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BEFORE THE WASHINGTON UTILITIES AND

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TRANSPORTATION COMMISSION

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4 WASHINGTON UTILITIES AND ) Docket No. UE-991606  
TRANSPORTATION COMMISSION, ) Volume IV  
5 Complainant, ) Pages 308-536  
v. )  
6 AVISTA CORPORATION, )  
Respondent. )  
7 \_\_\_\_\_ )

8

9 A hearing in the above matter was  
10 held on March 28, 2000, at 9:25 a.m., at 1300  
11 Evergreen Park Drive Southwest, Olympia, Washington,  
12 before Administrative Law Judges MARJORIE R. SCHAEER  
13 and KAREN CAILLE and CHAIRWOMAN MARILYN SHOWALTER,  
14 COMMISSIONER RICHARD HEMSTAD and COMMISSIONER WILLIAM  
15 R. GILLIS.

16

17 The parties were present as  
18 follows:

19 AVISTA CORPORATION, by David J.  
Meyer, Attorney at Law, E 1411 Mission Avenue, P.O.  
20 Box 3727, Spokane, Washington 99220.

21 ICNU, by Brad Van Cleve, Attorney  
at Law, 1300 S.W. Fifth Avenue, Suite 2915, Portland,  
22 Oregon 97201.

23 THE COMMISSION, by Mary M.  
Tennyson and Gregory Trautman, Assistant Attorneys  
24 General, 1400 S. Evergreen Park Drive S.W., P.O. Box  
40128, Olympia, Washington 98504-0128.

25

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1 PUBLIC COUNSEL, by Simon ffitch,  
Attorney at Law, 900 Fourth Avenue, #2000, Seattle,  
2 Washington 98164.

3 NORTHWEST ENERGY COALITION, by  
Danielle Dixon, Policy Associate, 219 First Avenue  
4 South, Suite 100, Seattle, Washington 98104.

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24 Barbara L. Spurbeck, CSR  
25 Court Reporter

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1 JUDGE SCHAER: Let's go on the record.  
2 This is our second day of cross-examination hearings  
3 in Dockets Numbers UE-991606 and UG-991607. It's a  
4 general rate increase request by Avista Corporation.  
5 And would you like to call your next witness, please,  
6 Mr. Meyer?

7 MR. MEYER: I would. Thank you, Your  
8 Honor.

9 JUDGE SCHAER: The following exhibits have  
10 been marked in conjunction with Mr. Dukich's  
11 testimony.

12 Exhibit T-46, the direct testimony of  
13 Thomas D. Dukich. Exhibit 47, Fortnightly Article.  
14 Exhibit 48, Fortnightly Article. Exhibit 49,  
15 Customer Service Survey. Exhibit 50, Call Center  
16 Magazine Article. Exhibit 51, New York Times  
17 Article.

18 Exhibit 52, IRT Results Center Report.  
19 Exhibit 53, Call Center Magazine Article. Exhibit  
20 54, Project Share Media Awards. Exhibit 55, Web Site  
21 Award. Exhibit 56, Environmental Awards. Exhibit  
22 57, Formation of Avista Energy. Exhibit T-58,  
23 Supplemental Direct Testimony of Thomas Dukich.

24 Exhibit 59, RCW 82.35. Exhibit 60, Public  
25 Utilities Fortnightly, September 1, 1998 Article: The

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1 Fortnightly 100 - Which Utility Ranks the Highest?  
2 Exhibit 61, Response to WUTC Data Request Number 237.  
3 Exhibit 62, Response to WUTC Data Request Number 239.  
4 Exhibit 63, Response to WUTC Data Request Number 240.  
5 Exhibit 64, Avista Response to SNAP Data  
6 Request Number 3. Exhibit 65, Avista Response to  
7 SNAP Data Request Number 4. Exhibit 66, Avista  
8 Response to SNAP Data Request Number 6. Exhibit 67,  
9 Avista Response to SNAP Data Request Number 7.  
10 Exhibit 68, Avista Response to SNAP Data Request  
11 Number 8.  
12 Exhibit 69, Avista Response to SNAP Data  
13 Request Number 9. Exhibit 70, Avista Response to  
14 SNAP Data Request Number 10. Exhibit 71, Avista  
15 Response to SNAP Data Request Number 12. Exhibit 72,  
16 Avista Response to SNAP Data Request Number 13.  
17 Exhibit 73, Avista Response to SNAP Data Request  
18 Number 14. Exhibit 74, Avista Response to SNAP Data  
19 Request Number 15.  
20 Exhibit 75, Avista Response to SNAP Data  
21 Request Number 47. Exhibit 76, Avista Response to  
22 SNAP Data Request Number 49. Exhibit 77, Avista  
23 Response to SNAP Data Request Number 50. Exhibit 78,  
24 Avista Response to SNAP Data Request Number 51.  
25 Exhibit 79, Avista Response to SNAP Data

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1 Request Number 54. Exhibit 80, Avista Response to  
2 SNAP Data Request Number 56. Exhibit 81, Avista  
3 Response to SNAP Data Request Number 57. Exhibit 82,  
4 Avista Response to SNAP Data Request Number 58.  
5 Exhibit 83, Avista Response to SNAP Data Request  
6 Number 59.

7 Whereupon,

8 THOMAS DUKICH,  
9 having been first duly sworn, was called as a witness  
10 herein and was examined and testified as follows:

11 JUDGE SCHAER: Your witness is sworn, Mr.  
12 Meyer.

13 MR. MEYER: Thank you.

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

15 BY MR. MEYER:

16 Q. Mr. Dukich, for the record, please state  
17 your full name and your employer.

18 A. Thomas D. Dukich. I'm employed by Avista  
19 Corp.

20 Q. In what capacity?

21 A. The rates director.

22 Q. And have you prepared and prefiled direct  
23 testimony, marked as Exhibit T-46?

24 A. I have.

25 Q. And have you also sponsored supplemental



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1 direct testimony, marked as Exhibit T-58?

2 A. Yes.

3 MR. MEYER: For the record, I have  
4 distributed errata sheets for both T-46 and T-58.  
5 The T-58 errata sheet is the third page in the group  
6 of errata sheets. In addition, I have distributed an  
7 additional page to be inserted within Mr. Dukich's  
8 Exhibit 48, which we will identify in just a moment.  
9 And that page was inadvertently omitted, and it  
10 should appear or be inserted as the second to the  
11 last page of Exhibit 48. It's not a replacement;  
12 it's an addition.

13 JUDGE SCHAER: Thank you.

14 Q. Okay. With that having been said, Mr.  
15 Dukich, do you have any other corrections beyond what  
16 have been reflected in your errata sheet to either  
17 exhibits T-46 or T-58?

18 A. No.

19 Q. If I would ask you the questions that  
20 appear therein, would your answers be the same?

21 A. Yes.

22 Q. Likewise, with regard to sponsored exhibits  
23 47 through 57, is the information contained therein  
24 true and correct?

25 A. Yes.

00317

1 Q. And were those exhibits prepared by you or  
2 under your direction and supervision?

3 A. Yes, they were.

4 MR. MEYER: With that, Your Honor, I move  
5 for admission of Exhibits T-46, T-58, and Exhibits 47  
6 through 57.

7 JUDGE SCHAER: Are there any objections?

8 MR. FFITCH: No.

9 MS. TENNYSON: No objections.

10 JUDGE SCHAER: Those documents are  
11 admitted.

12 MR. MEYER: Mr. Dukich is available for  
13 cross.

14 JUDGE SCHAER: Okay. At this point,  
15 everyone just relax for a moment and we're going to  
16 ask the Commissioners to join us, and then we'll  
17 proceed with the questioning.

18 Would you like to go ahead with your  
19 cross-examination, Ms. Tennyson.

20 MS. TENNYSON: Certainly.

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

22 BY MS. TENNYSON:

23 Q. Good morning, Mr. Dukich.

24 A. Good morning.

25 Q. My name is Mary Tennyson, and I'm a Senior

00318

1 Assistant Attorney General, representing Commission  
2 Staff in this case. I'm going to start by asking you  
3 some questions about Exhibit 47, which is one of the  
4 exhibits submitted with your testimony.

5 A. Okay.

6 Q. Now, is it true that this study, the data  
7 used in this study was gathered between 1990 and  
8 1995?

9 A. I think the efficiency -- is the efficiency  
10 data from '95, or you're talking about the rankings?

11 Q. Where I'm looking is actually the second  
12 column on the first page of the exhibit, in the last  
13 paragraph of that column, We have estimated --

14 JUDGE SCHAER: Are you referring to the  
15 second page as being the second page past the cover  
16 sheet, Ms. Tennyson?

17 MS. TENNYSON: Yes, what's marked page two  
18 of seven, as opposed to the cover of the --

19 THE WITNESS: Okay. So it's page two of  
20 seven, okay.

21 Q. Yes.

22 A. Yes, okay.

23 Q. And then turning to Table One of this  
24 document, which is page four of seven.

25 A. Okay.

00319

1 Q. Now, this shows, doesn't it, that  
2 Washington Water Power had the second largest decline  
3 in efficiency of any of the companies listed in that  
4 table between 1990 and 1995; isn't that true?

5 A. I hadn't looked at that, but I'll accept  
6 that.

7 Q. Okay. And the study also found a strong  
8 relationship between operational efficiencies and the  
9 share of hydroelectric power that was in the  
10 utilities generation mix; isn't that true?

11 A. They did, but they also found that some of  
12 the companies that had significant hydro,  
13 particularly Northeast, were not very efficient, but  
14 they do state in the study that efficiencies, I  
15 think, were highly related to hydro purchases, I  
16 think. Something like that. But yes, they did,  
17 basically.

18 Q. Okay. In terms of hydro purchases, I was  
19 referring to -- the language about the strong  
20 relationship that I was referring to, if you could  
21 look at page six of seven, at the bottom of the  
22 second column, continuing to the third column?

23 A. Right, we find a strong relationship  
24 between operational efficiency and the share of hydro  
25 electric power in the utilities generation mix.

00320

1 Q. Generation mix normally doesn't refer to  
2 purchases of power, does it?

3 A. That's probably true, yeah.

4 Q. I'd like to refer you to Exhibit 48.

5 A. Okay.

6 Q. This is also a study. This one was based  
7 on data from 1990 to 1996.

8 A. Right.

9 Q. Is that correct?

10 A. Mm-hmm.

11 Q. At this point, you have inserted the page,  
12 the second to last page on this exhibit; correct?

13 A. Correct.

14 Q. Okay. And I would like you to refer to  
15 that page you have just inserted today.

16 A. Okay.

17 Q. Now, in looking here at the overall  
18 percentage change in productivity, the last column on  
19 this table.

20 A. Correct.

21 Q. This table starts on the previous page.

22 A. Got it.

23 Q. Now, isn't it true there that in terms of  
24 change, overall change in productivity, Washington  
25 Water Power shows the second greatest negative change

00321

1 in productivity?

2 A. Yes, we had ice storm in '95 and '96, and  
3 we booked approximately \$17 million worth of expense,  
4 in the end of '96. So despite that, we were still  
5 ranked, I think, tied for fifth in overall  
6 efficiency, but we had a -- you'll hear other  
7 testimony today that it was a significant event. So  
8 despite that --

9 Q. So for 1995, where we have the minus .39,  
10 that was when the ice storm occurred?

11 A. It was booked in '96.

12 Q. Okay.

13 A. So the overall efficiency, I think, is  
14 ranked from -- actually, I don't understand exactly  
15 how they did these numbers. I tried to tease out how  
16 much of this was due to ice storm, but I don't think  
17 they have the primary data in this study to be able  
18 to do that.

19 Q. They don't mention the ice storm in this?

20 A. No, they don't. Plus, I tried to  
21 recalculate the percentages taking ice storm out of  
22 there out of curiosity to see how we would have done,  
23 but I didn't have the primary data to do that. But  
24 we did book ice storm to the tune of 17 million in  
25 November of '96, so I'm quite sure that that had a

00322

1 significant impact.

2           But you can't do an overall number if you  
3 look -- you see quite a bit of variation from year to  
4 year in efficiencies, all the way from a plus 23  
5 percent in '94/'95, to that negative .39 in '95/'96,  
6 so I suspect that that has quite a bit to do with ice  
7 storm. We also booked in '91 or '92, I think, what  
8 we call fire storm, which was a series of fires that  
9 had to do with a severe drought we had in the Spokane  
10 area. I think up to a hundred homes were destroyed  
11 in those wildfires. So that had a significant impact  
12 on the company, as well.

13           Q.   And this study also excluded consideration  
14 of purchased power; isn't that true? Would you  
15 accept that, subject to check?

16           A.   I don't recall. Could you point me to a  
17 place that --

18           Q.   I was just looking. It was the one thing I  
19 didn't highlight in here.

20           A.   I don't think it did.

21           Q.   Let me see if I can find it. I know that I  
22 read this yesterday. If that is the case, but --

23           A.   Okay.

24           Q.   Would you accept that, subject to check,  
25 and we can review it later in the day?

00323

1           A.    I think that was one of the variables, but  
2 I don't recall that they excluded it. I think what  
3 they concluded -- maybe I'm a little confused, either  
4 in this study or the other one -- is that purchased  
5 power was a significant determiner of efficiency. I  
6 think, if you had real high purchases, with the  
7 exception of Avista, I might add, I think there's a  
8 table that shows that. Unless I'm confusing these  
9 two studies.

10          Q.    They are very similar, but not --

11          A.    Well, they were done by the same people one  
12 year after the other for the purposes of comparisons.  
13 But I think if you look at Exhibit 47 -- if I can  
14 find it. Yes, on Exhibit 47, page six of seven.

15          Q.    Yes.

16          A.    At the top. You'll see the top three  
17 companies rated there.

18          Q.    Yes.

19          A.    Do you see that in table two? In the  
20 middle -- in the column where it says Washington  
21 Water Power, which is now Avista, if you go down  
22 almost a third from the bottom line, it says percent  
23 purchased power. We had 42 percent. The other  
24 companies had, like, two and four in the top three,  
25 and then it compared it to the bottom three



00324

1 companies, which had high percentages of purchased  
2 power.

3           So even though we had a high percent  
4 purchased power, we still ranked in the top three.  
5 Their point in this table is that purchased power  
6 usually means you have less efficiency, but --

7           Q.    Could you refer to --

8           MR. MEYER:  I'm sorry, Mr. Dukich, were you  
9 finished with your response?

10          THE WITNESS:  No.

11          MS. TENNYSON:  I think he finished with his  
12 response about a couple of minutes ago.

13          MR. MEYER:  Well, wait a minute.  Your  
14 Honor, if the witness has more to say, the witness  
15 should be allowed to say it, if it's reasonably  
16 responsive.

17          MS. TENNYSON:  My question related to  
18 Exhibit 48.  He is now referring to Exhibit 47.

19          MR. MEYER:  He was trying to respond, Your  
20 Honor, to a question about the impact of purchased  
21 power.  The fact is that the information is contained  
22 in Exhibit 47, in that table.  He's trying to explain  
23 himself.  He should be allowed to do so.

24          JUDGE SCHAER:  I think, at this point, I  
25 would prefer if we had a new question for Mr. Dukich.

00325

1 I believe I did hear the last question being about  
2 where something could be found in Exhibit 48. And I  
3 think we're kind of far afield from that at this  
4 point. Would you ask another question, please, Ms.  
5 Tennyson?

6 MS. TENNYSON: Certainly.

7 Q. If you refer to Exhibit 48, and I'm looking  
8 at page six of 12.

9 A. Okay.

10 Q. In the second column of the text on that  
11 page, in the first full paragraph, the second  
12 sentence states that purchased power was removed from  
13 total megawatt sales. Do you see that?

14 A. Yes, I'm not sure that means that it was  
15 removed from the efficiency calculations, however.  
16 It was -- it may have been removed from the sales.  
17 If you purchase and resell, like Mr. Norwood  
18 testified to, then you're an energy broker company,  
19 and that probably was excluded. I think that the  
20 point was to try to get the megawatt hours that are  
21 used for the retail load. So that may have been an  
22 adjustment that was made.

23 Q. Okay. Thank you. I'd like to refer at  
24 this point to Exhibit 57.

25 A. Pardon, what?

00326

1 Q. Five-seven. It's one of your last exhibits  
2 before your supplemental testimony.

3 A. Last exhibit, okay.

4 Q. Now, this is the letter about the -- to the  
5 Commission relating to the formation of the internal  
6 holding company?

7 A. Correct.

8 Q. And I gather, also, the creation of Avista  
9 Energy; is that correct?

10 A. It was primarily to address the creation of  
11 Avista Energy, yes.

12 Q. And Avista Energy is the nonregulated  
13 portion of the company's energy trading and  
14 marketing; correct?

15 A. It's not state-regulated. It is regulated  
16 by the FERC.

17 Q. Okay. It's not part of this case --

18 A. Right.

19 Q. -- in terms of setting rates or anything?

20 A. Right, right.

21 Q. And in that letter, there is a statement on  
22 page three, the third full paragraph that starts  
23 with, Even though resource optimization?

24 A. Yes.

25 Q. Do you see that?

00327

1 A. Got it.

2 Q. Now, in the last sentence there, can you  
3 read that for us?

4 A. The one that starts, In addition?

5 Q. That's correct.

6 A. In addition, Avista will be one of more  
7 than 50 active participants in a WSCC market and  
8 anticipates a market share of less than five percent,  
9 hardly enough to materially affect resource  
10 optimization costs.

11 Q. And what's the WSCC market that's being  
12 referred to there?

13 A. At the risk of -- I'll guess here, which  
14 may be a little bit risky. I think it's basically  
15 the Rocky Mountains, and it goes into Canada and  
16 might even technically include a little bit of  
17 Mexico.

18 Q. So it's like the western part of the  
19 market?

20 A. Mm-hmm. I think it's 14 states, plus  
21 Canada and Mexico. I think.

22 Q. So it's not the New York Stock Exchange or  
23 anything like that; it's a different market?

24 A. No, no, it's -- right.

25 Q. Okay. And the statement about anticipating

00328

1 a market share of less than five percent for Avista  
2 Energy, is that still true, given what we heard from  
3 Mr. Matthews yesterday about the company's  
4 reorganization restructuring?

5 A. I think that referred to Avista  
6 Optimization in that paragraph. Can I read it and  
7 make sure?

8 Q. Go ahead and refer. The sentence starts  
9 with a reference to Avista.

10 A. Yeah, to tell you the truth, I thought that  
11 meant, when I -- I thought it meant -- it's been a  
12 while since we wrote this, but I thought that meant  
13 that resource optimization would be -- may be  
14 competing against Avista Energy, but since they're  
15 such a small percent of the market, that it wouldn't  
16 affect it. But I can't recall, to tell you the  
17 truth, so --

18 Q. The sentence does indicate that Avista,  
19 which, at that point, was Washington Water Power, was  
20 the name of the utility; correct?

21 A. Right. You know, I need to defer that  
22 question, probably. Unfortunately, Mr. Norwood is  
23 off the stand, but he might be the best one to answer  
24 that.

25 Q. This was an exhibit you presented; correct?

00329

1 A. I realize that.

2 JUDGE SCHAER: Mr. Meyer, if we need to  
3 recall Mr. Norwood, will he be available?

4 MR. MEYER: Sure.

5 JUDGE SCHAER: Thank you.

6 THE WITNESS: I suppose we could do that  
7 through a record requisition or something if you need  
8 clarification.

9 Q. Why don't we do that, so we have that clear  
10 on the record as to what that does refer to. Because  
11 I understood it as referring to Avista Energy's  
12 portion of the market and --

13 A. That's probably true, as well, but like I  
14 said, I'd be guessing.

15 Q. So at this point, you don't know whether  
16 Avista Energy would have a target of five percent of  
17 the market or greater?

18 A. No, I don't.

19 JUDGE SCHAER: So as Record Requisition  
20 Number 11, the company is going to provide further  
21 information about full paragraph three, third full  
22 paragraph on page three of six in Exhibit 57. And  
23 just as a reminder to you, Ms. Tennyson, so you don't  
24 have a nasty surprise, record requisitions are like  
25 data requests. They come to the parties, but do not

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1 come to the bench. So if you want that to be part of  
2 the record, you'll have to include that response at a  
3 later time.

4 MS. TENNYSON: Thank you.

5 JUDGE SCHAER: All right. Go ahead,  
6 please.

7 Q. Mr. Dukich, you gave your title this  
8 morning as the rates director, and in your testimony,  
9 you referred to yourself as the manager of rates and  
10 tariff administration. That's the same thing?

11 A. I have a new title.

12 Q. Okay. Does that mean a change in your job  
13 duties?

14 A. No.

15 Q. Okay. And you've been employed by Avista  
16 since 1978?

17 A. Yes.

18 Q. In your position as rates director, is your  
19 salary fixed or do you receive some sort of  
20 incentive, bonus consideration?

21 A. Over the years, I think it's changed, but I  
22 think currently I am under an incentive system that  
23 awards options and occasionally bonuses.

24 Q. Okay. Options being stock options?

25 A. Yes.

00331

1 Q. Options to purchase stock?

2 A. Right.

3 Q. And in your testimony, you proposed that  
4 the Commission allow Avista a 25 basis point premium  
5 above the 12 percent return on equity that's  
6 recommended by Dr. Avera; correct?

7 A. Right.

8 Q. And you indicate that this is to compensate  
9 the company for the customer benefits produced by  
10 various management initiatives?

11 A. That's one of the reasons, yes. There are  
12 others, but that is one.

13 Q. If the Commission did grant this 25 basis  
14 point on top of the return on equity that Dr. Avera  
15 recommends, do you expect that the salaries of  
16 Avista's management would rise accordingly?

17 A. Can I think about that a second?

18 Q. Certainly.

19 A. Probably not.

20 Q. Have you discussed that with anyone or has  
21 anyone discussed with you the effect or what the  
22 company might do if the Commission granted the 25  
23 basis points on equity?

24 A. Could you repeat the question?

25 Q. Have you discussed with anyone in



00332

1 management what the company would do if the  
2 Commission -- with that 25 basis point, the return on  
3 equity, if the Commission granted it?

4 A. Well, we have discussed it, yes, and I  
5 don't think we came to the conclusion that it would  
6 do anything but provide a recognition by the  
7 Commission of what we believe is a well-managed  
8 company. It was more in that vein.

9 Q. And that recognition comes in the form of  
10 additional money to the company, does it not?

11 A. It does, but the level of money, to be  
12 honest about it, is probably less important than the  
13 fact that there's an official recognition of a  
14 difference between what we consider a well-managed  
15 company and maybe an adequately managed one. So from  
16 a Commission policy point of view, it's important, I  
17 think, that the Commission do something affirmatively  
18 maybe to recognize that, if they believe we are, in  
19 fact, well-managed.

20 Q. And in your testimony, you say that it's  
21 reasonable that the company should receive an upward  
22 adjustment to the return on equity?

23 A. Correct.

24 Q. I'm trying to understand what you mean when  
25 you say company. Is that the company management, is

00333

1 it the stockholders?

2 A. It's effectively the stockholders.

3 Q. Okay.

4 A. Which is a recognition provided in the  
5 capital markets, I suppose you might say, that it  
6 becomes, then, part of what analysts look at in terms  
7 of our regulatory treatment.

8 Q. Okay. Now, in terms of -- if the  
9 Commission granted this return on equity, this  
10 increase in the return on equity, wouldn't it cause  
11 the company -- or would it likely cause the company's  
12 stock price to rise?

13 MR. MEYER: Don't speculate.

14 JUDGE SCHAER: Mr. Meyer, unless you have  
15 an objection to make, I would like you to make it for  
16 the record.

17 MR. MEYER: I do have an objection. It  
18 asked for a speculative response.

19 JUDGE SCHAER: Okay. Ms. Tennyson, your  
20 objection is that there's speculation called for.

21 MS. TENNYSON: I'm looking for the witness'  
22 knowledge of the input or impact of this type of an  
23 increase. He's indicated that this would acknowledge  
24 the well-managed aspects of the company being  
25 well-managed, and there's obviously some benefit that

00334

1 they're seeking by looking for a 25 basis point  
2 increase to the return on equity.

3           If we look at Dr. Avera's testimony later,  
4 he's talked about the impact on the stock market on  
5 an extensive basis of what is the return on equity  
6 and how that impacts the stock market. What I'm  
7 looking at is what is the company looking for. If we  
8 would grant this kind of an increase, what's going to  
9 be -- what is the impact?

10           JUDGE SCHAER: As I understand the  
11 question, it's directed to you, Mr. Dukich, because  
12 you are sponsoring the company's request for the 25  
13 basis point adder, and it's asking you what outcomes  
14 the company expects to obtain if your recommendation  
15 is granted. Is that correct, Ms. Tennyson?

16           MS. TENNYSON: That's correct.

17           JUDGE SCHAER: Would you answer it in those  
18 terms, please?

19           THE WITNESS: What we expect to gain; is  
20 that what you're saying?

21           JUDGE SCHAER: What are you hoping to gain  
22 out of this adder?

23           THE WITNESS: What we're -- I think that is  
24 outlined in my testimony, and I think that there's a  
25 two-pronged piece that's, number one, does the

00335

1 Commission, as a matter of policy, want to recognize  
2 well-managed versus adequately-managed companies. Do  
3 they want to make a distinction between well-managed  
4 and adequately-managed. If they do, do we fit in the  
5 well-managed category.

6 And we are suggesting that one of the ways  
7 to do that is to provide an equity kicker of a  
8 quarter of a percent. Now, past that, it would be  
9 speculation on my part to know whether or not that  
10 would cause stock price to go up in any material way.

11 Q. Okay. Assuming that a 25 basis point adder  
12 were added on to the company's equity, and assuming  
13 that that caused Avista's stock price to rise, who  
14 would that benefit?

15 A. Well, it may benefit everybody, I think,  
16 customers, as well as the shareholders.

17 Q. Now, it would benefit existing  
18 stockholders, correct, if the stock price went up?

19 A. Sure, as well as people who traded in the  
20 stock or when the company went to issue equity, it  
21 would, in general, provide a healthier financial  
22 environment for the company in all regards, I would  
23 think.

24 Q. If the stock --

25 A. To the extent that stock price is

00336

1 indicative of a healthy financial situation for the  
2 company, I think it would benefit everyone. I mean,  
3 employees, the company, and customers.

4 Q. It wouldn't benefit new stockholders, those  
5 who purchased after the price rose, would it?

6 A. In the long-term, it might.

7 Q. Now, assuming that the increase from the  
8 higher return on equity, this 25 basis point equity  
9 markup was granted, assuming that was used to raise  
10 management's salaries, then that would also cause an  
11 increase in the company's salary expense, wouldn't  
12 it?

13 MR. MEYER: I object.

14 THE WITNESS: Yes.

15 MR. MEYER: There hasn't been a sufficient  
16 foundation laid for that. A question was previously  
17 asked of this witness whether a 25 basis point adder  
18 would somehow translate into direct management  
19 incentive compensation. I don't believe the witness  
20 testified that it would.

21 MS. TENNYSON: He did not, which is --

22 JUDGE SCHAEER: I'm going to overrule the  
23 objection. I heard the question as being a  
24 hypothetical. It was, very clearly, and I think if  
25 the witness is able to answer the question, he should

00337

1 do so. Go ahead, Mr. Dukich.

2 THE WITNESS: I think I need it repeated.

3 It seemed to have three or four premises built in.

4 Q. It was assuming that the increase in equity  
5 were used to increase management salaries, that's the  
6 only assumption I'm asking you to make, then that  
7 would increase the company's salary expense, wouldn't  
8 it?

9 A. I don't know how that's calculated, but by  
10 definition, I think salary includes cash count, but  
11 I'm not sure. I don't know the answer to that  
12 question, because I'm not sure of the definition of  
13 the terms.

14 Q. Which terms don't you understand?

15 A. Well, I'm not sure how all that's booked.  
16 Just the opportunity to purchase stock, I'm not sure  
17 if that's reflected in current --

18 Q. No, I asked if it caused the management's  
19 salaries to rise; I didn't ask to for stock options,  
20 salaries --

21 A. I don't see how that could happen.

22 Q. If -- and I'm asking you to assume it does  
23 -- that a salary expense is something that the  
24 company normally asks --

25 A. Then I think, if that's true, then I think

00338

1 I'd have to answer yes. It's a hypothetical that  
2 basically is just A is A, yeah.

3 Q. And normally, the company asks to recover  
4 salary expense from the ratepayers; right?

5 A. Mm-hmm.

6 Q. Your answer is yes?

7 A. Yes.

8 Q. Okay, thank you. Now, in the case of  
9 Avista, the top management does receive bonuses from  
10 time to time; is that correct?

11 A. Correct.

12 Q. And the cost of bonuses are included in  
13 expenses that the company's asking to recover in  
14 rates; is that also correct?

15 A. I don't know if that's -- to tell you the  
16 truth, I don't know if that's true in this test year.  
17 You might have to ask Ms. Mitchell that.

18 Q. And so you don't know whether this tariff  
19 filing asks for recovery of bonuses?

20 A. I'm not sure what level is in there, and I  
21 would -- no, I don't know exactly what's in the test  
22 year. You would have to ask Mr. Falkner and Ms.  
23 Mitchell exactly what's in it this time. The reason  
24 I'm answering that way is I recall from our prior  
25 discussions that there may not have been certain

00339

1 levels reflected in the test year this time.

2 Q. But there were some?

3 A. I don't know exactly, so I can't answer  
4 that with authority, I'm sorry.

5 Q. And in terms of the company's incentive  
6 plans for its management, does that include a  
7 relationship to the company's stock price?

8 A. Could you say that again?

9 Q. For the company's incentive plan for  
10 management, does it include a relationship to the  
11 company's stock price, that the level of bonus may  
12 increase with stock price increases?

