.

9 Q. All right. Now we just looked at Mr. Lazar's
10 Exhibit 2, and the figure shown there for that trading
11 is \$2.4 Billion. Do you have an estimate of the amount
12 of trading that will now be occurring in the unregulated
13 subsidiary?

14 A. I do not.

15 Q. Do you have a magnitude estimate as compared
16 to the \$2.4 billion?

17 A. I wouldn't even hazard a guess.

18 Q. Is there someone else testifying for Avista
19 today coming after you or who is in the hearing room who
20 could hazard a guess at that amount?

21 A. I don't think so. The utility operations are
22 fairly separate from our non-regulated group, and you
23 would probably have to require someone from Avista
24 Energy to answer that.

25 Q. If you look at the company's revenues without

02155

1 the national energy trading amount, the total company
2 revenues drop from \$3.6 Billion to \$1.3 Billion, don't
3 they?

4 A. Yes, roughly.

5 Q. So similarly if the Commission recognizes
6 that that National Energy trading amount has been
7 eliminated for the purposes of computing the franchise
8 fee for the use of the corporate name, there's a premise
9 built in there I will confess, does it logically follow
10 that the executive compensation should be compared to
11 companies with total revenues in the range which \$1.3
12 Billion falls rather than the range which \$3.6 Billion
13 falls?

14 A. My initial response would be no, but I would
15 be willing to defer that to a compensation witness
16 following.

17 MR. FFITCH: All right, Your Honor, that
18 concludes that area. I would be amenable to a break at
19 this point.

20 JUDGE SCHAER: Let's take our afternoon
21 recess at this time, and please be back promptly at
22 3:30.

23 We're off the record.

24 (Recess taken.)

25 JUDGE SCHAER: Let's be back on the record

02156

1 after our afternoon recess.

2 The first item I would like to take up are
3 the Northwest Energy Coalition proposed cross exhibits
4 for Mr. Colton.

5 MS. DIXON: That would start at 737.

6 JUDGE SCHAER: Thank you.

7 MS. DIXON: You're welcome. And do you need
8 me to go through into the record what each of the
9 numbers would --

10 JUDGE SCHAER: No, I will do that in just a
11 moment.

12 Mr. Meyer, I didn't mean to start without
13 you, but I just got as far as writing down numbers. I
14 thought perhaps one of your colleagues could help.

15 MR. MEYER: No problem.

16 JUDGE SCHAER: Okay, you have handed me five
17 documents which appear to be the SNAP responses to
18 NWECC's data requests. Is the third document down one
19 that you are not offering?

20 MS. DIXON: Correct.

21 JUDGE SCHAER: Okay. So you have handed me
22 documents, the first one of which is the SNAP response
23 to NWECC data request number 1, and I have marked that
24 for identification as Exhibit 737. The next of which is
25 the SNAP response to Northwest Energy Coalition data

02157

1 request number 2. I have marked that as 738 for
2 identification. The next line on your cover sheet
3 should be crossed out. The next is the SNAP response to
4 NWECC data request number 4. I have marked that as 739
5 for identification. The next is the SNAP response to
6 NWECC data request number 5. I have marked that as 742
7 for identification. And the next is the SNAP response
8 to the NWECC data request number 6, and I have marked
9 that as 743 for identification.

10 MS. DIXON: Your Honor, is there a reason for
11 skipping?

12 JUDGE SCHAER: We have already marked the
13 stipulation as Exhibit 740, and we have marked the
14 response to Bench Request Number 2 as 741.

15 MS. DIXON: Thank you.

16 JUDGE SCHAER: And I understand that all
17 counsel have agreed to the admissibility of these
18 documents; is that correct?

19 MR. MEYER: That is correct.

20 MR. TRAUTMAN: That's correct.

21 MR. FFITCH: That's correct.

22 JUDGE SCHAER: Those documents are admitted.

23 The next document that I'm looking at is a
24 Standard & Poor's utilities and perspectives report that
25 can be read, and it is something that was discussed in

02158

1 yesterday's hearing, the company, in the testimony of
2 Mr. Hill, and I have marked this as Exhibit 630 for
3 identification.

4 Is there any disagreement from anyone that
5 this should be admitted, or should I put this into the
6 record?

7 MR. MEYER: No disagreement.

8 MR. FFITCH: No, Your Honor.

9 JUDGE SCHAER: This is admitted.

10 MR. FFITCH: And, Your Honor, I don't know if
11 you had other matters, we had distributed in the break
12 errata to Mr. Lazar's testimony.

13 JUDGE SCHAER: I do have that in the pile of
14 things I'm going to deal with, Mr. ffitich.

15 The next thing I was going to look at, this
16 appears to be the supplement to the data response of
17 Mr. Falkner that was discussed in earlier questioning,
18 and what is the exhibit number that has been assigned to
19 this?

20 MR. TRAUTMAN: 283.

21 JUDGE SCHAER: Okay. This is going to be
22 substitute Exhibit 283. Is there any objection to the
23 supplemented form going in?

24 MR. MEYER: None.

25 JUDGE SCHAER: It's admitted.

02159

1 The next item I have is an errata sheet and
2 corrections for the Jim Lazar rate design testimony and
3 exhibits. And, Mr. Lazar, what is the number of your
4 testimony?

5 MR. FFITCH: Your Honor, I can find that.
6 It's T-686 is the direct, Your Honor.

7 JUDGE SCHAER: So this entire document will
8 be included in the record as a part of Exhibit T-686.
9 Is there any objection to its entry?

10 MR. MEYER: None.

11 JUDGE SCHAER: Are there any other matters we
12 need to consider before we go on with the testimony?

13 Go ahead then, Mr. ffitch, please.

14 MR. FFITCH: Your Honor, just organizing my
15 papers momentarily.

16 BY MR. FFITCH:

17 Q. Mr. Falkner, could you please refer next to
18 exhibit 286 for identification.

19 A. I'm already there.

20 Q. That's public counsel 132, public counsel
21 request 132, and here you have listed corporate
22 memberships and indicated there are three that the
23 company no longer is maintaining, and those three are
24 International Trade Alliance, Greater Saint Joe
25 Development, and Northwest Energy Coalition, correct?

02160

1 A. Correct.

2 Q. And in other exhibits, in your other exhibits
3 you have set forth the amount the company paid to those
4 organizations, right?

5 A. In this exhibit?

6 Q. Not in this exhibit, no, in Exhibit 29, I
7 believe, which you may not have right there.

8 A. Okay, subject to check, yes.

9 Q. Subject to check. Have you proposed a
10 proforma adjustment to those expenses to recognize the
11 discontinuation of those three memberships?

12 A. No, that would be one step in updating the
13 test here, and it wouldn't be reasonable to update one
14 particular item without updating everything else. I
15 would concur with Mr. Schooley's position on that.

16 Q. All right. Now I'm going to inquire
17 regarding real estate sales. The company occasionally
18 sells real estate which previously was used to serve
19 electric and/or natural gas customers, does it not?

20 A. From time to time, yes.

21 Q. For example, you may build a bigger
22 substation and then sell the land on which the former
23 smaller substation was located?

24 A. I understand that happens, yes.

25 Q. And when real estate becomes surplus and is

02161

1 no longer used for serving customers, it's typically
2 transferred from the utility plant accounts to
3 non-utility property. And from there, it may be sold or
4 else transferred to another part of the utility for
5 non-utility purposes, correct?

6 A. Correct.

7 Q. In 1986, the company sold its corporate
8 headquarters; am I correct there?

9 A. It sold them and then bought -- then leased
10 them back.

11 Q. All right. And a portion of the Commission
12 order in that proceeding, which was Docket FR-86-150
13 required that 100% of the benefits of the gain on the
14 sale flow to customers, did it not?

15 A. Yes, that was a very material transaction.

16 Q. And, Mr. Falkner, are you generally familiar
17 with this Commission's treatment of the gain on sale of
18 real property which was previously included in utility
19 rate base? And I am referring to orders in Cause
20 U-85-53, U-89-2688-T, and the stipulated order on
21 dismissal of the appeal in U-89-2688-T?

22 A. No, I'm not familiar with those.

23 Q. Is it your understanding that while you may
24 not be specifically familiar with those decisions that
25 there is an agreement or an established policy

02162

1 subsequent to those proceedings in the 1980's that the
2 gain on real property would be allocated to rate payers
3 in proportion to the amount of time that the property
4 was in rate base, while gain would be allocated to
5 shareholders in proportion to the amount of time that
6 the investment was being supported by shareholders?

7 A. I remember hearing something close to that.

8 Q. Did the company prepare any analysis of the
9 gain on sale of real property in accordance with the
10 principles used in the corporate headquarters building
11 sale, FR-86-150, or the Puget proceedings that I just
12 referenced?

13 A. No, we did not. The listing of material --
14 of some of these sales we provided in the data response
15 show that the majority of them are fairly immaterial,
16 nowhere near the level of the sale of the building. And
17 there's actually gains and losses in the listing.

18 Q. Right. And the statement you have just made
19 is consistent with your response in what's been marked
20 Exhibit 287 for identification, your response to public
21 counsel data request 133; is that right? If you would
22 like, you can certainly refer to 287. You should have
23 that there.

24 A. Correct.

25 Q. So basically the shareholders are keeping the

02163

1 gains and losses under the company's proposal in this
2 case?

3 A. No gains or losses were reflected in this
4 case.

5 Q. All right. Now I will turn to discussion of
6 hydro depreciation and ask you to turn to your testimony
7 at pages 26 to 28. Again, this is your rebuttal Exhibit
8 T-268. And just noting in general that that's the
9 section of your testimony that discussed Mr. Lazar's
10 hydro depreciation testimony. Do you dispute
11 Mr. Lazar's testimony that the fair market value of the
12 company's hydro electric generating plants greatly
13 exceeds the depreciated book value as evidenced by the
14 analysis included in Ms. Knox's work papers in this
15 proceeding?

16 A. I did not review Ms. Knox's work papers in
17 this proceeding. I understand that the information
18 shows a higher level of market value based on an
19 insurance review, I think, than what our net book value
20 is.

21 Q. And would you agree that in a period of
22 rising energy prices that generating resources with low
23 variable operating costs like hydro projects would have
24 a tendency to appreciate in value?

25 A. Everything else being equal, you could accept

02164

1 that as a theory.

2 Q. If a buyer came along and offered the company
3 depreciated book value for the hydro electric plants, I
4 don't think it would take the company long to say no to
5 the potential buyer. I shouldn't say I don't think.
6 What do you think?

7 A. I would recommend that they not take the
8 offer.

9 Q. If the Commission accepts the company's
10 proposal to continue to include depreciation expense for
11 these appreciating assets, are you prepared to stipulate
12 that 100% of the gain the company might realize in a
13 future sale of these resources should flow through to
14 rate payers?

15 A. No, but I would stipulate -- I would suggest
16 that any gain in a future sale would be handled in a
17 proceeding before this Commission just the way the
18 Centralia gain was reviewed and handled before this
19 Commission.

20 MR. FFITCH: Your Honor, I just have a couple
21 more questions regarding admission of exhibits.

22 BY MR. FFITCH:

23 Q. And, Mr. Falkner, just so you understand,
24 there are two company witnesses who appeared in the
25 direct phase of the proceeding who aren't rebuttal

02165

1 witnesses, and exhibits which were designated to
2 Mr. Turner and Mr. DeFelice are being admitted through
3 you, because you're the results of operations witness
4 with the broadest responsibilities. We don't have
5 specific questions for you on either the Turner or the
6 DeFelice exhibits.

7 First if you could look at Exhibits 284
8 through 287 and Exhibit 620.

9 A. I don't have Exhibit 620.

10 Q. At the moment, neither do I. Exhibit 620 was
11 associated with witness Parvinen.

12 MR. FFITCH: If I may approach, Your Honor, I
13 could hand the witness a copy.

14 JUDGE SCHAER: Go ahead, Mr. ffitch.

15 MR. MEYER: Do you have an extra set?

16 MR. FFITCH: Well, yeah, I do, but in a box.

17 MR. MEYER: I will just look over his
18 shoulder.

19 MR. FFITCH: Okay. I don't think this will
20 be controversial.

21 JUDGE SCHAER: You can look at my copy if you
22 would like, Mr. Meyer.

23 THE WITNESS: Mr. ffitch, this is the same
24 exhibit that we just looked at that I have marked as
25 287.

02166

1 MR. FFITCH: All right. In that case, Your
2 Honor, it won't be necessary to address that exhibit.

3 JUDGE SCHAER: Wonderful.

4 BY MR. FFITCH:

5 Q. Turning to Exhibits 284 through 287, those
6 are Avista data responses to public counsel data
7 requests, are they not?

