

BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

WUTC V. AVISTA

DOCKET NOS. UE-120436 *et. al.*,

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

ON BEHALF OF

PUBLIC COUNSEL

REGARDING REVENUE REQUIREMENT

SEPTEMBER 19, 2012

DIRECT TESTIMONY OF JAMES R. DITTMER (JRD-1T)
DOCKET NO. UE-120436, *et. al.*

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DIRECT TESTIMONY OF JAMES R. DITTMER (JRD-1T)
DOCKET NO. UE-120436, *et. al.*

EXHIBIT LIST

- Exhibit No. JRD-2 Summary of Public Counsel Electric Adjustments
- Exhibit No. JRD-3 Summary of Public Counsel Gas Adjustments
- Exhibit No. JRD-4 Response to Public Counsel Data Request 152-Revised (Including Attachments A-E)
- Exhibit No. JRD-5 Response to Staff Data Request 269 (including Attachments A and B)
- Exhibit No. JRD-6 Response to Public Counsel Data Request 93 Supplemental (including Attachment A)
- Exhibit No. JRD-7 Attachment C to Public Counsel Data Request 65
- Exhibit No. JRD-8 Response to Public Counsel Data Request 41
- Exhibit No. JRD-9 Summary of Historic Electric Sales
- Exhibit No. JRD-10T Joint Testimony on Company Proposed Attrition Adjustment
- Exhibit No. JRD-11 Summary of Experience and Qualifications

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I. INTRODUCTION

Q: Please state your name and address.

A: My name is James R. Dittmer. My business address is Post Office Box 481934, Kansas City, Missouri 64148.

Q: By whom are you employed and in what capacity?

A: I am a Senior Regulatory Consultant with the firm 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 testifying?

A: I have been retained by the Public Counsel to broadly review potential issue areas that are significant in terms of the revenue requirement impact to Washington retail ratepayers and/or of particular concern to the Public Counsel. Thus, this testimony addressing adjustments and issues *other than attrition* is being sponsored exclusively on behalf of the Public Counsel.

I am also concurrently filing separate testimony on behalf of the Public Counsel, the Industrial Customers of Northwest Utilities (ICNU), and the Northwest Industrial Gas Users that addresses the Company's proposed attrition adjustments for electric and gas operations. Within such separately filed testimony I address two modifications to adjustments originally proposed by Avista that are conditionally proposed and directly related to my position to *support* the Company's proposal to

1 develop rate base at end-of-test year values as opposed to Washington Utilities and
2 Transportation Commission (WUTC) precedent of developing rate base through
3 employment of an average-of-monthly-average of test year rate base values. While
4 the discussion on the two noted adjustments is not included within this separate
5 testimony, the modified adjustments are reflected in revenue requirement exhibits that
6 I describe and sponsor with this testimony.

7 **Q: Please summarize your professional experience.**

8 A: My education and professional experience is summarized in Exhibit JRD-11.

9 **Q: What exhibits are you sponsoring in this proceeding?**

10 A: I am sponsoring the following exhibit:

11 Exhibit No. JRD-2 Summary of Public Counsel Electric Adjustments

12 Exhibit No. JRD-3 Summary of Public Counsel Gas Adjustments

13 Exhibit No. JRD-4 Response to Public Counsel Data Request 152-Revised
14 (including Attachments A-E).

15
16 Exhibit No. JRD-5 Response to Staff Data Request 269 (including Attachment
17 A and B.)

18
19 Exhibit No. JRD-6 Response to Public Counsel Data Request 93
20 Supplemental (including Attachment A)

21
22 Exhibit No. JRD-7 Attachment C to Public Counsel Data Request 65

23 Exhibit No. JRD-8 Response to Public Counsel Data Request 41

24
25 Exhibit No. JRD-9 Summary of Historic Electric Sales

26 Exhibit No. JRD-10T Joint Testimony on Company Proposed Attrition
27 Adjustment

28
29 Exhibit No. JRD-11 Summary of Experience and Qualifications

1 **Q: Have you previously filed testimony before the Washington Utilities and**
2 **Transportation Commission?**

3 A: Yes. I have filed testimony with the Washington Utilities and Transportation
4 Commission (“WUTC” or “Commission”) on a few occasions over approximately the
5 past 25 years.

6 **Q: What is the purpose of your testimony?**

7 A: I will address within this testimony certain revenue requirement matters, including
8 operating revenues, operating expenses, tax, and rate base issues in this proceeding.

9 **II. SUMMARY OF TESTIMONY**

10 **Q: Please summarize your testimony with regard to non-attrition revenue**
11 **requirement issues.**

12 A: I am proposing modifications to a number of traditional test year adjustments that are
13 included in the development of the Company’s claimed revenue requirement.
14 Additionally, I am proposing a number of incremental adjustments to test year results
15 of operation for which the Company has presented no comparable calculation or
16 proposed adjustment. Also, based upon Public Counsel Witness Ms. Nancy
17 Brockway’s finding and conclusion that the Pullman Smart Grid Demonstration
18 Project (SGDP) is being undertaken for the benefit of Avista’s *entire electric system*,
19 I am proposing that a portion of such pilot, for which Avista assigned all costs to the
20 Washington jurisdiction, be allocated to Avista’s Idaho electric jurisdiction. Finally, I
21 am also including adjustments based on the testimony of Public Counsel witness
22 Sebastian Coppola regarding executive compensation and board of director

1 compensation. These adjustments reduce revenue by approximately \$1.8 million and
2 are identified later in my testimony