13 A. Oh, okay. I didn't understand the  
14 question. Could you start all over again? I'm  
15 sorry. One more time. It totally reversed my  
16 understanding of the question when you added that  
17 little tag on the end, so --

18 Q. I'm trying to see if I can rephrase it  
19 including that phrase.

20 A. Okay.

21 Q. Essentially, what I'm looking for is does  
22 the incentives that the company provides for its  
23 management --

24 A. Okay.

25 Q. -- that the amount of incentive or bonus



00340

1 that they can receive is partially dependent on the  
2 company's stock price?

3 A. Over the years, I think, depending upon the  
4 plan that the company had in effect, sometimes it was  
5 related to stock price and sometimes it was not.

6 Q. I'm looking at now, in terms of the plans  
7 going forward of what management compensation is  
8 based on?

9 A. You know, I don't actually recall exactly.

10 MS. TENNYSON: I would like at this point  
11 to do an additional records requisition for a copy of  
12 the incentive plan and the basis for compensation of  
13 executives.

14 JUDGE SCHAER: Is that something you would  
15 be able to provide, Mr. Dukich?

16 MR. MEYER: A point of clarification. For  
17 which period are we talking about?

18 MS. TENNYSON: Well, we're looking for what  
19 the company's asking to include in the tariffs that  
20 are on file, so since the test year is 1998 --

21 MR. MEYER: Test year incentive plans.

22 MS. TENNYSON: Test year, and if there are  
23 any pro forma adjustments for that in the rate case,  
24 then --

25 JUDGE SCHAER: So you'd want to see the

00341

1 rate year, as well?

2 MS. TENNYSON: That's correct. If there  
3 were changes in the rate year, I'd want that.

4 JUDGE SCHAER: Is that something you can  
5 provide, Mr. Dukich?

6 THE WITNESS: Yes, I think, actually, it's  
7 probably something -- I don't know, I don't want to  
8 speak for Ms. Mitchell, but I think Mr. Falkner or  
9 Ms. Mitchell may actually be able to answer some of  
10 that, as well.

11 MR. MEYER: I think we may have already  
12 provided that response to a data request, as far as  
13 the test year. So if you want to put that question  
14 again to Ms. Mitchell when she takes the stand, she  
15 can confirm whether we've already provided that. If  
16 we haven't, we'd be glad to respond to that.

17 MS. TENNYSON: I did request it, because my  
18 staff adviser indicated he didn't think we had that.

19 JUDGE SCHAER: I'm going to leave that as  
20 Record Requisition Number 12. If you can answer  
21 Record Requisition Number 12 during the hearings by  
22 providing the documents, especially if you could  
23 provide them before the witnesses that would be able  
24 to discuss them, that would be lovely. But let's  
25 leave that as Record Requisition 12 at this point.

00342

1 Go ahead, Ms. Tennyson.

2 MS. TENNYSON: Thank you.

3 Q. Mr. Dukich, you've also testified about the  
4 company's request for what we call the Kettle Falls  
5 equity kicker?

6 A. Sounds good.

7 Q. Okay. Have to admit --

8 A. The word kicker sounds really good.

9 Q. -- that's a new term for me working in this  
10 field.

11 A. That could also be maybe an incentive.

12 Q. Negative incentives might be good in some  
13 cases, too.

14 A. Well, the other thing was the kicker, as  
15 well.

16 Q. Yes, I understand that. And you're  
17 requesting here in a positive --

18 A. Yes.

19 Q. -- increase for the Kettle Falls project;  
20 is that correct?

21 A. Yes.

22 Q. Okay. I would like to refer to what's been  
23 marked as Exhibits 61, 62 and 63.

24 A. Do I have those?

25 Q. I can give you another copy if you do not.

00343

1 MR. MEYER: May I approach the witness?

2 JUDGE SCHAEER: Yes, you may.

3 THE WITNESS: Oh, okay. I didn't realize  
4 those were -- okay, got it. Thanks.

5 MS. TENNYSON: Do you need a copy to refer  
6 to, Mr. Meyer?

7 THE WITNESS: Mr. Meyer's given me a copy,  
8 thank you. I know what these are. They're data  
9 requests. Got it.

10 Q. Your responses to Staff Data Requests 237,  
11 239 and 240.

12 A. Right.

13 Q. Were those prepared by you or under your  
14 supervision?

15 A. They were.

16 Q. Now, the Commission, in its Fifth  
17 Supplemental Order in U-83-26, which we have offered  
18 as Exhibit 28.

19 A. I have that, too.

20 Q. Okay. Now, in that order, the Commission  
21 addressed the inclusion of the Kettle Falls project  
22 in the company's rate base; correct?

23 A. Yes.

24 Q. And it's also true that the Commission only  
25 allowed the company to include a portion of the costs

00344

1 of that project to be placed in the rate base?

2 A. Yes.

3 Q. And so in other words, they disallowed a  
4 portion of the expenses of that project?

5 A. Not to quibble over the language, but I  
6 think they disallowed the capital, which was  
7 ultimately reflected in ratepayer costs, but you say  
8 expense. I'm not sure any expense was disallowed. I  
9 think a level of investment was.

10 Q. But the entire costs of the project were  
11 not allowed to be included in rate base?

12 A. The ultimate impact on customers was  
13 adjusted, I think is one way to say that, through a  
14 reduction in maybe capital that went into rate base.

15 Q. So less of the money involved with that  
16 project was passed on to the ratepayers?

17 A. Yes, and the reason that's important is  
18 because that would reflect on the amount of money the  
19 company earned on the plant. If you just had  
20 disallowed the expenses, it wouldn't affect  
21 necessarily the company's earnings, but if you  
22 disallow the rate base, then that affects going  
23 forward, which affected the FASB write-off and things  
24 like that.

25 Q. Now, the Commission only allowed a portion

00345

1 of this project to be included in rate base, because  
2 they found there were other less expensive  
3 alternatives; isn't that true?

4 A. I don't read the order that way. The  
5 Commission said that they would allow, on the last  
6 page of the order, I think it says -- not on the last  
7 page of the order, I think on page --

8 Q. Page 16.

9 A. If you look at page 13 and 16 together, the  
10 Commission concluded that it would allow into rates a  
11 level of Kettle Falls that was planned in 1980 that  
12 they considered prudent and the least cost  
13 alternative to satisfying the resource.

14 Q. And could you refer to page 16 of the  
15 order?

16 A. Sure.

17 Q. Sorry, this is Exhibit 28.

18 A. I have it.

19 Q. Wait a minute for the Commissioners to get  
20 it.

21 A. Oh, I'm sorry, I guess we should wait for  
22 the Commissioners.

23 MS. TENNYSON: Page 28. I'm sorry, page 16  
24 of Exhibit 28.

25 Q. And looking at the second paragraph on that

00346

1 page, the Commission recites several factors or  
2 options that they considered and how to calculate or  
3 address the issue of what portion of the costs of the  
4 project would be allowed to be included in rate base;  
5 correct?

6 A. Correct.

7 Q. And in about the middle of that paragraph,  
8 one of them -- one of the options is stated as  
9 disallowing the difference between the project and  
10 any lower cost alternative?

11 A. Correct.

12 Q. Is that what the Commission did in this  
13 case?

14 A. Yeah, if you look on page 13.

15 Q. Yes.

16 A. If you look about right in the middle,  
17 where -- I guess it's the first -- the one, two,  
18 three, four, the fifth full paragraph down. It's  
19 nice that today you label the -- number the  
20 paragraphs, it's easier to refer to. Where it says,  
21 The Commission has carefully reviewed.

22 Q. Yes.

23 A. That paragraph. If you look -- and then it  
24 says down there, it says, In 1980, there was a  
25 forecast need for power, et cetera, and then it goes

00347

1 on to say, Even accepting the alleged errors in the  
2 original cost study and making adjustments for them,  
3 the Kettle Falls project was still the lowest cost  
4 means of meeting the forecasted need. And then, if  
5 you look at page 16, that's the level that was put in  
6 rates. So basically, the way I read that is the  
7 lowest cost alternative was what was rate based.

8 Q. Okay. That was -- you were referring to  
9 page 13 in the 1980 study. Could you look at page  
10 13, the last sentence on that page? Now, that  
11 indicates that as of 1982, the Kettle Falls project  
12 was no longer lowest cost alternative; isn't that  
13 correct?

14 A. That's because the costs went up between  
15 the 1980 study and the '82 study. So that was where  
16 the rub was, was at '80, that level, which was  
17 ultimately put in rates, that was considered the  
18 least cost alternative to meeting the load. By '82,  
19 it had gone up, and I think the Commission ruled we  
20 should have taken a look at that, and then they  
21 disallowed the increment between '80 and '82, and  
22 only put in the '80 level, which was judged to be the  
23 least cost alternative.

24 Q. And when was this project placed in the  
25 company's rate base? Do you know that?



00348

1 A. Would have been right after this order, so  
2 I suppose '80 -- I don't know exactly. Probably '80.

3 Q. The date of the order is what?

4 A. Three, yeah, '83.

5 Q. Okay. The service date on it indicates  
6 January of 1984, so it would have been in that time  
7 frame.

8 A. I'm sorry, '84, yeah.

9 Q. Okay. Now, RCW 80.28.025, you refer to  
10 that in your testimony, and you've included a copy as  
11 Exhibit 59, for reference?

12 A. Correct.

13 MS. TENNYSON: And Commissioners, this  
14 morning we did substitute the correct statute for the  
15 one that was originally marked as Exhibit 59, so you  
16 should have a Substitute Exhibit 59.

17 JUDGE SCHAER: It should be in front of you  
18 on the Bench, Commissioners.

19 MR. MEYER: May I approach the witness?

20 THE WITNESS: Would you give me the cite  
21 again, make sure I got the right one?

22 Q. 80.28.025.

23 A. Okay, I have it.

24 MS. TENNYSON: Commissioners, do you have  
25 it? I have an extra copy if --

00349

1 COMMISSIONER GILLIS: Yeah.

2 Q. Now, the statute was in place during the  
3 construction of Kettle Falls and at the time that  
4 that facility was placed into rate base; is that  
5 correct?

6 A. I believe so, but I'm trying to recall when  
7 it passed. Could you help me out?

8 Q. Well, on the copy, there is a parenthetical  
9 at the bottom, it says 1991, Chapter 347, Section 23;  
10 then 1980?

11 A. Okay, right. Because I think they changed  
12 it to create a 1980 to 1990 window, so yeah, I think  
13 that it was in effect, as I recall. I mean -- to the  
14 best of my knowledge, it was in effect.

15 CHAIRWOMAN SHOWALTER: I'm just a little  
16 confused. Are we looking at this exhibit to show  
17 what was in effect on a certain date?

18 MS. TENNYSON: No, actually, I'm going to  
19 refer to the particular language in the statute and  
20 the -- you know, if the witness would like to check  
21 the construction date, what we did is review the  
22 legislative history, and the 1991 amendment was to  
23 add the subsection two to this statute, so the  
24 effective date was 1980.

25 Q. And this was in place, then, prior to 1982,

00350

1 when the company chose to continue on with the Kettle  
2 Falls project, instead of proceeding with less  
3 expensive alternatives?

4 A. I'll accept that, yes. I'm pretty sure it  
5 was, but I hadn't thought that through, so okay.

6 Q. Referring to Exhibit 59, the statute. And  
7 it's a little more than halfway down the --  
8 unfortunately, they didn't break it up into nice,  
9 neat numbered paragraphs for us.

10 A. Okay.

11 Q. I'm looking at the sentence that begins,  
12 Measures or projects encouraged under this section  
13 are those for which construction or installation is  
14 begun after June 12th, 1980, and before January 1,  
15 1990. Now, that's the ten-year window you were  
16 referring to?

17 A. Right.

18 Q. And continuing on, And which, at the time  
19 they are placed in rate base, are reasonably expected  
20 to save, produce, or generate energy at a total  
21 incremental system cost per unit of energy delivered  
22 to end use which is less than or equal to the  
23 incremental system cost per unit of energy delivered  
24 to end use from similarly available conventional  
25 energy resources, and it goes on to refer to nuclear

00351

1 energy and fossil fuels and others. Do you see that?

2 A. Yes, and it goes on to say in the same time  
3 period.

4 Q. Okay.

5 A. And I think that's been interpreted to mean  
6 that we need a resource of equivalent length. So if  
7 you're looking for a 35 resource, 35-year resource,  
8 you need to have a 35-year alternative to look at.  
9 You can't look at a one-year alternative and compare  
10 it to a 35-year alternative.

11 Q. So you're referring to this clause that  
12 said, Could acquire to meet energy demand in the same  
13 time period?

14 A. Right.

15 Q. So that would include at the time the plant  
16 came on line, and you're indicating that you  
17 interpret that to mean, also, for the same time  
18 period, the energy demand would be there?

19 A. Yes, just so you're doing an apples to  
20 apples. I think the Department of Revenue actually  
21 looked at that and said that you have to make sure  
22 you look at the cost of Kettle, which was a 35-year  
23 resource. You can't just compare it to the spot  
24 market of electricity or a shorter term resource.  
25 You need to compare it to equivalent resources in

00352

1 terms of time, length of time they're available, that  
2 meets the demand, and also the size of the resource.

3           So comparing Kettle Falls to Colstrip, for  
4 instance, was not legitimate, according to the  
5 Department of Revenue, because you were looking at a  
6 plant which I think was 15 times bigger than Kettle  
7 Falls. So the company wouldn't go out and acquire a  
8 500 or 1,000-megawatt resource to meet a 50-megawatt  
9 load. So all those things bear on the equivalent --  
10 the notion of what's equivalent. Size, time frame,  
11 the firmness of the resource, et cetera.

12           Q. Referring at this point to exhibit -- I  
13 wrote it as 15. It's one of your exhibits. Let me  
14 double check the number we've marked it as.  
15 Fifty-six.

16           A. It's my 56?

17           Q. Your Exhibit 56, that's correct.

18           A. Okay.

19           Q. This is a listing of awards, and one of  
20 those is for an environmental award for the Kettle  
21 Falls plant?

22           A. Yes.

23           Q. And that was in what year?

24           A. Eighty-five.

25           Q. Now, hasn't the company had an electric

00353

1 rate case since 1985 before this one?

2 A. Yes, I think we had one in '87.

3 Q. And at that point, the company didn't ask  
4 for this -- for putting this -- applying 80.28.025,  
5 did it?

6 A. I don't think we did. No, I don't think we  
7 did. To the best of my recollection, I don't think  
8 we did.

9 Q. And now you're asking for this, what, some  
10 15 years after the plant's been put in rate base?

11 A. Yes.

12 Q. Okay.

13 A. I don't think the law restricted anything  
14 in terms of how long afterwards. It only restricted  
15 when the start date and completion date was.

16 MS. TENNYSON: Your Honor, at this point, I  
17 would -- since we have -- the only reason for  
18 offering Exhibit 60 was to include the page that the  
19 witness has added as of today, we can withdraw  
20 Exhibit 60. I would offer Exhibits 59, 61, 62 and  
21 63.

22 JUDGE SCHAER: Would you tell me again why  
23 you're offering Exhibit 59? This statute is  
24 presently in the code, is it not?

25 MS. TENNYSON: Yes, it is. I don't need to

00354

1 offer it. I did want to have it available to  
2 everyone to refer to, rather than just try to have  
3 everyone follow along as I read or looked at  
4 sections. If you would prefer not to have it as an  
5 exhibit, I have no problem. It is subject to  
6 judicial notice.

7 JUDGE SCHAER: I think I would prefer not  
8 to start putting current statutes into our  
9 proceedings as exhibits, but I do appreciate having a  
10 copy available for the cross.

11 MS. TENNYSON: Okay.

12 JUDGE SCHAER: So is there any objection to  
13 the entry of Exhibits 61, 62 or 63?

14 MR. MEYER: No objection.

15 JUDGE SCHAER: Those documents are  
16 admitted.

17 MS. TENNYSON: Thank you. I have no  
18 further questions for this witness at this time.

19 THE WITNESS: I guess I just would like to  
20 point out that that still is an exhibit in my  
21 testimony, the one you withdrew.

22 MS. TENNYSON: Yes, yes, the Exhibit 60 was  
23 withdrawn because it is duplicative of the exhibit in  
24 your testimony, so we don't really need to have it in  
25 here twice.

00355

1 THE WITNESS: Okay.

2 JUDGE SCHAER: She had offered it earlier  
3 because of the missing page, and you fixed that  
4 problem.

5 THE WITNESS: She's not trying to withdraw  
6 one of my exhibits.

7 JUDGE SCHAER: No, it would be fun if she  
8 tried, but we aren't going to have that much fun  
9 today.

10 THE WITNESS: I thought it was pretty easy  
11 to do it. It sounded like a neat trick. We should  
12 figure this out.

13 JUDGE SCHAER: Mr. ffitch, did you have  
14 questions of Mr. Dukich?

15 MR. FFITCH: Yes, Your Honor.

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

17 BY MR. FFITCH:

18 Q. Good morning, Mr. Dukich.

19 A. Good morning.

20 Q. Just a couple of questions. This may well  
21 show up in one of the many exhibits that we have, but  
22 can you tell us how much the 25 basis point equity  
23 kicker translates to in terms of dollars?

24 A. I think it's about \$1,280,000.

25 Q. You testified earlier that, in response to



00356

1 Staff Counsel's questions, that really the dollars  
2 are less important than the recognition. Was that  
3 basically what you said?

4 A. I probably will live to regret that  
5 statement, but that's what I did say, I think. I --

6 Q. Well, and your exhibits reflect that Avista  
7 has received a number of awards and commendations  
8 from various organizations, did they not?

9 A. Yes.

10 Q. Would Avista be satisfied in this case if  
11 the Commission made specific recognition in the order  
12 of above-average management activities, if indeed it  
13 concluded that that was warranted, rather than to  
14 recognize that with the actual equity kicker?

15 A. No, I believe that -- I'm trying to resist  
16 some cliché, a little snippy little comment --

17 Q. Go ahead.

18 A. -- about money and mouth and stuff. But I  
19 think it's important to recognize that with an actual  
20 -- a monetary award, and I think it's at a level that  
21 I think there are several of these achievements, I  
22 think, that would clearly exceed in value that  
23 amount. The hydro relicensing, for instance, I think  
24 would probably exceed the value of this monetary  
25 award by multiple factors, magnitudes, I would think.

00357

1 So I think it can still be conceived of as a benefit  
2 to customers, even though it would be dollar awards.  
3 I think the dollar award is important to the company  
4 and to management and to, I think, analysts, because  
5 they --

6 Q. Well --

7 A. Typically, when -- I don't want to say they  
8 dismiss language, but language --

9 Q. Mr. Dukich.

10 A. -- is less important than the actual award.

11 Q. All right, thank you. Let me ask you to  
12 look at page seven of your testimony. At the top,  
13 lines two and three -- this is Exhibit T-46. There  
14 you list some of the benefits, kind of following up  
15 on your previous answer, you list some of the  
16 benefits that the customers have experienced from the  
17 exceptional performance of management, including rate  
18 stability. Is that one of the listed items there?

19 A. Yes.

20 Q. Isn't there something ironic about asking  
21 for a rate increase in order to reward the company  
22 for maintaining rate stability?

23 A. I suppose in some universe, but I don't see  
24 that as -- no, I don't.

25 Q. And at the bottom of that page, starting at

00358

1 line 16, you indicate that there is authority under  
2 which the Commission can allow such a request; isn't  
3 that right?

4 A. Yes.

5 Q. Are you aware of any Commission decision  
6 which allows an increase of the specific type that  
7 you've requested here?

8 A. No. I might add, though, that I think that  
9 in the Centralia case, we talked about the  
10 Commission's ability to -- I forgot what the language  
11 was -- regulate and broaden appropriate ways. I  
12 can't remember the language, but the Supreme Court  
13 case which gave the Commission a lot of authority. I  
14 would think, in that vein, they certainly could, in  
15 addition to what's been done in the past, they seemed  
16 to have assessed penalties, and it would make sense  
17 to me that it would logically follow that they could  
18 also assess the opposite, increases in equity.

19 Q. But your answer is no, the Commission has,  
20 to your knowledge, never before allowed an increase  
21 of the specific type that you're requesting here?

22 A. We didn't do -- to tell you the truth, I  
23 didn't do incredibly exhaustive research, because I  
24 felt that as a broader policy issue, what mattered  
25 was looking at it now. But in the past, I'm not

00359

1 aware of any that I found.

2 Q. So isn't it true that if the Commission  
3 were to consider this request, that there are no, at  
4 present, no particular criteria for the Commission to  
5 apply and no particular formula or mechanism under  
6 which the Commission would determine a specific  
7 amount of increased return on equity, that would be  
8 triggered by particular types of management  
9 performance?

10 A. I suppose you could say that if you look at  
11 maybe some of the cost or the service standards that  
12 were developed, I think in the Puget Sound case, and  
13 maybe in Scottish Power, you could use those as a  
14 guideline. And even though there's not specific  
15 quantitative data presented here, you could certainly  
16 look at us in terms of customer complaints, rates,  
17 rate stability, those kinds of things, and see if we  
18 -- how we did compared to those benchmarks.

19 But in addition, I presented other things,  
20 as well, in terms of customer service and call center  
21 availability, et cetera. Some of the criteria that  
22 Scottish talked about, I think our call center has  
23 achieved already.

24 Q. But the Commission has not yet adopted a  
25 framework or a set of criteria for allowing this type

00360

1 of equity kicker and would have to do so in this case  
2 if it were going to; is that right?

3 A. I'm talking myself into this. I think in  
4 PSE's mechanism, isn't there an opportunity to earn a  
5 rate of return kicker if you satisfied certain things  
6 within the bandwidth? Am I wrong about that? I  
7 think there is, and I guess you could say it's not  
8 equity, but it's rate of return, which is the same  
9 thing, I mean, ultimately. So yeah, I guess there is  
10 a precedent in that.

11 Q. We can go look at that decision and find  
12 out if you're right.

13 A. Right.

14 Q. If you were to assume, hypothetically, that  
15 the Commission in this case would reject all of the  
16 other aspects of the company's rate increase request,  
17 other than the equity kicker, would you still  
18 recommend that the equity kicker be allowed?

19 A. Could you say that again?

20 Q. Well, let's assume everything else gets  
21 rejected by the Commission, the only thing left on  
22 the table is your equity kicker. Is the company  
23 still -- or would the company still recommend that an  
24 equity kicker be allowed?

25 A. I would think so.

00361

1 MR. FFITCH: Your Honor, I don't have any  
2 more questions for Mr. Dukich. Thank you, Mr.  
3 Dukich. I could, at this point, attend to the matter  
4 of the SNAP exhibits, if you would like, or do that  
5 at the end of the witness' cross-examination.

6 JUDGE SCHAER: Let's do that now, please.

7 MR. FFITCH: Your Honor, as Mr. Meyer,  
8 Counsel for the company is aware, we had a request by  
9 SNAP to offer certain data requests for the record,  
10 and Public Counsel has agreed to assist SNAP by  
11 presenting those today so that representatives of  
12 that organization would not have to travel to the  
13 hearing room, and we appreciate also the cooperation  
14 of and the accommodation of Avista in this regard.

15 The exhibits that I'm referring to are  
16 exhibits -- have been marked for identification as  
17 Exhibits 64 through 83, and these exhibits constitute  
18 responses by the company to SNAP data requests. I  
19 have distributed copies of these to all Counsel.  
20 It's my understanding that the Bench already has a  
21 set of these. It's also my understanding that, from  
22 Mr. Meyer, that the company has no objection to these  
23 being made a part of the record. So I would like to  
24 offer them at this time, Your Honor.

25 JUDGE SCHAER: Okay. Let me indicate that

00362

1 I was contacted last week by Mr. Andre, from SNAP,  
2 asking how he could get the company's responses to  
3 his data requests made part of the record. And I did  
4 recommend that he contact you, Mr. ffitch.

5 And it's my understanding of these  
6 exhibits, he had not provided the exhibits by our  
7 prehearing conference last Wednesday, and I did  
8 require him to provide them to the Commission and to  
9 all parties no later than the end of last Thursday.  
10 The Commission did receive copies. They are included  
11 in the exhibit list. And it's my understanding, let  
12 me confirm this with you, Mr. Dukich, that these are  
13 data requests that were made to you by SNAP; is that  
14 correct?

15 THE WITNESS: Correct.

16 JUDGE SCHAER: And that these are your  
17 responses to those that were prepared by you or under  
18 your supervision?

19 THE WITNESS: Yes.

20 JUDGE SCHAER: And are they true and  
21 correct, to the best of your knowledge?

22 THE WITNESS: Yes.

23 JUDGE SCHAER: Okay. Then these documents  
24 have been offered. There is no objection, and they  
25 will be admitted.

00363

1 MR. FFITCH: Thank you, Your Honor.

2 JUDGE SCHAER: I'm going to suggest that we  
3 take our morning recess at this time. So let's take  
4 a recess until 10:45 by the clock in this room, and  
5 we're off the record.

6 (Recess taken.)

7 JUDGE SCHAER: Let's be back on the record  
8 after our morning recess. Ms. Dixon, did you have  
9 questions at this time?

10 MS. DIXON: Yes, I did.

11 JUDGE SCHAER: Go ahead, please.

12 MS. DIXON: Thank you.

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

14 BY MS. DIXON:

15 Q. Hi, Mr. Dukich. I'm Danielle Dixon,  
16 representing Northwest Energy Coalition. I'd like to  
17 refer you to your direct testimony, Exhibit 46.

18 A. Okay.

19 Q. And start at page two, lines nine through  
20 11.

21 A. Okay.

22 Q. So in your testimony, you propose an upward  
23 adjustment return on equity to, quote, recognize and  
24 reward the company for its innovative management and  
25 strategic initiatives; is that correct?



00364

1 A. Right.

2 Q. Okay. Included among the accomplishments  
3 that you list in your testimony are the DSM tariff  
4 rider, innovative DSM programs, fuel switching  
5 program and Project Share. You also state in your  
6 testimony on page six, lines 22 to 23 --

7 A. Okay.

8 Q. -- that customers are demonstrably better  
9 served by these actions; is that correct?

10 A. Correct.

11 Q. Could you please elaborate on why these are  
12 good investments from the shareholder perspective?

13 A. What do you mean by these?

14 Q. Investments such as the DSM tariff rider,  
15 DSM programs, Project Share, fuel switching programs?

16 A. They're probably more beneficial to  
17 customers. In some sense, you could make the case  
18 that the DSM tariff rider doesn't allow the company  
19 or its shareholders to earn on DSM investments. I  
20 mean, there are no DSM investments; it's just an  
21 expense. So probably most of the other -- to the  
22 extent it makes it a better managed company and it's  
23 recognized for that, probably most of the benefits, I  
24 think, on the categories you listed go to customers.

25 Q. Okay. Switching gears, also in Exhibit 46,

00365

1 pages eight through ten --

2 A. By the way, I don't mean to imply that a --  
3 a benefit to a customer is still a benefit to the  
4 company. I don't mean to imply that that there's  
5 that distinction. But I took your question to mean  
6 that somehow we wanted to assign more relevance to  
7 one than the other. I'm sorry, what was the next --

8 Q. Pages eight through ten.

9 A. Okay.

10 Q. You make the case here that the company  
11 should receive a higher return on investment for the  
12 renewable energy from the Kettle Falls generating  
13 plant. And what I'd like to know is what is the  
14 origin of the wood waste used to generate electricity  
15 out of Kettle Falls?

16 A. I think the waste -- I don't know what the  
17 exact miles are, but it comes from the region. And I  
18 think originally the plant, as I recall, believe it  
19 or not, I think at the time the plant was conceived  
20 and built, there were actually still tepee burners  
21 where stuff was burned, but I don't know what the  
22 mile radius is, but it's certainly the mills around  
23 Northeastern Washington, as well as into Canada.

24 Q. And does the company maintain a record or a  
25 file somewhere that would actually list out the mills

00366

1 themselves, the individual mills that provide that  
2 wood waste?

3 A. I would assume so, yeah. We have fuel  
4 contracts with the different providers.

5 Q. And to the best of your knowledge, has  
6 Avista encouraged its wood waste providers to  
7 implement management and harvest practices that are  
8 consistent with the sustainable forestry guidelines  
9 issued by the Forest Stewardship Council?

10 A. I can't answer that.

11 Q. Okay. Is that something you'd be able to  
12 find out from the company, though?

13 A. Yes.

14 MS. DIXON: Okay. Thank you. That's it  
15 for me.

16 THE WITNESS: Okay.

17 JUDGE SCHAER: Did you want to make that  
18 Record Requisition Number 13?

19 MS. DIXON: If I could, that would be  
20 great.

21 JUDGE SCHAER: Okay. So you could provide  
22 the information. Would you want to list the name of  
23 the guidelines, again, Ms. Dixon?

24 MS. DIXON: Yes, it was guidelines issued  
25 by the Forest Stewardship Council, which is an

00367

1 international organization.

2 JUDGE SCHAER: All right. And you want to  
3 know whether the company is following those  
4 guidelines; is that correct?

5 MS. DIXON: And as part of that, I'd like  
6 to know what the actual individual sources are of the  
7 wood waste, and then, for each of those sources, are  
8 each of those following those Forest Stewardship  
9 Guidelines.

10 JUDGE SCHAER: So it's a two-part request.  
11 First you want to know fuel sources, and secondly,  
12 for each source, you want to know whether they're  
13 following the guidelines; is that correct?

14 MS. DIXON: Exactly.

15 JUDGE SCHAER: Mr. Dukich, you indicated  
16 that that information is available somewhere?

17 THE WITNESS: Oh, I have no idea. I  
18 suspect it's not, but I don't know for sure.

19 JUDGE SCHAER: But you can find out if it  
20 is and let Ms. Dixon know either that you have found  
21 out that they comply or that the information is not  
22 in your files?

