

BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

WUTC V. AVISTA CORPORATION d/b/a AVISTA UTILITIES

DOCKET NOS. UE-050482 AND UG-050483

DIRECT TESTIMONY OF JAMES R. DITTMER (JRD-1T)

ON BEHALF OF

PUBLIC COUNSEL

August 26, 2005

DIRECT TESTIMONY OF JAMES R. DITTMER (JRD-1T)

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DITTMER EXHIBIT LIST

Exhibit No. ____ JRD-2 Avista Electric Accounting Exhibits
Exhibit No. ____ JRD-3 Avista Electric Accounting Exhibits
Exhibit No. ____ JRD-4 Avista’s Response to Public Counsel Data Request No. 57

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I. INTRODUCTION AND SUMMARY

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is James R. Dittmer. My business address is 740 Northwest Blue Parkway, Suite 204, Lee's Summit, Missouri 64086.

Q. BY WHOM ARE YOU EMPLOYED?

A. I am a Senior Regulatory Consultant with the firm of Utilitech, Inc., a consulting firm engaged primarily in utility rate work. The firm's engagements include review of utility rate applications on behalf of various federal, state and municipal governmental agencies as well as industrial groups. In addition to utility intervention work, the firm has been engaged to perform special studies for use in utility contract negotiations.

Q. ON WHOSE BEHALF ARE YOU APPEARING?

A. Utilitech, Inc. has been retained by the Public Counsel Section of the Office of the Attorney General of the State of Washington ("Public Counsel") to review certain aspects of the recent rate application of Avista Corporation doing business as Avista Utilities (hereinafter sometimes also referred to as "Avista" or "Company"). Additionally, our responsibility included the incorporation of the rate of return recommendation of Mr. Stephen Hill as well as jurisdictional power supply and other production cost adjustments sponsored by Public Counsel's witness Mr. Merton Lott. Thus, the testimony and exhibits I am presenting herein as a result of such review and analysis is offered on behalf of the Public Counsel Section of the Office of the Attorney General.

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II. QUALIFICATIONS

Q. BEFORE DISCUSSING IN GREATER DETAIL THE ISSUES AND VARIOUS RECOMMENDATIONS THAT YOU WILL BE ADDRESSING, PLEASE STATE YOUR EDUCATIONAL BACKGROUND.

A. I graduated from the University of Missouri - Columbia, with a Bachelor of Science Degree in Business Administration, with an Accounting Major, in 1975. I hold a Certified Public Accountant Certificate in the State of Missouri. I am a member of the American Institute of Certified Public Accountants and the Missouri Society of Certified Public Accountants.

Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE.

A. Subsequent to graduation from the University of Missouri, I accepted a position as auditor for the Missouri Public Service Commission. In 1978, I was promoted to Accounting Manager of the Kansas City Office of the Commission Staff. In that position, I was responsible for all utility audits performed in the western third of the State of Missouri. During my service with the Missouri Public Service Commission, I was involved in the audits of numerous electric, gas, water and sewer utility companies. Additionally, I was involved in numerous fuel adjustment clause audits, and played an active part in the formulation and implementation of accounting staff policies with regard to rate case audits and accounting issue presentations in Missouri. In 1979, I left the Missouri Public Service Commission to start my own consulting business. From 1979 through 1985 I practiced as an independent regulatory utility consultant. In 1985, Dittmer, Brosch and Associates was

1 organized. Dittmer, Brosch and Associates, Inc. changed its name to Utilitech, Inc.
2 in 1992.

3 My professional experience since leaving the Missouri Public Service
4 Commission has consisted primarily of issues associated with utility rate, contract
5 and acquisition matters. For the past twenty-six years, I have appeared on behalf of
6 clients in utility rate proceedings before various federal and state regulatory
7 agencies. In representing those clients, I performed revenue requirement studies for
8 electric, gas, water and sewer utilities and testified as an expert witness on a variety
9 of rate matters. As a consultant, I have filed testimony on behalf of industrial
10 consumers, consumer groups, the Missouri Office of the Public Counsel, the
11 Missouri Public Service Commission Staff, the Indiana Utility Consumer Counselor,
12 the Mississippi Public Service Commission Staff, the Arizona Corporation
13 Commission Staff, the Arizona Residential Utility Consumer Office, the Nevada
14 Office of the Consumer Advocate, the Washington Attorney General's Office, the
15 Hawaii Consumer Advocate's Staff, the Oklahoma Attorney General's Office, the
16 West Virginia Public Service Commission Consumer Advocate's Staff,
17 municipalities and the Federal government before regulatory agencies in the states
18 of Arizona, Alaska, Maine, Michigan, Missouri, Oklahoma, Ohio, Florida, Colorado,
19 Hawaii, Iowa, Kansas, Mississippi, New Mexico, Nevada, New York, West
20 Virginia, Washington and Indiana, as well as the Federal Energy Regulatory
21 Commission.

1 **III. EXHIBIT ORGANIZATION AND SPONSORSHIP**

2 **Q. HAVE YOU PREPARED SCHEDULES WHICH SUMMARIZE THE**
3 **ADJUSTMENTS AND POSITIONS BEING SPONSORED BY YOU AND**
4 **OTHER PUBLIC COUNSEL WITNESSES?**

5 A. Yes. I have attached schedules which reflect the cost of capital recommendations
6 sponsored by Mr. Stephen Hill, the power supply/production cost adjustments
7 sponsored by Mr. Merton Lott, as well as the miscellaneous rate base and income
8 statement adjustments that I am sponsoring. I have prepared separate sets of
9 schedules, identically organized, for Avista’s Washington jurisdictional electric and
10 gas operations. The electric schedules are included in Exhibit ____ (JRD-2), and the
11 gas schedules are included in Exhibit ____ (JRD-3).

12 **Q. PLEASE EXPLAIN HOW YOUR SCHEDULES ARE ORGANIZED.**

13 A. I would first note that my starting point is the Company’s “as adjusted” Washington
14 jurisdictional revenue requirement calculation. Schedule A is the Revenue
15 Requirement Summary, which reflects the cumulative impact of the various revenue,
16 operating expense, rate base and cost of capital recommendations being sponsored
17 by Mr. Hill, Mr. Lott and me. As previously noted, I have prepared identically
18 organized schedules for Avista’s Washington jurisdictional electric and gas
19 operations. Thus, I have prepared a separate Schedule A-Electric Revenue
20 Requirement Summary contained within Exhibit ____ (JRD-2) as well as a separate
21 Schedule A-Gas Revenue Requirement Summary found within Exhibit ____ (JRD-3).
22 As described in greater detail below, I have prepared similar supporting schedules

1 “B,” “C,” and “D” which also include an “Electric” or “Gas” trailer to designate
2 calculations for each utility operation.