8 A. Yes, they are.

9 Q. And were the answers prepared by you or under
10 your direction?

11 A. 284 through 287 were prepared by me or under
12 my direction. 288 and 289 were prepared by Dave
13 DeFelice, who is not a rebuttal witness, but I'm willing
14 to accept those under my name.

15 Q. All right, you're getting ahead of me, but
16 that's good, that's efficient.

17 And are the answers true and correct to the
18 best of your knowledge?

19 A. Yes, they are.

20 MR. FFITCH: And finally, Your Honor, and I
21 apologize, we have two additional exhibits, the
22 responses to public counsel data requests 107 and 118,
23 and I have been unable to find the exhibit numbers that
24 we gave to those two exhibits in the prehearing
25 conference. They're associated with Mr. Turner at this

02167

1 point.

2 JUDGE SCHAER: What were the numbers again,
3 Mr. ffitch?

4 MR. FFITCH: Well, the DR's are public
5 counsel 107 and public counsel 118.

6 JUDGE SCHAER: We just dealt with -- we have
7 been asking about 284 through 288, correct?

8 MR. FFITCH: 289.

9 JUDGE SCHAER: Did you do both 289 and 289-A?

10 MR. FFITCH: I was not aware of a 289-A.

11 JUDGE SCHAER: I have identified as 289-A a
12 data request response from Mr. Falkner regarding
13 balancing account for hydro relicensing programs.

14 MR. MEYER: Does this help, I have DR 107 for
15 Mr. Hirschhorn identified as Exhibit Number 512. And I
16 have DR 118 from public counsel identified as 513, both
17 under Hirschhorn.

18 MR. FFITCH: Okay.

19 JUDGE SCHAER: Actually, 289-A is a
20 stipulated cross exhibit apparently.

21 MR. FFITCH: All right. Well, I'm still a
22 bit confused. I see that we had identified -- I think
23 you're saying those were -- 107 and 118 were identified
24 to Hirschhorn.

25 MR. MEYER: Yes.

02168

1 MR. FFITCH: All right. So we don't need to
2 address those now. I will wait until Mr. Hirschhorn is
3 on the stand.

4 Your Honor, in that case, I will then offer
5 Exhibits 284 through 289.

6 JUDGE SCHAER: Any objections?

7 MR. MEYER: None.

8 JUDGE SCHAER: Those documents are admitted.

9 MR. FFITCH: And I have no further questions
10 for Mr. Falkner.

11 JUDGE SCHAER: Ms. Dixon, do you have
12 questions of Mr. Falkner?

13 MS. DIXON: No.

14 JUDGE SCHAER: Commissioners, do you have
15 questions of Mr. Falkner?

16 CHAIRWOMAN SHOWALTER: No.

17

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

19 BY JUDGE SCHAER:

20 Q. Mr. Falkner, your dear friend Mr. Dukich
21 referred one of my questions to him to you. Do you have
22 his Exhibit T-84 available to you?

23 A. No, I do not.

24 JUDGE SCHAER: Could that be provided to the
25 witness, please, Mr. Meyer.

02169

1 MR. MEYER: That exhibit number again?

2 JUDGE SCHAER: That Exhibit Number is T-84.

3 THE WITNESS: His rebuttal testimony?

4 JUDGE SCHAER: Yes.

5 MR. MEYER: Okay.

6 THE WITNESS: I have it.

7 BY JUDGE SCHAER:

8 Q. Would you please turn to page 23, line 3.

9 A. I'm there.

10 Q. In that line, Mr. Dukich makes reference to
11 rate base items that have been converted to leases. Do
12 you see that?

13 A. Yes, I do.

14 Q. And I asked him to tell me a description of
15 the rate base items that had been converted to leases,
16 and he said that you would be able to answer that. Can
17 you tell me that, please?

18 A. Is the characterization of Mr. Dukich as my
19 dear friend on the record?

20 Q. I'm sorry, it is, but if you wish to rebut
21 that, you can.

22 A. I will choose to leave it as is.

23 Q. Okay, go ahead, please.

24 A. One of the examples was just brought up by
25 Mr. ffitch, the sale and lease back of the building,

02170

1 which was a capital asset years ago was converted to a
2 lease, and it is an operating lease, and it shows up in
3 the A&G costs, the lease itself. The customers, the
4 company's customer accounting system, the CSS system,
5 was a software development that was converted to an
6 operating lease, and instead of being a capital item, it
7 shows up in the A&G costs as well as work management
8 system, another software development program that is now
9 a lease, and those are operating leases.

10 Q. Okay. And the one other question I had asked
11 him is why they were converted into leases. Do you have
12 anything to add to his previous?

13 A. Yes, and basically it was a financing
14 decision that the determination of that was the most
15 cost effective way to deal with those assets versus
16 keeping them in rate base, and it actually contributed
17 to our being able to stay out of a rate case for a
18 period of years. It was basically a management
19 efficiency decision.

20 Q. I believe that you have given us a number for
21 one of the transactions and its treatment by the
22 Commission, or someone had mentioned an FR number for
23 that transaction.

24 A. Mr. ffitch mentioned for the Commission
25 determination for the sale and lease back was a

02171

1 Commission I think it was FR-86-150.

2 Q. And do you have a similar order for the other
3 sale and lease back that you have just described?

4 A. No. The reason that the sale and lease back
5 became -- came before the Commission was a material
6 gain, the determination of which needed to be dealt with
7 by the Commission. The CSS system work management
8 system when they became leases, there was no gain
9 involved.

10 JUDGE SCHAER: All right, is there any
11 redirect for Mr. Falkner?

12 MR. MEYER: Two quick ones.

13

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

15 BY MR. MEYER:

16 Q. Mr. Falkner, Avista Energy, a subsidiary of
17 Avista Corporation, does it engage now in national
18 trading or regional trading?

19 A. It's my understanding it's only regional
20 trading.

21 Q. Within the WSCC?

22 A. Within the WSCC, yes.

23 Q. Within the utility itself, has the company
24 announced any recent plans with respect to the
25 continuation of trading?

02172

1 A. Yes, they have announced that they will cease
2 trading, but they will continue doing -- making
3 transactions to optimize the system itself.

4 MR. MEYER: Thank you, that's all.

5 JUDGE SCHAER: Is there anything further for
6 Mr. Falkner?

7 MR. TRAUTMAN: Nothing, Your Honor.

8 JUDGE SCHAER: Thank you for your testimony.

9 Go ahead, Mr. Meyer.

10 MR. MEYER: Now I believe we're to

11 Ms. Mitchell.

12 JUDGE SCHAER: Yes, I show her.

13

14 Whereupon,

15 KATHERINE E. MITCHELL,

16 having been first duly sworn, was called as a witness

17 herein and was examined and testified as follows

18 JUDGE SCHAER: Go ahead, Mr. Meyer.

19 MR. MEYER: Thank you.

20

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

22 BY MR. MEYER:

23 Q. Ms. Mitchell, for the record, your name and

24 your employer.

25 A. My name is Katherine E. Mitchell. I'm

02173

1 employed by Avista Corporation.

2 Q. And have you prepared the rebuttal testimony
3 marked as Exhibit T-393?

4 A. Yes, I have.

5 Q. If you would like to move the mike a little
6 closer to you, you can do that.

7 A. (Complies.)

8 Q. And you have distributed an errata sheet
9 connected therewith?

10 A. Yes.

11 Q. If I were to ask you the questions in that
12 testimony, would your answers be the same?

13 A. It would.

14 Q. Are you also sponsoring Exhibits 394 through
15 396?

16 A. Yes.

17 Q. Are those true and correct?

18 A. Yes, they are.

19 MR. MEYER: With that, I move for the
20 admission of Exhibits T-393 as well as 394, 395, and
21 396.

22 MR. TRAUTMAN: No objection.

23 JUDGE SCHAER: Those documents are admitted.

24 MR. MEYER: The witness is available for
25 cross.

02174

1 JUDGE SCHAER: Mr. Trautman, do you have
2 questions?

3 MR. TRAUTMAN: I do, thank you.
4

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

6 BY MR. TRAUTMAN:

7 Q. Good afternoon, Ms. Mitchell.

8 A. Good afternoon.

9 Q. Could you turn first to what's previously
10 been admitted as Exhibit 5. This was under Mr. --

11 A. Is that the '98 10-K?

12 Q. That's correct. It was admitted under
13 Mr. Matthews.

14 A. (Complies.)

15 Q. And turning to page 25, and this contains
16 selected financial data for 1998.

17 A. Yes.

18 Q. Is it correct that the total company
19 operating revenue for 1998 is approximately \$3.6
20 Billion?

21 A. Yes, it is.

22 Q. And is it correct that the operating revenue
23 from Avista Utilities regulated activities is only
24 approximately \$1 Billion?

25 A. That's the number that appears here, yes.

02175

1 Q. Is it correct that the operating revenue from
2 Avista non-regulated activities is approximately \$2.6
3 Billion?

4 A. This is correct.

5 Q. If you could turn now to what's been marked
6 or what's been admitted as Exhibit 576, this was
7 admitted through Ms. Huang. And it also, I believe,
8 portions of it were admitted in Exhibit 286. This is
9 entitled Avista officer competitive total compensation
10 analysis.

11 A. Yes.

12 Q. Turning to page 21 in dark numerals in the
13 lower right-hand corner where it says Appendix 1,
14 profile of publicly traded peer companies, \$1 Billion to
15 \$3 Billion; do you see that?

16 A. The blank sheet that says Appendix 1? Oh,
17 I'm sorry, at the top on page 29, yes.

18 Q. Do you see that?

19 A. Yes.

20 Q. And looking to the bottom of that page, there
21 are references to the 25th, 50th, and 75th percentile;
22 do you see that?

23 A. Yes, I do.

24 Q. Would you agree that if one were to exclude
25 the revenue from the non-regulated activities, which we

02176

1 indicated was \$2.6 Billion, this is for 1998, if one
2 were to exclude that revenue leaving \$1 Billion
3 approximately, then Avista would fall in the zero to
4 25th percentile in the \$1 Billion to \$3 Billion group
5 from a revenue perspective?

6 A. Avista would be very close to the 25th
7 percentile.

8 Q. And staying in the same exhibit, turning to
9 page two, is it correct that the only factor that places
10 Avista into the \$3 Billion to \$6 Billion peer group is
11 the revenue factor, and that with reference to
12 employees, assets, and market capitalization, Avista
13 would fall in the \$1 Billion to \$3 Billion group?

14 A. Yes. Both groups were evaluated, and it does
15 read here that Avista falls within the \$3 Billion to \$6
16 Billion peer group from a revenue perspective. But on
17 other measures, it is the \$1 Billion to \$3 Billion peer
18 group, and it does reference Appendix 1.

19 Q. Did you do a CEO salary comparison to other
20 utilities that provide electric and natural gas service
21 in Washington state?

22 A. Did I perform a specific study?

23 Q. Yes.

24 A. No, I did not.

25 Q. Would you agree that the other regulated

02177

1 utility companies that provide electric and natural gas
2 service in Washington state are PacifiCorp, Puget Sound
3 Energy, Northwest Natural, and Cascade Natural?

4 A. Yes.

5 Q. Would you agree subject to check that in
6 terms of the total retail utility revenues, the retail
7 electric and gas customers, the total utility assets,
8 and the number of employees, that Avista is between two
9 and five times smaller than PacifiCorp and Puget Sound
10 Energy?

11 A. I can agree subject to check with that on
12 Puget Sound. PacifiCorp's operations I believe are
13 smaller than our Washington operations.

14 Q. On a system basis?

15 A. On a system basis certainly, but not on a
16 state basis for PacifiCorp.

17 Q. And would you agree subject to check that
18 Puget Sound Energy paid a base salary of approximately
19 \$532,000 to its CEO in 1998?

20 A. Subject to check.

21 Q. And subject to check, would you agree that
22 PacifiCorp's personnel committee approved an employment
23 agreement to pay its CEO a base annual salary of
24 \$780,000 in 1998?

25 A. Subject to check. I haven't actually seen

02178

1 their proxy statement.

2 Q. And would you agree subject to check that no
3 restricted shares or stock options were granted to
4 PacifiCorp's CEO in 1998?