23 THE WITNESS: I don't know how we would  
24 know that. I think it goes beyond the scope of what  
25 we'd normally do in a contract, but that's just a

00368

1 guess.

2 JUDGE SCHAER: I'm misunderstanding your  
3 earlier answer, then. What was it that you said you  
4 could find out?

5 THE WITNESS: She asked me whether or not  
6 our suppliers follow, as I got, whether they follow  
7 these guidelines. And I said I don't know.

8 MS. DIXON: I thought I heard you say that  
9 you might be able to find out that information, along  
10 with the information about who the actual individual  
11 suppliers are?

12 THE WITNESS: We have the fuel contracts,  
13 I'm sure, and we know what the provisions of those  
14 contracts are to delivery and those kinds of things.  
15 I don't know whether there are other provisions. I  
16 recall having seen them in the past. I don't think  
17 there are other provisions that go beyond having the  
18 owner provide wood waste. And the definition of  
19 waste is what the owner doesn't -- wants to market to  
20 the company.

21 JUDGE SCHAER: I'm going to let you review  
22 your answer to Ms. Dixon instead of going back into  
23 the transcript now, and ask you, as this record  
24 requisition, to provide what you have in response to  
25 her queries. And if you don't have something, you

00369

1 don't have it.

2 THE WITNESS: That's what I was assuming,  
3 if we couldn't do that. I suspect we don't ask  
4 people to sign some sort of pledge that they follow  
5 these guidelines, but some of the people may. I  
6 don't know.

7 Q. And actually, can I repeat, part of the  
8 question was, just to clarify, was whether Avista has  
9 encouraged any of its providers to implement these  
10 guidelines, to the best of your knowledge?

11 A. I don't know that.

12 Q. Okay. And that's something you'd be able  
13 to provide, as well?

14 A. I assume we can, yes.

15 MS. DIXON: Okay. Thank you.

16 JUDGE SCHAER: Commissioners, did you have  
17 questions for Mr. Dukich?

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

19 BY CHAIRWOMAN SHOWALTER:

20 Q. Yeah, I want to explore a little bit more  
21 your proposal for the 25 basis point kicker and how  
22 that fits in the context of other incentives that the  
23 Commission has or could order.

24 It strikes me that you have -- the  
25 Commission has, at its disposal, negative penalties

00370

1 for bad behavior and it has, I think in the past,  
2 tried to fashion positive incentives for good  
3 behavior. Then there are rewards and punishments for  
4 past behavior and rewards and punishments for future  
5 behavior, I think is another way to put it.

6 A. Right.

7 Q. And for example, I think one of the  
8 theories behind the purchased gas adjustment  
9 experiment was that it would be a contemporaneous  
10 sharing of rewards. My question on this 25 basis  
11 points is whether it is any incentive for future  
12 behavior. If you were awarded it in a rate case and  
13 then have no need to come in for a new rate case, and  
14 we would have no ability, I assume, to change that  
15 rate, that increment of the rate, we would have an  
16 ability to penalize the company, I think, for various  
17 violations, but what kind of incentive for future  
18 conduct would that kicker be?

19 A. First of all, I think there are different  
20 ways the Commission could do it. We'd prefer that it  
21 be an explicit award, but it certainly can also do it  
22 by, you know, bumping the company to the top of the  
23 equity range, but I think the danger in that is that  
24 it really isn't awarded; it just ends up being kind  
25 of garbled, but -- so that I think it can be done and

00371

1 I think it's in the ability of the Commission to do  
2 that.

3           In terms of whether the future versus past  
4 behavior, I believe, with some foundation, I might  
5 add, that rewards usually are premised on the fact  
6 that you reward behavior that's already occurred and  
7 that increases the probability the behavior will  
8 occur in the future.

9           And I can speak from my experience at the  
10 company for over 20 years that a notion that the  
11 company's behavior could result in higher returns on  
12 equity would affect the performance of people at the  
13 company. I just think that it would act as an  
14 incentive. And because they got it once doesn't mean  
15 they would stop; it means they would do it more  
16 often, just like all other rewards. That's the  
17 principle of how rewards work.

18           One of the problems I've had in the past is  
19 that sometimes incentives are awarded without asking  
20 the person you're giving them to whether they're an  
21 incentive or not an incentive. I guess, in this  
22 case, I guess what I'm saying is that they would be  
23 an incentive to us, from the basis of experience, and  
24 they follow the principles of rewarding, prior  
25 behavior increases the probability it will occur in



00372

1 the future.

2           So I don't see that as inconsistent, but I  
3 do understand also the other, which might be -- I  
4 would rather refer as a specification of  
5 contingencies to the future, and that's the benchmark  
6 where, if you meet these things, then you get a  
7 reward. So either one, I think, is appropriate.

8           Q. Do you agree it's not as tailored to  
9 specific behavior as a shared benefit for achieving a  
10 lower price, for example, on gas?

11          A. It's not, and as a result of that, it may  
12 even be more effective, because it's a general reward  
13 for overall management, whereas if you made a reward  
14 simply for, you know, having a customer get a live  
15 person on the phone within X number of seconds, then  
16 maybe everybody would focus just on that. And a more  
17 generic -- I don't want to say generic, but a broader  
18 scope incentive may actually be more effective in  
19 terms of affecting more behaviors for the buck.

20           So -- and on the basis of the experience of  
21 the company, I would believe that would actually be  
22 true. Then people in the company say, you know, if  
23 we do a good job, this is reflected in how much the  
24 company earns.

25          Q. Then another way to look at rate-making, I

00373

1 guess, is that the Commission stands as a substitute  
2 for the market and your monopoly, but if you weren't,  
3 what kind of return would you be getting in a  
4 competitive situation, and we're supposed to take  
5 that into account.

6           So is there a valid argument that a company  
7 that does very well by its customers would earn more?  
8 If you imagine yourself in a competitive market doing  
9 the things you're doing, does it mean that you would  
10 likely get the equivalent of that kicker?

11       A.    I think, in a competitive market, you  
12 would.  If you have the call center of the year and  
13 if you have recognition as the outstanding Internet  
14 site providing customer kinds of services on the  
15 Internet for billing and energy conservation, which I  
16 think is recognized with a national award -- by the  
17 way, competitors of utilities ten times our size, we  
18 were even put in the number one, in the A category.  
19 We were supposed to be in the B category with smaller  
20 utilities, but even being put in the top category, we  
21 won that award for that.  So I would think that that  
22 would be reflected in higher ability to earn in a  
23 competitive environment.

24       Q.    Does it amount to saying customers will pay  
25 more for better service?

00374

1       A.    Yes.  I think that's why it's okay for the  
2 Commission to do this, because I would view it as  
3 compensatory for a level of service that maybe is  
4 above what might be called adequate.  And it's a  
5 fairly small amount.  You know, if you did it on a  
6 per-customer basis, it would be a pretty small  
7 amount.  I would think customers would pay 25 cents  
8 more a month for better service.

9       Q.    Of course, one scenario is customers will  
10 pay more for better service, and the other, for  
11 example, in the airline industry, is basically  
12 they're very cost-driven, and they'll pay less for  
13 less service.

14       A.    That's true.  I suppose we could examine  
15 that theory.  I think, in terms of utility services,  
16 we usually assume that -- well, the saying in the  
17 business -- I think, in general, Mr. Turner probably  
18 could speak to this better, is that customers want  
19 lower prices and better service at the same time.  I  
20 mean, that's what they really want.  So I don't know  
21 if they necessarily want to make the tradeoff for one  
22 versus the other.

23                But to me, it's like, as a policy, don't  
24 you want a policy that somehow recognizes  
25 better-managed versus inadequately-managed?  And it

00375

1 just seems like that would be a way to encourage  
2 better-managed companies.

3 Q. Well, then, another question is how, what  
4 the interplay of that type of reward that you're  
5 proposing would be with other rewards and incentives  
6 that the Commission might order. For example, a PGA.  
7 Are we rewarding the company twice for good conduct?

8 A. I didn't have the benchmark on my list as  
9 things in my testimony. I would consider that. No,  
10 that wasn't put in my -- I don't think so. I think  
11 some of the things I talked about are not easily  
12 amenable to kind of a benchmark mechanism. They're  
13 overall approaches, like, to hydro relicensing. I  
14 mean, I think that's one of the best examples. It's  
15 unprecedented, and maybe Mr. Anderson can speak to  
16 this, as far as I know, the only license that's ever  
17 been granted in time in the history of the FERC and  
18 written up in the New York Times. So how would you  
19 have specified that as a benchmark?

20 Q. Well, the --

21 A. To pre-specified it. It's behavior that  
22 comes as a result of a general approach to innovation  
23 and trying to do things better and quicker and more  
24 creatively.

25 Q. But, then, do you agree that this kicker

00376

1 should be reserved for things that are not already  
2 recognized in some other incentive mechanism?

3 A. Yeah, I could buy that. I could say  
4 otherwise you might be double counting. If there was  
5 an incentive mechanism on -- well, I don't know. I  
6 guess you'd have to think about what those were. I  
7 don't think that the benchmark on gas purchases, it's  
8 very specific to a particular issue about the company  
9 incurring a lot of risks on gas purchases and how  
10 could we maybe earn on that.

11 Q. Well, maybe, at a minimum, before  
12 considering the kicker, we would have to take into  
13 account other incentives or rewards that we may have  
14 ordered.

15 A. Exactly. Let's make a list, first of all,  
16 of what the company already has at its disposal. Do  
17 you have an earning sharing mechanism like PSE? Is  
18 that already available to you -- which they do have,  
19 as I recall now. There's a mechanism there to  
20 actually increase rate of return, share that with  
21 customers. So if that's not available -- but I do  
22 think these incentives maybe go beyond that a little  
23 bit, though. They are recognition for, I think, as  
24 the utility, some innovative and forward looking  
25 kinds of activities.

00377

1 CHAIRWOMAN SHOWALTER: Thanks.

2 COMMISSIONER HEMSTAD: I don't have any  
3 additional questions.

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

5 BY COMMISSIONER GILLIS:

6 Q. Chairwoman Showalter's talking about the  
7 airlines reminded me of a colleague I was traveling  
8 with last week, sandwiched between two spring  
9 breakers in the middle seat. He reported that he  
10 ended up paying \$2,000 for his plane ticket. I don't  
11 think he was paying less for less service.

12 CHAIRWOMAN SHOWALTER: I forgot that  
13 alternative. More for less.

14 Q. More for less. The Kettle Falls equity  
15 incentive, what would be incenting the company to do  
16 it if we were to approve that?

17 A. Even though it's delayed, it was a  
18 recognition that the company had pursued developing  
19 renewable resources and -- in the statute. And the  
20 statute allowed for that. And it is, and again, I  
21 just -- this is purely an experiential (sic) thing,  
22 that when we talk about regulation and incentives,  
23 it's frequently mentioned about Kettle, that it was  
24 an environmentally desirable alternative, it's won  
25 awards, and yet we can't even get the kicker.

00378

1           So there's comments like that made. So I  
2 think as an incentive, both in terms of the statute,  
3 which I think we can argue literal, whether we  
4 qualify in those terms, deserved, in quotes, versus  
5 just the policy thing. I think it does make a  
6 difference, even though it's delayed.

7           Q.    Would it result in any additional  
8 generation of renewable -- from a renewable resource  
9 than would occur otherwise?

10          A.    I don't think there's any statutes in the  
11 books now to do that, but if there were, it might.

12          Q.    Your testimony didn't seem to rely at all  
13 on customer preferences for a resource of this type.  
14 Is that part of your argument or not, or is it purely  
15 relying on the statute?

16          A.    It was pretty much relying on the statute.

17          Q.    More or less, you just deserve it, from the  
18 statute?

19          A.    More or less, yes.

20          Q.    Well, let me just ask you, then, in a  
21 different line, because it doesn't seem to be what  
22 your argument is centered on. Do you see the  
23 potential of customer preferences for environmental  
24 resources?

25          A.    I think there's a segment of the customers

00379

1 that do at least profess to have some preference, and  
2 whether or not they pay -- the amount of premium they  
3 pay may be in question, but there are certain  
4 segments of customer base that are like that. I  
5 think that's the way the world works, is that there's  
6 a product mix, and certain customers have certain  
7 preferences and others have others, and you try to  
8 address all those in one fashion or another.

9 Q. But what is the justification for asking  
10 ratepayers to pay more for a resource of this type  
11 when what you're suggesting is all -- there's certain  
12 segments that are interested in this resource,  
13 certain aren't. It seems to me your MOPS pilot  
14 demonstrated that, as well?

15 A. Right.

16 Q. So what's the justification of simply  
17 adding a charge on to everybody's bill as a blanket?

18 A. I think the justification at this point is  
19 the legislature ruled that it was reasonable to  
20 provide incentives to encourage renewables. And they  
21 made a whole list that wood waste was only one of  
22 those, but there was all sorts of other ones,  
23 including DSM, by the way. DSM also has, I think, as  
24 I recall, a certain percent equity kicker available  
25 on it, as well.



00380

1           So I guess, legislatively, people have  
2 ruled that it does provide incentives, and I think it  
3 does. It may be even disproportionately to the  
4 amount of money that's actually involved. I know  
5 that from my experience both in DSM, as well, that  
6 the whole issue of DSM incentive, when our DSM  
7 programs were first put into place, was a big issue.  
8 So I don't think it's -- I don't think we can  
9 discount the power of it, the money aside, so what  
10 customers pay for it, it may actually be worth it, in  
11 terms of what the company develops given the  
12 legislative intent. And that's a preamble there, the  
13 intent of the legislature to do this.

14       Q. I know you're familiar with the disclosure  
15 legislation that passed --

16       A. Right.

17       Q. -- this year. And with that legislation,  
18 there is some more opportunity, I suppose, for a  
19 green tariff filing. Would that be an option for the  
20 company, to file a, for lack of a better term, a  
21 green tariff, a tariff that would support, on a  
22 customer basis, a higher charge for specific  
23 resources that customers may want?

24       A. We kind of evaluated that. I'm trying to  
25 recall now that, in the MOPS studies, we did have the

00381

1 option where people could purchase wood waste for a  
2 premium. I can't recall off the top of my head the  
3 percent that signed up for that versus wind. I think  
4 maybe wind was a little more popular, partly maybe  
5 because of availability, just understanding of it  
6 all. But the word waste, for instance, doesn't have  
7 a nice term. It's not very whizzy, from a marketing  
8 point of view.

9           But I think our evaluation was that we  
10 could offer a green tariff, but we're not sure how  
11 much activity there would -- and whether that would  
12 provide a premium in that sense. Is that what you  
13 mean?

14           Q. Well, yeah. I mean, your basis, at least  
15 your label was a Kettle Falls equity incentive, and I  
16 suppose the ultimate incentive is whether or not the  
17 marketplace would be willing to support the resource  
18 itself, the use of the resource, and in an era where  
19 that wasn't an option, there was more, I suppose,  
20 guesswork in what the market would support in market  
21 failure, if you will.

22           But now that you have the opportunity to  
23 create a marketplace for given resources, I suspect  
24 it's possible to actually have an incentive through  
25 appropriate --

00382

1           A.    Yeah, probably for the company, maybe a  
2 more powerful one would be to the extent that  
3 whatever federal deregulation legislation includes  
4 certain provisions for renewables, and we certainly  
5 would meet that criteria pretty easily for Kettle  
6 Falls.

7           Q.    Even in the portfolio model, I suppose.

8           A.    Right.

9           Q.    Oregon didn't necessarily require that?

10          A.    My gut feel is that it doesn't provide the  
11 kind of incentive we're talking about or that there  
12 ought to be both available. I'm not sure why we  
13 should be precluded from not being able to avail  
14 ourselves of what the legislature made available.  
15 But the Commission has to approve it, as well.

16                  The Department of Revenue did take a look  
17 at it and concluded that we did meet the criteria.  
18 They awarded a tax credit for the plant. The  
19 legislature, I think in its passing of the bill,  
20 talked about a two-sided approach to this. If you  
21 get a tax credit and that tax credit is passed on to  
22 customers, and it's reflected in this case, but they  
23 said if just that happens, then customers are  
24 rewarded, in quotes, but the company isn't.

25                  So this increase in cost you're talking

00383

1 about as a result of the equity kicker is supposed to  
2 be offset by a tax credit, and that's in the  
3 discussion of the legislation when it was passed. So  
4 the customers really, in a sense, aren't paying more  
5 for this, because they got a tax credit, which  
6 lowered their rates, and then the company is supposed  
7 to get an equity kicker, which balances that off, so  
8 everybody's supposed to win on this. So the theory  
9 that the customers are paying more for this because  
10 it's a renewable plant was supposed to be offset by  
11 this tax credit.

12 Q. Well, just to close the loop, then I want  
13 to move to a different topic, but taxpayers are  
14 customers, too, aren't they? In that the tax -- if  
15 there's a tax credit, presumably --

16 A. It's flowed through to customers, yeah,  
17 that's the whole point. The tax credit goes to the  
18 company, but in rate-making, that's flowed through to  
19 the customers. So their rates end up being lower  
20 because Kettle Falls is renewable.

21 Q. If there's a tax credit, that means there's  
22 less taxes being collected from --

23 A. From customers.

24 Q. Yes.

25 A. Right.

00384

1 Q. But somebody else is paying additional  
2 taxes because of that, assuming that --

3 A. Oh, like they made it up from somebody  
4 else?

5 Q. No free lunch, in other words?

6 A. I don't recall the legislature talking  
7 about that.

8 Q. What I wanted to ask you about, in addition  
9 to this, is the 25 percent equity kicker, I guess  
10 we've been calling it. Isn't exceptional management  
11 rewarded through the capital markets even for  
12 regulated companies?

13 A. I don't know if it's totally rewarded, no.  
14 I'm not sure that if you look at the peer groups or  
15 whatever, however you want to look at this, that the  
16 difference between an adequate reward, adequately run  
17 company with a certain emphasis and a well-managed  
18 company with another kind of emphasis is always  
19 reflected in the capital markets. I think that might  
20 require, just like maybe difference in the philosophy  
21 of an airline, how they appeal to customers, they  
22 might be both as profitable, but we might judge one  
23 as being a bit more desirable. So I don't think  
24 that's totally reflected, no, particularly in a  
25 regulated environment.

00385

1 Q. Isn't excellent management something that's  
2 considered in credit ratings, or I should say Wall  
3 Street ratings? Probably a better term.

4 A. I think so, yes. I think there's some  
5 reflection of that. I don't know if it's totally  
6 reflected, however. They may have some words there  
7 that show that you're -- they like the way you're  
8 managed or that you have a DSM tariff rider or  
9 whatever, but I'm not sure that's reflected in a  
10 one-to-one correspondence with a bond rating or  
11 whatever. I think it's a lot more risky to rely on  
12 those kinds of evaluations than it would be a  
13 specific Commission ruling on the kicker.

14 Q. Isn't another example, companies managed  
15 with excellence have an easier time attracting  
16 capital from the stock market directly, as opposed to  
17 the bond market?

18 A. Well, I think it's a pretty -- if I were  
19 dispensing rewards, one thing that's true about  
20 rewards is the contingencies need to be nice and  
21 clear and sure. If I say, you know, if you practice  
22 your piano, you have a probability of .37 of getting  
23 a dessert versus a probability of 1.0, I think the  
24 1.0 is a lot more powerful incentive than relying on  
25 analysts' evaluation of credit rating or whatever. I

00386

1 think that's a more -- the steps, the causal steps  
2 between those two things are many, and I think that  
3 the relationship degrades when you get far apart,  
4 versus a Commission policy that says recognition for  
5 well management is X, and it's clear, the probability  
6 is 1.0, versus relying on analysts who may be swayed  
7 by whatever is happening in the market at the time.

8 Q. But it appears to me that what you're  
9 suggesting is, through both, and it's the same  
10 question I asked you regarding the Kettle Falls  
11 incentive, is that it appears that you're suggesting  
12 that it's appropriate for regulators, as a body, to  
13 make judgment on what are the appropriate reward  
14 incentive, rewards incentives, as opposed to a  
15 marketplace making that judgment. Or are you  
16 suggesting that the marketplace just simply won't do  
17 it? Maybe that's what I hear you saying.

18 A. Well, to me, I'm making the suggestion  
19 that, as a matter of policy, the Commission ought to  
20 have something in place that recognizes well-managed  
21 companies versus adequately managed and not to rely  
22 on the market to do that.

23 Q. I guess the question, are you -- then is it  
24 your testimony that the market does not reward  
25 adequately?

00387

1           A.    I don't believe that the market does that  
2 in a way that is as powerful as would happen if the  
3 Commission did it.

4           Q.    Does it at all?

5           A.    It must do it to some extent.  I would  
6 think it does.  Because if you look at S&P ratings or  
7 something, they may say the company has hydro  
8 relicensing, it's gotten high marks in some of our, I  
9 think, write-ups, and reduces risk to the future in  
10 our plants or relicensing, so it does to some extent.  
11 But, again, I think that you can be in an era of  
12 financial consequences whether that be a big  
13 write-off or whatever that may cause ratings to be  
14 very negative, and yet the company could be  
15 well-managed in many other ways.

16                    So the correlation is just -- the scatter  
17 plot is very scattered.  You'd have a big scatter  
18 plot like this if you relied on analysts with maybe  
19 some relationship in there, but if you looked at the  
20 Commission activity, it would be a one-to-one nice  
21 line with no deviations around the relationship  
22 between rewards and behavior.

23           Q.    Has the company considered filing an  
24 alternative form of regulation request following the  
25 rate case, perhaps?



00388

1           A.    Yes, we have.  I think we've talked about  
2 that and we had a discussion about, at this point in  
3 time, with this case, because it's been a while since  
4 we've been in a lot of issues.  It would be cleaner  
5 to do it after the revenue requirement was set.  So I  
6 think that would still be a way to proceed.  And if,  
7 as a result of that, there was a judgment that that  
8 was double rewarding the company, I mean, that's  
9 something that could be looked at in the PBR case.

10          Q.    What I was going to ask you, wouldn't the  
11 issues such as a management incentive or revenue  
12 incentive of various types be more appropriately  
13 addressed in a proceeding that is focused on  
14 different forms of regulations, and there was other  
15 parts of your case that I guess appear to me to be  
16 essentially incentive-oriented things that I would  
17 more typically have thought of in the context of an  
18 alternative form of regulation?

19          A.    Right.

20          Q.    So I guess the more succinct question is  
21 why are they here, rather than potentially a future  
22 filing?

23          A.    It struck me that, as we looked at our  
24 company over the last ten years or so, and in  
25 addition to rate stability, there were a lot of other

00389

1 things the company had accomplished. I think one of  
2 the shortcomings of a PBR approach is it is an  
3 approach that basically usually results in cost  
4 containment kinds of issues or those kinds of  
5 measures.

6 I think it would be difficult to capture  
7 some of the things we've accomplished in a PBR  
8 mechanism, whether that be hydro relicensing or the  
9 best Internet site, or a lineman winning the rescue  
10 contest, and some of the other things I've mentioned.

11 So I think that there are -- there is  
12 excellence beyond things that are captured in a PBR  
13 mechanism. So I think it's appropriate to ask the  
14 Commission to maybe decide whether it wants to try to  
15 recognize that beyond just a PBR mechanism, which  
16 frequently goes to, like I said, these -- there are  
17 things that are easier to measure, so since they're  
18 easier to measure, they a lot of times don't capture  
19 some of the most creative activity.

20 Q. I guess the final question is, as I hear  
21 you talk and describe these, both in the context of  
22 the Kettle Falls incentive and the equity incentive  
23 or whatever it is, it appears what you're asking for  
24 is recognition of a past achievement of some sort.  
25 In the case of Kettle Falls, it's you invested in a

00390

1 renewable resource in the past and the management one  
2 is documented, management excellence, as opposed to  
3 at least what I would think of as an incentive, an  
4 incentive for future activity. And just to close the  
5 loop, maybe if you could respond to that, of how the  
6 Commission granting your request here would tie that  
7 together, because -- I'm rambling, but I'm really  
8 trying to get at the core of this.

9         Are you asking for essentially compensation  
10 for what you would, I think, propose as a job well  
11 done versus incentive for future actions which may be  
12 appropriately identified or addressed to PBR?

13         A. At the risk of rambling, as well, I'll try  
14 to be succinct about this. One of the mysteries of  
15 rewards and how they worked, when Thorndyke talked  
16 about the law of reward, as he called it, was that it  
17 seemed to work backwards causally. How can you  
18 reward something I did in the past and affect my  
19 future performance. That was a thing that bothered  
20 people about Pavlov versus Thorndyke.

21         I hate to get too far afield here, but  
22 basically the thing about rewards is that they reward  
23 behavior that's already occurred, but their effects  
24 take effect to the future. By reinforcing past  
25 behavior, you invigorate behavior to the future. I

00391

1 think that's true here. And the powerful thing about  
2 this is that when people begin to think about what  
3 they're going to do in the future, they end up  
4 behaving in the way that they behaved in the past,  
5 even though the causal link is not I'm dangling a  
6 carrot in front of you to go forward; I've rewarded  
7 you for what you did.

8           That's the way rewards work. They have  
9 classically and they have since. They've always  
10 worked that way. Thorndyke was the one who pointed  
11 it out, that you don't tell somebody if you practice  
12 your piano this way, I'll give you something in the  
13 future. What you do is if they practice it this way,  
14 it increases their frequency of practice, that's the  
15 most effective way. That's just the way they work.  
16 And I think, from my experience in the company, I  
17 would testify without qualification that I think that  
18 something like this would have an impact on the  
19 company. I have no doubt about it, from my 20 some  
20 years of work in the regulated area.

21           COMMISSIONER GILLIS: Thank you.

22           JUDGE SCHAER: Mr. Dukich, I have just a  
23 few questions for you, as well.

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

25 BY JUDGE SCHAER:

00392

1 Q. First of all, looking at page seven of your  
2 testimony, lines seven and eight, it appears that you  
3 want the Commission to reward the company in order to  
4 demonstrate the traditional rate-based regulation is  
5 supportive of sound management by actually providing  
6 concrete financial outcomes. Is that your testimony  
7 here?

8 A. Yes, and I think I've elaborated on that as  
9 I've answered my other questions.

10 Q. So my question is, do you continue to see  
11 the future for Avista being one of a company  
12 operating under traditional rate-based regulation?

13 A. Yeah, I think in one form or another, for  
14 the foreseeable future, we don't really anticipate  
15 there being -- even with certain kinds of  
16 deregulation, I think it would still be enough  
17 involved that it would still be relevant.

18 Q. So that you would view that the Commission,  
19 in designing mechanisms for regulating this company,  
20 should be thinking within the mold of traditional  
21 rate-based regulation and how it rewards behavior and  
22 how it encourages or incents behavior by providing  
23 opportunities?

24 A. I assume we'd still have a distribution  
25 system that was prices were set on the basis of

00393

1 investments, so -- and customer service expenses  
2 would be collected. So that would be pretty  
3 traditional. I don't know of many schemes that  
4 propose deregulating the distribution business.

5 Q. So you're viewing that, in the future,  
6 there may be regulation just of your distribution  
7 business in this matter, but there may be other forms  
8 of regulation, as well?

9 A. No, what I'm saying is that incentive  
10 mechanism would be relevant under almost any  
11 conceivable future regulatory approach.

12 Q. And then, looking at Kettle Falls, I heard  
13 you talking with one of the Commissioners just a  
14 moment ago, and I believe that the statement you were  
15 making was that people ask or people maybe -- I don't  
16 want to use the word whining, but people maybe  
17 ruminating on how they've been treated by this  
18 Commission, in terms of Kettle Falls, have complained  
19 to you they didn't even get the kicker. I wrote that  
20 down, you said. Did I write that down correctly?

21 A. Yes.

22 Q. And I think it was brought out earlier, but  
23 let me just confirm my understanding. Has the  
24 company asked in the past for the kicker?

25 A. No, but that's based on, and I don't know

00394

1 how to say this delicately, the perception that there  
2 seems to be a high level of interest in showing that  
3 they don't -- shouldn't get it. And if you just  
4 examined -- if you just take a look at what kind of  
5 questions were asked here today, they seem to be  
6 aimed more at why we shouldn't get it than why we  
7 should.

8 Q. So have you told these people within the  
9 company, gosh, we didn't get the kicker because we  
10 didn't ask for it yet?

11 A. Yes, I have. That's why we're asking for  
12 it now.

13 Q. Okay.

14 A. There were some people who said, Don't  
15 bother.

16 Q. I've also been involved in some  
17 conversations of people talking about that time  
18 period in the company's history, and I've heard some  
19 people say we should have gotten the kicker for  
20 Kettle Falls and then I heard other people say, Well,  
21 gee, if you got that, you should have reopened Public  
22 Springs, because you were treated better than any  
23 other regulated company.

24 Do you recall whether, at the same time  
25 Kettle Falls was going on, there were other cases

00395

1 going on where actually the Washington Water Power  
2 Company received much better treatment than other  
3 related companies before the Commission?

4 A. I'm a little thrown by that question, but  
5 I'm trying to think about it a little bit. No, I  
6 don't -- I don't believe that being rewarded or  
7 ending up better off, which I'm not sure we did, all  
8 things considered, as a result of some prior  
9 testimony I've given here, which you may remember,  
10 that that necessarily cancels the ability to get an  
11 incentive for being well-managed around Kettle. That  
12 doesn't seem related to me.

13 Q. I guess I'm just looking for whether you  
14 feel like the Commission maybe has, in instances in  
15 the past, recognized a different management position  
16 for the Washington Water Power Company and perhaps  
17 treated them in ways that did not cut off expense --

18 A. Yes.

19 Q. -- costs or layers -- in other words, this  
20 Commission has treated you fairly in the past in  
21 other circumstances?