3 Also shown on each Schedule A are the values of the various components
4 underlying the Company’s revenue requirement recommendation which were
5 developed utilizing the Company-proposed “as adjusted” Washington jurisdictional
6 operating results and rate base, as well as the Company’s proposed cost of capital.
7 Thus, on a summary level basis one can observe from each Schedule A how the
8 various components of Public Counsel’s revenue requirement recommendation
9 contrast with that being proposed by Avista.

10 Schedule B included within Exhibit ____ (JRD-2) and Exhibit ____ (JRD-3) for
11 electric and gas operations, respectively, is the Rate Base Summary. In developing
12 Public Counsel’s proposed retail rate base I have started by showing Avista’s
13 proposed jurisdictional rate base by detailed component (i.e., Column b). Columns
14 (c) through (h) of Schedule B-Electric and Columns (c) through (?) of Schedule B-
15 Gas show Public Counsel’s individual rate base adjustments. Immediately following
16 each Schedule B – Rate Base Summary are a number of supporting schedules which
17 set forth each individual Public Counsel rate base adjustment. Each individual rate
18 base adjustment has a separate designation such as B-1, B-2, etc. Thus, each rate
19 base adjustment identified and presented with a separate “B-__” Schedule
20 designation becomes a reconciling item between Avista’s and Public Counsel’s rate
21 base recommendation.

1 Schedule C, included within Exhibit____(JRD-2) and Exhibit____(JRD-3)
2 for electric and gas operations, respectively, is the Net Operating Income Summary.
3 In a manner similar to the rate base schedules, I begin on Schedule C, Column (b) by
4 showing the Company’s “proposed” or “as adjusted” net operating income by major
5 component. The individual Public Counsel adjustments to net operating income are
6 also summarized within individual columns shown on Schedule C, with the support
7 for each income statement adjustment developed on separate schedules. Thus, like
8 the rate base schedules, each “C-__” Schedule reflects a reconciling component or
9 adjustment between Avista’s proposed net operating income and Public Counsel’s
10 proposed net operating income. Through the remainder of my testimony I will use
11 the terms “Adjustment B-__” and “Schedule B-__” as well as “Adjustment C-__”
12 and “Schedule C-__” interchangeably.

13 Schedule D included within Exhibit____(JRD-2) and Exhibit____(JRD-3)
14 reflects the Company’s as well as the Public Counsel’s proposed capital structure,
15 including the weighted cost of debt, preferred stock and recommended return on
16 common equity. As previously noted, Public Counsel’s proposed capital structure
17 and component cost recommendations are sponsored by Mr. Stephen Hill on behalf
18 of Public Counsel.

1 **IV. PUBLIC COUNSEL’S RECOMMENDATIONS TO DATE**

2 **Q. WHAT IS PUBLIC COUNSEL’S RECOMMENDATION REGARDING**
3 **CHANGES TO AVISTA’S WASHINGTON JURISDICTIONAL RETAIL**
4 **ELECTRIC AND GAS RATES?**

5 A. At this time, I have calculated a recommended electric increase – which considers all
6 of the Public Counsel witnesses’ recommendations – of \$11,733,000. Further, I have
7 calculated a recommended gas increase – which again considers all of the Public
8 Counsel witnesses’ recommendations – of \$218,000.

9 **Q. ARE YOU AWARE OF A SETTLEMENT AGREEMENT REACHED**
10 **BETWEEN THE WUTC STAFF AND AVISTA?**

11 A. Yes, I am aware of such agreement, but as of this point in time I have not devoted
12 much time or resources to understanding the document.

13 **Q. ARE YOU AWARE OF ANY ADJUSTMENTS THAT PUBLIC COUNSEL IS**
14 **RECOMMENDING WITHIN THIS FILING THAT HAVE BEEN ADOPTED**
15 **WITHIN THE NOTED WUTC STAFF – AVISTA SETTLEMENT**
16 **AGREEMENT?**

17 A. Again, I have not spent very much time studying such document, but I am aware that
18 some of Public Counsel’s adjustments have been adopted in the noted settlement
19 agreement. On the other hand, because of resource constraints, Public Counsel did
20 not attempt to analyze all cost of service components in detail – including a number
21 of components or adjustments that were identified and quantified by the WUTC Staff
22 that were ultimately accepted as reasonable by Avista within the noted Avista/Staff

1 settlement agreement. It is expected that Public Counsel will incorporate most, if not
2 all, of the adjustments conceded by Avista within the noted settlement agreement
3 that have not already been reflected in the development of Public Counsel's revenue
4 requirement calculation to date.

5 **Q. IS IT YOUR UNDERSTANDING THAT OTHER INTERVENORS WILL BE**
6 **FILING TESTIMONY ADDRESSING REVENUE REQUIREMENT ISSUES?**

7 A. Public Counsel is of the understanding that Intervenor Industrial Consumers of
8 Northwest Utilities ("ICNU") intends to file testimony concurrently with Public
9 Counsel. Further, Public Counsel is of the understanding that such testimony will, at
10 a minimum, address a number of power supply issues – including adjustments that
11 will likely go above and beyond those calculated and sponsored by Public Counsel's
12 witness Mr. Merton Lott. Public Counsel will be reviewing such ICNU proposals
13 and intends to support any and all such adjustments that go beyond those sponsored
14 by Mr. Lott that the Public Counsel deems to be reasonable.

15 **Q. DO YOU EXPECT THAT PUBLIC COUNSEL WILL PRESENT A REVISED**
16 **RECOMMENDATION THAT INCORPORATES SETTLEMENT AND ICNU**
17 **ADJUSTMENTS THAT ARE NOT YET REFLECTED WITHIN THE**
18 **REVENUE REQUIREMENT CALCULATIONS YOU HAVE PERFORMED**
19 **TO DATE?**

20 A. Yes. I understand that Company and Staff will be concurrently filing testimony in
21 support of their settlement which non-signatory parties will be allowed to respond to
22 in written testimony to be filed on September 22, 2005. In the noted response

1 testimony it is expected that Public Counsel will prepare and present revised exhibits
2 that incorporate settlement adjustments agreed to by Avista not already included
3 within Public Counsel's revenue requirement exhibits, as well as ICNU adjustments
4 that Public Counsel agrees with that go beyond those sponsored by Mr. Lott.