5 A. Well, that would be subject to check, and
6 also you might want to look at what they may have done
7 since then as well.

8 Q. But you would agree subject to check?

9 A. Yes, I mean it's obviously something that can
10 be checked.

11 Q. Turning now to what's been marked for
12 identification as Exhibit 400, which is Avista's 1999
13 form 10-K filed with the Securities and Exchange
14 Commission, and I'm referring now to page 23, which
15 again contains selected financial data. Do you have
16 that?

17 A. I'm trying to get there without dropping
18 other things.

19 Q. I'm looking down at the earnings per share
20 category.

21 JUDGE SCHAER: What page again, Mr. Trautman?

22 MR. TRAUTMAN: 23.

23 JUDGE SCHAER: Thank you.

24 BY MR. TRAUTMAN:

25 Q. And I'm looking at the total earnings per

02179

1 share, total basic and diluted. Do you see that line on
2 there? It's under earnings per share. It's about the
3 fifth line down.

4 A. I'm sorry, I was looking way down, okay.

5 Q. And starting in '95, do you see that the
6 company's earnings per share is \$1.41 in 1995?

7 A. I think \$1.14. Oh, I'm sorry, total basic
8 and diluted, \$1.41.

9 Q. Right, this is the total company.

10 A. Right.

11 Q. And the total company earning per share is
12 \$1.35 in '96?

13 A. Yes.

14 Q. And \$1.96 for 1997?

15 A. Yes.

16 Q. And \$1.28 for 1998?

17 A. Yes.

18 Q. And 12 cents for 1999?

19 A. Yes.

20 Q. Do you know of any regulated utility
21 companies providing electric and natural gas service in
22 Washington that have rewarded its employees with signing
23 bonuses which bonuses were then embedded into rates by
24 this Commission?

25 A. I'm not aware of any in the state of

02180

1 Washington.

2 Q. If you could turn to what's been -- well, let
3 me -- is it correct that the total compensation package
4 that has been given to Mr. Matthews substantially
5 exceeds that that was provided to his predecessor, Paul
6 Redmond?

7 A. Could you define substantially exceeds,
8 please?

9 Q. Well, let me refer you to what has been
10 marked as Exhibit 399, and this is an article from the
11 Spokesman Review.

12 A. Yes.

13 Q. And in the text, if you read down in the
14 third line, it refers to Mr. Matthews receiving a \$1
15 Million signing bonus, and \$2 Million worth of stock, a
16 \$750,000 salary, and other compensation on July 1st. Do
17 you see that?

18 A. Yes, I see that section.

19 Q. And then the next line states that:
20 The package substantially exceeds that
21 afforded to his predecessor, Paul
22 Redmond, who retired last June after 34
23 years with the company.

24 A. That is what the article states, and this
25 really is an example of how executive compensation

02181

1 strategies have evolved over the last five to ten years.

2 Q. Do you disagree with the statement?

3 A. Oh, the statement is right there in the
4 article.

5 Q. Do you agree with it? Do you have any reason
6 to disagree?

7 A. I have no reason to disagree with the
8 statement in the article.

9 Q. Is it correct, to your knowledge?

10 A. That's what it says there.

11 Q. Do you know?

12 A. I know that it's more.

13 Q. You're the witness for compensation, correct?

14 A. Yes.

15 Q. Do you know whether that's correct?

16 A. Mr. Matthews' compensation package was
17 greater than Mr. Redmond's.

18 Q. Is it correct that Mr. Matthews' base salary
19 exceeds Mr. Redmond's by 32%?

20 A. I can agree with that subject to check.

21 Q. At the bottom of that page, Avista's
22 spokesman states, if you're with me?

23 A. Mm-hm.

24 Q. First of all, it refers to Mr. Matthews'
25 extensive history with other energy companies including

02182

1 Texaco, Tenaco, and Exxon. And then there's a quotation
2 from an Avista spokesman saying that's what the board
3 based its offer on. Do you see that?

4 A. Yes, I see the two lines.

5 Q. And do you have any reason to believe that
6 this statement by Avista's spokesperson is not true?

7 A. I believe that's a reasonable statement.
8 Mr. Matthews had broad national and international
9 experience in energy and in regulated pipeline, various
10 businesses.

11 Q. So that the statement that the offer was
12 based on his history with companies including Texaco,
13 Tenaco, and Exxon, that would be true?

14 A. The offer was based on his broad experience
15 with those companies, with other companies, national and
16 international. I also believe that witness Feltes can
17 speak a little bit more to hiring philosophy behind the
18 CEO a little more succinctly and more authoritatively
19 than I can.

20 Q. Could you now turn first to what's been
21 marked as Exhibit 571, and this is Ms. Huang's Exhibit
22 JH-1, it's the fourth page of the exhibit.

23 A. Okay, I think I'm there.

24 CHAIRWOMAN SHOWALTER: What's the exhibit
25 number?

02183

1 MR. TRAUTMAN: The Exhibit Number is 571.

2 BY MR. TRAUTMAN:

3 Q. And would you agree that this exhibit
4 purports to show, looking in the third column from the
5 right, that the company's proposed proforma officer
6 salary increase for those officers who worked a full
7 year in 1998 is between 11% and 49%?

8 A. Those are the percentages that the formulas
9 calculate.

10 Q. Turning now to Exhibit 398, and this is
11 Avista's 1997 proxy statement, and on page seven, I'm
12 simply referring to the sentence at the top of the first
13 paragraph, at the end of the first paragraph, stating
14 that effective March 1st, 1997, the committee granted
15 all executive officers a 4% base salary increase; is
16 that correct?

17 A. Yes, it does.

18 Q. Exhibit 374 is the 1998 proxy statement, and
19 again in the middle of the page, base salary --

20 CHAIRWOMAN SHOWALTER: What page?

21 A. Is it page seven again?

22 Q. Oh, this one is page 11. And this states,
23 effective March 1st, 1998, based on these factors that
24 are referenced above, the committee granted executive
25 officer base salary increases that ranged from 3% to

02184

1 11%; is that right?

2 A. I see that, yes.

3 Q. Turning to Exhibit 397, this is the Avista
4 1999 proxy statement, and I'm referring to page 11.

5 MR. MEYER: Just give her a moment.

6 A. Thank you.

7 Q. I apologize for having to skip around, but
8 that's the way the exhibits have been numbered.

9 A. Okay, I'm there.

10 Q. And again, there's a section on base salary,
11 and it reflects a number of factors. And then the last
12 sentence says, based on these factors, the committee
13 granted executive officer base salary increases
14 effective March 1st, 1999 that ranged from zero to 8%;
15 is that correct?

16 A. I see that, yes.

17 Q. Turning now to Exhibit 369.

18 JUDGE SCHAER: What number again, please,
19 counsel?

20 MR. TRAUTMAN: 369, and the first page is
21 entitled work papers in support of Exhibit Numbers 40,
22 41, and 42. The exhibit itself is not numbered.

23 JUDGE SCHAER: This was an exhibit from her
24 direct case; is that correct?

25 MR. TRAUTMAN: Correct.

02185

1 A. What page number?

2 BY MR. TRAUTMAN:

3 Q. It's 14, I believe it's 14 pages back. The
4 top of the page, after you get through a number of
5 tables, the top of the page says executive summary March
6 1st, 1999, merit increases, and there is a gray box at
7 the top and another gray box at the bottom. Do you see
8 that?

9 A. Page 14, executive summary, March 1st, 1999,
10 yes.

11 JUDGE SCHAER: Where do you see the page
12 number, please?

13 CHAIRWOMAN SHOWALTER: There is no page
14 number.

15 JUDGE SCHAER: She just referred to page 14.

16 THE WITNESS: Mine is handwritten in, but it
17 would be about the 14th page back.

18 CHAIRWOMAN SHOWALTER: It's the first page
19 after the set of tables.

20 THE WITNESS: It looks like this.

21 JUDGE SCHAER: Thank you.

22 BY MR. TRAUTMAN:

23 Q. And looking at the bottom shaded box, this
24 shows the total corporate composite increase. Would you
25 agree that you used the 2.14% figure in your proforma

02186

1 non-officer wage increase except for union employees?

2 A. Yes, that was what was used for the 1999
3 component.

4 Q. Would you agree that you used a 3% wage
5 increase for union employees?

6 A. Yes.

7 Q. And is it correct that staff's proposed
8 salary increase for executive officers who worked a full
9 year in 1998 is 3.2%?

10 A. Yes, that's what she has in her work papers.

11 Q. And this is higher than both the 2.14% and 3%
12 increase?

13 A. Yes.

14 Q. Now I distributed copies of the transcript
15 pages 647 to 648, and this has some redirect testimony
16 involving the team incentive awards and officer bonuses.

17 A. Yes.

18 Q. And it starts at the bottom of 647
19 introducing the topic and continuing over to 648. It
20 indicates that the total had reached approximately \$4.7
21 Million, and that that included officer bonus
22 compensation; is that correct?

23 A. Yes, that number does.

24 Q. And then you were asked, do you believe that
25 the level -- that that level of team incentives, which I

02187

1 believe is approximately \$4.5 Million, represents a
2 reasonable level of total bonus compensation for test
3 period purposes to reflect the situation going forward.
4 And you state, yes, I do, and then further explain. Is
5 that correct?

6 A. Yes, that's what it reads.

7 Q. And is it correct that the team incentive
8 bonus in 1999 is zero?

9 A. Yes, it is. And when you look at Ms. Huang's
10 testimony, you can see the team incentive numbers for
11 all five years for '95 through '99.

12 Q. And for '99, it is zero?

13 A. And for '99, it is zero. Over all five
14 years, I believe it's about \$108 Million.

15 Q. That wasn't my question. My question was
16 whether it was, in fact, zero for 1999?

17 A. Oh, yes, and I was just pointing out to where
18 you can see all the numbers in one place. I believe
19 it's page 13 and 14 of her testimony.

20 Q. Turning to what's been marked as Exhibit 405,
21 this is a response to the staff's data request 326, and
22 it's the calculation.

23 A. I'm sorry, just a minute, my book is a little
24 thick here, sorry.

25 Q. Oh, sorry.

02188

1 A. Okay.

2 Q. And this is the calculation of the impact on
3 Washington electric and Washington gas for the total
4 amount of officer relocation expenses in 1998 that was
5 excluded from staff's calculation of the 1998 relocation
6 expense; is that correct?

7 A. Yes, this is my response.

8 Q. Did you allocate any officer relocation
9 expenses to non-regulated entities?

10 A. This calculation doesn't allocate any of that
11 to subsidiary operations.

12 Q. Turning to Exhibit C-403, this is a
13 confidential exhibit. I would assume the utility code
14 number would not be confidential; is that correct?

15 A. You mean the utility --

16 Q. No, I want to be sure I don't blurt a number
17 that's confidential, the utility number?

18 A. Yes.

19 Q. That's not confidential?

20 A. I believe that would be non-confidential.

21 Q. Well, I probably don't need to refer to the
22 number, per se. Let me try it this way.

23 MR. MEYER: Let me just look over her
24 shoulder. Those are just code numbers?

25 MR. TRAUTMAN: Yes.

02189

1 MR. MEYER: Sure, that's fine.

2 BY MR. TRAUTMAN:

3 Q. Now is it correct that the officer relocation
4 expenses in this were booked to utility code 7 only,
5 which means that the company did not assign any officer
6 relocation expenses to non-regulated subsidiaries?

7 A. Yes, however very little of this is for the
8 CEO. The bulk of it is for our vice president of
9 utility operations.

10 Q. But all three of the individuals mentioned,
11 Mr. Matthews, Mr. Turner, and Mr. Brucart, are executive
12 officers; is that correct?

13 A. That is correct.

14 MR. TRAUTMAN: At this point, I would move
15 for the admission of Exhibits 397 through 410 and 412 to
16 415.

17 JUDGE SCHAER: Any objection?

18 MR. MEYER: None.

19 JUDGE SCHAER: Those documents are admitted.
20 And would you give me the numbers once again,
21 Mr. Trautman?

22 MR. TRAUTMAN: 397 through 410 and 412 to
23 415. I believe 411 is public counsel's exhibit.

24 MR. FFITCH: That's correct.

25 JUDGE SCHAER: All right. Those documents

02190

1 are admitted.