22 A. Yes, this is not meant to be a whining  
23 about being treated unfairly. Again, I think that my  
24 approach, my question I'm asking is, number one, does  
25 the Commission wish to make a distinction between a



00396

1 well-managed and an adequately-managed company with  
2 some award of -- either explicit award with equity or  
3 putting you at the high end of the band. And number  
4 two, if they do, do we qualify. So it's not a  
5 whining thing, I hope.

6 Q. Okay. Looking at your discussion of the  
7 Department of Revenue, you talked about a decision  
8 that that agency made regarding whether or not you  
9 qualified for a tax credit for Kettle Falls. Can you  
10 give us the date of that decision or is that in one  
11 of your exhibits today?

12 A. I think it's in my exhibit.

13 Q. Okay.

14 A. At least -- I'm sorry, I think it's in my  
15 testimony, excuse me.

16 Q. Your testimony says --

17 A. Page nine.

18 Q. -- in February of 1991. And what I'm  
19 wanting to get is is there a docket number or some  
20 identifying --

21 A. Yes, I do have that.

22 Q. -- information so that if the Commission  
23 wanted to look at that decision, we'd be able to find  
24 it?

25 A. Right. The thing I have, and I think this

00397

1 was provided as the result of a data response to a  
2 data request, but I don't recall off the top of my  
3 head which one it was, but --

4 Q. You understand the Bench doesn't get  
5 responses to data requests.

6 A. Right. The determination -- now, it's  
7 called determination in the copy I have, number  
8 91-047, 91-047. And underneath that, it has a  
9 registration number. I assume that's our tax number.  
10 You want that, too?

11 Q. Well, I'm just wondering if you know. I  
12 know that many of the documents the Department of  
13 Revenue issues to taxpayers are protected by  
14 confidentiality rules and that the Commission might  
15 not be able to find that document or obtain that  
16 document directly from Department of Revenue, so do  
17 you know whether or not this document is one that  
18 would be treated as one that they could not release  
19 due to their confidentiality statutes?

20 A. I'm 90 percent, 95 percent sure it is not  
21 confidential, and we can also provide that as part of  
22 a bench request or something.

23 MR. MEYER: We have provided a copy of the  
24 Department of Revenue ruling in response to a Staff  
25 request, and it is not confidential. We'd be happy

00398

1 to make copies of that for you and --

2 JUDGE SCHAER: Okay. As Bench Request  
3 Number One, would you provide the Bench with a copy  
4 of that, please.

5 MS. TENNYSON: Mr. Meyer, just for my  
6 reference, can you give me which Staff DR number that  
7 was?

8 MR. MEYER: 238.

9 MS. TENNYSON: Thank you.

10 MR. MEYER: And Mr. Folsom, a later  
11 witness, was the preparer of this, although Mr.  
12 Dukich is the designated witness.

13 JUDGE SCHAER: I don't really want to ask  
14 questions about it as much as I just want to see it,  
15 see what they did.

16 Q. In your 20 years, plus, with Water  
17 Power/Avista --

18 A. Yes.

19 Q. -- you've been in your present job in some  
20 title or another for how long?

21 A. Probably about 18 or 19 years.

22 Q. Okay. So is it part of your job to be  
23 aware of what Commissions say in their orders and  
24 kind of try to keep your company in line and  
25 following through on what those orders say?

00399

1           A.    It's part of my job to keep track of what  
2 they say and what they do.

3           Q.    Okay.  I passed out over the break a copy  
4 of the Commission's First Supplemental Order in  
5 Docket Number U-88-23-63-P.  I don't propose to make  
6 this an exhibit, but I want to ask you some questions  
7 about it, so I felt like it was more fair to give  
8 copies of it to you, and I've actually provided  
9 copies for Counsel so they can follow along, as well.

10           Is this a decision of the Commission that  
11 you recognize or remember?

12           A.    The denial of the power cost adjustment?

13           Q.    Yes.

14           A.    Yes.

15           Q.    Okay.

16           A.    Well, I don't recall the specific language,  
17 but I do recall the denial of our power cost  
18 adjustment.

19           Q.    Okay.  I want you to look at page nine, the  
20 bottom of paragraph three.  And I'm asking you these  
21 questions first because I think you have the history  
22 on the issue, but also because you are the company  
23 witness who's talking about equity kickers and a  
24 couple of things, and I'm wondering why you did not  
25 sponsor any kind of an equity -- I'm trying to think

00400

1 of the antonym for kicker.

2 A. Anti-kicker.

3 Q. -- anti-kicker to recognize that there's a  
4 PCA proposal in your rate case?

5 A. Good question, because it was an issue  
6 discussed. Mr. Avera will speak to this, if you ask  
7 him. The reason that is is because the peer groups,  
8 the comparable groups that are used to determine our  
9 return on equity either currently have or had before  
10 mergers of some kind either fuel cost adjustment or  
11 some power supply adjustment to reflect changes in  
12 cost. So any reduction in risk or equity is already  
13 reflected in Mr. Avera's numbers.

14 It would be double counting to decrease our  
15 ROE because we have a PCA because the comparables  
16 already have a PCA. So you would double deduct us if  
17 you did that.

18 Q. Is that specifically discussed in his  
19 testimony at some point you can refer me to?

20 A. I don't remember.

21 Q. So looking at the --

22 A. But we've discussed it and we are -- we are  
23 aware of that, in terms of our proposal. That's why  
24 we, when we put together a proposal, we talked about  
25 the reduction in risk in this case and why this case

00401

1 maybe didn't go where it needed to go, why we didn't  
2 get it approved. And as we talked about it, we  
3 thought, Well, it doesn't make sense because the  
4 comparable groups already have PCAs and fuel cost  
5 adjustments of some sort. That would just be double  
6 hitting the company.

7 Q. And as I recall, Mr. -- is it Avery?

8 A. Avera.

9 Q. -- Avera proposes a hypothetical capital  
10 structure of the company?

11 A. Yes.

12 Q. And I note that this paragraph three that I  
13 referred you to indicates that Mr. Eliassen of then  
14 Washington Water Power Company, and I understand from  
15 Mr. Matthews' testimony yesterday that he's still in  
16 this position in Avista, testified that a PCA would  
17 result eventually in a company not needing as much  
18 equity in its capital structure.

19 Do you know if that has been taken into  
20 account in the company's proposal for a hypothetical  
21 capital structure?

22 A. I don't know that, no. I don't know.

23 Q. Okay.

24 A. I do know that the hypothetical structure  
25 is one that the other companies have and -- like

00402

1 Puget has a hypothetical, and so that's what I do  
2 know, in terms of the extent they've had power cost  
3 adjustments in the past of various sorts. I don't  
4 want to compare ourselves to theirs, necessarily. We  
5 think ours is better, but --

6 Q. And you do understand that, since the  
7 merger, they do not have one; is that correct?

8 A. Right, I do understand. But in the past  
9 they have, and their cap structure was set, I think  
10 in the past, in a hypothetical way. We're asking for  
11 the same kind of treatment. But the specifics of how  
12 that number was arrived at would be best addressed to  
13 Mr. Avera or maybe even Mr. Falkner.

14 Q. Okay. I wanted to start with you, because  
15 --

16 A. Sure, that's fine.

17 Q. -- you seem to me you could tell me who  
18 else to talk to.

19 A. I'll opine on anything, yes.

20 JUDGE SCHAER: Okay. That's all I had. Is  
21 there any redirect for this witness?

22 MR. MEYER: Yes, I do.

23 JUDGE SCHAER: Go ahead, please.

24 R E D I R E C T E X A M I N A T I O N  
25 BY MR. MEYER:

00403

1 Q. Returning to the subject of the equity  
2 adder, you were asked earlier in the day about  
3 Commission precedent or something such as an explicit  
4 recognition of a 25 basis point adder. Do you recall  
5 that?

6 A. Yes.

7 Q. Now, are you aware of various commissions  
8 which have, in the past, moved in their orders the  
9 company toward the higher end of the range of  
10 reasonable returns on equity in order to recognize,  
11 if you will, sound management practices?

12 A. Yes, I think the Commissions have moved  
13 companies up in the range toward the top and also  
14 down. And in fact, I think in one of the cases I  
15 cite a water company, the Commission moved the  
16 company down.

17 Q. Well, I believe you also testified earlier  
18 that while that may be an option, the preferred  
19 option, from the company's perspective, is a more  
20 explicit 25 basis point adder?

21 A. I definitely believe that. I think that  
22 otherwise it has the chance of getting lost, and it  
23 doesn't maybe reflect the kind of signals that I  
24 would like to see the Commission send. It would be  
25 better to be explicit, explicit, not just as



00404

1 discussion of where the number falls in the range.

2 Q. Now, if an equity adder is approved by this  
3 Commission and if the company is not back before this  
4 Commission for a number of years with a rate case  
5 filing, is it possible that the fact that it isn't  
6 possible, that the fact that it isn't back before the  
7 Commission some indication of sound management  
8 practices and a drive toward cost control on a  
9 continuing basis?

10 A. I think that's perfectly acceptable, in the  
11 sense that many of the things that were listed have a  
12 long-term, ongoing impact. Hydro relicensing is the  
13 best example, or DSM. I think that many of these  
14 have lives that would extend well beyond any  
15 conceivable rate freeze period. Plants are licensed  
16 for 50 years. It would be nice to stay out, but --  
17 so I think that clearly the benefits would last for  
18 the long-term.

19 Q. Even with those best efforts and superior  
20 management practices, there are, from time to time,  
21 cost increases that do justify subsequent rate cases;  
22 correct?

23 A. Oh, sure.

24 MR. MEYER: I'll leave it there. Thank  
25 you.

00405

1 JUDGE SCHAER: Okay. Is there anything  
2 further for this witness?

3 MS. TENNYSON: I do. I have, hopefully,  
4 just one additional question.

5 JUDGE SCHAER: Go ahead, please.

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. Referring once again to the Kettle Falls  
9 project, and what I'd like to ask you is what  
10 incentive would providing the kicker for Kettle Falls  
11 now provide to the company for an action that it took  
12 over 15 years ago?

13 A. I think both in terms that it avails us to  
14 what I think the statutes allow us to have and what  
15 the legislature intended, and I think that that's  
16 number one. Number two, it does, like I've discussed  
17 before, indicate that the Commission is willing to  
18 provide incentives for what's been reflected in the  
19 legislative language, and that has an invigorating  
20 effect on how the company performs.

21 MS. TENNYSON: I have nothing further.

22 JUDGE SCHAER: Mr. ffitch.

23 MR. FFITCH: I just have one clarifying  
24 question.

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

00406

1 BY MR. FFITCH:

2 Q. Mr. Dukich, if the Commission establishes a  
3 -- or once it establishes a range for return on  
4 equity, are you suggesting that the 25 basis point  
5 equity kicker would appropriately place the return on  
6 equity above that range, in the company's view? In  
7 other words, you see two alternatives. The  
8 Commission could establish a range and then put you  
9 in the higher range or -- and this is really my  
10 question -- is the company suggesting that, even  
11 better, the Commission could say, well, that's the  
12 range, we're going to set ROE maybe somewhere on the  
13 top of that range, and on top of that we're going to  
14 add 25 basis points and kick them above the range  
15 that's otherwise established by the evidence.

16 A. The latter would kick us above the range.

17 JUDGE SCHAER: Anything else?

18 MR. FFITCH: That's all.

19 JUDGE SCHAER: Ms. Dixon.

20 MS. DIXON: No.

21 JUDGE SCHAER: Is there anything further  
22 for this witness?

23 MR. MEYER: There is nothing.

24 JUDGE SCHAER: Thank you for your  
25 testimony. Let's break for just a moment. Off the

00407

1 record.

2 (Discussion off the record.)

3 CHAIRWOMAN SHOWALTER: I just want to tell  
4 the parties and the witnesses that I will not be  
5 available this afternoon. I have to meet with the  
6 Governor on pipeline issues, but I will read all of  
7 the transcript, and I know I have another opportunity  
8 at a later part of the hearings to ask you more  
9 questions. Thank you.

10 JUDGE SCHAER: Do you want to call your  
11 witness? We're back on the record.

12 MR. MEYER: For the record, Mr. Bruce  
13 Folsom.

14 JUDGE SCHAER: Are there any additional  
15 items that need to be distributed for Mr. Folsom  
16 before we proceed?

17 MR. MEYER: There are.

18 JUDGE SCHAER: Go ahead, please. I was  
19 kind of aiming that at other Counsel, other than you.  
20 Does anyone else have anything in addition for Mr.  
21 Folsom? Mr. Trautman.

22 MR. TRAUTMAN: Yes. Do we have any  
23 additional exhibits?

24 JUDGE SCHAER: Do you have anything more  
25 that you want to have in the record regarding Mr.

00408

1 Folsom?

2 MR. TRAUTMAN: No, not beyond what we've  
3 already put in the record, or marked.

4 JUDGE SCHAER: Thank you. The following  
5 exhibits have been marked in conjunction with Mr.  
6 Folsom's testimony. Exhibit T-315, Direct Testimony  
7 of Bruce W. Folsom. Exhibit 316, Energy Efficiency  
8 Program Analysis. Exhibit 317, Energy Efficient  
9 Analytical Methodology. Exhibit 318, WWP Application  
10 for DSM Tariff Revisions. Exhibit 319, Response to  
11 Staff Data Request Number 210.

12 Exhibit 320, Response to Staff Data  
13 Request Number 212. Exhibit 321, Response to Public  
14 Counsel Data Request Number 18. Exhibit 322,  
15 Response to Staff Data Request Number 215. Exhibit  
16 323, 12/12/94 Letter of Understanding. Exhibit 324,  
17 Avista Response to Public Counsel Data Request Number  
18 Nine. Exhibit 325, Avista Response to Public Counsel  
19 Data Request Number 20.

20 Whereupon,

21 BRUCE W. FOLSOM,  
22 having been first duly sworn, was called as a witness  
23 herein and was examined and testified as follows:

24 JUDGE SCHAER: Your witness is sworn, Mr.  
25 Meyer.

00409

1 MR. MEYER: Thank you.

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

3 BY MR. MEYER:

4 Q. For the record, would you please state your  
5 name and your employer?

6 A. My name is Bruce W. Folsom. I am employed  
7 by the Avista Corporation.

8 Q. And have you prepared direct testimony,  
9 marked as Exhibit T-315?

10 A. Yes, I have.

11 Q. Do you have any corrections to make to that  
12 beyond the changes indicated in the errata sheets?

13 A. Yes, I have one correction on page two.

14 Q. Would you go ahead and make that? Let's  
15 make sure everyone can get there first. Why don't  
16 you go ahead.

17 A. At line ten, the docket number should  
18 reflect UE-961309. Again, the docket number should  
19 be 961309 at line ten.

20 Q. So with those changes having been made, if  
21 I were to ask you the questions that appear in your  
22 prefiled direct, would your answers be the same?

23 A. Yes, they would.

24 Q. Now, you also had distributed a revised  
25 exhibit sheet. Page three of three, I just noticed

00410

1 was marked at the lower right-hand corner Exhibit  
2 Number 35. In fact, that's Exhibit 316?

3 A. Yes, it is.

4 Q. So that the single sheet with numbers that  
5 I passed around, that really is 316, if you'll make  
6 marks to that effect.

7 A. Yes.

8 Q. Now, would you explain very briefly how  
9 this changes the prior page three of three?

10 A. Yes. The calculation formula on the  
11 spreadsheet did not pick up the correct bottom line  
12 numbers, because there were some blanks on data, so  
13 the bottom line under customers is higher and some of  
14 the expenditures are slightly higher. It's simply a  
15 calculation correction.

16 Q. All right. Do you have any other changes  
17 or corrections to make to either Exhibit 316 or  
18 Exhibit 317?

19 A. No.

20 Q. So is the information contained within  
21 those two exhibits true and correct?

22 A. Yes, they are.

23 Q. And those exhibits were prepared by you or  
24 under your direction and supervision?

25 A. Yes, they were.

00411

1 MR. MEYER: With that, Your Honor, I move  
2 for the admission of Exhibits T-315, 316, and 317.

3 JUDGE SCHAER: Any objections?

4 MR. TRAUTMAN: No.

5 JUDGE SCHAER: Those documents are  
6 admitted.

7 MR. MEYER: And the witness is available  
8 for cross.

9 JUDGE SCHAER: Okay. I think what I'll do  
10 at this time is break for lunch and begin questioning  
11 Mr. Folsom at 1:30. Let's take a lunch break from  
12 now till 1:30, and please everyone be back by 1:20,  
13 1:25, so if there's anything we need to talk about,  
14 we have a moment to do so, so we do not waste any  
15 hearing time. We're off the record.

16 (Lunch recess taken.)

17 JUDGE SCHAER: Let's be back on the record  
18 after our lunch recess. Did you have questions for  
19 Mr. Folsom, Mr. Trautman?

20 MR. TRAUTMAN: Yes, we do.

21 JUDGE SCHAER: Go ahead, please.

22

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

24 BY MR. TRAUTMAN:

25 Q. Good afternoon.



00412

1 A. Good afternoon.

2 Q. I'm Greg Trautman, Assistant Attorney  
3 General, for the Commission Staff. I'd like to refer  
4 you first to what's been marked as Exhibit 318. As  
5 you're looking for that, in December of 1994, the  
6 Commission approved Washington Water Power's  
7 application for revised gas and electric tariffs for  
8 implementation of energy efficiency programs for  
9 residential, commercial and industrial customers, and  
10 a portion of the company's application is marked as  
11 Exhibit 318. Are you familiar with that?

12 A. Yes, I am.

13 Q. If you could turn to page 23 of the  
14 document, and in particular, lines five through nine,  
15 this states, As the DSM programs on Schedule 90 and  
16 190 are modified over time, the DSM tariff rider rate  
17 would also be adjusted up or down to match actual  
18 funding with DSM program costs and to keep the  
19 deferred balance as close to zero as possible. Do  
20 you see that, that sentence?

21 A. Yes, and it's followed with a sentence  
22 reading, A carrying cost would be accrued on any  
23 balance in this account.

24 Q. Now, has the tariff rider rate ever been  
25 adjusted up or down to match program costs?

00413

1 A. Not significantly, no, but the carrying  
2 cost has been taken accordingly.

3 Q. But the tariff rider has not been adjusted?

4 A. Correct.

5 Q. If you could turn to Exhibit 319, and this  
6 is Avista's response to Staff Data Request 210. And  
7 is it correct that this exhibit provides a  
8 calculation of the Washington DSM tariff rider  
9 balances since 1995?

10 A. Yes.

11 Q. The first page goes through '98, and the  
12 second page then goes through January of 2000. Is it  
13 correct --

14 JUDGE SCHAER: Excuse me, Mr. Trautman.  
15 You said since 1995?

16 MR. TRAUTMAN: Yes.

17 JUDGE SCHAER: I believe the document says  
18 1998.

19 MR. TRAUTMAN: The cover sheet does, but if  
20 you look at the attachment, the first page of the  
21 attachment actually starts in '95.

22 JUDGE SCHAER: And then the question that I  
23 just interrupted was starting again with '98, or was  
24 it meant to start with '95?

25 MR. TRAUTMAN: Well, just the upshot is

00414

1 that the exhibit includes '95 through January of  
2 2000.

3 THE WITNESS: We provided extra data.

4 Q. And is it correct that these balances are  
5 funds that are collected through the tariff rider but  
6 are not yet spent on ongoing program activities?

7 A. The column to the far right, that's true.

8 Q. Turning to what's been marked as Exhibit  
9 320, does this exhibit show that for year 2000, that  
10 there are committed funds of approximately \$2  
11 million?

12 A. Yes, that's true.

13 Q. Would you agree that the previous document,  
14 which was Exhibit 319, that that shows that the  
15 tariff rider's ending balance has steadily increased  
16 since the rider was instituted, and that since  
17 January of 1998, it has been consistently over two  
18 million, with the exception of December 1999, when it  
19 was 1.993 million?

20 A. No, I would not agree. It reached its peak  
21 in February 1999 at \$2.9 million. Then it had  
22 steadily gone down since then. It's gone down by  
23 about \$800,000, down to what's shown here, January  
24 2000, at 2.1 million. And included in these figures  
25 are the ten percent carrying charge, which actually

00415

1 leaves ratepayers in pretty good shape for the  
2 unspent money. In some way, ratepayers may be making  
3 money off this, the ten percent rate.

4 Q. So I agree, it has increased, and you're  
5 correct, the peak is 2.9 million. It is still 2.1  
6 million in January 2000?

7 A. It's come down 800,000 in the last 11  
8 months, yes.

9 Q. But it's still, let's say --

10 A. It's at 2.1 million.

11 Q. It's quite a bit higher than January of  
12 '95, when it was at 491,000?

13 A. Yes.

14 Q. Does the company have the right to file  
15 with the Commission at any time an adjustment, either  
16 up or down, of the rider rate?

17 A. Yes, they do.

18 Q. The company has never chosen to make such a  
19 filing for adjusting the rider rate; is that correct?

20 A. Correct. Program continuity is important  
21 and rate stability is important. At this point, we  
22 don't see the tariff rider as a tracker going up and  
23 down. With the ten percent interest rate, customers  
24 are left more than whole and, as shown in future  
25 exhibits, we have a plan to bring the money down, the

00416

1 balance down.

2 Q. Would you agree that since the company is  
3 the developer and manager and the deliverer of the  
4 DSM programs that are funded through the rider, that  
5 the company is in the best position to control  
6 program spending to match rider fund collection?

7 A. Yes.

8 Q. Now, since the company has never adjusted  
9 the tariff rider rate, what has it done with program  
10 delivery expenses to keep the deferred balance as  
11 close to zero as possible, as stated in the original  
12 application, which was marked as Exhibit 318?

13 A. I think an explanation is in order. Keep  
14 in mind that the predecessor programs for 1995,  
15 before the tariff rider kicked in, was pretty much a  
16 grant dispensing program, where there were large  
17 incentives. We made a radical program change in 1995  
18 by significantly reducing the incentives provided  
19 under these programs.

20 So there were two factors in '95 that led  
21 to the buildup of the tariff rider balance. One was  
22 a lower incentive level, which provided a smaller  
23 carrot to bring customers into the fray. The other  
24 is we had a ramp-up of new programs, which had to be  
25 developed before we could go to market with new

00417

1 programs. So what we've done to bring the cost or  
2 the balance down is, in 1999, with the support of our  
3 external energy efficiency board, who's been advising  
4 us on some of these issues, we submitted new tariffs,  
5 which were approved by this Commission, which  
6 provides for a larger incentive, which in turn has  
7 allowed us to bring in more projects, more customers.

8           So we've made a concerted effort to bring  
9 the tariff rider balance down once it reached the  
10 levels it did. I would like to add that we are  
11 governed by cost effectiveness standards where we  
12 can't just spend money for the sake of spending  
13 money. When we spend down these funds, it needs to  
14 be done at a level that passes a variety of tests,  
15 cost effectiveness tests. So we've been careful to  
16 spend down the money in a cost-efficient manner.

17           Q. And so the figure we see in the columns are  
18 as close to zero as possible?

19           A. Could you rephrase the question?

20           Q. Well, the original application said that  
21 the balance would be kept as close to zero as  
22 possible. I guess I'm just asking whether the fact  
23 the figures of two million roughly are as close to  
24 zero as possible?

25           A. These numbers are what they are.

00418

1 Q. I understand that. That wasn't the  
2 question. The company -- that's as close to zero as  
3 the company has been able to do?

4 A. Yes.

5 Q. Turning back to Exhibit 318, on page 24,  
6 Item Number Two, which is under capital E,  
7 Restrictions, it talks about restrictions on the  
8 rider. Item Two says, Unused --

9 A. Excuse me, what page are you on?

10 Q. Twenty-four.

11 JUDGE SCHAER: Hold on just a moment.

12 (Discussion off the record.)

13 JUDGE SCHAER: Go ahead, Mr. Folsom.

14 Q. I'm on Exhibit 318 on page 24.

15 A. Yes.

16 Q. And it says, Unused funds would accrue  
17 interest at a rate of ten percent. And so was this  
18 rate proposed by the company, to your recollection?

19 A. Yes, it was.

20 Q. And do you recall how the company arrived  
21 at that interest rate?

22 A. Yes, at the time that was the perceived  
23 long-term cost of capital as an appropriate interest  
24 rate.

25 Q. And in fact, looking to Exhibit 321, which

00419

1 was a response of Washington Water Power Company to a  
2 data request back in 1994, and the cover letter is by  
3 you, and in fact, that does indicate, does it not, on  
4 the response to Public Counsel DR-18, that the ten  
5 percent interest rate is intended to be a reasonable  
6 approximation of the current and projected cost of  
7 capital?

8 A. Yes, it is.

9 Q. Okay.

10 A. If I had to do this over again, I would  
11 have selected a short-term interest rate, because  
12 this is basically a short-term borrowing rate that  
13 the company treasury uses, and if I had to do it over  
14 again, I would suggest that it would be something  
15 like a customer deposit short-term interest rate.

16 Q. But the company's never chosen to make a  
17 filing to adjust that rate?

18 A. Correct, we've had staff discussions last  
19 August, but the company would need to make this  
20 filing.

21 Q. And now referring to Exhibit 322, which was  
22 a response to Staff Data Request 215, and is it  
23 correct that -- well, let me ask, does this indicate  
24 that the company's plan is to have the DSM tariff  
25 rider balance go not only below zero, but actually



00420

1 consistently well below zero after May of 2001?

2 A. What this shows is that, by May 2001, we  
3 would be at zero, and we would need to make some  
4 program modifications at that time to keep this close  
5 to zero.

6 Q. Now, given that the current balance is  
7 still approximately \$2 million, would the company be  
8 willing to re-file the tariff rider to collect the  
9 lower rate if the unspent DSM tariff rider balance,  
10 in fact, does not reach approximately zero within a  
11 year?

12 A. No, the company would strongly prefer to  
13 keep this at 1.5 percent for several reasons. One  
14 reason is we have significant customer commitments  
15 outstanding, which has pledged a lot of this money,  
16 as well as some other commitments. It's important to  
17 us to maintain continuity and rate stability in this  
18 regard.

19 Should we go down to one percent, as  
20 indicated in a data request or data response, we  
21 would be in a situation where we would actually need  
22 to cut programs, given the fact that we have the  
23 customer commitments that we've made, as well as some  
24 other commitments, such as Northwest Energy  
25 Efficiency Alliance Program that we participate in.

00421

1 So in summary, the company very much prefers to keep  
2 this at one and a half percent, particularly in light  
3 of the ten percent interest customers are completely  
4 made whole.

5 Q. And looking at what's been referred to as  
6 Exhibit 323, do you recognize this as a letter from  
7 the company on the subject of DSM?

8 A. Yes, I do.

9 MR. TRAUTMAN: At this time, I'd move for  
10 the admission of Exhibits 318 through 323.

11 JUDGE SCHAER: Any objections?

12 MR. MEYER: No objection.

13 JUDGE SCHAER: Those documents are  
14 admitted.

15 MR. TRAUTMAN: I have no further questions.

16 JUDGE SCHAER: Mr. ffitch, did you have  
17 questions of Mr. Folsom?

18 MR. FFITCH: I have a few questions, yes.  
19 Thank you, Your Honor.

20 JUDGE SCHAER: Go ahead, please.

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

22 BY MR. FFITCH:

23 Q. Good afternoon, Mr. Folsom.

24 A. Good afternoon.

25 Q. I'd like you first to please take in hand

00422

1 what's been marked for identification as Exhibit 324.  
2 That is Avista's response to Public Counsel Data  
3 Request Number Nine. Do you have a copy of that  
4 available?

5 A. Yes, I do.

6 Q. And this response shows the DSM tariff  
7 rider revenue by class; is that correct?

8 A. Yes, it does.

9 Q. And would you accept, subject to check,  
10 that the residential class has provided about 44  
11 percent of the total revenue and represents about 44  
12 percent of the total load, as well?

13 A. Yes, subject to check, in that the  
14 percentages aren't here.

15 Q. And the small commercial, or what's  
16 referred to on this response, and I'm referring now  
17 to the page two of the exhibit, which is the actual  
18 table that you provided, the small commercial  
19 customers are shown as general service on this table,  
20 are they not?

21 A. Yes, they are.

22 Q. The small commercial and streetlighting  
23 customers pay a rather disproportionate cost per  
24 kilowatt-hour while the extra large general service  
25 and pumping classes pay a rather lower cost per

00423

1 kilowatt-hour, as shown on this table; isn't that  
2 correct?

3 A. I would not agree they're disproportionate.  
4 They're based on customer class, cost in currents,  
5 and the millage rate just happens to work out to what  
6 it is.

7 Q. Perhaps if I can rephrase that, the small  
8 commercial and streetlighting customers pay a  
9 significantly higher than average cost per  
10 kilowatt-hour than the extra large general service  
11 and pumping classes; is that right?

12 A. Correct.

13 Q. And the average is shown on the line marked  
14 subtotal on the far right, under mills per  
15 kilowatt-hour, as .72; is that correct?

16 A. Correct.

17 Q. And as you noted, this reflects the fact  
18 that those classes have higher and lower than average  
19 rates respectively; is that correct?

20 A. Correct.

21 Q. Now, you were involved in the establishment  
22 of the rates paid by Puget Sound Energy customers for  
23 DSM cost recovery when you were a member of the UTC  
24 Staff; is that correct?

25 A. I wish I --

00424

1 Q. Can you go back that far?

2 A. I wish I had that authority. They actually  
3 set the rates, the Commissioners.

4 Q. You were involved in the proceeding which  
5 established the rates?

6 A. Yes, I was.

7 Q. And is it correct that the DSM cost  
8 recovery for Puget was calculated as a percentage of  
9 demand energy cost, rather than on a uniform  
10 percentage basis?