5 In summary, I emphasize that while Public Counsel has to date calculated
6 revenue deficiencies of \$11,733,000 and \$218,000 for Avista's electric and gas
7 operations, respectively, it is fully expected that those recommendations will fall –
8 and probably fairly significantly – once all the noted settlement and ICNU
9 adjustments have been incorporated into Public Counsel's final revenue requirement
10 calculation.

11 **V. REVENUE REQUIREMENT DETERMINATION – OVERVIEW**

12 **Q. PLEASE BRIEFLY DISCUSS THE ANALYSIS THAT YOU AND OTHER**
13 **PUBLIC COUNSEL WITNESSES HAVE UNDERTAKEN IN ARRIVING AT**
14 **PUBLIC COUNSEL'S WASHINGTON JURISDICTIONAL REVENUE**
15 **REQUIREMENT RECOMMENDATION.**

16 **A.** As this Commission is aware, the basic rate making formula endorsed by this and all
17 other state regulatory commissions that I am familiar with consists of the following:

18 Rate Base (Consisting of Investment in Net Plant in
19 Service, plus various Working Capital Components Minus
20 Cost Free Sources of Capital Such As Customer Advances
21 and Accumulated Deferred Income Taxes

22
23 Times

24
25 The Company's Overall Cost of Capital Which Typically
26 Considers the Weighted Cost of Long Term Sources of

1 Capital (Typically Consisting of Long Term Debt,
2 Preferred/Preference Stock and Common
3 Equity)
4
5 Equals
6
7 Return on Investment Requirement
8
9 Plus
10
11 Reasonable, Prudent and On-going Operating Expenses
12
13 Equals
14
15 Total Utility Revenue Requirement
16

17 The “Total Utility Revenue Requirement” amount is then compared to
18 “normalized” revenues under existing rates to determine the amount of revenue
19 deficiency or excess that exists at a give point in time.

20 In a revenue requirement review, through discovery and other analysis, the
21 analyst strives to determine an appropriate rate base allowance that properly includes
22 prudently incurred investment in assets that are currently used and useful in the
23 provision of utility service. A cost of capital expert is typically engaged to determine
24 a utility’s actual cost of capital for securities that have fixed return requirements (i.e.,
25 interest and preferred dividends), as well as an appropriate return for the utility’s
26 common equity investors. However, in some instances, a utility’s “actual” capital
27 structure and attended fixed-return securities may, for any number of reasons, have
28 become uniquely skewed from industry averages and expectations such that it is no
29 longer deemed to be prudent and/or efficient. In those instances, cost of capital
30 experts may promote employment of a “hypothetical” capital structure, and in some

1 instances, hypothetical cost rates, in an effort to either protect ratepayers from paying
2 for excessive return requirements and/or to assist a utility in reaching a goal of again
3 achieving an efficient capital structure with attendant reasonable cost rates.

4 A revenue requirement review also entails discovery and analysis of
5 operating expense and revenue levels. Generally this review attempts to ensure that
6 rates being designed will recover ongoing, normal, reasonable and prudently
7 incurred expenses which are then compared to “normalized” and ongoing revenue
8 levels.

9 In summary, the cumulative goal of all the various rate analyst disciplines is
10 to establish rates that recover ongoing, prudently incurred expenses plus a reasonable
11 return on investments in assets prudently acquired and presently useful in providing
12 utility service to current ratepayers.

13 VI. CUSTOMER DEPOSITS

14 **Q. PLEASE DISCUSS YOUR FIRST ADJUSTMENT TO AVISTA’S**
15 **PROPOSED WASHINGTON JURISDICTIONAL RATE BASE.**

16 A. As shown on Schedule B-1-Electric included within Exhibit____(JRD-2) and
17 Schedule B-1-Gas included within Exhibit____(JRD-3), I am proposing to reduce
18 Avista’s rate base by the average test-year balance of Washington jurisdictional
19 Customer Deposits. Customer Deposits help finance Avista’s various utility
20 investments included within rate base determination. The current interest rate paid on
21 Washington-jurisdictional Customer Deposits during the historic test year was
22 slightly over one percent (1.0%). (Response to Public Counsel Data Request No. 94)

1 Thus, such funds represent a very inexpensive source of financing for Avista’s utility
2 operations. Accordingly, ratepayers should be given credit for such low cost source
3 of funds in the rate making process – importantly, funds that Washington
4 jurisdictional utility customers are providing on very favorable terms to the utility.

5 In addition to posting an adjustment to Avista’s rate base for the average
6 outstanding balance of Customer Deposits during the historic test year, I also post an
7 adjustment for related interest expense to Avista’s proposed proforma or
8 “normalized” above-the-line net operating income. By posting the related Customer
9 Deposit interest expense as an above-the-line operating expense, the Company will
10 remain whole for interest it must pay on such Customer Deposit funds. The related
11 income statement adjustments for electric and gas operations are reflected on
12 Schedule C-1-Electric and Schedule C-1-Gas, respectively.

13 **Q. WHY HAVE YOU PROPOSED TO REFLECT THE AVERAGE TEST-YEAR**
14 **BALANCE OF CUSTOMER DEPOSITS AS A RATE BASE OFFSET, WITH**
15 **CORRESPONDING INTEREST AS AN ABOVE-THE-LINE OPERATING**
16 **EXPENSE, RATHER THAN REFLECTING SUCH LOW COST FINANCING**
17 **WITHIN THE CAPITAL STRUCTURE EMPLOYED TO DEVELOP AN**
18 **OVERALL COST OF CAPITAL?**

19 A. Reflection of such low-cost Customer Deposits within the capital structure would
20 only give ratepayers credit for a *portion* of the low-cost funds they provide vis-à-vis
21 Customer Deposits. Specifically, since Avista’s capital structure supports utility as
22 well as non-utility investments, reflecting utility Customer Deposits within the

1 capital structure would have the effect of allocating a portion of the benefit of such
2 low cost-funds to non-utility operations and/or non-ratebased utility investment. Or
3 in other words, the low cost-financing benefits which only utility customers provide
4 vis-à-vis Customer Deposits would be inequitably diluted toward the benefit of non-
5 utility operations and/or to non-ratebased utility assets.