2 MR. TRAUTMAN: And I have no further
3 questions.

4 JUDGE SCHAER: Did you have questions for
5 Ms. Mitchell, Mr. ffitch?

6 MR. FFITCH: I do, Your Honor.

7 JUDGE SCHAER: Go ahead, please.

8

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

10 BY MR. FFITCH:

11 Q. Good afternoon.

12 A. Good afternoon, Mr. ffitch.

13 Q. You testified as to the percentage of the
14 executives' time which is spent on matters relating to
15 utility activities compared with that spent on
16 non-utility activities, don't you, in your testimony?

17 A. Yes, I do.

18 Q. And specifically that would be found at
19 Exhibit T-393 at pages five through nine of your
20 rebuttal?

21 A. Yes, table two.

22 Q. And there you assert, and that's on page --
23 I'm looking at page five, let me just check that we are
24 talking about table two, yes, table two. There on page
25 five in table two, you assert that Mr. Matthews spent

02191

1 60% of his time on utility activities, correct?

2 A. Yes.

3 Q. Now could you please take a look at Exhibit
4 411 for identification. That is Avista's response to
5 public counsel data request 129.

6 A. Yes.

7 Q. And in that request, public counsel asked
8 Avista to provide complete copies of the appointment
9 books or calendars for Mr. Redmond and Mr. Matthews,
10 right?

11 A. Yes.

12 Q. And Avista declined to provide those, did it
13 not?

14 A. Yes, on the basis as stated in the exhibit or
15 the document here.

16 Q. Right. And in that response you state,
17 Mr. Matthews' executive assistant did review his
18 historical calendar and concluded that he had spent 83%
19 of his time on regulated utility activities, correct?

20 A. Yes, and I believe that it reads that it was
21 for the seven months June through December of 1998.

22 Q. Right.

23 A. 83%. The first seven months where he was
24 employed by Avista. And that does sound right, because
25 I believe he spent a lot of time traveling around the

02192

1 utility to the various offices learning about the
2 utility business and meeting with the various employees
3 at the various divisions. So I guess that kind of would
4 make sense for the first seven months.

5 Q. All right. And can you provide the name of
6 the executive assistant that made this review?

7 A. I would have to check with the actual
8 responder, Don Falkner, because he did have a change --
9 CEO -- the CEO did have a change of executive assistants
10 in the time period.

11 Q. Right. In any event, that person is not a
12 witness in this proceeding, correct?

13 A. This is true.

14 Q. And the analysis performed by that executive
15 assistant was not provided in response to this data
16 request or in other fashion provided to the parties,
17 correct?

18 A. Correct, this is the response, this is the
19 result of her analysis.

20 Q. All right. And what percentage of
21 Mr. Matthews' time was spent on lobbying activities
22 during the test period; do you know?

23 A. No, I don't know.

24 Q. And how many times did he meet with
25 legislators or members of congress or the staff of

02193

1 legislators or members of Congress; do you know?

2 A. I have no knowledge of that.

3 Q. Would you expect some of that information to
4 be contained in his appointment calendar?

5 A. It would make sense that there would be some
6 note of that if he had a meeting with -- before an
7 agency.

8 Q. And Avista has registered lobbyists at the
9 state and federal level, doesn't it?

10 A. I believe so.

11 Q. Do you know how many times Mr. Matthews met
12 with the company's registered lobbyists?

13 A. No.

14 Q. And you yourself have not reviewed
15 Mr. Matthews' time records for the test period, have
16 you?

17 A. No.

18 Q. And if you look again at Exhibit 141.

19 A. 141?

20 Q. I'm sorry, 411.

21 A. Thank you.

22 Q. That is Avista's response to public counsel
23 data request 129. Was that prepared by you under your
24 direction?

25 A. Not under my direction. I agreed with it.

02194

1 Q. Is this true and correct to the best of your
2 knowledge?

3 A. Yes, it is.

4 MR. FFITCH: Your Honor, I would offer
5 Exhibit 411.

6 JUDGE SCHAER: Any objection?

7 MR. MEYER: No objection.

8 JUDGE SCHAER: That document is admitted.

9 MR. FFITCH: No more questions.

10 Thank you, Ms. Mitchell.

11 THE WITNESS: Thank you.

12 JUDGE SCHAER: Ms. Dixon, did you have
13 questions of Ms. Mitchell?

14 MS. DIXON: No.

15 JUDGE SCHAER: Commissioners, do you have
16 questions?

17 CHAIRWOMAN SHOWALTER: No thanks.

18

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

20 BY COMMISSIONER HEMSTAD:

21 Q. Ms. Mitchell, at page three, line eight of
22 your rebuttal testimony, I assume that's T-393, you
23 state:

24 The company's board of directors should
25 be given some measure of discretion in

02195

1 terms of what salaries are necessary to
2 attract the sort of CEO candidate who
3 will lead a company that is clearly
4 repositioning itself.

5 In what sense did you use the phrase, clearly
6 repositioning itself in terms of the overall focus of
7 Avista Corporation?

8 A. I guess from my perspective, Avista, as are
9 other utilities, they're having to -- having to deal
10 with what is going on in the regulatory environment, not
11 just in the state of Washington but at the national and
12 regional levels. So just all the changes that are going
13 on in the environment just forces any company to look at
14 where they are and to reposition itself to react
15 appropriately.

16 Q. Well, a lot of new subsidiaries have been
17 created, and I suppose it's a fair conclusion to say
18 that if a company is carrying on a considerable number
19 of activities outside of the traditional regulated
20 utility area, is that what is intended by the phrase
21 repositioning itself?

22 A. That isn't what I intended it to mean. Yes,
23 there are subsidiary activities that are going on.
24 There is also -- there is also a lot going on in the
25 regulated -- with the regulated utility as well. I mean

02196

1 my focus here is on the utility.

2 Q. But the utility itself, at least in the state
3 of Washington, is regulatory, and mostly the structure
4 continues to be essentially as it has in the past,
5 doesn't it?

6 A. Avista Utilities, formerly Washington Water
7 Power, is faced with a lot of different things in terms
8 of what's going on in the whole regulatory arena over
9 the last ten years. Not all of these changes are
10 occurring in the state of Washington. These are --
11 these changes are going on in the national -- national
12 level and then the West Coast, and they do impact how
13 Avista Utilities operates itself. It's a different
14 environment than it was -- than it was ten years ago.

15 And I'm not a very good policy expert, but
16 when I wrote this, it was from the perspective of the
17 utility is having to change how it looks at itself
18 considering the changing utility environment.

19 COMMISSIONER HEMSTAD: I'm not going to
20 pursue that any further. That's all I have.

21 COMMISSIONER GILLIS: I don't have any.

22

23

E X A M I N A T I O N

24 BY JUDGE SCHAER:

25 Q. Ms. Mitchell, looking at your testimony at

02197

1 page 11.

2 A. Yes.

3 Q. Looking at lines 13 and 14, you indicate
4 there that the company continues to place increased
5 emphasis on incentive compensation as a useful tool to
6 drive results and direct and clearly focus; is that
7 correct?

8 A. Yes.

9 Q. How do you know if the tool of compensation
10 is working to achieve the objectives to which you refer?

11 A. I guess that's one of those things where it's
12 reviewed internally after that -- after the fact.
13 Managers and supervisors would work with the experts in
14 human resources to determine if what had been done in
15 the past achieved certain results and might choose to
16 adjust the goals going forward accordingly.

17 I also believe that witness Feltes can add a
18 lot more to this than I can. My testimony says that she
19 can describe the use of incentives as recruitment and
20 retention tools.

21 Q. Yes, and I was focusing on whether this was a
22 useful tool to drive results and direct employee focus,
23 and that's exact --

24 A. Yes.

25 Q. -- also a topic of her testimony, or is that

02198

1 your testimony?

2 A. I -- my testimony is that -- our testimonies
3 are intended to be complimentary.

4 Q. Mm-hm.

5 A. I believe if you -- if you -- if you have --
6 if you really want to have a learned conversation on the
7 topic that she would be, with her 20 years of
8 experience, that she would be the person who could give
9 you better examples than I could.

10 I know that when I'm given clear goals and
11 there are rewards laid out in front of me, it does tend
12 to direct my personal focus in that it says to me what
13 my priorities for the next period definitely need to be.

14 Q. Okay, let me ask this more specifically. For
15 example, has the company done any studies or evaluations
16 to see if greater compensation is producing the results
17 or focus to which you refer in your testimony?

18 A. I think you would have to check with witness
19 Feltes, our director of human resources.

20 JUDGE SCHAER: All right, I believe that's
21 all I have.

22 Is there any redirect for this witness?

23 MR. MEYER: One or two brief questions.

24

25

02199

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

2 BY MR. MEYER:

3 Q. Ms. Mitchell, you were crossed by staff
4 counsel, and he asked about team incentives. Do you
5 recall that?

6 A. Yes.

7 Q. I believe at one point you had mentioned some
8 sort of figure spanning was it the years '95 through
9 '99?

10 A. '95 through '99, yes.

11 Q. And was that, the figure of \$1.8 Million, was
12 that the average team incentives paid during that five
13 year period?

14 A. If you took the five years worth and did a
15 numerical average, yes.

16 Q. Okay. And staff proformed in zero for team
17 incentives?

18 A. Yes, they did.

19 MR. MEYER: Thank you, that's all I had.

20 Anything further for the witness?

21 JUDGE SCHAER: That's my question, Mr. Meyer.

22 Is there anything further for this witness?

23 Thank you for your testimony.

24 THE WITNESS: Thank you.

25 JUDGE SCHAER: Call your next witness,

02200

1 please.

2 MR. MEYER: We have reached that point in the
3 hearing where role definitions are --

4 Next is Feltes, please.

5

6 Whereupon,

7

8 KAREN S. FELTES,
9 having been first duly sworn, was called as a witness
10 herein and was examined and testified as follows:

11 JUDGE SCHAER: Go ahead, Mr. Meyer.

12

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

14 BY MR. MEYER:

15 Q. For the record, would you please state your
16 name and your employer.

17 A. My name is Karen Feltes, and my employer is
18 Avista Corporation.

19 Q. And have you prepared rebuttal testimony in
20 this case?

21 A. Yes, I have.

22 Q. Has that been marked for identification as
23 Exhibit T-535?

24 A. Yes, I believe it has.

25 Q. If I were to ask you the questions that
appear in that pre-filed rebuttal, would your answers be

02201

1 the same?

2 A. Yes, they would.

3 MR. MEYER: With that, Your Honor, I move for
4 the admission of Exhibit T-535.

5 JUDGE SCHAER: Any objections?

6 MR. TRAUTMAN: None.

7 JUDGE SCHAER: The document is admitted.

8 MR. MEYER: The witness is available for
9 cross.

10 JUDGE SCHAER: Do you have any questions,
11 Mr. Trautman?

12 MR. TRAUTMAN: I do not.

13 JUDGE SCHAER: Do you have any questions,
14 Mr. Ffitch?

15 MR. FFITCH: Yes, thank you, Your Honor.

16 JUDGE SCHAER: Go ahead, please.

17

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

19 BY MR. FFITCH:

20 Q. Good afternoon, Ms. Feltes.

21 A. Good afternoon.

22 Q. I apologize for my earlier mistake regarding
23 your title.

24 I would like to refer you to your rebuttal
25 testimony, T-535, page five.

02202

1 A. Okay.

2 Q. And at line 21, you suggest in your question
3 that Mr. Lazar proposed that "salary increases should
4 not exceed growth and CPI", correct?

5 A. Yes, that's correct.

6 Q. In fact, isn't it the case that Mr. Lazar
7 posed a measure of administrative and general salaries
8 which he computed by multiplying 1985 A&G salaries as
9 reported by the company in the '85 rate case for account
10 920, multiplied that by a factor which contained both
11 inflation and customer growth on the utility system?

12 A. I would have to look at that to answer that
13 question.

14 Q. Would you accept that subject to check? We
15 could give you a citation.

16 A. I could accept that subject to check.

17 JUDGE SCHAER: Ms. Feltes, you have the same
18 problem I do. Would you pull the microphone up closer
19 to you, please.

20 THE WITNESS: Okay.

21 MR. FFITCH: I will direct the witness to
22 Mr. Lazar's Exhibit JLRR-1 for the check, and I will get
23 the exhibit number momentarily.

24 MR. MEYER: Your Honor, I don't have any
25 objection to the line of questions. I think these

02203

1 should have been more properly addressed to the prior
2 witness, Ms. Mitchell, who actually addressed
3 Mr. Lazar's calculation and is aware of all this detail.
4 Clearly Ms. Feltes is the policy witness. I think these
5 were really Mitchell questions.