11 A. That is a true statement given the time,  
12 but Puget has a very different cost accounting --

13 Q. Excuse me. I'm just asking you for the  
14 calculations approved at that time.

15 A. But to understand the why and wherefores is  
16 to understand where Puget was getting capitalization  
17 treatment --

18 Q. Well, I didn't ask --

19 MR. MEYER: Excuse me. The witness should  
20 be allowed to explain himself.

21 MR. FFITCH: Well, I'd first like, before  
22 an explanation, actually, I'd like just an answer to  
23 my question. I'm getting an explanation first, Your  
24 Honor, without an answer.

25 JUDGE SCHAER: I'm going to overrule the

00425

1 objection and ask Mr. Folsom to answer the question  
2 asked. If you, Mr. Meyer, want to ask him more about  
3 the structure of Puget's programs in that time  
4 period, you may do so on redirect. I think it was a  
5 fairly straightforward question that should be able  
6 to be answered in a straightforward manner. Could  
7 you re-ask the question, Mr. ffitch?

8 MR. FFITCH: Thank you, Your Honor.

9 Q. Is it correct that DSM cost recovery for  
10 Puget was calculated as a percentage of demand and  
11 energy cost, rather than on a uniform percentage  
12 basis?

13 A. Yes.

14 Q. And to your knowledge, does DSM cost  
15 recovery continue to be calculated in that same  
16 fashion for Puget?

17 A. I've actually lost track of what Puget  
18 Sound Energy's accounting is for conservation, so I  
19 don't know the answer to that question.

20 Q. Has Avista performed a study to see how  
21 that methodology that I just described, the  
22 methodology that was used in the Puget case in that  
23 earlier time frame, at least, how that methodology  
24 would affect the distribution of the DSM revenue  
25 requirement if it were applied to Avista?

00426

1           A.    To my knowledge, no, but you would need to  
2 ask Tara Knox, who is our cost of service witness, to  
3 confirm that answer.

4           Q.    All right.  Would you agree that  
5 application of this methodology would tend to  
6 increase those classes with a lower than average  
7 mills per kilowatt-hour contribution?

8           A.    Yes, it would.

9           Q.    And specifically there, I would mention  
10 Schedules 25 and 31, which are extra large general  
11 service and pumping, respectively, that those would  
12 tend to increase under that methodology?

13          A.    Yes, it would.

14          Q.    And concomitantly, the Schedule 11, which  
15 is the residential -- excuse me, small commercial, I  
16 stand corrected, and streetlighting would tend to  
17 decrease under that methodology?

18          A.    Mathematically, it would certainly work  
19 that way.  From a Commission policy standpoint and  
20 from an industrial customer standpoint, that may not  
21 be the end result if there were to be a differential  
22 rate based on shifts in how the tariff rider is  
23 collected.

24                    I would point to other states where  
25 industrial customers end up paying less than other

00427

1 customer classes by a percentage given the policy  
2 implications.

3 Q. Thank you. Now, if I could get you to turn  
4 to the other exhibit, which has been marked for  
5 identification as Exhibit 325, that is Avista's  
6 response to Public Counsel Data Request 20.

7 A. Yes, I see it.

8 Q. And in that request, Avista was asked to  
9 provide any studies the company has on the load  
10 factors of residential lights and appliance usage,  
11 residential water heat usage, and residential space  
12 heating usage; correct?

13 A. Yes.

14 Q. And in response, you indicated that Avista  
15 has not completed any studies on the load factors of  
16 residential end uses, such as lights, appliance or  
17 space heating?

18 A. Correct.

19 Q. Were you a witness for the Commission Staff  
20 in Docket U-89-26-88-T? And that was, just to help  
21 you remember, that was Puget Sound Power and Light's  
22 1989 general rate case?

23 A. Yes, and to my recollection, I was a rate  
24 design expert looking at Puget's rate block mechanism  
25 or structure.



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1 Q. And in the testimony that you filed in that  
2 case, you recommended and the Commission adopted  
3 retention of Puget's three-block residential rate  
4 design, is that correct, or is that your  
5 recollection?

6 A. Yes, but it's important to note that, in  
7 the context of that case, Puget had come in with  
8 their second block lower, I believe, than their first  
9 block, which basically had a J rate, or a bathtub  
10 rate, where the second block was lower. And that was  
11 the issue in the case, to keep the second block  
12 higher than the first block.

13 So the fact that I may have recommended  
14 three blocks was a function of a response to what  
15 Puget was proposing, namely the second tier.

16 Q. Okay. Do you have any information not  
17 previously provided in response to our data requests  
18 which would indicate whether Avista -- excuse me, for  
19 Avista in the current year, as opposed to Puget ten  
20 years ago, in the previous century, a two-block or a  
21 three-block rate design would better match the  
22 average usage of lights and appliance, water heat and  
23 space heat customers?

24 A. Those questions would be better directed to  
25 Brian Hirschhorn. I have no studies to that effect,

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1 since I'm not the rate design expert for the company.

2 Q. But you're not aware of any study to that  
3 effect?

4 A. No, I'm not.

5 Q. Would you expect the space heating load  
6 factor of the Avista system to be somewhat different  
7 from that on the Puget system because of the  
8 significant weather differences in the Spokane area?

9 A. I haven't studied that. There could be  
10 more natural gas penetration, there could be a  
11 variety of other factors. I would hate to just rely  
12 on weather or some factor that I have not studied.

13 Q. Is there another witness that --

14 A. Yes, Mr. Hirschhorn.

15 Q. Mr. Hirschhorn would be the one to ask  
16 that, all right. Now, do you recall testimony in the  
17 1989 Puget general rate case by Mr. Richard Byers on  
18 the issue of consumer and marginal costs for  
19 residential space and water heating?

20 A. I have the utmost respect for Mr. Byers,  
21 but I don't recall his testimony in that case.

22 Q. You don't have any reason to disagree that  
23 there was testimony from Mr. Byers in that  
24 proceeding, do you?

25 A. Correct.

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1 Q. You don't have any recollection whatever of  
2 the testimony that he submitted?

3 A. No, I don't.

4 Q. Do you recall any testimony in that  
5 proceeding on the relative load factors of lights and  
6 appliances, space heating and water heating?

7 A. The Washington State Energy Office, which  
8 was probably Dick Byers, that must have been the case  
9 where they put in a study on load factors, but I  
10 don't recall any details.

11 Q. Do you recall that he separately calculated  
12 load factors for residential space and water heating  
13 usage?

14 A. No, I don't.

15 MR. FFITCH: I don't have any further  
16 questions. Thank you, Your Honor. I'd like to offer  
17 Exhibits 324 and 325 for the record at this time.

18 JUDGE SCHAER: Any objections?

19 MR. MEYER: No objection.

20 JUDGE SCHAER: Those documents are  
21 admitted. Ms. Dixon, did you -- Mr. Van Cleve?

22 MR. VAN CLEVE: No questions.

23 JUDGE SCHAER: Ms. Dixon, did you have  
24 questions for Mr. Folsom?

25 MS. DIXON: Thank you.

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

2 BY MS. DIXON:

3 Q. Hi, Mr. Folsom.

4 A. Good afternoon.

5 Q. Your direct testimony, which is Exhibit  
6 315, focuses on Avista's expenditures for electric  
7 and natural gas energy efficiency programs. Could  
8 you please explain the benefits to customers of these  
9 programs in the tariff rider?

10 A. Certainly. Customers of Avista have a  
11 variety of programs that are offered through what is  
12 our Schedule 90. The programs include residential,  
13 commercial, industrial, and a little bit of pumping  
14 programs. By participating in our programs directly,  
15 they can reduce their energy bill.

16 The nonparticipants, which are the rest of  
17 the customers, would benefit by having a resource  
18 acquired at below avoided cost, or certainly below  
19 total resource cost. They also benefit by having a  
20 relatively stable conservation or energy efficiency  
21 message that does not ratchet up and down through the  
22 vagaries of where companies are with restructuring  
23 issues and the like.

24 In the process, our programs have broken a  
25 lot of ground by having some of the most innovative

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1 programs in the Northwest, and maybe the country, and  
2 we're able to develop some rather interesting,  
3 innovative and cost-effective programs, a schools  
4 program that we have, et cetera.

5 Q. And could you follow that up, also, by  
6 describing what the benefits to shareholders are of  
7 these programs in the tariff rider?

8 A. The benefits to shareholders are really  
9 maybe more of a least-harm approach. As Mr. Dukich  
10 mentioned, we don't have earnings on conservation,  
11 and there are lost margins associated with energy  
12 efficiency savings. The benefit to shareholders is  
13 that, from an accounting and regulatory standpoint,  
14 we don't have regulatory assets on our books, a  
15 regulatory asset being an investment that's  
16 capitalized and is on the books and records because  
17 of the regulatory order. So Wall Street rating  
18 agencies put a lot of value in the mid-1990s, as  
19 companies looked toward restructuring, to reduce  
20 regulatory assets.

21 Another benefit to shareholders would be a  
22 lack of competition for scarce capital budgeting  
23 dollars. Before the tariff rider, energy efficiency  
24 investment would be competing and the budget  
25 committee against revenue generating proposals, which

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1 would include maintenance and new construction and  
2 the like, and energy efficiency could be considered  
3 to be a stepchild at that point in those budgeting  
4 battles. So the tariff rider has removed -- has been  
5 removed from that battle. So those are two primary  
6 benefits that shareholders see, recognizing what I  
7 said earlier about some of the disadvantages.

8 Q. Okay. Do you feel that there are any cost  
9 effective opportunities in Avista's service territory  
10 that are not currently being captured by the electric  
11 energy efficiency tariff rider?

12 A. Yes.

13 Q. Could you elaborate on that?

14 A. We're always looking to craft new programs  
15 to reach new customer niches. What we find is that  
16 the programs evolve over time. Once you're done with  
17 one program and somewhat tapped it out, you move on  
18 to other programs. So by definition, it's an  
19 evolution of energy efficiency offerings.

20 Q. If I can refer you to your direct  
21 testimony, Exhibit 315, page four, and it's lines 22  
22 to 23, you state there that virtually all customers  
23 have had the opportunity to participate and many have  
24 directly benefited from the program offerings.  
25 Sorry, I'll give you a chance to find it.

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1 A. I'm there.

2 Q. Okay. Could you tell us which of your  
3 customers have not had an opportunity to participate  
4 in these program offerings and why?

5 A. The context of this statement actually goes  
6 back to 1992. In 1992 through 1994, the company had  
7 very aggressive fuel switching and residential  
8 weatherization programs. We had spent approximately  
9 \$60 million in that time period, which was  
10 predominantly on the residential side. Ninety-five  
11 through '98, we focused on industrial and commercial  
12 projects to get back in balance equal access to all  
13 classes from a dollars spent standpoint. And that  
14 was certainly included in our 1995 filing.

15 I think it's instructive, though, to  
16 understand that the residential class has received 47  
17 percent of the direct incentives benefits over the  
18 time period, and for example, the industrial class  
19 has received 22 percent of the direct incentives,  
20 which is basically twice their percentage of revenue  
21 contributed. So we've made an effort to, both during  
22 this time period, have an equitable distribution of  
23 funds, particularly when you include the '92 through  
24 '94 time period.

25 Q. Okay. If I can just clarify to make sure

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1 that I'm hearing you correctly. For your statement  
2 about virtually all customers have had the  
3 opportunity to participate, that's referring, then,  
4 to the rider that's been in place from '95?

5 A. Yes, it is, and during that time period,  
6 residential customers have had lighting programs,  
7 limited income programs, we have a website audit  
8 available, we have torchiere turn-in, which is  
9 halogen lighting turn-in, and then, through the  
10 Northwest Energy Efficiency Alliance, residential  
11 customers have benefited. And then we have  
12 site-specific programs for commercial and industrial,  
13 and a variety of other programs that are shown in  
14 Exhibit 316.

15 Q. Okay. And one more clarification. So when  
16 you're referring to virtually all customers have had  
17 the opportunity to participate, those who are missing  
18 would be residential customers who had been served  
19 essentially '92 through '94? The focus had been on  
20 them more in '92 through '94; is that correct?

21 A. Context of this statement is that a  
22 customer who wants to participate can. If a customer  
23 has not participated, it's not because there hasn't  
24 been an opportunity, but because they simply have  
25 chosen not to participate.



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1 Q. Thanks for clarifying. Okay. To move on  
2 again, your direct testimony, on page five, lines 15  
3 through 16.

4 A. Yes.

5 Q. It's mentioned here that the natural gas  
6 tariff rider was zeroed out in 1997, due to lower  
7 natural gas avoided costs. I want to actually refer  
8 back to Edward Turner's testimony briefly, and then  
9 come back to you with a question.

10 A. That must have been correct, then.

11 Q. Just to give everyone else the reference  
12 points, on page 12, lines 13 through 14 of Exhibit  
13 26, Edward Turner states that the company anticipates  
14 natural gas load growth in its Washington service  
15 area and, further, on page 16, lines 14 through 15,  
16 the company's Washington gas customer base has  
17 increased by over 66 percent since 1990.

18 How do you reconcile the lack of a natural  
19 gas tariff rider with rising gas prices and load  
20 growth?

21 A. It's a question of do we contemplate  
22 increasing the natural gas tariff rider in the  
23 future, given an increase in WACOG?

24 Q. That would be part of my series of  
25 questions.

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1           A.     The weighted average cost of gas, or WACOG,  
2 was, in 1995, high enough to justify natural gas  
3 energy efficiency programs.  Thereafter, we adjusted  
4 the tariff rider to zero because the WACOG had  
5 fallen.  Again, I'm trying to keep the tariff rider  
6 as close to zero as possible.  That was a prudent  
7 decision to make.  In the meantime, the WACOG is  
8 inching back up and is approaching the level of where  
9 the avoided costs were in 1995.

10           The gas IRP, integrated resource plan, was  
11 submitted to the staffs of three commissions in  
12 December of last year with the intent of filing it  
13 this February.  Some staffs wanted some modifications  
14 made and asked that we delay filing it till April to  
15 make those modifications.  What I anticipate, and  
16 this would be speculation, is that the avoided cost  
17 will be back where it was in 1995, and we will need  
18 to determine, as a company, do we come back in with  
19 some sort of natural gas DSM tariff rider.  I would  
20 suspect that it would not be at the level it was in  
21 1995, from a tariff rider standpoint, because we  
22 would need to match natural gas DSM offerings that  
23 are cost effective to the budget we would need.

24           And that analysis will occur in the next  
25 several months, as the IRP is released with the WACOG

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1 numbers, as well as the follow-up work that's  
2 necessary from a cost benefit standpoint.

3 Q. And just to clarify, since you actually  
4 answered three of my questions in one, you're  
5 anticipating that the IRP will be finalized with  
6 Staff in April?

7 A. We will submit it to the three Northwest  
8 Commissions in late April with the idea that it's  
9 final, but the Commission would need to acknowledge  
10 it, either as filed or with any improvements  
11 suggested. But given the work with stakeholders, we  
12 suspect that it would be acceptable to the three  
13 commissions at that point.

14 Q. And again, just to clarify, and this is my  
15 final question, I think, in that IRP, then, there may  
16 be a recommendation from the company to increase the  
17 tariff rider for the gas programs, but not  
18 necessarily to the original level of .52 percent; is  
19 that correct?

20 A. Yes, and it may either occur in the IRP or  
21 as follow-up to the IRP in the form of a tariff  
22 filing.

23 MS. DIXON: Great, thank you. That's all  
24 the questions I have.

25 JUDGE SCHAER: Commissioners, do you have

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1 questions for Mr. Folsom?

2 COMMISSIONER HEMSTAD: I don't.

3 COMMISSIONER GILLIS: No.

4 JUDGE SCHAER: Mr. Folsom, you'll be glad  
5 to know that I'm not going to ask you anything about  
6 U-88-23-65. Is there any redirect for this witness?

7 MR. MEYER: Just one, maybe two.

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. Folsom, you were asked about the cost  
11 recovery mechanism for Puget DSM, and you were  
12 beginning to explain yourself and how that would  
13 compare with what Avista's doing. Would you  
14 elaborate?

15 A. Yeah, to me, that is an apples to oranges  
16 comparison, given the fact that Puget capitalizes  
17 their investment, they earn a return on it, they run  
18 their programs differently. It's a very different  
19 beast. From a rate design cost of service  
20 standpoint, the demand and energy components would  
21 need to be addressed to Ms. Knox.

22 However, Puget, at that time, ran their  
23 program strictly on an avoided cost standpoint. We  
24 were very specific in our 1995 filing to include  
25 avoided cost as only one of three or four different

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1 reasons to run conservation programs, recognizing  
2 that it is not just an energy or demand surrogate.

3 So to me, just in summary, that's an apples  
4 to oranges comparison, subject to what Ms. Knox  
5 thinks about the rate design components.

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

7 JUDGE SCHAER: Is there anything further  
8 for this witness? Thank you for your testimony, Mr.  
9 Folsom.

10 THE WITNESS: Thank you.

11 JUDGE SCHAER: Okay. Let's go off the  
12 record for just a moment to allow the next witness to  
13 take the stand.

14 (Discussion off the record.)

15 JUDGE SCHAER: Let's be back on the record.

16 Mr. Meyer, are you ready to call your next witness?

17 MR. MEYER: Yes, Mr. Donald Falkner,  
18 please.

19 JUDGE SCHAER: The following exhibits have  
20 been marked in conjunction with Mr. Falkner's  
21 testimony. Exhibit T-226, Direct Testimony of Don M.  
22 Falkner. Exhibit 227, Electric Cost Allocation  
23 Analysis. Exhibit 228, Pro Forma Electric Results of  
24 Operations. Exhibit 229, Hydro Relicensing Balancing  
25 Account Entries. Exhibit 230, Pro Forma Gas Results

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1 of Operations.  
2 Exhibit 231, Gas Cost Allocation Analysis.  
3 Exhibit 232, The Washington Water Power Company  
4 Electric System Injuries and Damages Adjustment  
5 Account 925.21, Twelve Months Ended December 31,  
6 1998. Exhibit 233, Response to Staff Data Request  
7 Number 207. Exhibit 234, WWP News Article: Ice  
8 Storm '96: Washington Water Power Electric Prices  
9 Will Remain Unchanged. Exhibit 235, Form 10-K,  
10 December 31, 1996, Page 19, Results of Operations.  
11 Exhibit 236, Washington Water Power Annual  
12 Charges Billing under 18 CFR Part 382 for Period  
13 10/01/1997 through 09/30/1998. Exhibit 237, Avista  
14 Utilities Settlement Revenue Requirement Associated  
15 with BPA Exchange Power Investment 3/96 - 2/05.  
16 Exhibit 238, Cause Number U-83-26, Table II,  
17 Washington Water Power Fair Rate of Return (Kettle  
18 Falls Disallowance).  
19 Exhibit 239, Settlement Agreement between  
20 Nez Perce Tribe and Avista Corporation date January  
21 14, 1999. Exhibit 240, Letter of Intent from WWP to  
22 WUTC date April 25, 1997, re: Formation of Avista  
23 Internal Holding Company. Exhibit 241, Avista Corp.  
24 Name Change Workorder 3002 Listing. Exhibit 242,  
25 Avista Corp. Name Change Workorder 3002 - 1999 Only.

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1                   Exhibit 243, Invoice Numbers 659792 and  
2 659959 11/27/98 from AdGap to Avista Corp. Exhibit  
3 244, Request for Voucher dated 12/18/98 from WWP to  
4 CT Corporation. Exhibit 245, Invoice Number 0298674  
5 from CUSIP Service Bureau to Washington Water Power.  
6 Exhibit 246, Response to WUTC Data Request Number  
7 246.

8                   Exhibit 247, Response to WUTC Data Request  
9 Number 253. Exhibit 248, Response to WUTC Data  
10 Request Number 254. Exhibit 249, Response to WUTC  
11 Data Request Number 251. Exhibit 250, Response to  
12 WUTC Data Request Number 245. Exhibit 251, Response  
13 to WUTC Data Request Number 248. Exhibit 252,  
14 Response to WUTC Data Request Number 256. Exhibit  
15 253, Response to WUTC Data Request Number 242.

16                   Exhibit 254, Response to WUTC Data Request  
17 Number 249. Exhibit 255, Response to Staff Data  
18 Request Number 168. Exhibit 256, Response to Staff  
19 Data Request Number 169. Exhibit 257, Response to  
20 Staff Data Request Number 170. Exhibit 258, Response  
21 to Staff Data Request Number 255. Exhibit 259,  
22 Response to Staff Data Request Number 257.

23                   Exhibit 260, Response to WUTC Data Request  
24 Number 262. Exhibit 261, Avista Response to Public  
25 Counsel Data Request Number 11. Exhibit 262, Avista

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1 Response to Public Counsel Data Request Number 94.  
2 Exhibit 263, Avista Response to SNAP Data Request  
3 Number 55. Exhibit 264, Avista Response to ICNU Data  
4 Request Number 52. Exhibit 265, Avista Response to  
5 ICNU Data Request Number 56. Exhibit 266, Avista  
6 Response to ICNU Data Request Number 57. Exhibit  
7 267, Avista Response to ICNU Data Request Number 61.

8 Mr. Falkner, would you please raise your  
9 right hand.

10 Whereupon,

11 DON M. FALKNER,

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

14 JUDGE SCHAER: Your witness is sworn, Mr.  
15 Meyer.

16 MR. MEYER: Thank you.

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

18 BY MR. MEYER:

19 Q. For the record, will you please state your  
20 name and your employer?

21 A. My name is Don Falkner. I work for Avista  
22 Corp.

23 Q. Have you -- in what capacity?

24 A. Senior rate accountant.

25 Q. And as such, you've prepared direct



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1 testimony pre-marked as Exhibit T-226; correct?

2 A. Yes, I have.

3 Q. Do you have any changes to make to that  
4 beyond the errata sheet that has just been  
5 distributed?

6 A. No, I do not.

7 Q. If I were to ask you the questions that  
8 appear in that testimony, your answers would be the  
9 same?

10 A. Yes, they would.

11 Q. Likewise, have you sponsored Exhibits 227  
12 through 231, and were those prepared by you or under  
13 your direction and supervision?

14 A. Yes, they were.

15 Q. Thank you. Any changes to make to those?

16 A. No.

17 MR. MEYER: With that, Your Honor, I move  
18 the admission of Exhibit T-226, as well as Exhibits  
19 227 through 231.

20 JUDGE SCHAER: Are there any objections?

21 MR. FFITCH: No, Your Honor.

22 MR. TRAUTMAN: No.

23 JUDGE SCHAER: Those documents are  
24 admitted.

25 MR. MEYER: And the witness is available

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1 for cross.

2 JUDGE SCHAER: Did you have questions, Mr.

3 Trautman?

4 MR. TRAUTMAN: Yes, we do, Your Honor.

5 JUDGE SCHAER: Go ahead, please.

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

7 BY MR. TRAUTMAN:

8 Q. Good afternoon, Mr. Falkner.

9 A. Good afternoon, Mr. Trautman.

10 Q. Let me just start by asking, is litigation  
11 an ongoing expense for Avista?

12 A. Is litigation an ongoing expense for  
13 Avista?

14 Q. Mm-hmm.

15 A. At various points in time, yes.

16 Q. And is it correct that the issues under  
17 litigation change from year to year?

18 A. I think that's true.

19 Q. Do operating expenses include legal  
20 expenses that are recovered in rates?

21 A. Yes.

22 Q. In the rate-making context, do you agree  
23 that test year expenses are not approved or  
24 authorized at a certain level, but rather simply  
25 contribute to an overall normal level of expense,

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1 which is used to determine the total revenue  
2 requirement?

3 A. I'm going to have to ask you to restate  
4 that question.

5 Q. In the rate-making context, would you agree  
6 the test year expenses are not approved or authorized  
7 at a certain level, but rather simply contribute to  
8 an overall normal level of expense, which is used to  
9 determine the total revenue requirement?

10 A. I think that's a fair statement.

11 Q. Are you familiar with what's commonly  
12 called FASB 71, statement of financial accounting  
13 standards?

14 A. Yes, I am.

15 Q. And would you agree that that allows  
16 companies in regulated industries the option of  
17 asking a regulatory commission for the permission to  
18 postpone recognition of an expense in a current  
19 fiscal year and to recover that expense in subsequent  
20 years if the commission builds that expense into a  
21 rate recovery scheme?

22 A. FAS 71 does allow regulated companies the  
23 opportunity to differ in their financial accounting  
24 than a nonregulated company might.

25 Q. Would you agree with the statement that I

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1 made?

2 A. FAS 71 does allow a company, a regulated  
3 company, to ask for deferral recognition of  
4 expenditures if they choose. There's no requirement  
5 that they come before a commission and ask for a  
6 deferral.

7 Q. Right. And again, my question was whether  
8 it allowed --

9 A. Yes, it does.

10 Q. -- companies that option?

11 A. If they go before a commission, they are  
12 allowed to defer, for financial accounting purposes,  
13 something they would have otherwise have been  
14 required to write off or expense as period costs.

15 Q. And does the FERC uniform system of  
16 accounts establish particular balance sheet accounts  
17 to use for booking those deferred debits or deferred  
18 credits?

19 A. There are accounts in the FERC chart of  
20 accounts that allows for deferrals that are  
21 associated with regulatory accounting orders or  
22 petitions.

23 Q. As an example, are you familiar with  
24 account 182.1, which is extraordinary property  
25 losses?

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1 A. Yes, I am.

2 Q. And I believe I handed you a copy.

3 A. You were kind enough to hand that to me  
4 earlier, yes.

5 Q. Would you agree, reading from that account,  
6 that Part A says, When authorized or directed by the  
7 Commission, this account shall include extraordinary  
8 losses which could not reasonably have been  
9 anticipated and which are not covered by insurance or  
10 other provisions, such as unforeseen damage to  
11 property?

12 A. Yes, it does. This would be the account  
13 that a utility would use if they had chosen to ask  
14 for an accounting petition from their various state  
15 regulatory authorities.

16 Q. And does Section B to that same account  
17 then say that application to the Commission for  
18 permission to use this account shall be accompanied  
19 by a statement giving a complete explanation with  
20 respect to the items which it is proposed to include  
21 herein, the period over which, and the accounts to  
22 which it is proposed to write off the charges and  
23 other pertinent information?

24 A. Yes, that's what B says. If the company  
25 had chosen or if a company had chosen to avail itself

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1 of the FAS 71 deferral options, we would have had to  
2 -- or a company would have had to have followed B to  
3 properly comply with what it says in the FERC account  
4 182.10.

5 Q. Now, after the ice storm of 1996, did  
6 Washington Water Power apply to FERC or to the UTC  
7 for use of the extraordinary property loss accounts?

8 A. No, we did not. And I wasn't aware that we  
9 would have had apply to FERC to utilize that account.  
10 My interpretation would have been that we would have  
11 asked the state governing bodies, this Commission.

12 Q. If you could now turn to what's been marked  
13 as Exhibit 232. And these are pages P-3 and P-4 in  
14 the lower right-hand corner. You see that notation?

15 A. Yes, I do.

16 Q. From the accounting work papers?

17 A. Yes, I do.

18 Q. Okay. Turning to the second page, which is  
19 P-4 of this exhibit, in the first part of the  
20 worksheet, at the top, is it correct that the  
21 six-year average for injuries and damages to third  
22 parties is 184,913 for the Washington electric and  
23 53,440 for Washington gas?

24 A. Yes, that's correct.

25 Q. Okay. And then, is it correct that the

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1 second two-column section shows the cost for the 1991  
2 fire storm, and is it further more correct that the  
3 average of the last six years of this event is  
4 \$345,838?

5 A. Yes, it is.

6 Q. Could you now turn to Exhibit 233. This  
7 was the company's response to Staff Data Request 207.  
8 And attached to that are some tables -- do you agree  
9 that the dollars for the years 1993 through 1998 for  
10 the fire storm represent legal fees and the final  
11 settlement of the fire storm litigation?

12 A. They represent legal fees, other  
13 professional services and costs associated with the  
14 ultimate settlement of the fire storm litigation --  
15 fire storm claims, excuse me.

16 Q. Is it correct that the vast majority of the  
17 charges are legal fees?

18 A. Well, that was what I determined by just  
19 looking at the one-line description where  
20 professional services was listed, and I discussed it  
21 with one of the individuals who's intimately involved  
22 with the process. He said that the majority of the  
23 process cost, outside of analysis by claims and other  
24 consulting, were legal fees, yes. And those legal  
25 fees were directly associated with ultimately

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1 settling the fire storm claims from 1991.

2 Q. Turning to the first page after the cover  
3 of 233, it has a table, and in the right-hand margin,  
4 there's a 1998 and a 1997?

5 A. Yes, I see it.

6 Q. Okay. Now, that's your writing, is it not?

7 A. Yes, it is.

8 Q. Okay.

9 A. And it's legible.

10 Q. Right. The final settlement amounted to  
11 \$10.3 million with insurance recoveries of \$9.1  
12 million in 1997; is that correct?

13 A. Yes, that was Avista's share of the  
14 settlement.

15 Q. And are these amounts the 10,300,000 we see  
16 kind of in the middle of the 1997 figure?

17 A. Yes.

18 Q. And then the 9.1 million in parentheses  
19 near the bottom?

20 A. Yes.

21 Q. Still on this same page, in the box next to  
22 1998 up at the top, it appears there were insurance  
23 recoveries amounting to about \$518,000, which would  
24 be the sum of the negative 542 and the 24,000; is  
25 that correct?



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1 A. Yes.

2 Q. Are those all for the same insurance  
3 recoveries?

4 A. Yes, it is. I didn't specifically ask what  
5 the detail was behind that insurance settlement, but  
6 it was associated with fire storm.