6 Additionally, if Customer Deposits were to be considered in the development
7 of the overall cost of capital, it would be appropriate to include *all* Customer
8 Deposits from all the states which Avista serves – not just the Washington
9 jurisdiction. Different states will no doubt have different Customer Deposit rules
10 and interest requirements. By reflecting *Washington jurisdictional* Customer
11 Deposits as an offset to the otherwise-calculated *Washington jurisdictional* rate base,
12 Washington jurisdictional customers will be given exact and equitable credit for
13 Customer Deposits they are collectively providing – nothing more or less. This same
14 equitable result will not occur if Customer Deposits are included within the
15 development of the overall cost of capital.

16 **VII. OTHER RATE BASE ADJUSTMENTS SPONSORED BY PUBLIC**

17 **COUNSEL WITNESS MR. MERTON LOTT**

18 **Q. DOES EXHIBIT ____ (JRD-2) ALSO REFLECT RATE BASE ADJUSTMENTS**
19 **SPONSORED BY PUBLIC COUNSEL WITNESS MERTON LOTT?**

20 A. Yes. Specifically, Mr. Lott sponsors several electric rate base adjustments. I will
21 not duplicate Mr. Lott's description and discussion of such issues herein. I would,
22 however, simply note that the following rate base adjustment/schedules that are

1 sponsored by Mr. Lott are also reflected within the summary rate base Schedule B-
2 Electric of Exhibit____(JRD-2):

3	Schedule B-2 Electric	Colstrip AFUDC
4	Schedule B-3 Electric	Colstrip Common AFUDC
5	Schedule B-4 Electric	Kettle Falls Disallowance
6	Schedule B-5 Electric	Boulder Park Disallowance
7	Schedule B-6 Electric	Coyote Springs
8	Schedule B-7 Electric	Proforma Transmission Projects
9	Schedule B-8 Electric	Production Factor Adjustment

10 **VIII. PROFORMA OVERHEAD COST ADJUSTMENT – RELATED TO**
11 **SALE OF CALIFORNIA GAS PROPERTY**

12 **Q. IF THAT COMPLETES YOUR DISCUSSION OF RATE BASE**
13 **ADJUSTMENTS, PLEASE CONTINUE BY DISCUSSING YOUR NEXT**
14 **ADJUSTMENT TO THE COMPANY’S PROPOSED LEVEL OF NET**
15 **OPERATING INCOME.**

16 A. My next adjustment is applicable to Avista’s electric and gas operations, and is
17 reflected on Schedule C-2-Electric included within Exhibit____(JRD-2) and
18 Schedule C-2-Gas included within Exhibit____(JRD-3). These electric and gas
19 adjustments are posted to reverse the Company’s Proforma Adjustment No. 11
20 included within its electric filing and Proforma Adjustment No. 6 included within its
21 gas filing. Historically “common” costs incurred at the corporate level that are
22 incurred to service or support all of Avista’s operating lines of business have been

1 allocated down to such presumably-benefiting business lines. In the first half of 2005
2 Avista sold its gas operations located in the state of California. During the historic
3 test year, the noted California gas property was allocated a portion of the Company's
4 corporate common costs.

5 The noted Company proforma adjustments were calculated to reflect the
6 estimated impact of corporate common costs allocable to the Company's remaining
7 utility divisions following the sale of gas property in California. More specifically,
8 the Company's proforma overhead cost allocation adjustments were posed to reflect
9 the impact of allocating presumably "fixed" corporate overhead costs to a smaller set
10 of remaining and purportedly benefiting utility divisions – such as Avista's electric
11 and gas Washington divisions – that continue to utilize such services after the sale of
12 the California gas property.

13 **Q. PLEASE EXPLAIN WHY YOU OPPOSE INCORPORATION OF THE**
14 **COMPANY'S PROFORMA ADJUSTMENTS RELATED TO THE**
15 **REALLOCATION OF CORPORATE OVERHEAD COSTS TO REMAINING**
16 **DIVISIONS FOLLOWING THE SALE OF THE CALIFORNIA PROPERTY.**

17 A. First, while it is reasonable to expect many – and perhaps the majority of – corporate
18 overhead costs to remain at levels that were experienced prior to the California sale,
19 it cannot be known with certainty that there will be *no* corporate overhead cost
20 savings following the sale of the property. I note that the Company undertook no
21 studies when embarking upon the decision to sell the California property that might
22 have addressed the probable cost impact to remaining divisions following the sale.

1 Further, the Company noted in response to discovery that the “decision to sell the
2 Company’s California gas distribution properties was based upon the fact that the
3 South Lake Tahoe’s service territory was geographically isolated from Avista’s other
4 service territories in Washington, Idaho and Oregon, is the only area serviced by
5 Avista in California and the sale is consistent with Avista’s strategy to focus on
6 utility business in the Northwest.” (Response to Public Counsel Data Request No.
7 37). While this explanation does not mention “cost savings,” it is reasonable to at
8 least question whether the “geographically isolated” California service territory was
9 causing Avista to incur *some* additional or incremental corporate overhead costs that
10 can be eliminated upon sale of the property.

11 Second, assuming the majority of corporate overhead costs will remain
12 relatively constant following the California sale – resulting in mostly fixed costs
13 being spread over a smaller number of benefiting/remaining divisions – such
14 outcome would essentially become the *quid pro quo* of what occurred when the
15 property was acquired by Avista (then named Washington Water Power Company)
16 in 1991. Specifically, if the 1991 California acquisition created the converse of what
17 the Company claims to be occurring today regarding corporate overhead cost –
18 namely, if the 1991 acquisition resulted in economies of scale stemming from
19 relatively fixed corporate overhead costs being spread over a larger number of
20 benefiting divisions and customers – the benefits from savings resulting from such
21 economies of scale were not reflected within Avista’s electric and gas rates until
22 many years beyond 1991. Specifically, following the 1991 acquisition there was not

1 a Washington electric rate case until late 1999 and there was not a Washington gas
2 rate case until mid-1997. Thus, to some extent a delay in the allocation of additional
3 overhead costs to remaining customers resulting from the California sale in this case
4 would mirror the delay in the recognition of “savings” that would have occurred for
5 Avista at the time of the 1991 acquisition.

6 In summary, I am proposing reversal of the Company’s electric and gas
7 proforma overhead cost adjustments related to the sale of its California gas property
8 in recognition of 1) the fact that it is not a certainty that 100% of corporate overhead
9 costs will remain stable or “fixed” following the California property sale, and 2) the
10 fact that Washington ratepayers did not receive credit for “overhead savings” for a
11 number of years following the 1991 acquisition of the California property.