6 JUDGE SCHAER: Well, I'm looking at page five
7 of the testimony, and this question was asked of this
8 witness, so I think it may be appropriate to ask her to
9 accept something subject to check.

10 MR. MEYER: Proceed that way.

11 JUDGE SCHAER: And she can certainly have
12 Ms. Mitchell to help her check, but I think it's very
13 clearly included in her testimony.

14 BY MR. FFITCH:

15 Q. That exhibit reference is T-692, excuse me,
16 not T, it's Exhibit 692, Mr. Lazar's JLRR-1.

17 And just to be precise, again subject to
18 check, the CPI growth you showed in this exhibit was
19 60.43%; is that correct subject to check?

20 A. I would have to say it's correct subject to
21 check.

22 Q. All right. And to that, he compounded
23 customer growth of 21.1% subject to check?

24 A. Again, subject to check. But I think that
25 this really -- this line of questioning really does need

02204

1 to go to Ms. Mitchell, because I did not delve into the
2 details, only the policy issue around it.

3 MR. FFITCH: Well, Your Honor, in the
4 interest of efficiency, perhaps we could just ask the
5 subject to check, and I don't want to put Ms. Feltes in
6 an uncomfortable position, but in the interests of time,
7 if we could just ask these questions related to the
8 exhibit and have her do her check with Ms. Mitchell
9 afterwards.

10 Alternatively if Avista would prefer, we
11 could have Ms. Mitchell return to the stand, if they
12 don't have any objection to that.

13 MR. MEYER: I wouldn't have any objection if
14 we just took additional testimony from Ms. Mitchell
15 right here. She's available. This really does go to
16 the background stuff that she did, and we could cut out
17 a whole step in the process.

18 MR. FFITCH: That's fine.

19 JUDGE SCHAER: Why don't we go ahead then and
20 re-call you at this point, Ms. Mitchell.

21

22 Whereupon,

23

24 KATHERINE E. MITCHELL,
25 having been previously duly sworn, was called as a
witness herein and was examined and testified as

02205

1 follows:

2 JUDGE SCHAER: You have been previously
3 sworn, and there is an empty chair at the table that I
4 think you could join us from. And we're looking at
5 Ms. Feltes' testimony, Exhibit T-535 at this point, and
6 line 21 at the bottom of page five.

7 Go ahead from there, Mr. ffitch.

8

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

10 BY MR. FFITCH:

11 Q. And in addition, actually we're also
12 referring to Exhibit 692, Mr. Lazar's schedule or
13 exhibit JLRR-1.

14 A. Yes, I have a copy of his exhibit.

15 Q. Great. Let me go back then. It's true, is
16 it not, that Mr. Lazar proposed a measure of A&G
17 salaries computed by multiplying the 1985 A&G salaries
18 as reported in the 1985 rate case for account 920 by a
19 factor which contained both inflation and customer
20 growth on the utility system, did he not?

21 A. Yes, he did.

22 Q. And to be more precise, the CPI growth shown
23 on that exhibit is 60.43%, correct?

24 A. That's the number there.

25 Q. And to that, he compounded customer growth of

02206

1 21.1%, right?

2 A. Yes, he did.

3 Q. And he was measuring for a 14 year period
4 from 1984 to 1998; is that your understanding?

5 A. Yes.

6 Q. If we simply divide the 21.1 customer growth
7 factor by 14 years, we basically get an additional 1.5%
8 per year, do we not?

9 A. That sounds about right subject to check.

10 Q. All right. So the net effect of Mr. Lazar's
11 proposal is to allow the company about 1 1/2% per year
12 over and above CPI for administrative and general salary
13 growth, not just CPI; would you agree?

14 A. Yes, he does have a factor on top of that, on
15 top of the plain old CPI.

16

17 Whereupon,

18

19 KAREN S. FELTES,
20 having been previously duly sworn, was called as a
21 witness herein and was examined and testified as
22 follows:

22

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

24 BY MR. FFITCH:

25 Q. Now, Ms. Feltes, my final question, having

02207

1 heard the examination of Ms. Mitchell, would you like to
2 amend the question which appears at page 5, line 22
3 where you seem to mischaracterize what Mr. Lazar has
4 proposed?

5 A. I can amend it that if he is not using solely
6 the CPI as his index and he is taking in additional
7 factors. But I would still like to insert in there that
8 that would not be the only type of factor that we would
9 look at when we were looking at salary increases for
10 employees. It's very important that we look at the
11 market, and that's the kind of data that we would rely
12 on, not just the kind of data that Mr. Lazar looked at.

13 MR. FFITCH: Thank you, I don't have any
14 further questions.

15 Thank you again, Ms. Mitchell.

16 MS. MITCHELL: Thank you.

17 MR. FFITCH: Appreciate your courtesy,
18 counsel.

19 JUDGE SCHAER: Ms. Dixon, did you have
20 questions of this witness?

21 MS. DIXON: No.

22 JUDGE SCHAER: Commissioners, do you have
23 questions?

24 CHAIRWOMAN SHOWALTER: No.

25 COMMISSIONER HEMSTAD: No.

E X A M I N A T I O N

1

2 BY JUDGE SCHAER:

3

4 Q. Ms. Mitchell, I mean Ms. Feltes, Ms. Mitchell
5 referred a question that I had asked her to you, and I
6 was looking at her testimony in her Exhibit 393, page
7 11, lines 13 through 14, which states:

7

8 The company continues to place increased
9 emphasis on incentive compensation as a
10 useful tool to drive results and direct
11 employee focus.

11

12 And the question that I would like to address
13 to you regarding that statement is, has the company done
14 any studies or evaluations to see if greater
15 compensation is producing the results or focus to which
16 you refer in your testimony?

16

17 A. Yes, in fact, we have an annual performance
18 management cycle. And what we do is we start at a top
19 level with how we're going to fund our incentive plan.
20 So we will look at the top level as being corporate
21 goals, for instance, earning per share or net income.
22 And then we take that down to the actual employee
23 through the department level, and we set individual
24 goals based upon what the department needs to do, not
25 only to gain their efficiencies, but what they need to
do to drive the strategic organizational goals.

02209

1 And so what we do is we do a check in on an
2 every six month basis as to where employees are in
3 relationship to their individual goals and also tracking
4 to the top level strategic goals of the organization.
5 And so we do go back. And incentives are not paid out
6 unless people have, in fact, met the departmental as
7 well as individual goals. And, of course, the incentive
8 pool is not funded if we don't meet the top level
9 corporate goals that are stated.

10 Q. Thank you. Now looking at the few questions
11 that I have regarding your own testimony.

12 A. Okay.

13 Q. Looking at Exhibit 535, page two, lines 5
14 through 6, you state there that:

15 Compensation should assist in attracting
16 and retaining key executives critical to
17 long-term success.

18 Is that correct?

19 A. Absolutely.

20 Q. First, how would you define long-term
21 success?

22 A. Usually long-term success is a five to ten
23 year period.

24 Q. And is the success determined by growth to
25 shareholder value, increased sales, increased customer

02210

1 satisfaction, or what do you define as success?

2 A. It would be all of those factors, but it
3 would also include what the board's strategic goals for
4 the organization are. And in the 1998 annual report
5 that Avista Corporation put out, one of the major goals
6 that they had for the organization, especially for the
7 utility, was expanded growth of the customer base from
8 about a 550,000 level to about a one million level. So
9 that's one of the strategic goals. It would also be
10 customer service within that to be able to capture that
11 customer base to come on board.

12 Q. Okay. What sort of business strategies
13 contribute to this definition of long-term success?

14 A. I'm not sure that I quite understand your
15 question.

16 Q. I had just asked you to define long-term
17 success.

18 A. Mm-hm.

19 Q. And you had said it included growth to
20 shareholder value, increased sales, increased customer
21 satisfaction, an increase in the number of customers.
22 And I'm asking you what kind of strategies contribute to
23 meeting this definition of long-term success?

24 A. Well, I think customer service and product
25 delivery is probably the most critical one that the

02211

1 customer would see. And, of course, the financials
2 behind that would be a critical one. And then I think
3 that there are so many answers to that, but the next
4 level would be that our organization from an employee
5 standpoint would have to be clear and focused. And
6 that's where again the incentive program comes in on
7 goals of how we work together as an organization to
8 deliver the best customer service that we can for our
9 utility customers.

10 Q. To what extent does the regulated utility
11 business contribute to Avista's long-term success as you
12 define it?

13 A. To what extent does the regulated utility
14 business?

15 Q. Yes, contribute to Avista's long-term success
16 as you have defined it?

17 A. Oh, I think it's enormous in the fact that
18 it's the backbone. The utility is the backbone of
19 Avista Corporation, and it employs our largest base of
20 employees, over 1,400 employees. It's the majority of
21 our organization.

22 Q. To what extent do non-regulated businesses
23 contribute to success as you define it?

24 A. Again, I'm going on my opinion here.

25 Q. Yeah, that's what I'm asking for.

02212

1 A. Okay.

2 Q. Your expert opinion.

3 A. In my expert opinion then, the non-regulated
4 groups are areas that will allow us to move into the
5 future and to be more competitive even from the
6 utilities side as we move into an ever changing
7 environment.

8 Q. And what types of executive skills do you
9 believe are critical for long-term success?

10 A. One of the things that I think is very
11 critical is the experience that an executive has been
12 there and done that. There's one area of being home
13 grown. There's another area of bringing in expertise of
14 somebody who has broad experience and has dealt with
15 shifting markets.

16 Q. Looking at the same line of your same page of
17 your testimony, the lines 11 through 14, you state
18 there, do you not, that:

19 Our total compensation philosophy
20 supports the company's goal to be an
21 industry leader in performance values
22 and service, to attract and retain
23 people we need to drive and sustain our
24 organization's performance.

25 A. That's correct.

02213

1 Q. Avista is in several lines of businesses, is
2 it not?

3 A. That's correct.

4 Q. What industry or industries are you talking
5 about here?

6 A. Mainly I'm talking about the utility industry
7 as we're just emerging into the new technology sector.

8 Q. Okay. And you speak of people needed to
9 drive and sustain your organization's performance. What
10 precisely do you mean by Avista's performance in this
11 paragraph?

12 A. Well, we have targeted several factors inside
13 of our organization. So, for instance, in our safety
14 area, we want to be in the first quartile as far as
15 safety performance as we line ourselves up with 11 other
16 utility industries. So that would be one factor of
17 performance, and we have many other measures like that.

18 Q. And does the company measure such
19 performance?

20 A. Yes, it does.

21 Q. How do you do that?

22 A. We actually bench mark to other utilities,
23 and we gather data from them, and we keep it in a data
24 base to understand where we are on a quarterly basis.

25 Q. Okay. Now I would like to move to the next

02214

1 page of your testimony, page three, please. And looking
2 at lines 14 through 16, you discuss:

3 The success of our company depends
4 largely on the talent we can attract,
5 and that top talent creates greater
6 efficiency and productivity.

7 Do you see that testimony?

8 A. Yes, I do.

9 Q. And has the company measured executive
10 performance in terms of efficiency or productivity?

11 A. I believe that some of the measurements that
12 we set are intended to be one of the factors used in
13 measuring the efficiency and productivity of the
14 executives.

15 Q. And which ones are those?

16 A. Financial factors that we set.

17 Q. And when you speak of financial factors, are
18 you talking about items like earnings per share or
19 something else?

20 A. Yes, earnings per share would be one of
21 those, but there would be many other factors that would
22 be under that as well.

23 Q. Can you give me a couple of examples, please?

24 A. Well, for instance, succession planning would
25 be one of those. That's a performance issue inside of

02215

1 the company. How well is the executive actually
2 positioning the company to be able to continue itself
3 going forward, so that would be another performance
4 factor. So there are financial and non-financial
5 factors. How well does an executive actually deal with
6 its stakeholder group. An executive, especially at the
7 CEO level, has multiple stakeholder groups that it must
8 deal with, and so that would be another performance
9 factor.