7 JUDGE SCHAER: Looking at the 1997 numbers,  
8 you list again two different amounts for insurance,  
9 one the 9,100,000, secondly, the 1,200,000, for a  
10 total of 10 million?

11 THE WITNESS: No.

12 JUDGE SCHAER: What is that? Is that other  
13 insurance part of this or not, Mr. Falkner?

14 THE WITNESS: No, it's not -- it was -- it  
15 was not.

16 JUDGE SCHAER: Okay. I just wanted to have  
17 it clear. Go ahead, please.

18 Q. If you could go back to Exhibit 232. And  
19 again, on the second page, P-4, at the bottom, this  
20 entry shows the 1996 ice storm cost of over \$15  
21 million, with Washington's portion at approximately  
22 12.2 million; is that correct?

23 A. Yes, it is.

24 Q. And then you divide the 12 million by six  
25 to arrive at roughly the \$2 million that's requested

00453

1 for inclusion in the revenue requirements; is that  
2 correct?

3 A. Yes, that's correct.

4 Q. Okay. If you could now turn to your direct  
5 testimony, which is T-226. At page 15, lines 18 and  
6 19.

7 A. I'm there.

8 Q. And you there -- you refer to the storm  
9 damage costs included in the injuries and damages  
10 accrual. By this reference, do you mean the amounts  
11 at the top of Exhibit 232, that being the -- do you  
12 mean that those amounts at the top include storm  
13 damage costs, that being the 184,000?

14 A. No, I do not.

15 Q. Okay.

16 A. I was speaking specifically of just the ice  
17 storm damage. Other storm damages that the company  
18 incurs from time to time is included in our other  
19 maintenance accounts.

20 Q. Is the company in this injuries and damages  
21 adjustment asking for a six-year rolling average for  
22 all storm-related costs?

23 A. No, it's not. We're specifically  
24 addressing just ice storm, which is extraordinary  
25 storm damage.

00454

1 Q. Washington Water Power made several press  
2 releases during and after the ice storm pertaining to  
3 the restoration efforts and the potential cost of the  
4 storm; is that correct?

5 A. That's correct.

6 Q. If you could turn to Exhibit 234, and  
7 that's a press release dated December 12th of 1996,  
8 actually, December 5th, and at the top, it says Ice  
9 Storm '96, Washington Water Power electric prices  
10 will remain unchanged. Do you see that?

11 A. I do see that.

12 Q. Looking down to the third paragraph of the  
13 news release, in the second sentence, do you see that  
14 it there says, and I'm quoting, But our decision is  
15 to write off the cost of this storm against our 1996  
16 fourth quarter earnings. In preserving our 10-year  
17 record of energy price stability, our customers will  
18 see no change in electric prices as a result of the  
19 storm damage costs. Do you see that?

20 A. I do see that.

21 Q. And this is a statement from, I believe,  
22 Mr. Paul Redmond?

23 A. That's who the quote is attributed to.

24 Q. And he was the chief executive officer and  
25 chairman of the board at the time; is that correct?

00455

1           A.    Yes, he did.  I'd like to add that I  
2 actually participated in a follow-up meeting  
3 regarding ice storm.  Of course, it is the company's  
4 determination or position that these are legitimate  
5 costs of business, but recovery was not the initial  
6 --

7           MR. TRAUTMAN:  Your Honor, this is going  
8 beyond my question.  I would object.

9           JUDGE SCHAER:  I believe that the question  
10 asked of you was what Mr. Redmond's position was, and  
11 I do believe that you're going beyond that at this  
12 point.

13           THE WITNESS:  What I was going to do is,  
14 excuse me, was share the dynamics of the meeting that  
15 involved Mr. Redmond that I participated in.

16           JUDGE SCHAER:  I believe if Mr. Meyer would  
17 like to ask you that on redirect, he may.  But I  
18 believe it's beyond the scope of the question that's  
19 asked.  Go ahead, Mr. Trautman.

20           Q.    If you could turn to Exhibit 235, and would  
21 you accept, subject to check, there is handwriting at  
22 the top, that this is page 19 from the December 1996  
23 Form 10-K for Washington Water Power?

24           A.    Subject to check, yes.

25           JUDGE SCHAER:  So looking at the top of the

00456

1 page, where it says Form 10-K, December 31st, 199,  
2 that should be 1996?

3 MR. TRAUTMAN: Yes.

4 JUDGE SCHAER: Thank you. Go ahead,  
5 please.

6 Q. This filing to the Securities and Exchange  
7 Commission is an annual report that is available to  
8 the investors of the company; is that correct?

9 A. Yes, it is.

10 Q. Turning to the third paragraph, following  
11 the heading Overall Operations, there's a discussion  
12 of the ice storm in that third paragraph. And is it  
13 correct that the very last line in that paragraph  
14 says, No increase in rates will occur as a result of  
15 these costs?

16 A. That's correct. At that time, the company  
17 had no plans for a general rate increase.

18 Q. Thank you. Could you now refer to what's  
19 been marked as Exhibit 236. And do you recognize  
20 this as a work paper supplied to Staff and numbered  
21 07? That's in the lower right-hand corner.

22 A. Right. This is part of my regulatory  
23 expense trueup adjustment for the test period.

24 Q. And the top of the exhibit says Annual  
25 Charges, Billing - Fiscal Year 1998?

00457

1 A. Correct.

2 JUDGE SCHAER: I'm sorry, where is that --  
3 oh, I see it.

4 THE WITNESS: At the very top.

5 JUDGE SCHAER: It's in big letters, so --  
6 go ahead.

7 Q. In the calculation of the FERC fee towards  
8 the bottom right-hand corner of this exhibit, under  
9 annual charge calculation to the lower right, do you  
10 see the shorter term annual charge of \$457,150?

11 A. Yes, I do.

12 Q. Is this amount associated with short-term  
13 sales that are being pulled out of the test year  
14 through the power supply adjustment and the pro forma  
15 commercial trade adjustment?

16 A. I'm not sure. It does say short-term, and  
17 I see a number associated with how many megawatt hour  
18 sales it is being factored upon. I don't know how  
19 this correlates to what Mr. Norwood included in his  
20 power supply adjustment.

21 Q. Could we get that information through a  
22 record requisition?

23 A. I don't know how hard that would be to  
24 quantify.

25 Q. I'd like to make that request from Staff,

00458

1 to determine whether, in fact, those amounts are  
2 associated with the power supply adjustment and pro  
3 forma commercial trade adjustment amounts pulled out  
4 of the test year.

5 JUDGE SCHAER: Okay. As Record Requisition  
6 Number 14, you are seeking to find out --

7 MR. TRAUTMAN: Whether the amount  
8 associated with the short-term annual charge is being  
9 -- is associated with sales, short-term sales that  
10 are being pulled out of the test year through the  
11 power supply adjustment and the pro forma commercial  
12 trade adjustment.

13 JUDGE SCHAER: Mr. Meyer, do you think the  
14 company would be able to determine that information?

15 MR. MEYER: I think so. We'll do what we  
16 can.

17 JUDGE SCHAER: Okay. I'm going to leave  
18 that in as Record Requisition Number 14, and ask you  
19 to provide what you can to Commission Staff Counsel.

20 Q. To your knowledge, are any of the other  
21 FERC fees on this page associated with revenues and  
22 expenses for commercial trade activities?

23 A. Not that I'm aware of.

24 Q. I guess as a follow up on the record  
25 requisition would be to determine that for a fact. I

00459

1 mean, do you know -- are you saying no or are you  
2 saying you're not --

3 A. I'm saying I'm not aware if they are or  
4 not. Are you specifically talking about the  
5 long-term group, then, above?

6 Q. Any of the other ones, you know, company  
7 short-term sales. Oh, you have the charge. Yeah,  
8 long-term.

9 A. Right.

10 Q. I assume the answer was no, but I didn't  
11 know if you --

12 A. I assume the answer's no, also, but I would  
13 defer to Mr. Norwood.

14 JUDGE SCHAER: Okay. Is that something  
15 that we need to make a record requisition, or is that  
16 something that --

17 THE WITNESS: Could that be encompassed in  
18 the --

19 MR. MEYER: We'll treat it in the same  
20 response to that record requisition.

21 JUDGE SCHAER: Or if you wanted to leave it  
22 as the answer was no, subject to check, and then  
23 check --

24 MR. MEYER: Let's roll it into that record  
25 requisition.



00460

1 JUDGE SCHAER: Okay. That will be part,  
2 then, of Record Requisition Number 14. Go ahead, Mr.  
3 Trautman.

4 Q. I'd like to refer now to the settlement  
5 exchange power adjustment. In your testimony -- for  
6 reference, that's on T-226 at page 13. It's also  
7 Exhibit 228. Is it correct that this adjustment  
8 reflects the allowed revenue requirement recovery  
9 level that was approved in Cause U-86-99 and takes  
10 the amounts out in the per books column?

11 A. It does, with the one exception that we  
12 updated lines 28 and lines 30 of the calculation.

13 JUDGE SCHAER: What exhibit are you looking  
14 at?

15 THE WITNESS: Excuse me, I'm looking at  
16 Exhibit 237.

17 JUDGE SCHAER: Thank you. I was looking at  
18 exhibit -- your testimony. I was looking at Exhibit  
19 237?

20 THE WITNESS: Correct.

21 JUDGE SCHAER: What page, please?

22 THE WITNESS: 237 is a one-page exhibit,  
23 and down at the bottom.

24 JUDGE SCHAER: Okay.

25 THE WITNESS: Basically, this is a chart

00461

1 that was taken out of the WNP3 settlement, and which  
2 prescribed a revenue requirement extreme over a  
3 period of years. There was a ten-year levelized  
4 revenue requirement and then a decline of revenue  
5 requirement after that. We have, over the years,  
6 used this for revenue requirement calculations,  
7 instead of rolling in the actual investment and  
8 amortization that's on our results of operations, so  
9 there would be no confusion about what's included in  
10 WNP3.

11 Because of the fact in this case we're  
12 asking for a change or an update in our cost of  
13 capital and the fact that the current tax rate  
14 changed, we updated line 28, which is rate of return,  
15 to reflect the return we're requesting in this case,  
16 and line 30, which is a federal income tax rate.  
17 Both of those adjustments served to reduce the  
18 revenue requirement that was originally ordered in  
19 the WNP3 order.

20 JUDGE SCHAER: Thank you.

21 Q. You've answered a couple of questions I  
22 had, but you did indicate that on line 12, the rate  
23 of return has been adjusted to what the company is  
24 proposing in this case; is that correct?

25 A. Yes, yes, you're correct.

00462

1 Q. And I'm on Exhibit 237, for reference. Do  
2 you agree that this number should be adjusted to  
3 whatever rate of return the Commission ultimately  
4 adopts in this proceeding?

5 A. I do agree with that, yes.

6 Q. On line 27, is it correct that what is  
7 reflected in the adjustment is the test year, that  
8 is, the calendar year 1998 amount, and this is for  
9 years 11 and 12?

10 A. I'm sorry, could you say that again?

11 Q. You have circled -- you have the numbers in  
12 year 11 and 12 circled?

13 A. Yes.

14 Q. And you would take two months out of year  
15 11 and ten months out of year 12?

16 A. Yes, correct.

17 Q. And so that adjustment, that's the calendar  
18 year 1998; correct?

19 A. Correct. The revenue requirement, as you  
20 can see, was not a calendar year revenue requirement,  
21 so we adapted to our calendar year filing.

22 Q. Do you agree that the rate year will be the  
23 12 months after the effective date of the  
24 Commission's order, that 12-month period?

25 A. Do I agree that the rate year will be the

00463

1 12-month period after the Commission order?

2 Q. Yes.

3 A. Yes, I do.

4 Q. In your testimony, T-226, at page 12, lines  
5 nine through 16, you refer to the Clearwater hydro  
6 adjustment?

7 A. Yes, I do.

8 Q. And the Commission approved a ten-year  
9 amortization of the termination cost associated with  
10 Clearwater hydro; is that correct?

11 A. Yes, it is.

12 Q. And when is the ten-year amortization  
13 period over?

14 A. October 1999. This is an issue that I just  
15 found upon review of my testimony, and it was also an  
16 issue that I was hoping to address in rebuttal before  
17 anybody else noticed it. This is a -- this reflects  
18 the filing that we did for our Commission basis  
19 report back in -- it would have been April of 1999,  
20 and a number of our Commission basis reports just  
21 followed into this particular filing.

22 So the point I think you're getting at is  
23 when the test year rates go into effect, this  
24 adjustment would be fully amortized.

25 Q. Is that correct?

00464

1 A. That is correct. My intent was to address  
2 that on rebuttal.

3 JUDGE SCHAER: What were you going to do  
4 with that?

5 THE WITNESS: I was going to eliminate that  
6 adjustment, which would cause a reduction of  
7 Washington rate base of approximately \$28,000.

8 Q. Now, in your testimony, T-226, on page ten,  
9 you refer to the deferred gain on office building,  
10 and that's your column D adjustment. Now, the  
11 deferred gain assigned to Washington varies every  
12 year based on the change in the allocation factor  
13 from year to year; is that correct?

14 A. I actually would have to refer to my work  
15 papers.

16 JUDGE SCHAER: Go ahead and take a moment  
17 to look at that.

18 THE WITNESS: Yes, it does.

19 Q. Now, the use of a current allocator keeps  
20 the gain that's assigned to Washington and Idaho tied  
21 to the use of the building; is that correct?

22 A. Say that one more time.

23 Q. Does the use of a current allocator keep  
24 the gain assigned to Washington and Idaho, does it  
25 keep that gain tied to the use of the building?

00465

1           A.    I don't think it necessarily keeps it tied  
2 to the use of the building; it just keeps it tied to  
3 a current allocation factor.

4           Q.    Referring now to the -- on the same page of  
5 your testimony, Colstrip Three AFUDC elimination --

6           A.    Yes.

7           Q.    -- adjustment. This adjustment reduces the  
8 per books allocation and adjusts it to a direct  
9 assignment; is that correct?

10          A.    Correct.

11          Q.    And this is required by the order in Docket  
12 U-81-15; is that also correct?

13          A.    Yes, it is.

14          Q.    Is it correct that the Commission in that  
15 order determined Washington's treatment on a  
16 Washington basis, not a system-wide basis?

17          A.    The Commission order in the case reference  
18 did just address Washington's portion. The system  
19 number was determined and then there was an  
20 allocation to the states at that time.

21          Q.    On page 11 of your testimony, which now --  
22 Column F, that refers to the Colstrip common AFUDC  
23 adjustment?

24          A.    I'm sorry, did you say page 11 of my  
25 testimony?

00466

1 Q. Yes.

2 JUDGE SCHAER: I believe he's starting at  
3 line eight.

4 Q. Oh, line eight, starting at line eight,  
5 sorry. That refers to the Colstrip common AFUDC  
6 adjustment. Is it correct that this adjustment  
7 places a direct assignment of Colstrip AFUDC into the  
8 Washington results based on this Commission's  
9 Washington-specific treatment?

10 A. Yes, it does. This is a little bit  
11 different, because FERC actually required the company  
12 to move this particular amount of AFUDC from the  
13 plant accounts down to a 186 account, where they were  
14 then directly assigned.

15 Q. Now, turning now to page -- actually, page  
16 11, carrying over to page 12, which is Column G, the  
17 Kettle Falls disallowance, and you state that the  
18 Commission, in Docket U-83-26, disallowed \$5,247,725  
19 of investment in Kettle Falls; is that correct?

20 A. Yes, I did.

21 Q. If you would refer now to what's been  
22 marked as Exhibit 238, this is a portion of the  
23 decision in that docket number, pertaining to Kettle  
24 Falls. And if you'd turn to page 16, right before  
25 the next subject begins on rate base, would you agree

00467

1 that the Commission there says, as to Kettle Falls,  
2 the effect of this decision is that \$80,555,706 of  
3 the total project cost of \$89,299,000 will be used to  
4 calculate the allocation between jurisdictions?

5 A. Yes, that's what the -- that is what the  
6 Commission used at that point in time to determine  
7 the allocation between states.

8 Q. So the Commission there determined the  
9 disallowance by taking the difference in the total  
10 project cost and the allowed costs on a system-wide  
11 basis, which amount was then allocated; is that  
12 correct?

13 A. Yes, the Commission took the project, the  
14 completed project costs at that point in time, and  
15 determined a disallowance for prudence that was then  
16 allocated between states.

17 Q. Thank you.

18 A. And as the adjustment shows, we then wrote  
19 that particular amount off, or we actually reserved  
20 for the write-off on our books.

21 Q. Now, Mr. Falkner, would you agree that  
22 distribution costs normally are assigned to each  
23 state, rather than being allocated, like generation  
24 or corporate overhead costs?

25 A. That's our preferred practice, yes.



00468

1 Q. And one of the costs for the distribution  
2 system is the purchase of rights-of-way for  
3 distribution lines to cross individuals' property; is  
4 that correct?

5 A. I would assume so.

6 Q. Okay. Are you familiar with the Nez Perce  
7 settlement agreement?

8 A. I have read the Nez Perce settlement  
9 agreement.

10 Q. If you could refer to what's been marked as  
11 Exhibit 239. Do you recognize this as the body of  
12 the settlement agreement, noting that there are  
13 additional exhibits that have not been included?

14 A. Yes.

15 Q. Okay. And if you could turn to page three  
16 of that agreement, particularly the last paragraph.

17 A. I'm sorry, what page?

18 Q. Page three?

19 A. Yes.

20 Q. And I'm reading, it states in part, Whereas  
21 the parties intend that this settlement agreement  
22 will, A, resolve fully the present litigation between  
23 the parties, B, provide a comprehensive settlement of  
24 tribal taxes, rights-of-way and TERO issues, and C,  
25 create a framework for the parties to cooperate in

00469

1 the future. Do you see that?

2 A. Yes, it does. And the paragraph right  
3 above it would go on to say that, Whereas the parties  
4 recognize that this settlement agreement is a  
5 compromise agreement to resolve disputed claims.

6 Q. And I note that, I note that addition. So  
7 it's true that the settlement agreement not only  
8 settles the litigation issues, but also provides  
9 payments for rights-of-way on the Nez Perce  
10 Reservation and payments for tribal taxes. Would  
11 that be correct?

12 A. There were a number of issues that came up  
13 through the course of the litigation, and they were  
14 settled in a compromise -- in a global compromise  
15 agreement.

16 JUDGE SCHAER: I'm not sure if you answered  
17 yes or no. Would you please give a yes or no answer  
18 before you explain in this kind of question, please?

19 THE WITNESS: Yes the settlement resolved  
20 all the issues that came up through the course of  
21 this Nez Perce litigation.

22 JUDGE SCHAER: What was your question, Mr.  
23 Trautman?

24 MR. TRAUTMAN: My question was whether it  
25 was true that the settlement agreement not only

00470

1 resolved -- or not only settled the litigation  
2 issues, but also provided for a settlement for tribal  
3 taxes and rights-of-way.

4 THE WITNESS: And the answer's yes.

5 JUDGE SCHAER: Thank you.

6 THE WITNESS: And this was a global  
7 settlement that resolved all issues that came up.

8 JUDGE SCHAER: Thank you. I appreciate  
9 that, because it's much clearer to me if you answer  
10 yes first and then explain a little bit more. I know  
11 you want to answer the questions.

12 Q. On page 23 of your testimony, T-226, at  
13 lines 19 and 20, you refer to -- I should say above  
14 that, you indicate that there would be payments over  
15 45 years; is that correct?

16 A. I'm sorry, what line?

17 Q. Well, lines eight through ten refer to the  
18 term of the settlement being for 45 years?

19 A. Yes.

20 Q. And then, lines 19 and 20 indicate that the  
21 initial payment for 1999 is \$2.5 million, with  
22 subsequent payments in the amount of approximately  
23 \$835,000; is that correct?

24 A. That's correct.

25 Q. Now, of the initial payment of \$2.5 million

00471

1 for the annual payments of over \$835,000, how much of  
2 these payments relate to payments for power line  
3 rights-of-way?

4 A. It's not determinable. The settlement was  
5 a final resolution of all claims with, to the best of  
6 my knowledge, no breakdown of the cost.

7 Q. Has any of this -- has any what could be --  
8 let me back up. Obviously, some of this is payable  
9 for the rights-of-way. Has any amount been assigned  
10 to Idaho for that portion of the payment?

11 A. The costs of the -- I don't know if there's  
12 a yes or no to that originally. The costs of the  
13 settlement relate to the Grangeville and Lewiston  
14 Dams, which were production facilities, and these are  
15 basically a resolution of claims or litigation  
16 revolved around production facilities, and the  
17 allocation of production facilities is the production  
18 transmission ratio, and we are using that to allocate  
19 the total cost, the system costs between Washington  
20 and Idaho, and that was the allocation methodology  
21 used in the recently-completed Idaho case.

22 JUDGE SCHAER: I think that was a yes, with  
23 an explanation. You said some was allocated to  
24 Idaho.

25 Q. So it was allocated to Idaho, but none of

00472

1 it was assigned to Idaho?

2 A. Correct.

3 Q. And would that be the same for the tribal  
4 taxes portion? Has any of that been assigned to  
5 Idaho?

6 A. If there's a portion of the global  
7 settlement that resolved the tax dispute, it is  
8 assigned to Idaho. It is allocated to Idaho.

9 Q. I was going to ask for a record  
10 requisition, though I don't know if you're going to  
11 tell me you can't provide it, indicating how much of  
12 this settlement pertains to the, first of all, the  
13 power line rights-of-way, and second, the tribal  
14 taxes?

15 A. I was told that that couldn't be derived by  
16 the terms of the settlement. The original claims  
17 were \$425 to \$650 million, and this is a settlement  
18 that ranges over -- I forgot the number, but a  
19 substantially smaller number than the original  
20 claims, and on a present value, even substantially  
21 less than that, and there was no determination at  
22 settlement to put, to the best of my knowledge, to  
23 put a dollar value on the individual pieces.

24 Q. Well, if you look to the -- on Exhibit 239,  
25 if you look to the last page, we don't have the

00473

1 exhibits attached, but Exhibit J talks about  
2 appraisal methodology for rights-of-way on  
3 after-acquired property?

4 A. I think the key is on after-acquired  
5 property. My reading of the settlement was that  
6 there are components of the settlement that address  
7 ongoing issues, and if the tribe acquires property  
8 after this particular time period, they would be  
9 addressed through whatever this appraisal methodology  
10 dictates.

11 JUDGE SCHAER: When you say you don't have  
12 Exhibit J, Mr. Trautman, do you mean it's not  
13 included in what's here or that you haven't been  
14 provided that by the company?

15 MR. TRAUTMAN: We have it. It's just not  
16 included here.

17 JUDGE SCHAER: Okay, thank you.

18 Q. Could you now turn to pages 25 to 28 of  
19 your testimony, T-226?

20 A. I'm on page 25.

21 Q. And this pertains to miscellaneous  
22 adjustment PF9, and --

23 A. Yes, it does.

24 Q. For the items in this adjustment, is it  
25 your proposal to create a regulatory asset for these

00474

1 charges and to amortize the assets over five years?

2 A. No, my proposal was not to create a  
3 regulatory asset. It was to recognize the five-year  
4 amortization of these period costs over a five-year  
5 period. At the time I put the adjustment together, I  
6 didn't anticipate creating a regulatory asset.

7 Q. Now, in this miscellaneous adjustment,  
8 there are two parts. And the first is for the  
9 so-called Y2K computer modifications. Is that  
10 correct?

11 A. That's correct.

12 Q. And for these expenses, Avista is including  
13 only the 1998 costs --

14 A. Correct.

15 Q. -- in the request?

16 A. Just the period cost of our test period.

17 Q. Now, the second part of the adjustment, of  
18 the miscellaneous adjustment concerns the name change  
19 adjustment; is that correct?

20 A. Yes, it does. And again, those are just  
21 the period costs for 1998.

22 Q. Now, the name Avista appeared as early as  
23 1997; is that correct?

24 A. For subsidiaries, yes.

25 Q. And at that time, it was used as the new

00475

1 name for the unregulated businesses of Washington  
2 Water Power?

3 A. Yes, that's correct.

4 Q. And turning to Exhibit 240, which is a  
5 letter from then-Chairman Paul Redmond, and it's  
6 correct that this is reflected particularly in the  
7 corporate structure attached on the back?

8 A. I'm sorry, I missed the question.

9 Q. The question was whether Avista had  
10 originally been used as a name for the unregulated  
11 subsidiaries and whether that was, in fact, reflected  
12 in this corporate structure chart, which has  
13 Washington Water Power at the top, and then we have  
14 Avista Corp., Avista Advantage, Avista Energy?

15 A. Yes, that box does say Avista Corp.

16 Q. Was any of the cost of the name change  
17 assigned or allocated to the nonregulated portions of  
18 the business?

19 A. The costs that I captured in the PF9  
20 adjustment were the costs of changing the name of the  
21 operating utility, Washington Water Power, to Avista  
22 Corp. So those were utility expenditures not  
23 assigned to the subsidiaries that already were  
24 utilizing the name Avista.

25 Q. If you turn to Exhibit 241, and this



00476

1 contains -- 241 contains a number of tables. At the  
2 top, it says Name Change Work Order, 3002 Listing.

3 A. Correct. This is the detail report that  
4 supports the system number, system cost of a name  
5 change that's included in my adjustment.

6 Q. And is it correct, looking to the last --  
7 to page 12 of that exhibit, is it correct that the  
8 1998 name change expense is approximately \$1.1  
9 million?

10 A. The total costs that were captured in the  
11 name change work order did total to \$1,165,848 that's  
12 on page 12 of Exhibit 241. What I included in the  
13 name change adjustment was 1,122,859, and I excluded  
14 labor costs that were included, assuming those were  
15 not incremental. So I included all non-labor costs  
16 charged. And the \$1,100,000 is a system number.  
17 When we work it down to a five-year amortization for  
18 Washington Electric operations, it's \$106,000,  
19 approximately, and for Washington Gas, it's \$27,000,  
20 approximately. And that's shown on my work paper,  
21 PF9-2.

22 Q. Now, does that amount of a little over 1.1  
23 million that you refer to, did this include an  
24 accrual of \$489,000 for -- \$489,000?

25 A. Yes, in December, a number of costs had

00477

1 been incurred, but not been invoiced or expensed at  
2 that time. Standard practice is to accrue  
3 expenditures over the end of the year. So yes, there  
4 was an accrual that we recorded in December of 1998.  
5 Then those payments were made in 1999.

6 Q. So was the amount of \$489,000, was that for  
7 costs that were all incurred in 1998, or was it also  
8 for costs that were about to occur in early 1999?

9 A. I was informed that those were costs that  
10 had been incurred but not yet expensed in 1998. In  
11 1999, we incurred -- not only do we make expenditures  
12 for -- we made expenditures that exceeded the accrual  
13 that we had made in 1998, so additional costs did  
14 occur in 1999, and those are not part of the  
15 adjustment.

16 Q. If you could turn to Exhibit 243, and this  
17 is an example of expenses that are included in the  
18 name change adjustment. And do you recognize this as  
19 an invoice from the AdGap Group?

20 A. Yes, I do.

21 Q. This is an invoice for over \$57,000 for  
22 6,000 steel tumblers; is that correct?

23 A. Yes, this was an item of the -- oh, excuse  
24 me.

25 Q. Were these handed out to employees?

00478

1 A. Yes, they were, to certain employees, and  
2 I'm not sure where else they went. It was part of  
3 the name awareness education program that was  
4 determined by the corporate positioning team.

5 Q. Did you get one?

6 A. I do have a silver tumbler. I'm not sure  
7 if it's exactly this group, but I did. And it  
8 reminds me of the Avista Corp. name every day.

9 Q. If you could turn to Exhibit 244. Now,  
10 this is also included in the name change expenses.  
11 This is a voucher to CT Corporation System. Do you  
12 see that?

13 A. Yes, I do.

14 Q. And it's stated as -- the purpose says, For  
15 an advance for CT to register Avista Corporation to  
16 do business in all 50 states. Do you see that?

17 A. Yes, I do.

18 Q. Does Avista Utilities have regulated  
19 customers in all 50 states?

20 A. To the best of my knowledge, no. I  
21 actually called on this particular voucher to ask  
22 what the purpose was, and I was told that somehow  
23 this particular filing protected our name for future  
24 operations in the various 50 states.

25 Q. The second page of that same exhibit

00479

1 appears to be for a job for Pentzer Corporation?

2 A. Yes, I see that.

3 Q. Are regulated customers paying for  
4 Pentzer's expenses?

5 A. I think this was a mistake. I don't know  
6 exactly what -- just by the job name, logo type for  
7 Pentzer Corporation, but just the utilization of  
8 Pentzer Corporation implies it's part of the  
9 nonregulated group. This could have been a miscoded  
10 transaction for \$2,000.

11 Q. Turning to Exhibit 245, these are two  
12 invoices for CUSIP, C-U-S-I-P, Service Bureau?

13 A. Correct.

14 Q. Which appear to be charges to registered  
15 preferred securities --

16 A. Correct.

17 Q. -- and floating rate notes. And it states  
18 that the issuer is Avista Cap One and Avista Cap Two.  
19 Does this refer to Avista Capital?

20 A. I actually called on this invoice, as well.  
21 That was my first inclination when I saw Avista Cap.  
22 I was told that this was an Avista Capital filing,  
23 not Capital Corporation. The Avista Capital has no  
24 preferred securities. They do have long-term debt.  
25 So this -- I was told this particular amount was for

00480

1 Avista, the corporation, and the same applies to the  
2 Capital Securities B floating rate on the second  
3 page, both for a hundred dollars.