12 **IX. INTEREST SYNCHRONIZATION FOR PURPOSES OF CALCULATING**
13 **COST OF SERVICE INCOME TAX EXPENSE**

14 **Q. PLEASE EXPLAIN YOUR NEXT ADJUSTMENT TO TEST YEAR**
15 **ADJUSTING OPERATING INCOME.**

16 A. The adjustments shown on Schedule C-3 of Exhibit____(JRD-2) and
17 Exhibit__(JRD-3) is common to electric and gas operations, and is made to merely
18 synchronize the interest deduction to be used in the development of cost of service
19 income tax expense with the rate base being proposed by Public Counsel and the cost
20 of capital recommendations being made by Public Counsel’s cost of capital witness
21 Mr. Stephen Hill. My noted adjustment is comparable to – and identical in concept to
22 – adjustments that Avista posts and refers to as “Restate Debt Interest.” This

1 standard adjustment is required in order that ratepayers are properly credited with an
2 interest expense deduction in the cost of service income tax calculation that is
3 synchronized with the rate base and cost of capital being recommended. More
4 specifically, the Company's rate base is financed by various sources of permanent
5 financings that include, as one component, long term debt securities. The interest on
6 long term debt that supports the Company's rate base is deductible for purposes of
7 calculating the Company's federal income tax liability. It therefore equitable and
8 important that the interest deduction employed for purposes of developing cost of
9 service income tax expense be based upon the amount of interest expense that is
10 associated with long term debt issuances that are specifically in support of
11 Company's jurisdictional rate base. In other words, the cost of service income tax
12 deduction for interest expense should be "synchronized" with the rate base and
13 capital structure/interest cost being employed to design retail rates. The
14 synchronization adjustment is typically calculated by simply multiplying the
15 weighted cost of debt reflected within the capital structure times the jurisdictional
16 rate base. Because there are numerous recommendations among the parties as to the
17 appropriate rate base to be adopted by this Commission, the Commission's order
18 should reflect a revised interest synchronization adjustment that is based upon the
19 Commission's findings regarding all rate base and cost of capital issues.

1 **X. ANTICIPATED SAVINGS FROM THE AMERICAN’S JOB**

2 **CREATION ACT OF 2004**

3 **Q. PLEASE DISCUSS YOUR NEXT ADJUSTMENT TO AVISTA’S ELECTRIC**
4 **NET OPERATING INCOME.**

5 A. The adjustment shown on Schedule C-4-Electric of Exhibit____(JRD-2) is reflected to
6 capture the expected federal income tax savings resulting from enactment of the
7 American’s Job Creation Act of 2004 (“Jobs Act”). One element of the noted
8 legislation effectively lowers the corporate income tax rate for “production activities
9 income” of electric utilities. As only the “production function” of an integrated
10 utility’s operations are eligible for tax breaks allowed by the noted legislation, there
11 currently exists uncertainty as to how the “production function’s” qualified income
12 will be calculated. That stated, Avista has provided its estimate of the impact of the
13 Jobs Act upon its 2005 Washington-jurisdictional tax liability within its response to
14 Staff’s Data Request No. 70. While Avista has provided an estimate of the expected
15 savings from the Jobs Act in response to Staff Data Request No. 70, it did not reflect
16 such expected savings within its proposed adjusted test year cost of service.
17 Therefore, I have utilized Avista’s estimate of its Washington-jurisdictional income
18 tax savings in the adjustment reflected on Schedule C-4-Electric of
19 Exhibit____(JRD-2).

1 **Q. WHEN WILL THE UNCERTAINTY SURROUNDING THE**
2 **INTERPRETATION OF, AND INTENT OF, THE JOBS ACT BE**
3 **RESOLVED?**

4 A. It is reasonable to expect that the Treasury Department will issue interpretive
5 “regulations” in the future. Since the law is applicable beginning in tax years “after
6 December 31, 2004,” it is reasonable to expect such regulations in ensuing months.
7 However, they very well may not be issued prior to the issuance of an order in this
8 case.

9 **Q. GIVEN THE UNCERTAINTY REGARDING INTERPRETATION OF THE**
10 **JOBS ACT, IS IT REASONABLE TO INCORPORATE AN “ESTIMATE” OF**
11 **ITS IMPACT IN THIS CASE?**

12 A. I believe so. The Jobs Act itself is certainly known and in effect at this time. To
13 totally ignore such known legislation, and include *no* estimate of its impact, would
14 result in a greater injustice than attempting to include *some estimate* of its impact at
15 this point in time. Second, reflection of only the estimated impact of the Jobs Act
16 upon 2005 budgeted Washington-jurisdictional electric “production” income will
17 probably prove conservative. As previously noted, the impact of the Jobs Act is to
18 effectively lower the corporate federal income tax rate applicable to “production
19 function” taxable income. As such, application of the effective lower rate to other
20 “production” rate case adjustments – which I have not undertaken -- would be
21 appropriate. Further, and more importantly, the impact of the lower tax rate should
22 also be reflected in the development of the gross revenue conversion factor. Finally,

1 this element of the Jobs Act is being phased in over a period of years. It begins with
2 a three percent credit for tax years 2005 and 2006, but escalates to six percent for
3 years 2007 through 2009. Inasmuch as rates being established in this proceeding
4 will likely remain in effect through at least a portion of 2007, reflection of only the
5 three percent deduction can, again, be viewed as conservative. In summary, for the
6 reasons noted, reflecting only the estimated impact of the Jobs Act upon budgeted
7 2005 electric operations can viewed as conservative.

8 **Q. YOU HAVE SUGGESTED REASONS WHY THE ESTIMATE OF SAVINGS**
9 **RESULTING FROM THE JOBS ACT PROVIDED BY AVISTA, AND**
10 **PROPOSED BY YOU FOR DEVELOPMENT OF RATES IN THIS**
11 **PROCEEDING, IS CONSERVATIVE. WHY DO YOU NOT SIMPLY**
12 **UNDERTAKE THE ADDITIONAL DETAILED CALCULATIONS THAT**
13 **YOU SUGGEST ARE PROBABLY APPROPRIATE?**

14 A. Basically, achievement of a more refined calculation, including application of a
15 production-function-specific gross revenue tax conversion factor, would entail
16 presenting an unbundled cost of service for the production-only function. Time and
17 resource constraints did not permit such an undertaking in the instant case. Further,
18 it cannot be known with certainty how the Internal Revenue Service may ultimately
19 direct the assignment or allocation of “common costs” to the production function –
20 which would in turn contribute to the determination of “production function” income
21 that would be subject to the lower effective federal income tax rate. Thus, in light of
22 resource constraints as well as uncertainties surrounding the eventual guidance from

1 the Treasury Department regarding a more refined production function income
2 calculation, I have elected to not pursue the more detailed and refined calculations.
3 However, I emphasize that *omission* of the more detailed calculations and
4 adjustments discussed should demonstrate that reflection of Avista's estimate of the
5 Jobs Act savings – based upon budgeted 2005 income – is conservative.