10 JUDGE SCHAER: Thank you, that's all I had.
11 Is there any redirect for Ms. Feltes?

12 MR. MEYER: No re-direct.

13 JUDGE SCHAER: Anything further for this
14 witness?

15 MR. TRAUTMAN: No, Your Honor.

16 JUDGE SCHAER: Thank you for your testimony.

17 MR. MEYER: Lastly, Mr. Hirschhorn.

18 JUDGE SCHAER: Saved the best for last.

19

20 Whereupon,

21 BRIAN J. HIRSCHKORN,
22 having been first duly sworn, was called as a witness
23 herein and was examined and testified as follows:

24 JUDGE SCHAER: Go ahead, Mr. Meyer.

25 MR. MEYER: Thank you.

02216

1 Are you all set?
2 THE WITNESS: Yes.

3
4 D I R E C T E X A M I N A T I O N

5 BY MR. MEYER:

6 Q. For the record, please state your name.

7 A. My name is Brian Hirschhorn.

8 Q. And by whom are you employed?

9 A. I'm employed by Avista Corporation.

10 Q. And have you prepared a pre-filed rebuttal
11 testimony marked as Exhibit T-506?

12 A. Yes, I have.

13 Q. And there is an errata sheet that has been
14 distributed. With that errata sheet, if I were to ask
15 you the questions that appear, would your answers be the
16 same?

17 A. Yes, but with I do have one small change, and
18 that is based on the errata sheets filed by Mr. Lazar to
19 his testimony, and that change would be on page ten of
20 my rebuttal testimony, line four.

21 Q. Just a moment, let's have a chance for
22 everybody to get there.

23 CHAIRWOMAN SHOWALTER: Can you give me the
24 exhibit number again? I've got the wrong notebook.

25 MR. MEYER: That would be T-506 for the

02217

1 rebuttal.

2 CHAIRWOMAN SHOWALTER: Thanks.

3 BY MR. MEYER:

4 Q. And the page reference again?

5 A. Page ten.

6 Q. All right.

7 A. Line four. The figure shown on line four,
8 \$4.72 should be \$5.71. Again, this is based on changes
9 Mr. Lazar has made to his testimony.

10 Q. So with that information having been
11 provided, is the information true and correct?

12 A. Yes, it is.

13 Q. Okay. And the same holds true for 507?

14 A. Yes.

15 MR. MEYER: I move the admission of T-506 and
16 507.

17 JUDGE SCHAER: Any objections?

18 Those documents are admitted.

19 MR. MEYER: The witness is available.

20 JUDGE SCHAER: Did you have questions,
21 Mr. Trautman?

22 MR. TRAUTMAN: I do not.

23 JUDGE SCHAER: Mr. ffitch?

24 MR. FFITCH: Yes, I have questions, Your
25 Honor, except I have agreed to defer to Ms. Dixon

02218

1 because of her time constraints.

2 JUDGE SCHAER: Go ahead, Ms. Dixon.

3 MS. DIXON: Thank you. I have a flight to
4 catch, so I appreciate that, Mr. ffitch.

5

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

7 BY MS. DIXON:

8 Q. In the interest of time all around, I'm just
9 going to ask you a few very brief questions. You
10 discussed meter reading and billing in your rebuttal
11 testimony; is that correct?

12 A. Yes, that's correct.

13 Q. And were you in the room earlier when
14 Mr. Dukich was on the stand?

15 A. Yes, I was.

16 Q. Okay. Do you agree with Mr. Dukich's
17 statement earlier today in reference to meter reading
18 and billing that more frequent usage signals and price
19 signals can lead to more conservation by customers?

20 A. I think better information would lead to more
21 conservation, and more frequent information I think is
22 better information, so yes, I would agree.

23 Q. And you discuss residential rate design in
24 your rebuttal testimony; is that correct?

25 A. Yes, I do.

02219

1 Q. And would you agree that one purpose of an
2 inverted block rate is to provide customers with a
3 signal to conserve?

4 A. Yes, it is.

5 Q. And moving to a flat energy charge could
6 reduce the incentive for residential customers to
7 conserve energy; do you agree?

8 A. I think it depends on the price reflected in
9 the energy blocks. I think certainly going from a three
10 block inverted structure to a flat rate where the rates
11 were actually reduced could, in fact, have that result,
12 but that's not what we're proposing in this case.

13 Q. Correct me if I'm wrong, but in your original
14 testimony, there is, and I can go back to the page if
15 you need me to, but there is a proposal that if all of
16 the proposals by the company are not accepted in this
17 case, it may be reasonable in your opinion to move
18 directly from the three block rate to a flat charge; is
19 that correct?

20 A. I stated in my testimony that the Commission
21 may want to consider that given other factors in this
22 case.

23 MS. DIXON: Okay, thank you very much.

24 That's it.

25 JUDGE SCHAER: Mr. ffitch, did you have

02220

1 questions now?

2 MR. FFITCH: Yes, thank you.

3 JUDGE SCHAER: Go ahead, please.

4

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

6 BY MR. FFITCH:

7 Q. Good afternoon, Mr. Hirschhorn.

8 A. Good afternoon.

9 Q. First of all, I would like to start with some
10 questions on rate spread, specifically your testimony at
11 pages two through five of T-506, and more particularly
12 your Exhibit 507, which is BJH-1, the attachment to your
13 actual rebuttal testimony. And if you turn to the
14 exhibit, it's to page one of four. Do you have that?

15 A. Yes, I do.

16 Q. There you have compared the effect of your
17 proposed rate spread to that of the joint testimony of
18 staff, public counsel, and ICNU, correct?

19 A. Yes, I have.

20 Q. And that's columns E and F, that's the
21 comparison?

22 A. There are several different examples here.
23 The column C and D compares the company's proposal and
24 the joint staff, ICNU, and public counsel proposal based
25 on the company's entire proposed increase. And the

02221

1 remaining three sets of columns, E, EF, GH, and IJ, make
2 a comparison for other increase.

3 Q. Various levels?

4 A. Levels, yes.

5 Q. Possible increases, thanks. Well, let's
6 suppose for a moment that a rate increase of 4% overall
7 were approved, your method would actually impose more
8 than twice the average increase on the residential class
9 and apply a rate decrease to the commercial customers,
10 would it not?

11 A. Yes, it would.

12 Q. Can you identify any electric proceeding
13 before this Commission where any class was granted a
14 decrease in rates in the context of an overall increase
15 in rates?

16 A. As far as an electric proceeding, I can not
17 think of one. I know there was at least one gas
18 proceeding where that was the result, there was a
19 decrease approved by the Commission for one class and an
20 increase for another.

21 Q. Can you identify which proceeding that was?

22 A. I believe it was a Washington Natural case.
23 It was -- no, I can't. It was either Cascade or
24 Washington Natural within the last five years.

25 Q. Page 3, line 12 of your testimony, you

02222

1 indicate -- do you have that?

2 A. Yes, I do.

3 Q. You indicate that your approach is to move
4 one third toward unity; is that correct?

5 A. Yes, it is.

6 Q. And unity as you define it is the results of
7 the primary cost of service studies sponsored by
8 Ms. Knox, is it not?

9 A. Yes, it is.

10 Q. You were present for cross-examination of
11 Ms. Knox in the direct phase of this proceeding, were
12 you not?

13 A. Yes, I was.

14 Q. And you're aware therefore that the studies
15 she presented treated certain costs, particularly
16 administrative and general costs, differently from any
17 cost of service study ever approved by the Commission?

18 A. Yes, I am.

19 Q. Now the company has accepted many of the
20 adjustments proposed by staff including a settlement on
21 depreciation expense and several others detailed in the
22 testimony of Mr. Falkner and other company witnesses,
23 right?

24 A. Yes.

25 Q. Has Ms. Knox revised her cost of service

02223

1 study in rebuttal to reflect the current position of the
2 company?

3 A. No, she has not.

4 Q. There's no new --

5 A. Not to my knowledge.

6 Q. So there is no new rebuttal cost of service
7 study, is there?

8 A. No, there's not.

9 Q. And therefore there's no study in this record
10 which shows what measure of unity you are actually
11 proposing to move one third of the way towards, is
12 there?

13 A. I would not expect the results to change
14 significantly based on -- based on the changes that have
15 been agreed to. So the answer to your question is no,
16 that I would not expect the results to change
17 significantly.

18 Q. Right, but we couldn't check your expectation
19 empirically, because there is no study in this record to
20 verify that?

21 A. No, but we could prepare that. It would not
22 be that difficult to do.

23 Q. Moving to another area, electric rate design,
24 and referring here to page ten of your testimony, there
25 you address a three block residential rate, correct?

02224

1 A. Yes.

2 Q. The company's proposal to flatten out that
3 residential rate versus Mr. Lazar's proposal to retain
4 the current rate design, that's what you discuss on page
5 ten?

6 A. Yes, the company's proposal is to move to a
7 two block rather than a three block inverted rate
8 structure.

9 Q. Okay. Now in your exhibit which is attached,
10 BJH-1, which is 507 for identification, I mean what has
11 been admitted as 507, if you look at pages three and
12 four, show the actual operation of the hydro system,
13 correct?

14 A. Yes, for two specific days during the past 12
15 months, one winter and one summer.

16 Q. Okay. And you use that to show that the
17 higher cost thermal plants run all day and night while
18 the peaking loads are met during the day with hydro; is
19 that right?

20 A. Yes.

21 Q. And then on page 10, line 17, I'm sorry, page
22 11, line 17.

23 JUDGE SCHAER: Are we back to the testimony,
24 counsel?

25 MR. FFITCH: In the testimony.

02225

1 JUDGE SCHAER: Thank you.

2 BY MR. FFITCH:

3 Q. You state:

4 Most of the residential base load usage
5 which Mr. Lazar assigns low cost
6 resources to is actually met with higher
7 cost resources.

8 Now you use that logic to assert that the
9 cost of meeting a lower load factor space heating load
10 is not higher than the higher load factor or base load
11 usage, correct?

12 A. On a power -- on the way we operate our
13 actual resources, our power supply resources, yes,
14 that's correct.

15 Q. You're not disputing that your own rate
16 design work papers identify the first block of the
17 company's residential usage as base load, are you?

18 A. No, but that -- we use the term base load in
19 terms of residential usage as a constant or fairly
20 constant load or, I can't think of another term, but I
21 guess a minimum load for residential customers.
22 Basically we run a regression analysis, and that is the
23 point of intercept for all customers basically.

24 Q. So the first 600 is basically a minimum usage
25 level?

02226

1 A. That's another way to characterize it.

2 Q. Now are you disputing that your own rate
3 design work papers identified the end block as weather
4 sensitive usage?

5 A. No, I'm not disputing that at all.

6 Q. Do you dispute that the middle block was a
7 mix of the two?

8 A. The middle block is, yes, it is a mix in that
9 the base load is a little -- it's a little higher than
10 600 kilowatt hours, so it would contain some base load.
11 It's mostly weather sensitive though.

12 Q. Are you vaguely familiar with the nature of
13 pricing in the wholesale power market, specifically that
14 at the Mid Columbia and California-Oregon border trading
15 points, that the prices are reported during high load
16 hours or on peak and during low load hours or off peak
17 periods?

18 A. Yes.

19 Q. If you need to, you can refer to Exhibit 563.
20 My question is, that shows on peak and off peak prices
21 at Mid C and California-Oregon border, is it normally
22 your understanding that on peak prices are quite a bit
23 higher than off peak prices?

24 A. That's my understanding.

25 Q. So now referring you back to Exhibit 507 at

02227

1 your charts, pages three and four of that 507, which is
2 your BJH-1, do you suppose that the Avista hydro is
3 shaped into the day in part because it's more valuable
4 then?

5 A. I believe it's shaped into the day because we
6 have the ability to bring on and take off hydro on a
7 real time basis. I wouldn't dispute the fact that if we
8 do not have enough hydro available to meet system load
9 requirements, we may have to go out and purchase power
10 on the open market.

11 Q. But obviously this is a reflection of
12 management decisions, this isn't a reflection of natural
13 fluctuations in river flow on this day, correct?

14 A. My understanding is it's how we were able to
15 most efficiently operate our system to meet our load
16 requirements, and we can bring on and take off hydro on
17 basically a real time basis, where we can not for
18 resources such as Colstrip, Kettle Falls, some of our
19 other resources.

20 Q. And that's how you can minimize the company's
21 total power cost, right, by this shaping into the day?

22 A. Well, that's one of our objectives certainly
23 is to minimize total power supply cost.

24 Q. Does your Exhibit 507 show hour to hour on
25 the residential space heat load that comes onto the

02228

1 system?

2 A. No, this graph does not show that. But if
3 you look at where the curve starts going up for net
4 system load is about the time people get up in the
5 morning. It's between 6:00 and 7:00, you see the curve
6 increase at that time. Then it drops off a little bit
7 during the day. And toward the evening it jumps back up
8 again basically when people come home from work. So
9 there is some correlation there with -- it's both
10 residential space heat load and air conditioning.