4 Q. So why are they in the name change  
5 expenses?

6 A. Because the original preferred securities,  
7 I would assume, were under the Washington Water Power  
8 name, and the CUSIP Service Bureau is where you pay  
9 to get the name change reserved for the new Avista.  
10 So we had a preferred set of securities under the  
11 Washington Water Power name and it had to be changed  
12 to Avista.

13 JUDGE SCHAER: Mr. Trautman, would you look  
14 for a good place to break?

15 MR. TRAUTMAN: This would be a good place.

16 JUDGE SCHAER: Okay. It's 3:15. Let's  
17 take our afternoon recess at this time, and please be  
18 back and ready to go at 3:30. We're off the record.

19 (Recess taken.)

20 JUDGE SCHAER: Let's be back on the record  
21 after our afternoon recess. Did you have more  
22 questions, Mr. Trautman?

23 MR. TRAUTMAN: Yes, I do, Your Honor.

24 JUDGE SCHAER: Go ahead, please.

25 Q. Mr. Falkner, are you familiar with the

00481

1 Washington Administrative Code provisions, known as  
2 the WACs, that concern promotional and political  
3 advertising by utility companies?

4 A. To a certain degree, yes.

5 Q. Do those rules exclude promotional and  
6 political advertising by utility companies from the  
7 calculation of revenue requirements?

8 A. Those rules address promotional and  
9 political advertising along with exceptions to the  
10 rule, and I'm not aware if there's anything else in  
11 the code that addresses the Commission's flexibility  
12 on those points.

13 Q. Would you agree that they do exclude those  
14 items from revenue requirements?

15 A. The wording states that the particular  
16 advertising or promotional costs associated under  
17 that category are to be recovered, I think the  
18 wording is, from the shareholders.

19 Q. Did you analyze the test year to find  
20 expenses for promotional advertising and did you  
21 remove those from the revenue requirement  
22 calculation?

23 A. We did not specifically go through and  
24 determine piece-by-piece what was promotional, what  
25 was educational, and what was informational.

00482

1 Q. As our next record requisition, we would  
2 ask for a schedule of promotional advertising  
3 expenses, as defined for gas operations in  
4 480-90-043, that were included in the test year, and  
5 a schedule of promotional advertising expenses for  
6 electric operations, as defined in 480-100-043, that  
7 were included in the test year.

8 JUDGE SCHAER: Let's go off the record for  
9 just a moment.

10 (Discussion off the record.)

11 JUDGE SCHAER: Back on the record. Record  
12 Requisition Number 15 will be the list of items just  
13 asked for by Mr. Trautman regarding --

14 MR. TRAUTMAN: Promotional advertising.

15 JUDGE SCHAER: -- promotional advertising  
16 by the gas and electric arms of the company. Mr.  
17 Falkner, can you respond to that?

18 THE WITNESS: We will attempt to go through  
19 the expenditures of the groups and categorize them by  
20 the WAC groups.

21 JUDGE SCHAER: Thank you. Go ahead.

22 Q. Did you analyze the test year to find  
23 expenses for political advertising and did you remove  
24 those from the revenue requirement calculation?

25 A. To the best of my knowledge, our political

00483

1 advertising and lobbying costs are excluded from this  
2 test year and are accounted for in Account 426-40.

3 JUDGE SCHAER: So the answer's yes?

4 THE WITNESS: I didn't analyze it  
5 specifically. Accounting policies that were in place  
6 at the company were there to make determinations of  
7 what was political for lobbying and what was not. If  
8 it was political or lobbying it would be out of the  
9 test period, in a below the line account, 426-40.

10 And if I'm not mistaken, we also responded  
11 to a data request, I think from Public Counsel, in  
12 regards to lobbying costs and where they're accounted  
13 for.

14 Q. Have you ever looked through the Avista  
15 website?

16 A. Yes, I have.

17 Q. And turning to Exhibit 250, this shows  
18 almost \$85,000 in website costs. Were any of these  
19 costs allocated to Avista Capital or to the company's  
20 unregulated subsidiaries?

21 A. No. The costs that were outlined in this,  
22 in 1990 invoices paid to this particular vendor, were  
23 charged to Account 912, and they were utility  
24 expenditures.

25 Q. The website costs appear to be posted, as



00484

1 you indicated, with the allocation factor nine?

2 A. Correct.

3 Q. And does this mean that only Washington and  
4 Idaho were charged for these expenses?

5 A. Correct. This would be the old Washington  
6 Water Power electric and gas systems, which have  
7 Washington and Idaho.

8 Q. And if you could turn to Exhibit 251, this  
9 was a response to Staff Data Request 248, and is it  
10 correct that Attachment B, which is all that we have  
11 attached to this exhibit, documents the cost of a  
12 project called the Paul Redmond Tribute Film?

13 A. Yes, it does.

14 Q. And would you agree, subject to check, that  
15 these invoices total just over \$56,000?

16 A. I would agree.

17 Q. Did any of these expenses for the Paul  
18 Redmond Tribute Film get charged to the unregulated  
19 subsidiaries?

20 A. No, these were charged to -- they used  
21 utility code seven, which would spread them to  
22 Washington, Idaho, Oregon and California utility  
23 operations.

24 Q. If you could turn to Exhibit 252, this  
25 documents charges for the selection of a new CEO; is

00485

1 that correct?

2 A. Yes, it does.

3 Q. Now, the last page of this exhibit shows  
4 the costs that were incurred by the board of  
5 directors, and the next to the last page summarized  
6 the CEO search expenses. On the next to the last  
7 page, under expenses for CEO search, there's a figure  
8 of \$318,000, approximately?

9 A. Yes, I see that.

10 Q. Then, on the last page, under CEO selection  
11 fees and CEO selection per diem travel fees, there  
12 are figures of \$76,000 and 14,400. Do you see that?

13 A. Yes, I do.

14 Q. Does the \$318,000 figure include the 90,000  
15 on the next page?

16 A. It was my understanding that they didn't,  
17 that you would have to accumulate the two.

18 Q. So the total would be about 408,000, then;  
19 is that correct?

20 A. On a system level. And for Washington  
21 Electric, approximately 192,000, and for Washington  
22 Gas, approximately 49,000.

23 Q. And is it correct that these invoices were  
24 posted to either 7921 or 7923?

25 A. Yes.

00486

1 Q. Is that office supplies?

2 A. Office supplies and expenses, yes.

3 Q. And expenses. And again, does the seven  
4 indicate -- I believe you said that that indicated  
5 that they were charged to utilities in all of the  
6 states?

7 A. Correct.

8 Q. All of Avista's states?

9 A. That's correct. It would be Washington,  
10 Idaho, Oregon and California utility operations.

11 Q. Did any of this cost get charged to the  
12 unregulated subsidiaries?

13 A. No, they didn't. These costs were  
14 associated with the search for a CEO, and whether we  
15 had unregulated operations or not, we would still  
16 have been searching for a CEO.

17 Q. If you had all unregulated operations and  
18 no regulated operations, you'd need a CEO, too, would  
19 you not?

20 A. We would. But in this case, we're talking  
21 about the utility operations.

22 Q. If you could turn to Exhibit 253.

23 JUDGE SCHAER: All of these numbers are for  
24 identification only at this point.

25 MR. TRAUTMAN: Yes, I'll move for admission

00487

1 later.

2 Q. Exhibit 253, and this lists invoices paid  
3 by White Runkle (phonetic) Associates, does it not,  
4 and it describes advertising campaigns done by them?

5 A. It describes various campaigns and payments  
6 to White Runkle, yes, it does.

7 Q. Turn to the -- I believe it's the third  
8 page, third page at the top. Third page after the  
9 cover page. It says carbon monoxide detectors. Do  
10 you see that?

11 A. At the very top?

12 Q. Yeah.

13 A. Yes, I do.

14 Q. And below that, there are items for backup  
15 generators and power surge protectors. Do you see  
16 that?

17 A. Yes, I do.

18 Q. Aren't these programs provided by the  
19 unregulated subsidiary, Avista Services?

20 A. To the best of my knowledge, they are.  
21 What this data request asked for was a list of  
22 payments to this particular vendor. It didn't  
23 specify whether they were to utility, energy  
24 services, or non-utility. The accounting isn't  
25 outlined in this particular document, and if the

00488

1 detail behind these shows that it goes to a variety  
2 of different accounts, expense accounts, 186, which  
3 is probably going to capture the carbon monoxide  
4 detectors, as well as you'll note that there are  
5 charges for California programs and WPNG. Those all  
6 go to the various direct charges of those utilities.  
7 This is just a capture of total payments. It doesn't  
8 indicate accounting.

9 Q. So were any of these amounts charged to  
10 unregulated subsidiaries?

11 A. Yes.

12 Q. Okay.

13 A. I don't have the detail at hand, but they  
14 went to a variety of accounts.

15 MR. TRAUTMAN: Could we -- in a record  
16 requisition, we'd like to have the list of accounts.

17 JUDGE SCHAER: That's Record Requisition  
18 Number 16. You would like to have the detail that  
19 goes behind Exhibit Number 253 showing amounts that  
20 were assigned and what accounts they were assigned  
21 to; is that correct?

22 MR. TRAUTMAN: Correct. And which ones  
23 were charged to regulated and unregulated.

24 THE WITNESS: Okay. The accounts would  
25 show that.

00489

1 MR. TRAUTMAN: Yes.

2 JUDGE SCHAER: That would be Record  
3 Requisition Number 16, then. Go ahead, Mr. Trautman.

4 Q. I believe, at pages 19 to 22, you talk  
5 about the pro forma relicensing cost adjustment, the  
6 hydro relicensing?

7 A. Yes.

8 Q. Now, would you agree that in the settlement  
9 agreement for the hydro relicensing, that Avista  
10 agrees to pay for certain projects over the course of  
11 the 45-year life of the license?

12 A. Yes, I will.

13 Q. Does the timing of the different projects  
14 vary from year to year?

15 A. That is my understanding. Mr. Anderson,  
16 who's going to be a witness later, will be testifying  
17 to the actual details, but yes, my understanding is  
18 there is some flexibility in the timings of certain  
19 payments under the settlement agreement.

20 Q. And so would it be correct that the amounts  
21 to be paid for some projects is uncertain at this  
22 time, the amount to be paid?

23 A. I think there is some flexibility in  
24 amounts and timing on limited portions of the  
25 settlement agreement. Mr. Anderson will get into

00490

1 that detail.

2 Q. For that reason, are you sponsoring a plan  
3 to what you call -- to create what you call a  
4 balancing account for the relicensing costs?

5 A. Yes, I am. This issue came up in our Idaho  
6 proceeding when we were reviewing the settlement  
7 document and going over the detail of the  
8 expenditures. And because this is characterized as a  
9 living license or a flexible agreement, you don't see  
10 date certain payment amounts or periods, and that  
11 caused some concern with the Idaho Staff and the  
12 Idaho Commission.

13 So the fact that the payments will  
14 ultimately be made is fairly certain, but the timing  
15 from period to period is not as certain. So to clear  
16 up that concern, we proposed a balancing account that  
17 would capture the costs, as expended, and the  
18 dollars, as recovered, as authorized by the  
19 Commission.

20 Q. Now, turning to Exhibit 229, which is your  
21 Exhibit Number 29, am I correct that Avista will  
22 debit a flat dollar amount each year to the Account  
23 537, which is hydraulic expenses, and credit the  
24 regulatory liability account, Other Deferred Credits,  
25 which is Account 253, for the same amount?

00491

1       A.    What the proposal is is to take the amount  
2 of O&M authorized by the Commission, levelize that  
3 over a 12-month period, and record an offsetting  
4 expense to Account 537, with the other side of the  
5 entry going into the balancing account.  Basically,  
6 capturing the dollars recovered from customers, and  
7 then those dollars recovered from customers would be  
8 where the actual expenditures come out.

9       Q.    So as actual expenditures occur, those  
10 amounts are posted as debits to the liability  
11 account, with the credit going to cash?

12       A.    Correct.

13       Q.    Okay.  And the effect of this is to remove  
14 from Avista's financial expenses the variability  
15 arising from the timing and uncertainty that you've  
16 mentioned; is that correct?

17       A.    That is the intent.  So that the company  
18 does not over-recover or under-recover the  
19 expenditures, nor have timing differences between  
20 calendar year periods.

21       Q.    Is it correct that the annual payments  
22 identified in the settlement agreement are adjusted  
23 by an inflation factor over time?

24       A.    I'm not familiar with that.

25       Q.    Would you accept that that's the case,



00492

1 subject to check? We will get into that in more  
2 detail with Mr. Anderson.

3 MR. MEYER: Perhaps that question could be  
4 put to Mr. Anderson directly.

5 MR. TRAUTMAN: I shall do so, but I guess  
6 for purposes of my question, I'd like to at least  
7 have the witness accept it as a hypothetical or  
8 accept it subject to check.

9 THE WITNESS: I'll accept that, subject to  
10 check.

11 Q. With the balancing account theory, if the  
12 established level of expense stays flat and the known  
13 payments are increasing by inflation, won't that mean  
14 that there will almost always be a deficit balance in  
15 the account?

16 A. I'm not sure. I think, in this  
17 hypothetical, it appears it could be that way.  
18 However, it would just be accumulated in a balance  
19 sheet account if there was a difference.

20 Q. So did you agree that if -- I'm not sure I  
21 got your answer. If there were such an inflation  
22 factor, did you agree that if the level of expense  
23 stayed flat and the payments increased by inflation,  
24 that there would be a deficit balance?

25 A. As you propose this hypothetical, it

00493

1 appears that there would be a balance.

2 Q. Could that problem be mitigated by  
3 increasing the established expense level by an  
4 inflation factor?

5 A. I'm not actually sure that's a problem.  
6 It's a point that a balance could be building in the  
7 deferral account, in this particular instance, 253.  
8 What the proposal further goes on to ask or suggest  
9 is that any balance in the account, whether it be a  
10 debit or a credit, would be reviewed at a future  
11 date, either in the next general case or in some  
12 other single tariff filing.

13 Q. Well, all right. Taking out the word --  
14 JUDGE SCHAER: Mr. Falkner, I think that  
15 you were asked a clear question. I'm a little bit  
16 concerned that we're getting this far afield. When  
17 he asks you a hypothetical question, he says, Assume  
18 this, and then answer, you need to make the  
19 assumption, even if you don't necessarily agree with  
20 it, and then answer, if you can.

21 THE WITNESS: Okay.

22 JUDGE SCHAER: Because, otherwise, we don't  
23 have any kind of a clear record that we can look at  
24 later to understand what your thoughts were on this  
25 matter. So I'd like you to re-ask the question and

00494

1 I'd like you to try to listen to what the assumption  
2 is, make that assumption, and then answer, if you're  
3 able to do that.

4 THE WITNESS: Okay.

5 MR. TRAUTMAN: The first question, I think  
6 he did agree. I asked if the established level of  
7 expense stays flat and the known payments are  
8 increasing by inflation, won't that mean that there  
9 will almost always be a deficit balance in the  
10 account. And I believe he said yes.

11 JUDGE SCHAER: I believe he did. Now, you  
12 can ask the next question.

13 Q. I said, Could that problem -- and I think  
14 he had difficulty with the word problem -- could what  
15 is being supposedly rectified or treated by the  
16 balancing account, could that also be addressed by  
17 increasing the established expense level by an  
18 inflation factor?

19 A. Yes, that would address the issue of a  
20 balance building. However, that would also have a  
21 mismatch between revenue and expense.

22 Q. Now, for rate-making purposes, the level of  
23 expense for, as an example, general plant maintenance  
24 for the test year is an amount which is considered a  
25 normal level unless it's shown otherwise; is that

00495

1 correct?

2 A. I would accept that.

3 Q. And would you accept, subject to check,  
4 that the total costs for general plant maintenance in  
5 1998 were almost \$2.8 million?

6 A. Subject to check, I guess I could accept  
7 that.

8 Q. That would be about a million dollars more  
9 than the requested annual expense level for hydro  
10 relicensing, and that \$1.8 million figure for the  
11 relicensing comes from Mr. Anderson's Exhibit 346.  
12 So in other words, would you agree that -- you've  
13 already agreed that the general plant maintenance is  
14 2.8 million. And would you -- subject to check, and  
15 would you accept that the relicensing amount's 1.8  
16 million?

17 A. Yes.

18 Q. Now, the dollars that are spent on general  
19 plant maintenance next year or the year after that  
20 will likely differ from the test year level; isn't  
21 that correct?

22 A. Yes, they will.

23 Q. And general plant maintenance expenses are  
24 considered part of administrative and general  
25 expenses; is that correct?

00496

1 A. General plant maintenance is part of A&G  
2 cost?

3 Q. That's the question.

4 A. I'm not aware of that.

5 Q. Would you agree that these expenses are  
6 subject to budgets and that company personnel exert  
7 control over when and how those budgets are spent?

8 A. Yes.

9 Q. There's no balancing account to offer  
10 stability to the financial expenses booked for  
11 general plant maintenance, is there?

12 A. Correct.

13 Q. Did Avista provide an investor supplied  
14 working capital calculation in this rate filing?

15 A. I'm not sure. Could you say the question  
16 again?

17 Q. Did Avista provide an investor supplied  
18 working capital calculation in this rate filing?

19 A. No.

20 Q. And why was that?

21 A. It wasn't considered to be part of our case  
22 filing. I'm not aware that we've ever dealt with  
23 working capital as a component of our revenue  
24 requirement filings.

25 MR. TRAUTMAN: At this point, I would like

00497

1 to move for the admission of Exhibits 232 through  
2 260, all of which, I believe, are identified as being  
3 responded to by -- or as having the witness -- Mr.  
4 Falkner.

5 JUDGE SCHAER: Is there any objection?

6 MR. MEYER: No objection.

7 JUDGE SCHAER: Those documents are  
8 admitted.

9 MR. TRAUTMAN: And we would also like to  
10 move for admission of Exhibit 8, which I believe was  
11 deferred to Mr. Falkner.

12 JUDGE SCHAER: Any objection?

13 MR. TRAUTMAN: This was the response to  
14 ICNU 61.

15 MR. MEYER: Right. No objection.

16 JUDGE SCHAER: Okay. I'd like to ask you,  
17 Mr. Trautman, although you probably would want to ask  
18 Ms. Tennyson, and she doesn't appear to be here, but  
19 Exhibit 28, which was identified under Mr. Turner,  
20 had been deferred to Mr. Dukich, and I don't believe  
21 was offered during Mr. Dukich. Do you know whether  
22 Staff plans to offer Exhibit 28, or is there --

23 MR. TRAUTMAN: I do not.

24 JUDGE SCHAER: Or was there a decision  
25 made, because that was an order, that it didn't need

00498

1 to be an exhibit?

2 MR. MEYER: I thought you had ruled that it  
3 was better taken up by official notice.

4 MR. TRAUTMAN: If it's an order, I think  
5 that's fine.

6 JUDGE SCHAER: Okay, thank you. That just  
7 fills in all of the gaps that I had on exhibits. And  
8 Exhibits 232 for identification through 260 for  
9 identification are admitted.

10 MR. TRAUTMAN: That's all the questions I  
11 have.

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

14 MR. FFITCH: Yes, Your Honor. Thank you.

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

16 BY MR. FFITCH:

17 Q. Good afternoon, Mr. Falkner.

18 A. Good afternoon, Mr. ffitch.

19 Q. Could you please turn to Exhibit Number  
20 261, if you have it there. That is the Avista  
21 response to Public Counsel's Data Request Number 11.

22 A. Yes.

23 Q. And in that request, we asked for a list of  
24 all the individuals whose time is charged to  
25 administrative and general expense, their titles,

00499

1 compensation, and so on. And you did provide such a  
2 59-page listing, listing 1,300 employees charged to  
3 A&G during 1998, did you not?

4 A. Yes, we did.

5 Q. Now, this exhibit just contains excerpts  
6 from that 59-page list, namely, pages three and the  
7 final page 59. I'm going to just first refer you to  
8 page three, Employee Number 00252, who is third from  
9 the bottom. And that -- if you have that?

10 A. I'm looking at it.

11 Q. All right. This particular employee  
12 appears to inflict a total cost on the A&G payroll  
13 charges of \$808,196?

14 A. For total cost to A&G, yes.

15 Q. And this is compensation for a single  
16 employee; is that correct?

17 A. Yes, it is.

18 Q. I'm going to guess that that's Mr.  
19 Matthews; is that correct?

20 A. I have no idea. I know it's not me.

21 Q. Is there a way to identify the specific  
22 employees listed on this exhibit?

23 A. Yes, there is. That's why we knew we  
24 weren't completely responding to the body of the  
25 request just because of the volume. That's why we



00500

1 offered that individual employees could be researched  
2 on a selective basis in our answer. So yes, we could  
3 look that up.

4 Q. Yes, and that is true that the answer does  
5 reflect that. I believe we would therefore have to  
6 ask for a record requisition at this time to get that  
7 answer, Your Honor, if we may.

8 JUDGE SCHAER: You can either do that or  
9 you can treat that as a supplemental response to your  
10 data request.

11 MR. FFITCH: Why don't we go ahead --

12 JUDGE SCHAER: Tell the company the numbers  
13 of people who you want identified and get that  
14 information, it appears; is that correct?

15 THE WITNESS: Yes.

16 MR. FFITCH: I think we'll use a  
17 supplemental data request format.

18 JUDGE SCHAER: I think that would be more  
19 efficient.

20 MR. MEYER: And again, meaning to be  
21 helpful, these -- many of these questions can be put,  
22 with regard to specific employees, to Ms. Mitchell,  
23 who has taken care of rolling up the compensation  
24 issues and allocating them. So within certain  
25 limits, I would suggest you defer some of that to

00501

1 her.

2 MR. FFITCH: All right. I only had one or  
3 two questions, and she may be able to identify this  
4 for me. That would be great.

5 Q. I guess I'll ask this, and if you need to  
6 defer this to Ms. Mitchell or otherwise, Mr. Falkner,  
7 that's fine. Still looking at that line for Mr. and  
8 Mrs. X, Employee 00252, the allocation is made here  
9 of approximately \$735,000 of that total to the  
10 Utility system, is it not? Just subject to your  
11 checking those figures, I'm adding 595 and 139,000.

12 A. Subject to check, that looks close.

13 Q. And of that 380,000-plus and approximately  
14 96,000 is allocated between Washington Electric and  
15 Washington Gas respectively?

16 A. Correct. And it should be pointed out that  
17 this is a direct transactional listing of people  
18 charging these accounts. It doesn't necessarily  
19 represent what is in the test period. It could be  
20 assumed that this is an executive level individual  
21 that would have been adjusted through Ms. Mitchell's  
22 calculations in her adjustment.

23 JUDGE SCHAER: Mr. ffitich and Mr. Meyer, I  
24 note that at the top of this page, it says Avista  
25 Corp. Confidential. Is there some belief that this

00502

1 information should be treated as a confidential  
2 exhibit?

3 THE WITNESS: I could respond to that.

4 JUDGE SCHAER: Okay.

5 THE WITNESS: Since I requested this  
6 particular run. That was a standard header that  
7 popped up in an Excel spreadsheet. It's one of the  
8 first options. It wasn't taken out. By the fact  
9 that we just included employee numbers, this is not  
10 confidential.

11 JUDGE SCHAER: So I should just cross that  
12 word out?

13 THE WITNESS: Yes.

14 JUDGE SCHAER: Thank you, Mr. Falkner.

15 Q. If we do inquire into employee  
16 identification with Ms. Mitchell, then we would have  
17 to perhaps address the confidentiality issue at that  
18 time?

19 A. Yes.

20 JUDGE SCHAER: So you may want to write  
21 down these questions at the end of the day as a  
22 supplemental response and give them to her, so that  
23 if she needs to respond in writing, you have  
24 something to stamp confidential if you need to enter  
25 it as an exhibit, because I would prefer not to close

00503

1 any of this transcript for confidential material.

2 Q. Mr. Falkner, could you now turn to Exhibit  
3 262, the other exhibit that we've identified for you,  
4 and that is the company's response to our Data  
5 Request 94, is it not?

6 A. Yes, it is.

7 Q. And this is, in fact, the response you  
8 referred to earlier with Mr. Trautman, about your  
9 lobbying expenses, is it not?

10 A. Yes, it is.

11 Q. I just have one question about this  
12 response. That is, how does Avista define lobbying  
13 for purposes of this reporting?

14 A. After discussions with our government  
15 relations group, they follow the FERC reporting  
16 guidelines as closely as possible for lobbying and  
17 political involvement.

18 Q. Are you aware whether there are also state  
19 statutes or regulations which are applicable to  
20 Avista which define lobbying?

21 A. I seem to have a recollection that part of  
22 the discussion did involve a WAC, as well as the FERC  
23 accounting guidelines, and it was my understanding  
24 that the group was following those guidelines in  
25 their accounting for their cost.

00504

1 Q. And Mr. Falkner, you're familiar with both  
2 of these data requests. They were prepared by the  
3 company and provided to Public Counsel, were they  
4 not?

5 A. Yes, they were.

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

8 A. Yes, they are.

9 MR. FFITCH: Your Honor, at this time, I'd  
10 like to offer Exhibits 261 and 262 for the record.

11 JUDGE SCHAER: Any objection?

12 MR. MEYER: None.

13 JUDGE SCHAER: Those documents are  
14 admitted.

15 MR. FFITCH: Your Honor, at this time,  
16 also, I would like to, with your permission, offer an  
17 exhibit through Mr. Falkner on behalf of Spokane  
18 Neighborhood Action Program.

19 JUDGE SCHAER: Okay.

20 MR. FFITCH: And I could have the witness  
21 provided with a copy of that for brief voir dire on  
22 the exhibit, Your Honor, if that's --

23 MR. MEYER: Not necessary.

24 JUDGE SCHAER: I believe that we have  
25 marked for identification as Exhibit 263 the Avista

00505

1 response to SNAP Data Request Number 55. Is that the  
2 document to which you refer?

3 MR. FFITCH: That's correct, Your Honor.

4 JUDGE SCHAER: I believe the witness is  
5 indicating he has a copy of that already.

6 Q. All right. This is the response provided  
7 by Avista to SNAP Data Request Number 55; is that  
8 correct?

9 A. Yes, it is.

10 Q. And is this response to the data request  
11 true and correct, to the best of your knowledge, Mr.  
12 Falkner?

13 A. Yes, it is.

14 MR. FFITCH: I would like to offer this  
15 exhibit for the record at this time.

16 JUDGE SCHAER: Any objections?

17 MR. MEYER: No objection.

18 JUDGE SCHAER: The document is admitted.

19 MR. FFITCH: We have nothing further for  
20 this witness. Thank you, Mr. Falkner.

21 THE WITNESS: Thank you, Mr. ffitch.

22 JUDGE SCHAER: Thank you. Mr. Van Cleve,  
23 did you have questions of this witness?

24 MR. VAN CLEVE: Yes, Your Honor.

25 JUDGE SCHAER: Go ahead, please.

00506

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

2 BY MR. VAN CLEVE:

3 Q. Good afternoon, Mr. Falkner.

4 A. Good afternoon, Mr. Van Cleve.

5 Q. Could you please turn to Exhibit 264,  
6 what's been identified as Exhibit 264?

7 A. I have it.

8 Q. And did you prepare this data request  
9 response?

10 A. I accumulated the information and provided  
11 it under Witness Norwood's direction, yes.

12 Q. Do you know whether the FERC regulatory  
13 fees identified on the third page of this exhibit,  
14 which I believe you've seen previously today, are  
15 based solely on the amount of the company's wholesale  
16 sales?

17 A. I actually am not familiar with the  
18 calculation on these worksheets. My participation in  
19 the revenue requirement calculation involves taking  
20 these actual payments and adjusting the accrual we  
21 have on our results of operations to a trueup to the  
22 actual payments. I'm not familiar with the  
23 calculation itself. This is done in our resource  
24 optimization group.

25 Q. And it was your testimony earlier that you

00507

1 do not know whether the short-term sales amount  
2 identified in this exhibit includes commercial  
3 trading transactions?

4 A. Correct. I'm not sure how the definition  
5 Mr. Norwood utilized comports with the definitions  
6 that FERC utilizes in this calculation.

7 MR. VAN CLEVE: Your Honor, I would like to  
8 make a record requisition for the company to define  
9 the portion of the FERC regulatory expense that is  
10 attributable to commercial trading transactions.

11 MR. MEYER: I believe --

12 THE WITNESS: I think we already did.

13 MR. VAN CLEVE: Do we already have that?

14 MR. MEYER: It's Number 14.

15 THE WITNESS: Record Requisition Number 14  
16 addresses that point.

17 JUDGE SCHAER: My notes on Record  
18 Requisition Number 14 indicate that it deals with the  
19 number on this exhibit of \$457,150, and providing a  
20 breakdown of what those dollars included. Does that  
21 answer your concern, Mr. Van Cleve?

22 MR. VAN CLEVE: Yes, I think it does, Your  
23 Honor.

24 JUDGE SCHAER: Okay. Then why don't we  
25 just let you wait to see that.



00508

1 MR. TRAUTMAN: Your Honor, we also asked  
2 for any other expenses that might be allocated to the  
3 -- that might be taken out by the pro forma  
4 adjustment, not just the 457,000, but --

5 JUDGE SCHAER: Okay. Those are the things  
6 that are associated with my notes, which are not  
7 certainly as good as the transcript will be telling  
8 what you asked for. Let's go off the record for just  
9 a moment.

10 (Discussion off the record.)

11 JUDGE SCHAER: Let's be back on the record.  
12 And go ahead with your questions, Mr. Van Cleve.

13 Q. Mr. Falkner, are you aware that the company  
14 is proposing to exclude commercial trading  
15 transactions from rates?

16 A. Yes, I am.

17 Q. Would you agree that any FERC regulatory  
18 fees associated with commercial trading transactions  
19 should also be excluded from the test year expenses?