6 **Q. IS THERE AN ALTERNATIVE TO INCORPORATING “ESTIMATED”**
7 **SAVINGS FROM THE JOBS ACT IN THE INSTANT CASE?**

8 A. An alternative would be to order the Company to defer for future return to
9 ratepayers, any and all savings inuring to Washington electric operations during the
10 period rates being established in this proceeding remain in effect. While I believe
11 incorporation of the Company's estimate of 2005 tax savings is acceptable in this
12 case, deferral of such savings for return to ratepayers in the next rate case would also
13 be an acceptable solution if the Commission is concerned with the “uncertainty” that
14 results from use of an “estimate” of such savings in the instant case. But clearly,
15 rates should either be reduced in the instant case to reflect such estimated savings, or
16 alternatively, Avista should be ordered to defer savings resulting from the Jobs Act
17 during the period that rates being established in this case remain in effect.

18 **XI. PRODUCTION TAX CREDIT**

19 **Q. PLEASE DISCUSS YOUR NEXT ADJUSTMENT TO THE COMPANY'S**
20 **ELECTRIC UTILITY NET OPERATING INCOME.**

21 A. My next adjustment, shown on Schedule C-5-Electric of Exhibit____(JRD-2), is
22 posted to reflect *all* of expected income tax saving – allocable to Washington electric

1 operations – stemming from the production tax credit that is also included as an
2 element of the American’s Job Creation Act of 2004. This newly effective credit is
3 discussed in some detail within the direct testimony of Avista witness Mr. Ronald
4 Peterson. Mr. Peterson argues for, and the Company’s electric cost of service
5 reflects, only one-half of the anticipated income tax savings resulting from the newly
6 available production tax credit.

7 **Q. WHAT IS THE BASIS FOR THE COMPANY’S PROPOSAL TO REFLECT**
8 **ONLY 50% OF THE EXPECTED FEDERAL INCOME TAX SAVINGS**
9 **RESULTING FROM THIS ELEMENT OF THE RECENTLY-ENACTED**
10 **JOBS ACT?**

11 A. Mr. Peterson argues that the production tax credit, to a large degree, resulted from
12 the lobbying efforts of Avista and other parties. Because all lobbying cost are
13 excluded from Washington retail cost of service development, Mr. Peterson argues
14 that a portion of the benefits that result from the lobbying efforts should be excluded
15 for ratemaking purposes.

16 **Q. DO YOU AGREE WITH MR. PETERSON’S ARGUMENT?**

17 A. Not at all. First, whether Avista’s direct or indirect funding of lobbyists that
18 supported this tax break actually caused this element of the Jobs Act to be included
19 within such legislation simply cannot be known. Second, and more importantly, the
20 impact of accepting this element of the Jobs Act versus what would have occurred
21 within the legislative negotiation process *absent the production tax credit inclusion*,
22 is also unknowable. It is sometimes stated that undertaking complex and

1 comprehensive legislation is akin to “making sausage.” There are many good and
2 bad components – depending upon individual constituents’ points of view – that are
3 rolled into a compromised legislative package. In the end, the “win” of the
4 production tax credit at issue in this case may have come at the “expense” or “loss”
5 of other elements which would have been beneficial to other utilities, other
6 ratepayers, or other taxpayers. It would be inequitable to allow a shareholder
7 windfall achieved by retaining a portion of the noted tax savings – as proposed by
8 Avista in the instant case – without knowing what other “costs” were effectively
9 incurred by ratepayers, other utilities or other taxpayers as a result of foregoing other
10 tax breaks or other energy incentives.

11 **Q. ARE LOBBYING COSTS GENERALLY INCLUDED WITHIN THE**
12 **DEVELOPMENT OF UTILITY COMPANIES’ COST OF SERVICE?**

13 A. No. I do not know of any regulatory jurisdiction that regularly or even occasionally
14 allows recovery of lobbying costs. Pursuant to the Federal Energy Regulatory
15 Commission’s Uniform System of Account, lobbying costs are recorded “below-the-
16 line” where there is a presumption of non-recovery from ratepayers. Further,
17 pursuant to WAC 480-90-213 and WAC 480-100-213, lobbying costs are not
18 permitted to be included within gas and electric utility cost of service determination.

19 **Q. PLEASE EXPLAIN THE RATIONALE FOR DISALLOWING RECOVERY**
20 **OF LOBBYING COSTS.**

21 A. The potential detriment to ratepayers and other constituents that could occur if
22 utilities were effectively encouraged to lobby vis-à-vis the recovery of lobbying costs

1 within utility rates could be significant. With the unique monopoly powers that
2 utilities enjoy in providing “essential services” within exclusive certificated service
3 territories, the potential for abuse through promotion of unfair or unnecessary
4 legislation is obvious. This statement is not to suggest or imply that all lobbying
5 efforts of utility companies – funded by their shareholders – are detrimental to
6 ratepayers or other constituents. Indeed, viewed in isolation, enactment of the
7 production tax credit element of the Jobs Act is beneficial to ratepayers in
8 Washington. However, as previously stated, it cannot be known at what “cost” the
9 achievement of the production tax credit was accomplished.

10 All the above having been stated, I believe it would be a very bad precedent
11 to allow a utility company to retain savings purportedly stemming from lobbying
12 efforts that it had undertaken in an effort to achieve such savings. Again, it cannot
13 be easily determined at what “cost” to other utilities, ratepayers or other constituents
14 such savings are achieved. Finally, it is reasonable to question whether symmetry
15 would ever be achieved under such policy. For instance, will customers ever be
16 entitled to comparable relief if utility lobbying results in restraint of competition,
17 more aggressive rate recoveries (i.e., mandated fuel adjustment clauses) or lowered
18 safety standards? It would seem highly unlikely that upon enactment of legislation
19 viewed to be detrimental or costly to ratepayers that this Commission could simply
20 pass on one-half of such costs in regulated rates just because it was known that utility
21 companies had lobbied for such legislation.