11 Q. And isn't there also a correlation with
12 commercial activity in that --

13 A. Yes, commercial would be factored in here as
14 well, certainly.

15 Q. Businesses open that time of the day?

16 A. Yes.

17 Q. And close at the end of the day?

18 A. Yes.

19 Q. In fact, what this really shows is simply
20 that the company's total generation and load, excuse me,
21 it shows the total generation and load and not
22 specifically whether that load is residential or
23 commercial, correct?

24 A. That's correct, it shows total system load
25 requirements.

02229

1 Q. And it doesn't actually show whether that
2 load is space heating, lighting, or air conditioning,
3 does it directly?

4 A. Well, no, not exactly, but I think one can
5 see from the curve that when, like you said, businesses
6 open, people get up in the morning and turn their heat
7 on or air conditioning as the case may be, typically
8 space heat in the morning if you set your thermostat
9 back. That curve does increase about that time and
10 falls off toward the night time. Some of it's
11 commercial, some of it's residential.

12 Q. On page 12 of your testimony at line 11,
13 there you state that most of the costs to serve the
14 residential customers are fixed, correct?

15 A. Yes.

16 Q. And then at line 15, you note that most
17 distribution costs are recovered through the residential
18 energy rate. Does that include both the energy costs
19 and the demand costs which you show in your Exhibit 493?

20 A. Yes, it does, because we don't have a
21 specific -- a separately stated demand charge for
22 residential.

23 Q. And for the residential class that is shown
24 as 2.6 cents per kilowatt hour plus \$8.63 per kilowatt,
25 correct?

02230

1 A. I believe that's correct.

2 Q. Now Mr. Lazar computed the cost of serving
3 specific end uses by applying specific load factors for
4 each end use to the demand and energy components of the
5 company's power costs that you presented in your direct
6 testimony, correct?

7 A. Yes, that's correct.

8 Q. And I'm referring specifically to Exhibit
9 493, page four.

10 A. Yes.

11 Q. Now Mr. Lazar did not compute his own
12 estimated cost for kilowatt. He only applied load
13 factors which he derived from other studies; would you
14 agree?

15 A. Yes, that's correct.

16 Q. And that page four of Exhibit 493 shows the
17 demand costs per kilowatt per month, and I will pause if
18 you would like to pull that out.

19 A. Thank you. I believe I have that. That's
20 page two?

21 Q. Page four.

22 A. Page four.

23 Q. And I'm just verifying that --

24 MR. MEYER: Are you finding it?

25 THE WITNESS: Well --

02231

1 BY MR. FFITCH:

2 Q. Well, let me tell you what I'm looking for,
3 and then maybe it will help.

4 A. I know I have it there.

5 Q. Demand cost per kilowatt per month for the
6 residential class, and again I'm referring to page four,
7 I believe, of Exhibit 493. I think you have numbered it
8 initially as Exhibit 61 in your initial filing. I
9 believe at the first round of hearings that that was
10 given the designation of 493, but it's --

11 A. Oh, is it titled load factor based
12 residential rate blocks?

13 Q. This is your exhibit.

14 A. Oh, my exhibit?

15 Q. Yes.

16 A. Oh, I'm sorry, I was looking at Mr. Lazar's.

17 Q. Oh.

18 A. That has the breakdown between energy and
19 demand components?

20 Q. Right, I'm sorry, I may not have been clear.
21 I tried to get you on earlier in the day,
22 Mr. Hirschhorn, but they wouldn't let me.

23 A. I have that page.

24 Q. All right. That shows the demand cost per
25 kilowatt hour per month, I'm sorry, I stand corrected,

02232

1 per kilowatt, I knew that, per month for the residential
2 classes \$8.85 per month, correct?

3 A. Based on our proposed revenue increase and
4 rate return, yes.

5 Q. Right. Would you agree that there are 720
6 hours in a 30 day month?

7 A. Yes.

8 Q. So a customer end use with a 50% load factor
9 would use 360 kilowatt hours per kilowatt in a month,
10 right?

11 A. Yes.

12 Q. To compute the demand component of a 50% load
13 factor end use based on an \$8.85 per month kilowatt, we
14 would then divide that \$8.85 by 360, would we not?

15 A. Yes.

16 Q. Are you following me?

17 A. Yes.

18 Q. And the result would be a demand cost of 2.4
19 cents per kilowatt hour, wouldn't it?

20 A. That would be the result of that calculation,
21 yes.

22 Q. And similarly if we computed that same
23 demand --

24 A. Subject to check since I'm not doing the
25 math.

02233

1 Q. That's fine, subject to check. And similarly
2 if we computed that same demand cost per kilowatt hour
3 for a 25% load factor, we would get 180 kilowatt hours
4 per kilowatt in a month and a demand cost of 4.8 cents
5 per kilowatt hour subject to check?

6 A. Yes.

7 Q. Again using your demand costs from page four
8 of your Exhibit 493.

9 A. Yes, that's correct.

10 Q. Coming into the home stretch, I have one more
11 area, our old favorite topic of meter reading and
12 billing costs.

13 I'm referring you now to page seven of your
14 rebuttal, Exhibit 507, I'm sorry, it's 506, and that's
15 line 4. And there you refer to a survey you conducted
16 where about half of your customers indicated it would
17 not be desirable to have a bimonthly billing; do you see
18 that?

19 A. Yes.

20 Q. Now in response to Exhibit 508 for
21 identification, you provided a copy of one page of that
22 survey tabulation, did you not? That's public counsel
23 data request 149 that's been identified as 508 as a
24 cross exhibit for you in this hearing. I will let you
25 find that.

02234

1 A. Actually we provided cover sheets to the
2 survey and then a sheet for each of the two questions
3 that I identify in my testimony.

4 Q. Okay.

5 A. Bimonthly meter reading and billing and
6 bimonthly meter reading and monthly billing.

7 Q. You're correct. Do you have any expertise or
8 training in survey research?

9 A. No, I'm not an expert in survey research.

10 Q. Would you agree that it might matter quite a
11 bit how a question is asked and how much information
12 consumers are given with the question though?

13 A. Yes, I would agree with that.

14 Q. And the question you actually asked customers
15 in this survey read, and this is the top of table two,
16 page two, third page into the actual exhibit, the
17 question reads:

18 One alternative would be for Washington
19 Water Power to read your meter and bill
20 you every other month rather than every
21 month. How acceptable would this be for
22 you?

23 Is that a correct reading of the question?

24 A. Yes, it is.

25 Q. You did not indicate to customers in the

02235

1 question that doing so would save them any money, did
2 you?

3 A. No, we did not.

4 Q. Now in response to your data request number
5 32, you asked Mr. Lazar for a copy of the City of
6 Olympia survey that he cited at page 22 of his
7 testimony.

8 A. Yes, I don't have that information in front
9 of me, but --

10 MR. FFITCH: Your Honor, may I approach the
11 witness?

12 JUDGE SCHAER: Yes, you may.

13 MR. FFITCH: This is to assist the witness in
14 answering.

15 BY MR. FFITCH:

16 Q. Now you have had a moment to look at that,
17 Mr. Hirschhorn, does it look familiar? Please say yes.

18 A. Yes. I'm under oath. Actually, I believe
19 this request was prepared by Mr. Dukich, and this is the
20 first time I have seen it, but I just reviewed it very
21 quickly.

22 Q. Okay.

23 A. So I am familiar with it now.

24 Q. The city asked its customers if they would
25 prefer monthly billing, but in their question, they

02236

1 included the additional costs associated with monthly
2 billing. And, for example, they asked, this is at the
3 top of this sheet that I have handed you, the end of the
4 question states:

5 Would be you willing to pay blank extra
6 on your utility bill in order to be
7 billed every month rather than every
8 other month?

9 And when that question was asked with \$1.75
10 inserted in the blank, the response was 87% no, 11% yes.
11 Is that your understanding from the Olympia survey?

12 A. Yes.

13 Q. When the question was asked with an extra \$1
14 per month for monthly billing, it was 82% no and 16%
15 yes. Is that your understanding?

16 A. Yes, that's what the results looked like.

17 Q. Would you agree that the cost to the company
18 of reading meters monthly instead of bimonthly and
19 rendering bills monthly instead of bimonthly is not too
20 far out of the range of \$1 to \$1.75 extra per month that
21 the City of Olympia used in their survey?

22 A. I believe that would be the range of cost,
23 yes. One caveat there is the number of customers that
24 would still choose to be billed monthly via a levelized
25 bill if we were to go to bimonthly meter reading and

02237

1 billing. I think we would see a substantial increase in
2 the number of customers that would choose to be billed
3 monthly on a levelized billing basis. So those costs
4 wouldn't be saved.

5 Q. But you wouldn't have to read their meter
6 monthly?

7 A. No, but the majority -- about three quarters
8 or 75% of total meter reading billing costs are actually
9 billing costs as compared to about 25% that are meter
10 reading.

11 Q. All right. Now in Mr. Lazar's analysis, he
12 provided additional working capital for the additional
13 lag which bimonthly meter reading and billing would
14 cause the company to require, did he not?

15 A. Yes.

16 Q. He also provided for a higher level of
17 uncollectibles assuming the move to bimonthly meter
18 reading and billing, did he not?

19 A. I'm not sure that he made that calculation in
20 the calculation you're referring to. I remember seeing
21 it in his testimony, that he mentioned we could expect
22 uncollectible expense to increase somewhat.

23 Q. Would you accept subject to check that that
24 increase is shown on Mr. Lazar's Exhibit JL-RR-5, page
25 1, which is Exhibit 696?

02238

1 A. I would agree with that subject to check. I
2 don't have that exhibit in front of me.

3 MR. FFITCH: Just to expedite this, if I
4 could walk over and show you the exhibit. You don't
5 have to check it.

6 JUDGE SCHAER: Go ahead, Mr. ffitch.

7 BY MR. FFITCH:

8 Q. Can you accept that statement now having
9 reviewed the exhibit?

10 A. Yes.

11 Q. Has any witness for Avista submitted rebuttal
12 testimony on the calculations of the additional working
13 capital and additional provision for uncollectibles
14 included in Mr. Lazar's analysis?

15 A. No, we have not submitted any rebuttal
16 regarding the specific calculations. Our rebuttal was
17 more general in nature than that. We don't think a
18 bimonthly meter reading and billing would be appropriate
19 for our customers at this time primarily because of the
20 volatility of monthly bills, especially during the
21 winter season.

22 Q. Are Exhibits 508 through 513 responses of
23 Avista to data requests of public counsel?

24 A. Yes, they are.

25 Q. And were Exhibits 508 through 511 prepared by

02239

1 you or under your direction?

2 A. 508 through 511?

3 Q. Correct.

4 A. Yes, they were.

5 Q. And Exhibits 512 and 513 were sponsored by
6 witness Turner but have been identified to you by the
7 company in this case, because Mr. Turner is not a
8 rebuttal witness, correct?

9 A. Yes, that's correct.

10 Q. Are the answers to 508 through 513 true and
11 correct to the best of your knowledge?

12 A. Yes, they are.

13 MR. FFITCH: Your Honor, I offer Exhibits 508
14 through 513.

15 JUDGE SCHAER: Any objections?

16 MR. MEYER: None.

17 JUDGE SCHAER: Those documents are admitted.

18 MR. FFITCH: I have no further questions for
19 this witness or any other witness from Avista, Your
20 Honor.

21 Thank you, Mr. Hirschhorn.

22 JUDGE SCHAER: Commissioners, do you have
23 questions of Mr. Hirschhorn?

24 CHAIRWOMAN SHOWALTER: First of all, does
25 this frequency of billing services have an exhibit

02240

1 number?

2 JUDGE SCHAER: It was not offered as an
3 exhibit. It was merely asked about and provided as a
4 reference.

5 CHAIRWOMAN SHOWALTER: All right.

6

7

E X A M I N A T I O N

8 BY CHAIRWOMAN SHOWALTER:

9 Q. Well, I can't tell from looking at it what
10 kind of billing it referred to, but I'm going to assume
11 for the purpose of my question that it's water and
12 garbage and recycling since it's from the City of
13 Olympia.

14 A. I believe that's correct. It's not for
15 electricity or natural gas.

16 Q. Okay.

17 MR. FFITCH: There is just where it says, the
18 first line of the exhibit refers to a utility services.

19 CHAIRWOMAN SHOWALTER: Right, but you have to
20 know, as I happen to know, that in Olympia that means
21 water, garbage, and recycling, if that's what this is.