20 A. I would agree that issue should be  
21 addressed when looking at the total cost of  
22 commercial trade versus the total revenues commercial  
23 trade. I think the answer is, in short, yes.

24 Q. If you could refer to Exhibit 228. Do the  
25 pro forma revenue and expense items in Exhibit 228

00509

1 reflect normalized weather conditions?

2 A. Yes.

3 Q. Is it correct that the test year  
4 adjustments are intended to reflect only known and  
5 measurable changes to the 1998 test year?

6 A. Yes, that is the goal, to include known and  
7 measurable changes to the test year.

8 Q. Isn't it true that the 1991 fire storm was  
9 a extraordinary and unrecurring event?

10 A. Yes, the 1991 fire storm was an  
11 extraordinary event. I would hope it's nonrecurring.

12 Q. Could you refer to Exhibit 264, please?  
13 I'm sorry, 265.

14 A. I have it.

15 Q. Did you prepare this exhibit?

16 A. I did.

17 Q. And is it accurate, to the best of your  
18 knowledge?

19 A. Yes.

20 Q. And can you refer to Exhibit 266?

21 A. I'm there.

22 Q. And did you prepare this exhibit?

23 A. I did.

24 Q. And is it accurate, to the best of your  
25 knowledge?

00510

1 A. Yes, it is. Attached to --

2 Q. I'd ask -- excuse me. I'd ask you the same  
3 question about Exhibit 267?

4 A. Yes, I prepared this, and it's true to the  
5 -- true and correct, to the best of my recollection.

6 Q. If you could refer to Exhibit 266, and the  
7 seventh page in is a document entitled Connect Extra?

8 A. Yes.

9 Q. And if you look at the third column on that  
10 page, and if you look six lines up from the bottom of  
11 that column, it states that the fire storm was a  
12 unique weather event, unparalleled in the recorded  
13 weather history of this community.

14 A. Yes, I see that.

15 Q. Do you believe that statement to be  
16 accurate?

17 A. That fire storm -- yes, fire storm was a  
18 unique weather event, which is not uncommon of the  
19 charges that are included in the injuries and  
20 damages.

21 Q. Referring back to your testimony, at page  
22 16, you refer to the -- I'll give you time to find  
23 it. At line one on page 16, you refer to the ice  
24 storm '96 overview, two months later?

25 A. Yes, I see it.

00511

1 Q. And are you aware that that document also  
2 characterized the ice storm as the only event of its  
3 kind in the 115 years of record?

4 A. I don't remember the exact wording, but I  
5 would accept that, subject to check.

6 Q. So you would agree, then, that both the ice  
7 storm and the fire storm were extraordinary and  
8 nonrecurring events; is that correct?

9 A. I would agree that they were extraordinary.  
10 I would not agree that they're necessarily  
11 nonrecurring. I'd also add that I think they're  
12 legitimate business expenditures of a utility  
13 operating in our system.

14 Q. Has the company performed any analysis  
15 regarding the probability of these types of events  
16 reoccurring in the future?

17 A. To the best of my knowledge, no.

18 Q. Will the cost of the ice storm and the fire  
19 storm be included in rates under your proposal until  
20 Avista files its next rate case?

21 A. Yes.

22 Q. Wouldn't it be more appropriate to recover  
23 these types of costs through a tracking mechanism?

24 A. There are -- there are alternative  
25 mechanisms to record, recover these costs. Our

00512

1 proposal at this point in time is to include them in  
2 the injuries and damages six-year accrual, six-year  
3 amortization. Once rates are set, they become just a  
4 -- the revenues are just total general revenues, and  
5 many things will be changing over the next succeeding  
6 years. We file semi-annual reports with the  
7 Commission where our rate of return is monitored to  
8 make sure we're receiving -- we're not earning  
9 excessive returns.

10 Q. Is the company's proposal regarding the ice  
11 storm costs in this proceeding significantly  
12 different from its proposal in the Idaho rate case?

13 A. No, it is not.

14 Q. And do you know how the Idaho Commission  
15 treated those costs?

16 A. Yes, I do.

17 Q. How was that?

18 A. The Idaho Commission did not allow recovery  
19 of the ice storm cost. I'd like to add that the ice  
20 storm costs were one component of a fairly complex  
21 case, in which the Idaho Commission authorized  
22 approximately two-thirds of our original request.

23 Q. Do you know on what basis the Idaho  
24 Commission denied recovery?

25 A. I can't remember offhand.

00513

1 Q. If you'll refer to page 27 of your  
2 testimony, at line three.

3 A. I'm there.

4 Q. It states that in order to create a  
5 cohesive identity across diverse businesses, the  
6 company changed its name; is that correct?

7 A. It states that, to create a cohesive  
8 identity across diverse businesses, the company  
9 embarked on a process of changing its name to Avista  
10 Corp. for not only the parent company, but also  
11 transitioned to Avista-based names for all  
12 nonregulated business units.

13 Q. Is this a benefit of changing the name,  
14 creating a cohesive identity across diverse  
15 businesses?

16 A. I was told that it was, yes.

17 Q. And does that benefit apply to both  
18 regulated and unregulated businesses of Avista?

19 A. It could apply to any nonregulated  
20 businesses that did not already incorporate the name  
21 Avista at that point in time.

22 Q. And have any of the name change costs been  
23 allocated to unregulated businesses?

24 A. No, the name change cost that I included in  
25 this adjustment were involved around changing the

00514

1 utility name, the utility identity to Avista Corp.

2 Q. But wouldn't some of these costs also  
3 result in benefits for unregulated businesses?

4 A. I think what happens is, in this case,  
5 there is reduced confusion between the parent company  
6 and the subsidiary companies that already had Avista  
7 in their name. The benefit, I don't know if it's to  
8 the utility or it's to the nonregulated group.

9 Q. Why have the name change costs been  
10 incorporated in base rates, rather than recovered  
11 through a tracking mechanism?

12 A. Well, they haven't been incorporated into  
13 rates yet. What we're asking for is to -- is to  
14 allow recovery of a five-year amortization of the  
15 state allocated portions of the name change costs  
16 that were incurred in 1998. And as I mentioned  
17 earlier, the electric portion for Washington is  
18 106,000 a year, and the gas portion is approximately  
19 \$27,000 a year.

20 Q. But isn't it true that if your rates remain  
21 in effect for longer than five years, you will  
22 recover -- you will over-recover the name change  
23 cost?

24 A. If you want -- yes, if you were just to  
25 look at that one specific item, then, yes, we would

00515

1 over-recover that one particular cost. But over the  
2 course of five years, virtually all our operating and  
3 A&G costs will be changing. Some will go up, some  
4 will go down. After rates are set, we're generally  
5 regulated on a rate of return review basis, where we  
6 provide the Commission and Staff information to  
7 determine if we are beyond our reasonable rate of  
8 return last authorized.

9 Q. Would it be acceptable to the company if  
10 these costs were recovered through a tracking  
11 mechanism, rather than being placed in base rates?

12 A. I don't know. At this point in time, our  
13 proposal is to include them as this adjustment shows,  
14 as an amortization. They're relatively small  
15 dollars. A tracking mechanism allows a certain  
16 amount of additional administrative burden and cost  
17 that are generally reserved for larger dollar  
18 transactions, such as the power cost adjustment which  
19 we're proposing for electric and our purchased gas  
20 adjustment, which we have for the gas system.

21 Q. Are the Y2K expenses also recovered through  
22 base rates, rather than through a tracking mechanism?

23 A. The Y2K expenditures are being proposed  
24 exactly the same way as we just discussed for the  
25 name change.



00516

1 Q. And do you expect to incur any Y2K expenses  
2 during the period that new rates will be in effect?

3 A. Well, we are incurring some Y2K  
4 expenditures in the rate section in the year 2000,  
5 but I don't anticipate large dollar volumes going  
6 forward. The proposal is to take the incurred costs  
7 for Y2K and treat them similar to we would any other  
8 software capitalization, which is a five-year policy.  
9 And the same argument would apply to any software we  
10 have in place right now. If we stay out of a case  
11 for longer than five years, it could be argued that  
12 we over-recovered a certain line item, but there  
13 would be compensating ups and downs across all our  
14 costs, all our expense loads.

15 Q. Has the company ever sought deferral  
16 accounting for either name change cost or Y2K cost?

17 A. No, we did not. The company has actually  
18 been -- has used accounting orders and petitions in a  
19 rather limited fashion for a number of years.

20 Q. With respect to the fire storm, the ice  
21 storm, the name change, and the Y2K costs, the  
22 company is attempting to recover past expenses in  
23 future rates; is that correct?

24 A. For Y2K and name change, the company is  
25 attempting to recover 1998 test period expenditures,

00517

1 along with all the other 1998 test period costs. In  
2 regards to ice storm and fire storm, we are  
3 incorporating that into our otherwise utilized  
4 six-year average recovery mechanism for injuries and  
5 damages. By definition, the injuries and damages  
6 calculation does include prior period amounts.

7 Q. Have you attempted to identify any prior  
8 period amounts where expenses were dramatically lower  
9 than expected?

10 A. We didn't look for additional prior period  
11 costs outside of injuries and damages.

12 MR. VAN CLEVE: Your Honor, I'd like to  
13 move for admission of Exhibits 264 through 267.

14 JUDGE SCHAER: Any objections?

15 MR. MEYER: No objection.

16 JUDGE SCHAER: Those documents are  
17 admitted.

18 MR. VAN CLEVE: And that's all I have.

19 JUDGE SCHAER: Thank you.

20 MR. FFITCH: Your Honor.

21 JUDGE SCHAER: Yes, Mr. ffitich.

22 MR. FFITCH: The inquiries about Idaho  
23 reminded me that I had overlooked a couple of  
24 questions. If I might request permission to ask one  
25 or two -- I think I have three more questions that I

00518

1 forgot to ask.

2 JUDGE SCHAER: Okay. Why don't you go  
3 ahead and do that before the Commissioners ask their  
4 questions, so they have the benefit of this  
5 information when they ask their questions. Go ahead,  
6 please.

7 MR. FFITCH: Thank you, Your Honor.

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

9 BY MR. FFITCH:

10 Q. Mr. Falkner, could you tell me what test  
11 year was used in the recently-concluded Idaho case?

12 A. We used a 1996 test year. Check that. We  
13 used a 1997 test year.

14 Q. And would the company be able to provide,  
15 as a record requisition, the state-by-state  
16 jurisdictional allocation exhibits that were offered  
17 in the Idaho case?

18 A. The state-by-state jurisdictional  
19 allocation sheets? Would you be referring to the  
20 results of operation allocation factors that are part  
21 of my work papers?

22 Q. I'll need to confer with my consultant to  
23 see if we can focus this to your satisfaction. I  
24 think our preference would be to ask for the work  
25 papers, rather than simply exhibits that were offered

00519

1 in the Idaho proceeding. If you have work papers  
2 that address the allocation of costs between Idaho  
3 and Washington. I realize more states are involved  
4 with regard to gas.

5 MR. MEYER: Is that sufficiently precise  
6 for you?

7 THE WITNESS: We didn't submit work papers  
8 that detailed the -- that provided the detail behind  
9 the allocation factors that were utilized to the  
10 level that has been provided in this case. What we  
11 did provide in work papers were the preliminary  
12 sheets to our results of operations reports, which  
13 show up as, in my work papers, as the B group, and  
14 there are usually one to nine pages that illustrate  
15 -- one to four pages that illustrate the allocation  
16 factors used and some of the numbers used to derive  
17 them. And those could be compared to what are  
18 currently being used in this particular case.

19 JUDGE SCHAER: Does the company have those  
20 work papers from Idaho that were not submitted, but  
21 are in existence?

22 THE WITNESS: Yes, the company would have  
23 the same level of detail that supports the allocation  
24 factors used in the Idaho case that we have provided  
25 for the 1998 test year.

00520

1 MR. FFITCH: That would be an adequate  
2 response to the record requisition.

3 THE WITNESS: Okay. We can do that.

4 JUDGE SCHAER: That would be Record  
5 Requisition, I believe, Number 17. Okay. Go ahead,  
6 Mr. ffitch.

7 MR. FFITCH: I believe we're at 18, if I'm  
8 not mistaken. I believe ICNU had -- no, I'm sorry.  
9 That ended up being -- the ICNU request was withdrawn  
10 because it was covered by 14. So we are -- it would  
11 be 17. I'm sorry.

12 JUDGE SCHAER: Okay, good.

13 Q. And final question, Mr. Falkner, is did the  
14 Idaho Commission adopt your proposed allocations?

15 A. Yes, they did.

16 MR. FFITCH: I don't have any other  
17 questions. Thank you.

18 JUDGE SCHAER: Commissioners, did you have  
19 questions?

20 COMMISSIONER HEMSTAD: No.

21 COMMISSIONER GILLIS: No.

22 JUDGE SCHAER: I have one question, Mr.  
23 Falkner.

24 EXAMINATION

25 BY JUDGE SCHAER:

00521

1 Q. Could you please provide the docket number  
2 and the order date for the Idaho rate case order?

3 A. WWP-E-98-11, to the best of my  
4 recollection. The date, I don't have.

5 Q. Okay.

6 A. But I can provide that.

7 Q. I didn't get it all down.

8 MR. MEYER: What was the actual date of the  
9 order? It was issued in July, and it was effective  
10 August 1st.

11 THE WITNESS: August 1st, 1998, nine.

12 JUDGE SCHAER: And again, what was the  
13 docket number or the identification number, if we  
14 were to get on the web and look at that?

15 THE WITNESS: WWP-E-98-11.

16 JUDGE SCHAER: Thank you.

17 MR. VAN CLEVE: Your Honor, I have the  
18 order number. It's 28097.

19 JUDGE SCHAER: Thank you.

20 MR. TRAUTMAN: Your Honor, I think Staff  
21 indicated that we have a copy of that order, if that  
22 would be easier.

23 JUDGE SCHAER: Well, if you have it here  
24 and you would like to provide it informally to the  
25 advisory staff, I would appreciate it. I don't need

00522

1 it to be formally part of the record at this point.  
2 I just need to have a copy of it. Okay. Do you have  
3 any redirect for this witness?

4 MR. MEYER: I do.

5 JUDGE SCHAER: Go ahead, please.

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

7 BY MR. MEYER:

8 Q. Mr. Falkner, at the outset of your  
9 cross-examination by Staff, you had questions put to  
10 you about the application of FAS 71, as it may relate  
11 for financial accounting purposes. Do you recall  
12 that?

13 A. Yes, I do.

14 Q. And was that in the context of ice storm?

15 A. Yes, it was.

16 Q. Okay. Now, would you distinguish for the  
17 record, please, the requirements for financial  
18 accounting purposes and how, if at all, that has a  
19 bearing on regulatory filings, what we can or can't  
20 do for regulatory purposes?

21 A. Yes, I can. FAS 71, the longer term is  
22 financial accounting standards 71, is a part of GAAP,  
23 or generally accepted accounting principles. It  
24 deals with how the company is supposed to produce its  
25 financial accounting records for SEC filing purposes.

00523

1 It does not directly apply to regulated accounting.

2 What FAS 71 allows is regulated utilities,  
3 regulated companies, to sometimes part from generally  
4 accepted accounting principles if regulation allows  
5 recovery of costs that would otherwise be expensed  
6 for a nonregulated company.

7 If the company wants to defer for financial  
8 accounting purposes certain period counts that GAAP  
9 requires expensing, it would be required by the  
10 company to get an accounting order from their  
11 commission or somehow or another work with their  
12 external auditors to the point that they would be  
13 comfortable that deferral is proper for financial  
14 accounting. It does not require -- for regulatory  
15 purposes, FAS 71 doesn't apply if FAS 71 applies to  
16 financial accounting.

17 Q. So the receipt of some sort of accounting  
18 order from this Commission with regard to ice storm  
19 costs is not a necessary predicate for regulatory  
20 purposes for the recovery of those costs?

21 A. To the best of my knowledge, it is not.

22 Q. Okay. You were also asked questions tying  
23 to Exhibit 234, which is a press release, and 235,  
24 which is an excerpt from the company's Form 10-K. Do  
25 you recall that exchange?



00524

1 A. Yes, I do.

2 Q. Now, you were asked and were wanting to  
3 provide a little bit of context for events  
4 surrounding the issuance of that press release. Will  
5 you do so now?

6 A. Yes, I will. The context of the earlier  
7 questioning revolved around statements that the  
8 customers would see no change in electric prices.  
9 Specifically, I'm looking at Exhibit 234 at this  
10 point in time. Would see no change in electric  
11 prices as a result of the storm damage costs.

12 What I wanted to add was that I  
13 participated in executive level discussions regarding  
14 cost recovery of ice storm. At that point in time,  
15 it was determined the company would not ask for a  
16 single issue, single item surcharge tariff for  
17 various reasons. However, the company was going to  
18 include ice storm costs in its injuries and damages  
19 accrual, as we later notified the Commission in the  
20 ice storm report two months later. There was --

21 Q. Excuse me, Mr. Falkner. When you  
22 referenced as you notified the Commission two months  
23 later, what form did that notification take?

24 A. We provided the Commission a report  
25 entitled Ice Storm '96 Overview, Two Months Later.

00525

1 In that report, we included a Section 3.7, entitled  
2 Costs and Recovery on page 14. And the company  
3 stated that the remaining 17.1 million, 11.1 million  
4 after tax, will be included with other noninsured  
5 losses from storms and accidents. The annual expense  
6 level is determined through use of a six-year  
7 average. WWP will not seek a specific rate surcharge  
8 due to the cost of ice storm '96 restoration.

9 Q. Now, the reference there to a surcharge,  
10 how should that be distinguished from otherwise  
11 seeking an increase in rates to reflect these costs?

12 A. A surcharge is a single item, specific  
13 tariff to recover just ice storm over a limited  
14 period of time.

15 Q. Similarly, the reference in a different  
16 exhibit, 235, which is an excerpt from the 10-K that  
17 Staff drew your attention to. I'll let you turn to  
18 it.

19 A. Yes.

20 Q. Your attention was directed to the third  
21 paragraph there, and the sentence that no increase in  
22 rates will result as -- will occur as a result of  
23 these costs. Would you comment, please?

24 A. What this would be referring to is the  
25 decision to not ask for a single item specific

00526

1 surcharge to recover ice storm costs. Also, at this  
2 point in time, we had no immediate plans or even near  
3 term plans to file a general case to -- which would  
4 have included ice storm costs in the injuries and  
5 damages six-year accrual. If we had stayed out for  
6 another few years, the ice storm component of the  
7 injuries and damages estimate would have rolled out.  
8 It would not have been a part of our general case.

9 Q. You were also asked about possible means of  
10 recovery, options, if you will, a company might have  
11 to recover the ice storm costs. You just mentioned  
12 the six-year rolling average for injuries and  
13 damages. Are you aware that the company has also  
14 suggested in the Centralia docket that those ice  
15 storm costs be used to offset the ratepayer portion  
16 of the Centralia gain?

17 A. Yes, I am. I'm aware that that was part of  
18 the Centralia filing and is an option available to  
19 the Commission. Witness McKenzie actually adds  
20 additional information or has additional information  
21 on that particular component of the Centralia filing.

22 Q. So that remains as an additional option?

23 A. Yes, it is.

24 Q. Nez Perce. You were asked questions  
25 concerning litigation issues?

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1 A. Yes, I was.

2 Q. And among those issues that were the  
3 subject of settlement were fish loss issues  
4 occasioned by two dams that had previously existed on  
5 the Clearwater River; is that correct?

6 A. Correct.

7 Q. Another element, a second element had to do  
8 with rights-of-way, and a third element had to do  
9 with tax issues, tribal tax issues; correct?

10 A. Correct.

11 Q. Okay. Now, did you understand that all of  
12 those issues are fairly to be characterized as  
13 litigation issues?

14 A. Correct. They were all part of the Nez  
15 Perce litigation that was ultimately resolved by a  
16 compromise settlement.

17 Q. Okay. And that settlement, as you  
18 testified to, was more in the nature of a black box  
19 settlement?

20 A. Yes, it could be characterized as a black  
21 box settlement.

22 Q. In the sense that no individual element was  
23 -- each individual element was not segregated and  
24 assigned a settlement value?

25 A. Correct, to the best of my knowledge.

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1 Q. Okay. But the preponderance of the claim,  
2 as best you understood it, related to the claims --

3 MR. TRAUTMAN: I would object at this  
4 point, only in that it sounds as if Counsel's making  
5 statements, rather than asking questions.

6 JUDGE SCHAER: I think it is a bit leading,  
7 Mr. Meyer.

8 Q. What did you understand the preponderance  
9 of the claims to relate to?

10 A. The preponderance of the claims, from my  
11 understanding, revolved around fish loss. And the  
12 other components were more incidental, but were still  
13 litigated components of the case.

14 MR. MEYER: That should cover it. Thank  
15 you.

16 JUDGE SCHAER: Okay. Is there anything  
17 further for this witness, Mr. Trautman?

18 MR. TRAUTMAN: Yes, we do.

19 JUDGE SCHAER: Go ahead.

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

21 BY MR. TRAUTMAN:

22 Q. You were asked some questions on redirect  
23 about the ice storm, and you indicated that you had  
24 written to the Commission concerning this issue. Do  
25 you recall that?

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1           A.    We provided the -- the company provided the  
2 Commission a report.

3           Q.    Did the Commission authorize the deferral  
4 for later recovery of the ice storm costs that were  
5 referred to in that report, either by order or a  
6 Commission letter?

7           A.    The Commission did not authorize the  
8 deferral and the company did not defer any costs for  
9 financial reporting purposes.

10          Q.    And has Avista or Washington Water Power  
11 used six-year averages for storm damages in prior  
12 cases?

13          A.    No, we have not used six-year averaging for  
14 storm damages.  Those are generally period costs.  
15 Those are normal storm damages.

16          Q.    You were also asked a question earlier  
17 about whether general plant maintenance expenses are  
18 considered part of administrative and general  
19 expenses, and I think you said you weren't sure.  
20 Would you accept, subject to check, that in your work  
21 papers at B-10, that -- your electric work papers,  
22 that that would indicate that to be the fact?

23          A.    Yes, it would, Account 935.

24               MR. TRAUTMAN:  That's all I have.

25               JUDGE SCHAER:  Mr. ffitich.

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1 MR. FFITCH: Nothing.

2 JUDGE SCHAER: Mr. Van Cleve.

3 MR. VAN CLEVE: Yes, Your Honor.

4 JUDGE SCHAER: Go ahead, please.

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

6 BY MR. VAN CLEVE:

7 Q. I think, Mr. Falkner, that you stated in  
8 response to Mr. Meyer's question that cost deferral  
9 was not a predicate for recovery of cost for  
10 rate-making purposes; is that correct?

11 A. To the best of my knowledge, that's  
12 correct.

13 Q. And is that based on your knowledge of the  
14 regulatory process?

15 A. It's based on my understanding of the  
16 regulatory process I've been involved in.

17 Q. Well, I'd like to quote one sentence to you  
18 from the Idaho order, and it says, The prescription  
19 against retroactive rate-making means that ice storm  
20 costs expended by the company in the past are not  
21 recoverable through future rates unless they are  
22 preserved for that purpose by deferral or other  
23 regulatory action.

24 And the question I have for you is whether  
25 you considered the concept of retroactive rate-making

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1 in reaching the conclusion that cost deferral is not  
2 a predicate for recovery of costs for rate-making  
3 purposes?

4 A. I did not consider retroactive rate-making  
5 in the proposal for ice storm recovery. All I did  
6 was include it in a mechanism that already took into  
7 account a smoothing mechanism for period costs to  
8 occur prior to the test period.

9 MR. VAN CLEVE: That's all I have.

10 JUDGE SCHAER: Is there anything further?

11 MR. MEYER: I just have one brief redirect.

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

13 BY MR. MEYER:

14 Q. Again, with regard to a question just put  
15 relating to the six-year averaging of storm damages,  
16 are you aware of what type of mechanism, by way of a  
17 six-year averaging, Puget has?

18 A. I'm not aware exactly of a six-year  
19 mechanism that Puget might have for recovery of any  
20 cost. I do understand, through review of a previous  
21 annual report, that they had a mechanism authorized  
22 by the Washington Commission that was not a six-year  
23 average, but allowed for flat deferral of what was --  
24 anything that met an extraordinary storm damage  
25 qualification, and that those would be deferred a



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1 hundred percent for future recovery.

2 MR. MEYER: Very well. That's enough.

3 JUDGE SCHAER: Okay. Anything else for  
4 this witness? Thank you for your testimony.

5 THE WITNESS: Thank you.

6 JUDGE SCHAER: Let's go off the record for  
7 a moment to discuss future proceedings.

8 (Discussion off the record.)

9 JUDGE SCHAER: Let's be back on the record.  
10 While we were off the record, we discussed scheduling  
11 in this matter. Would you like to call your next  
12 witness, Mr. Meyer?

13 MR. MEYER: Yes. I call to the stand Mr.  
14 Dave DeFelice.

15 JUDGE SCHAER: Okay. The following  
16 exhibits have been marked in conjunction with Mr.  
17 DeFelice's testimony. Exhibit T-290, Direct  
18 Testimony. Exhibit 291, Pro Forma Depreciation  
19 Adjustment. Exhibit 292, Avista Response to Public  
20 Counsel Data Request Number 74. Exhibit 293, Avista  
21 Response to Public Counsel Data Request Number 78.  
22 Exhibit 294, Depreciation Study Work Paper,  
23 Account 391.1, Computer Equipment. Exhibit 295,  
24 Graphs, Depreciation Study, Account 391.1, Computer  
25 Equipment. Exhibit 296, Depreciation Study Work

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1 Papers, Account 391.1, Computer Equipment. Exhibit  
2 297, Graphs, Account 397.0, Communication Equipment.  
3 Exhibit 298, Depreciation Study Work Paper,  
4 Account 397.0, Communication Equipment. Exhibit 299,  
5 Avista Response to Public Counsel Data Request Number  
6 87. Exhibit 300, Depreciation Study Work Paper,  
7 Account 364, Poles, Towers. Exhibit 301,  
8 Depreciation Study Work Paper. Exhibit 302, WWP Book  
9 Depreciation Study of Electric Properties as of  
10 12/31/77. Exhibit 303, Depreciation System,  
11 DSALVG01, Release 6.0.  
12 Whereupon,

13 DAVE DeFELICE,  
14 having been first duly sworn, was called as a witness  
15 herein and was examined and testified as follows:

16 JUDGE SCHAER: Your witness is sworn, Mr.  
17 Meyer.

18 MR. MEYER: Thank you.

19 JUDGE SCHAER: You've just handed me a  
20 document marked T-290, which appears to be errata  
21 changes to Mr. DeFelice's testimony, is that correct?

22 MR. MEYER: Yes, it is, Your Honor.

23 JUDGE SCHAER: And then, Mr. Trautman, I  
24 see that you are distributing two additional exhibits  
25 for Mr. DeFelice. I'm going to go mark these

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1 exhibits for identification as Exhibits 302 and 303.  
2 Did you provide copies of these to the court  
3 reporter, Mr. Trautman?

4 MR. TRAUTMAN: Yes, I did, Your Honor.

5 JUDGE SCHAER: Thank you. So that when you  
6 are identifying the exhibits for this witness, you've  
7 got the top sheet, which describes what they are and  
8 should be used to identify them, please.

9 MR. MEYER: I should note, as well, for the  
10 record, that we had previously mailed, and they  
11 should already be in your hands, copies of revised  
12 pages to Mr. DeFelice's exhibit the same time we  
13 filed revised sheets for Ms. Knox's exhibits. I  
14 assume you have those already and they're inserted?

15 JUDGE SCHAER: We will look into that, and  
16 if it's not taken place, get it taken care of. Thank  
17 you for the reminder.

18 MR. MEYER: Okay.

19 JUDGE SCHAER: I'm going to go ask Judge  
20 Caille to help me make sure that we've got that  
21 detail dealt with. Okay. So go ahead, then, Mr.  
22 Meyer.

23 MR. MEYER: Thank you.

24 D I R E C T E X A M I N A T I O N  
25 BY MR. MEYER:

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1 Q. For the record, would you please state your  
2 name and your employer?

3 A. I'm Dave DeFelice, and I'm employed by  
4 Avista Corporation.

5 Q. And what is your job title?

6 A. Rate analyst.

7 Q. And have you prepared an exhibit containing  
8 your direct testimony that has been marked as Exhibit  
9 T-290?

10 A. Yes, I have.

11 Q. Do you have any changes beyond the errata  
12 sheet to make to that?

13 A. No, I don't.

14 Q. Are you also sponsoring what has been  
15 marked as Exhibit 291?

16 A. Yes, I have.

17 Q. Is the information contained in both your  
18 direct testimony and in that additional exhibit true  
19 and correct?

20 A. Yes, it is.

21 Q. Do you have any changes to make to that?

22 A. Not at this time.

23 MR. MEYER: With that, Your Honor, I move  
24 for the admission of Exhibit T-290 and 291.

25 JUDGE SCHAER: Is there any objection?

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1 MR. TRAUTMAN: No, Your Honor.

2 MR. FFITCH: No objection, Your Honor.

3 JUDGE SCHAER: And I would like to again  
4 note for the record that there are revised pages for  
5 that document, and also that there is an errata sheet  
6 for Exhibit T-290, and those documents are admitted.

7 MR. MEYER: Thank you.

8 JUDGE SCHAER: Is there anything further  
9 that we need to consider today? Hearing nothing, we  
10 will take up this hearing again tomorrow at 1:00 p.m.  
11 in this hearing room. Please be on time, and we are  
12 off the record.

13 MR. MEYER: Thank you.

14 (Proceedings adjourned at 4:58 p.m.)

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