1 vegetation management costs being proposed in this case is in consideration of tree
2 trimming maintenance previously deferred. Specifically, in Staff Data Request No.
3 58 Avista was asked to “[p]lease explain in detail why the amounts of vegetation
4 management expenses relative to other years are significantly lower.” The Company
5 responded as follows:

6 During the 2000/2001 energy crisis, Avista was
7 required to spend hundreds of millions of dollars for
8 the purchase of electricity and natural gas to continue
9 to provide service to our customers. These cash
10 expenditures were over and above what was currently
11 being recovered from customers. These expenditures,
12 along with other ongoing capital and operating costs
13 required additional financing at relative high cost [SIC]
14 due mainly to our bond rating downgrade to below
15 investment grade. To continue to provide service to
16 customers and to begin to regain financial health,
17 conservation of operating cash was necessary. The
18 Company operates tree trimming on a multi-year cycle
19 basis and since a large percentage of vegetation
20 management costs are the result of payments to outside
21 contract crews, *the Company was able to defer certain*
22 *expenditures to future periods* and not materially
23 impact reliability or current employee staffing levels.
24 (Answer to Staff-58-a, *emphasis added*)
25

26 Further, in Public Counsel Data Request No. 164 Avista was asked to explain
27 a comment included within a September 2004-dated Rating Agency Update
28 addressing Avista’s financial outlook that referenced an “additional \$2 million per
29 year...in the [2005] forecast to reflect maintenance expenditures that have been
30 curtailed in previous years.” The Company responded by stating:

31 The majority of the additional \$2 million reflected in
32 the 2005 forecast was earmarked for vegetation
33 management (tree trimming). Avista significantly
34 curtailed tree trimming expenditures in 2002 and

1 slowly increased those expenditures each year
2 thereafter. Avista's 2005 budget reflects our projected
3 need for tree trimming during the current year. (Avista
4 Response to Public Counsel DR-164)
5

6 Finally, the curtailment in tree trimming expenditures in the 2001 through
7 2003 time frame is evident from a review of expenditures of Washington-
8 jurisdictional *distribution function* vegetation management cost over the period 1990
9 through 2004 taken from the Company's workpapers supporting its electric Proforma
10 Adjustment No. 6 and shown below as Table I:

11 Table I. Washington Jurisdictional Vegetation
12 Management Costs-Distribution Function

13	<u>Year</u>	<u>WA Expenditures</u>
14	1990	\$395,358
15	1991	\$794,912
16	1992	\$1,180,661
17	1993	\$1,648,710
18	1994	\$1,578,670
19	1995	\$1,499,789
20	1996	\$1,414,382
21	1997	\$1,055,657
22	1998	\$1,048,591
23	1999	\$1,044,571
24	2000	\$1,448,077
25	2001	\$590,331
26	2002	\$0
27	2003	\$22,274
28	2004	\$1,258,736
29		

1 I should note that I have reflected above only historic *distribution function*
2 vegetation management costs. I am not able to provide historic *transmission*
3 *function* vegetation management costs on a comparable historic basis inasmuch as –
4 according to Avista – such historic breakdown is not easily determinable from the
5 Company’s records. That said, the vast majority of vegetation management costs are
6 incurred at the distribution level – as evidenced by the fact that less than 15% of the
7 annualized 2006 – 2009 vegetation management costs are anticipated to occur at the
8 transmission level.

9 In summary on this point, there is no doubt – given the Company’s responses
10 to data requests as well as a review of historic vegetation management costs incurred
11 – that the Company’s proforma adjustment is designed to simply “catch up” on tree
12 trimming maintenance that was deferred during the power crunch and cash flow
13 crunch years of 2001 – 2003.

14 **Q. IF THE COMPANY NEEDS TO INCUR VEGETATION MANAGEMENT**
15 **COSTS AT A HIGHER LEVEL THAN WHAT WAS INCURRED DURING**
16 **THE HISTORIC TEST YEAR TO SAFELY, RELIABLY AND**
17 **EFFICIENTLY OPERATE ITS TRANSMISSION AND DISTRIBUTION**
18 **SYSTEM, SHOULDN’T IT BE ENTITLED TO RECOVER SUCH HIGHER**
19 **LEVEL OF COSTS WITHIN RETAIL RATES BEING ESTABLISHED**
20 **WITHIN THIS DOCKET?**

21 A. No. First, while it is obvious that during the 2001 – 2003 time frame the Company
22 did not incur vegetation management costs at previous historic or currently-projected

1 levels, retail rates in Washington have never been credited (i.e., reduced) for the
2 maintenance deferred during the noted years. In other words, ratepayers have paid
3 through retail rates vegetation costs at levels considerably higher than the Company
4 spent during the curtailment years. It would be unfair to again prospectively charge
5 for “catch up” maintenance that ratepayers have already funded through historic rates
6 paid during the 2001-2003 historic period.

7 **Q. ON WHAT BASIS DO YOU CONCLUDE THAT RATEPAYERS HAVE PAID**
8 **THROUGH HISTORIC RATES VEGETATION MANAGEMENT COSTS**
9 **ABOVE THAT SPENT BY AVISTA DURING THE 2001 – 2003 TIME**
10 **FRAME?**

11 A. Prior to and during the 2001 – 2003 curtailment period, Avista filed two electric
12 cases. In October 1999 Avista filed for an increase in electric rates in Docket No.
13 UE-991606 utilizing a 1998 test year. In December 2001 Avista filed for another
14 electric rate increase in Docket No. UE-011595 utilizing a 2000 test year. A review
15 of orders from those cases does not indicate that any party proposed – or that the
16 Commission adopted – a reduction in test year actual vegetation management costs.
17 Thus, it is apparent that rates were established prior to and during the curtailment
18 period that envisioned recovery of vegetation management costs at considerably
19 higher levels than the Company actually spent during the noted curtailment years.

1 **Q. BUT IF THE COMPANY WAS REQUIRED TO DIVERT MONIES BEING**
2 **COLLECTED IN BASE RATES FOR VEGETATION MANAGEMENT**
3 **COSTS TOWARD POWER SUPPLY COSTS THAT WERE GREATLY**
4 **EXCEEDING AMOUNTS BEING RECOVERED IN BASE RATES,**
5 **SHOULDN'T THE COMPANY BE ENTITLED TO RECOVER THE**
6 **“CATCH UP” TREE TRIMMING MAINTENANCE THAT IT REQUESTS**
7 **WITH ITS ELECTRIC PROFORMA ADJUSTMENT NO. 6?**

8 A. No. Through a series of stipulations and orders the Company has been, and is being,
9 allowed to recover agreed-upon levels of power supply costs incurred in prior
10 periods above that which was recovered within Washington-jurisdictional electric
11 rates at the time. The vegetation management costs shown above at Table I
12 demonstrates that the Company was *effectively* recovering within electric rates
13 additional amounts of power supply costs as a result of collecting in electric retail
14 base rates far more vegetation management costs than the Company was expending
15 during the power supply/cash crunch years of 2001 through 2003. If the Company's
16 “catch up” tree trimming adjustment is adopted, it will effectively be allowed to
17 recover additional power supply costs above and beyond that agreed to by the
18 Company and authorized by this Commission.