22 BY CHAIRWOMAN SHOWALTER:

23 Q. Anyway, it's not electricity, I take it?

24 A. No.

25 Q. Billing information and frequent billing

02241

1 information and maybe even up to the minute billing
2 information becomes increasingly relevant if the
3 customer can actually do something with that
4 information. And in particular it seems that a lot of
5 utilities are thinking about going to or requesting peak
6 time pricing and other things, which of course also then
7 requires meter reading.

8 Obviously you haven't done that, and that's
9 not before us, but I'm wondering what the company is
10 thinking about that and how far off something like that
11 might be. And the angle of my question really is that
12 if that is in the near future, it seems to me that then
13 at least monthly billing is going to be necessary, but
14 we don't have that today.

15 A. Right, right, yeah, I think bimonthly meter
16 reading billing would actually be a step in the other
17 direction. It would be less information. We have
18 actually more basic concerns with regard to our
19 customers in that we do have more extreme weather in
20 Eastern Washington. The bills for energy are generally
21 higher than they are in Western Washington, and income
22 levels in general are lower. So it presents problems,
23 bimonthly billing for our customers. It would certainly
24 present some financial problems to our customers.

25 With regard to your question, we have been

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1 talking about more I will call it real time pricing
2 lately, and I think with what's going on in the market,
3 we certainly need to give it more serious consideration
4 in terms of looking at real time pricing. I think first
5 you look at industrial applications, because those are
6 large customers with large loads that may be able to
7 control their loads more and actually supply 25 or 50
8 megawatts, you know, as a whole.

9 And from there, I think you work your way
10 down, and there may be some good applications for
11 commercial and residential as well. We have looked more
12 and are talking more in the industrial side, but I think
13 eventually you go all the way down to residential
14 customers in terms of looking at people and pricing.

15 Q. You have no current plans for installing
16 automatic meters and other such things for residential
17 areas?

18 A. Not to my knowledge. I don't know the costs
19 involved, but I assume there's a substantial capital
20 investment required with automated meter reading. But
21 to my knowledge, we haven't -- we have discussed it, but
22 in terms of seriously considering it, I don't know, not
23 to my knowledge at this time.

24 CHAIRWOMAN SHOWALTER: Thanks.

25 COMMISSIONER HEMSTAD: I have a long list of

02243

1 questions I have decided not to ask.

2 COMMISSIONER GILLIS: I don't have any
3 questions.

4 JUDGE SCHAER: I have no further questions.

5 Is there any redirect for Mr. Hirschhorn?

6 MR. MEYER: Just a brief question.

7

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

9 BY MR. MEYER:

10 Q. Mr. Hirschhorn, you referred to some agreed
11 upon adjustments in this case as the case has progressed
12 and the impact that that might have had on your
13 recommendations with regard to comparisons with unity.
14 Do you recall that?

15 A. Yes.

16 Q. Is it your opinion that your conclusions that
17 you already expressed in your testimony, your rebuttal
18 testimony, would differ now because of any of those
19 resolution of those issues?

20 A. As I stated before, I don't think the results
21 would be significantly different, no.

22 Q. Now I believe the subject of volatility of
23 bills came up during the winter as it might impact
24 Eastern Washington.

25 A. Yes.

02244

1 Q. Is that same sort of volatility observed on
2 this side of the state, Western Washington?

3 A. The weather isn't as extreme on the west side
4 of the state as it is in Eastern Washington, so no, I
5 don't think customers on the west side of the state see
6 as much volatility in the level of bills from month to
7 month.

8 Q. So is it your opinion that the question of
9 bimonthly meter reading and billing may present concerns
10 particular to -- more particular to Eastern Washington?

11 A. Yes, and I outlined that information as well
12 as relayed the reasons in my rebuttal testimony.

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

14 JUDGE SCHAER: Is there anything further for
15 this witness?

16 MR. MEYER: None.

17 JUDGE SCHAER: Thank you, Mr. Hirschhorn.

18 THE WITNESS: Thank you.

19 JUDGE SCHAER: Let's talk for just a moment
20 about whether there are any housekeeping matters that
21 remain.

22 CHAIRWOMAN SHOWALTER: Thank you everyone.

23 JUDGE SCHAER: We do have an answer to Bench
24 Request Number 2 expected by next Friday.

25 MR. FFITCH: Your Honor, public counsel has a

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1 Bench Request.

2 JUDGE SCHAER: Can I finish? Go ahead.

3 MR. FFITCH: Yeah, I'm sorry, Your Honor, I
4 will let you finish.

5 JUDGE SCHAER: What I was planning to say
6 there is that I think it would be appropriate if people
7 were to look that over and let the Commission know by
8 the following Tuesday, which I believe will be the 25th
9 of July, whether they have any objection to inclusion of
10 that in the record.

11 MR. TRAUTMAN: 2?

12 JUDGE SCHAER: Bench Request Number 2 is
13 Exhibit, the request itself is Exhibit 741,
14 Mr. Trautman, and what it asks for is some of the
15 underlying calculations supporting Mr. Schoenbeck's
16 electric revenue requirement adjustments. As I said
17 earlier today, I'm assuming that all of you have this in
18 work papers, but being the Commission, we don't have it,
19 and we may need it depending on what adjustments the
20 Commissioners choose to make.

21 MR. FFITCH: I'm sorry, what was the response
22 time permitted?

23 JUDGE SCHAER: This is to be responded to by
24 Mr. Schoenbeck by July 21st, and I have suggested that
25 any objections should be provided to the Commission by

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1 July 25th. Those may be provided by telefax or
2 electronically so that you don't run into mailing
3 problems.

4 You had something about another Bench
5 Request, Mr. ffitch?

6 MR. FFITCH: Yes, Your Honor, Bench Request
7 Number 4 was directed to public counsel requesting
8 either a copy of or a good citation to a public utility
9 reports article cited on page 54 of Mr. Hill's
10 testimony.

11 JUDGE SCHAER: Yes.

12 MR. FFITCH: And we will be providing that
13 next week.

14 JUDGE SCHAER: Okay. I had thought Mr. Hill
15 was going to provide it this week. I think he promised,
16 but that's obviously not going to happen at this point.

17 MR. FFITCH: I did discuss it with him
18 yesterday, and he indicated he would attend to it
19 immediately upon his return to his office.

20 JUDGE SCHAER: I would consider this the kind
21 of material that the Commission could appropriately
22 research and read without having to have it be an
23 exhibit in the case. If anyone has concerns about that,
24 please voice them now. Otherwise I will just have that
25 article provided to me and, of course, to all the

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1 parties.

2 MR. FFITCH: And what date should we have as
3 a deadline, Your Honor?

4 JUDGE SCHAER: Well, why don't we go ahead
5 with our deadline date of July 21, 2000. And if there
6 is anything that raises flags, people can let me know,
7 but I consider that highly unlikely when we're just
8 getting a copy of the article.

9 Are there any other housekeeping matters the
10 parties wish to raise?

11 MR. FFITCH: Your Honor, I have first an
12 inquiry, Bench Request Number 1, I'm just my notes don't
13 reflect what that is.

14 JUDGE SCHAER: I wish Mr. Demass were still
15 with us, because he's the expert. I believe that --

16 MR. MEYER: You may have withdrawn that. I
17 think you withdrew that originally.

18 MR. FFITCH: Number 3 was, I believe, the
19 Winterfeld testimony from 1985, which was withdrawn.

20 JUDGE SCHAER: Number 3 and Number 4 were
21 withdrawn.

22 MR. TRAUTMAN: You said 3 and 4?

23 JUDGE SCHAER: Bench Requests 3 and 4 were
24 withdrawn. I would just have to refer you to the
25 transcript at this point to find out what Bench Request

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1 Number 1 was.

2 MR. FFITCH: All right.

3 JUDGE SCHAER: I have no idea at this point
4 whether or not it's already admitted as an exhibit.

5 MR. FFITCH: I thought our request was number
6 4, but I must have written that down incorrectly.

7 JUDGE SCHAER: Number 1 was asked in the last
8 set of hearings. Number 2 we have just discussed.
9 Numbers 3 and 4 were the power supply testimony from
10 past cases.

11 MR. FFITCH: Right.

12 JUDGE SCHAER: Number 5 --

13 MR. FFITCH: Must be our article.

14 JUDGE SCHAER: You know, I really don't know
15 which is 5 and which is 6. Actually, we don't have a 6,
16 do we, because we used the number 2 for
17 Mr. Schoenbeck's, so yours must be number 5.

18 MR. FFITCH: All right.

19 JUDGE SCHAER: The only exhibit concern
20 that's outstanding is the public exhibit. Have you and
21 Mr. Meyer talked about that, Mr. ffitich?

22 MR. FFITCH: We have, Your Honor. I think we
23 have sort of a general agreement to that. We would have
24 a reasonable period of time after this hearing to submit
25 the public exhibit. And after that time, it's possible

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1 that letters may still come in to the Commission, and
2 then they would not be -- they would no longer be
3 included in the public exhibit. And we should, however,
4 make sure that this becomes an exhibit in sufficient
5 time so that all parties and particularly the company
6 can have a chance to review it and discuss it in their
7 briefs. So we discussed having next Friday, the 21st,
8 be the deadline for that. I haven't had a chance to
9 express my second thoughts to Mr. Meyer about just the
10 logistics of getting that all done and turned in by
11 Friday and thought perhaps Monday might be more doable.

12 MR. MEYER: Monday is fine.

13 MR. FFITCH: A week from Monday.

14 JUDGE SCHAER: So that would be July 24th you
15 would provide the exhibit to Mr. Meyer. And then how
16 long will you need to review it before we can have it
17 provided to the Commission, Mr. Meyer? Or should we
18 have it admitted at that point and give you a couple of
19 days then to object to anything that you --

20 MR. MEYER: Let's do it that way, all right?

21 JUDGE SCHAER: I'm going to mark for
22 identification as Exhibit 744 the public input exhibit
23 which would include letters received by public counsel
24 for the Commission regarding this docket, and that will
25 be admitted at this point for illustrative purposes

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1 unless there is an objection. That document should be
2 provided to Mr. Meyer for his review no later than
3 Monday, July 24th. That will be filed also with the
4 Commission on Monday, July 24th.

5 And, Mr. Meyer, you will have until Friday of
6 that week, if that's long enough.

7 MR. MEYER: Plenty of time.

8 JUDGE SCHAER: I'm easy on that. Okay, you
9 have until Friday of that week to let the Commission
10 know if you have any concerns about anything contained
11 in that document, otherwise it will be considered
12 admitted.

13 MR. FFITCH: What date is that Friday, Your
14 Honor?

15 JUDGE SCHAER: Friday the 28th.

16 MR. FFITCH: I believe that's correct.

17 JUDGE SCHAER: Thank you. And on the public
18 exhibit, we usually do not require 20 copies.

19 MR. FFITCH: All right.

20 JUDGE SCHAER: Original plus 20. We usually
21 would require that you provide 5 copies, I would say.
22 So that we can have an official copy and the
23 Commissioners may each have a copy and the advisory team
24 may have a copy.

25 And Mr. Trautman, would you be able then to

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1 review the official copy?

2 MR. TRAUTMAN: Yes, I think that would be
3 fine.

4 JUDGE SCHAER: And perhaps I should give you
5 the same deadline as I'm giving Mr. Meyer in terms of
6 looking this over and seeing if you have any concerns.

7 MR. TRAUTMAN: And that deadline again is?

8 JUDGE SCHAER: This will be filed and
9 admitted as of July 24th, and you will have until July
10 28th to review this and let the Commission know if you
11 have any concerns.

12 I have previously announced that the briefing
13 limit for this case is extended to 100 pages. And I
14 believe I have emphasized that clarity is better than
15 brevity. We should be able to tell what your opinions
16 are on issues and why. So if parties find that they
17 need a few more pages, please either contact me and ask
18 permission or within a rule of reason after five pages,
19 go ahead and just send it in.

20 Is there anything else we need to talk about?

21 I want to tell people I really appreciate the
22 way you put this week together and solved the problem of
23 logistics that looked really huge and unsolvable a
24 couple of weeks ago. We're getting out later today than
25 I had hoped, but we are done today, and thank you very

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1 much.
2
3 record.

This hearing is concluded, and we are off the

(Hearing adjourned at 5:50 p.m.)

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