19 **Q. ARE THERE OTHER RAMIFICATIONS THAT COULD RESULT IF THIS**
20 **COMPANY-PROPOSED ADJUSTMENT IS ADOPTED?**

21 A. I believe so. Specifically, I believe a bad precedent could be established if this type
22 of “catch up” maintenance is allowed to be recovered in rates prospectively. If

1 utilities establish test year levels of expenditures that are later slashed to divert
2 monies to other uses, but are then later allowed to *again* recover such costs vis-à-vis
3 “catch up” adjustments in subsequent rate cases, utilities will be sent a strong
4 message that gaming the system is perfectly acceptable to this Commission. Further,
5 in future settlement discussions wherein parties are negotiating for unique rate
6 recovery of a particular cost of service component through accounting authority
7 orders and/or trackers (i.e., such as what Avista has achieved with its power supply
8 deferral and Energy Recovery Mechanism), it is reasonable to expect such parties to
9 become very wary if additional costs – above that addressed through specific
10 mechanisms – are effectively sought for recovery from ratepayers through such
11 “catch up” adjustments for maintenance previously deferred.

12 **XIII. INCOME STATEMENT ADJUSTMENTS SPONSORED BY**

13 **PUBLIC COUNSEL WITNESS MR MERTON LOTT**

14 **Q. DOES EXHIBIT ____ (JRD-2) ALSO REFLECT INCOME STATEMENT**
15 **ADJUSTMENTS SPONSORED BY PUBLIC COUNSEL WITNESS MR.**
16 **MERTON LOTT?**

17 **A.** Yes. Exhibit ____ (JRD-2) includes the following schedules that reflect adjustments
18 sponsored by Public Counsel witness Merton Lott:

19	Schedule B-4	Kettle Falls Depreciation Adjustment
20	Schedule B-8	Production Factor Depreciation Adjustment
21	Schedule C-7	Cancelled Small Projects Amortization Adjustment
22	Schedule C-8	Power Supply Adjustments

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XIV. GAS PROMOTIONAL ADVERTISING

Q. DO HAVE ANY ADJUSTMENTS THAT ARE UNIQUE TO ONLY GAS OPERATIONS?

A. Only one regarding gas promotional advertising.

Q. PLEASE DISCUSS YOUR FINAL ADJUSTMENT FOR GAS PROMOTIONAL ADVERTISING.

A. The adjustment shown on Schedule C-4-Gas of Exhibit__(JRD-3) eliminates the cost of gas advertising that is promotional in nature. Pursuant to WAC 480-90-223, the cost of promotional utility advertising such as Avista undertook during the historic test year is not allowed recovery in rates. Accordingly, the adjustment reflected on Schedule C-?-Gas should be adopted.

Q. PLEASE DISCUSS THE “PROMOTIONAL” NATURE OF THE GAS ADVERTISEMENT FOR WHICH YOU ARE PROPOSING TO REMOVE TEST YEAR COSTS.

A. I have affixed as Exhibit ____ (JRD-4) the Company’s response to Public Counsel Data Request No. 57. As evidenced from a review of this Company response, clearly these gas advertisements are designed to promote gas space heating load. As they are “promotional” in nature, the cost of such advertisement is not permitted pursuant to WAC 480-100-228.

1 **XV. ADVANCED METER READING CONSTRUCTION**

2 **COST ACCOUNTING**

3 **Q. HAVE YOU REVIEWED THE SUPPLEMENTAL DIRECT TESTIMONY OF**
4 **MR. DON FALKNER ADDRESSING THE COMPANY’S PROPOSED**
5 **ACCOUNTING TO BE EMPLOYED DURING THE CONSTRUCTION AND**
6 **INSTALLATION PHASES OF ITS PLANNED ADVANCED METER**
7 **READING (“AMR”) PROJECT?**

8 A. Yes. Mr. Falkner’s proposal is to continue to accrue an Allowance for Funds Used
9 During Construction (“AFUDC”), and delay the transfer of any element of the AMR
10 project to plant in service, until the entire six-year project has been completed.
11 AFUDC accounting is unique to the regulated utility industry. Under AFUDC
12 accounting, utilities are permitted to “capitalize,” or add to the cost of plant being
13 constructed, the carrying or financing cost of the plant investment during its
14 construction period. The impact of Mr. Falkner’s accounting proposal is 1) the cost
15 of the project eventually closed to plant in service will be significantly higher due to
16 the continued accrual of AFUDC carrying costs over the entire six-year phase-in
17 construction period, and 2) the delay in the transfer of the project to plant in service
18 will result in no depreciation associated with the AMR project being recorded during
19 the entire installation period.

20 **Q. DO YOU AGREE WITH SUCH PROPOSED ACCOUNTING?**

21 A. No. Clearly elements of the project will be “in service” and “used and useful” prior
22 to the end of the six-year installation period. Further, installation of various phases

1 of the project will result in immediate savings to Avista – primarily in reduced meter
2 reading costs. It would be most inequitable for Avista to continue accruing AFUDC
3 carrying costs on capital components of the project that are clearly “in service” and
4 generating operational savings. Such operational savings should also offset the
5 added depreciation expense that will result when such phases of the project are
6 closed to plant in service.

7 In summary, the unique accounting treatment proposed by Avista is not
8 necessary or equitable. Adoption of the Company’s construction accounting
9 proposal for its planned AMR project will result in an eventual overstatement of
10 plant in service while largely allowing operational savings resulting from the project
11 to fall to the Company’s “bottom line” in between rate cases. The project is touted to
12 be “economical” and “cost effective.” Indeed, the Company’s feasibility study
13 indicates that it will almost immediately begin to generate operational savings. To
14 allow the Company to capitalize financial carrying costs at the same time it is
15 achieving operational savings will result in a significant mismatch and an injustice to
16 ratepayers. Accordingly, the Company’s construction accounting proposal for its
17 AMR project should be denied, and it should be expected to close to plant in service
18 individual components of the AMR project as they become “used and useful” in
19 providing utility service.

20 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

21 **A.** Yes, it does.