3 **Q: Did you undertake a comprehensive analysis and review of Avista’s claimed**
4 **revenue deficiency for its Washington jurisdictional electric and gas operations?**

5 A: No. While I attempted to broadly review a number of topical areas, resource
6 constraints did not permit a complete or comprehensive review of all issue areas.
7 Also, Public Counsel did not retain experts to address cost of capital or power supply
8 issues – both of which can be expected to have a significant impact on the ultimate
9 rate change outcome of this proceeding. Thus, while I am proposing a number of
10 adjustments, the Staff and other intervenor parties will undoubtedly present other
11 credible issues that resource constraints did not permit me to fully investigate. Public
12 Counsel may elect to support some of the adjustments of other parties in this
13 proceeding. In separate testimony being filed within this docket, I am addressing the
14 Company’s request for an attrition adjustment. For reasons stated within the
15 separately-filed testimony I am opposing the Company’s attrition adjustment.

16 In summary, I am *not* proposing a comprehensive “bottom line” revenue
17 requirement recommendation on behalf of Public Counsel. Rather, I am 1) proposing
18 modified calculations for a number of adjustments originally calculated by Avista, 2)
19 recommending adoption of several adjustments to recorded test year results of
20 operations that were not originally included within Avista’s development of an
21 adjusted test year cost of service, and 3) specifically opposing Avista’s proposed
22 electric and gas attrition adjustments. I would also note that there are numerous

1 Avista-proposed electric and gas adjustments that I am neither specifically opposing
2 nor supporting within this direct testimony.

3 The total impact of all Public Counsel recommended adjustments relative to
4 those proposed by Avista in this case is \$32,648,000 for electric operations and
5 \$4,226,000 for gas operations.

6 **III. EXHIBIT NOS. JRD-2 AND JRD-3 ORGANIZATION**

7 **Q: Please explain how your schedules within Exhibit No. JRD-2 Summary of Public**
8 **Counsel Electric Adjustments and Exhibit No. JRD-3 Summary of Public**
9 **Counsel Gas Adjustments are organized.**

10 A: Schedule No. 1 of Exhibit No. JRD-2 and Exhibit No. JRD-3 consist of a Summary of
11 Public Counsel Electric Adjustments and a Summary of Public Counsel Gas
12 Adjustments, respectively. Also shown on each Schedule No. 1 is a listing of every
13 electric and gas adjustment incorporated within Avista’s original direct filing. Avista
14 adjustments that I am not supporting, modifying or opposing within this direct
15 testimony have a designation of “PC Neutral in Direct” noted on each Schedule No. 1
16 for electric and gas operations. As discussed earlier, it is possible that Public Counsel
17 may adopt another party’s position on such Company adjustments that I am not
18 addressing within this testimony. For Company adjustments where Public Counsel is
19 proposing an alternative calculation to that undertaken by the Company, such
20 adjustments have been designated as “PC Modified.” There also several Company
21 adjustments that Public Counsel is specifically opposing. Those adjustments have
22 been designated as “PC Oppose.” Finally, Public Counsel is proposing several
23 adjustments that were not presented in any manner by Avista. Those adjustments

1 have been designated as “PC incremental” on each Schedule No. 1 for electric and
2 gas operations.

3 Public Counsel adjustments that either modify an adjustment originally
4 proposed by Avista, or which are incremental to those proposed by Avista, are
5 summarized on ensuing schedules contained within Exhibit No. JRD-2 or Exhibit No.
6 JRD-3. In my narrative testimony supporting these adjustments, I refer to the
7 schedule number within Exhibit No. JRD-2 or Exhibit No. JRD-3, as well as Public
8 Counsel’s adjustment number designation.

9 **IV. ADJUSTMENTS RELATED TO PUBLIC COUNSEL, ICNU AND NWIGU’S**
10 **POSITION REGARDING ATTRITION**

11
12 **Q: Please identify the adjustments included within Exhibit No. JRD-2 and Exhibit**
13 **No. JRD-3 that relate to the testimony being separately filed on behalf of ICNU**
14 **and NWIGU, as well as Public Counsel, that relate to those parties’ position on**
15 **attrition.**

16 A: The following adjustments relate to positions set forth within separately filed
17 testimony:

Table 1		
Identification of Adjustments Related to Positions Being Taken by Public Counsel, ICNU and NWIGU Regarding Attrition in Separately Filed Testimony		
Adjustment No.	Adjustment Description	Exhibit/Schedule Reference
PC E.2.12	Revenue Normalization	Exhibit No. JRD-2, Sch. No. 3
PC E.3.06	Property Tax	Exhibit No. JRD-2, Sch. No. 23
PC G.2.01	Revenue Normalization	Exhibit No. JRD-3, Sch. No. 2
PC G 3.04	Property Tax	Exhibit No. JRD-3, Sch. No.18

1 As also discussed within the separately filed testimony addressing attrition, I am
2 specifically supporting the Company Restating Adjustments 3.07 and 3.06 for
3 Avista’s electric and gas operations, respectively. Each noted Company adjustment
4 reflects test year end values for major rate base components and also annualizes
5 depreciation expense based upon end-of-test-year Plant in Service values.

6 **V. OTHER REVENUE REQUIREMENT ADJUSTMENTS SPONSORED**
7 **ONLY ON BEHALF OF PUBLIC COUNSEL**

8
9 **RESTATING CURRENT AND DEFERRED FEDERAL INCOME TAX**
10 **EXPENSE ADJUSTMENT (Exhibit No. JRD-2), Schedule No. 2, Adjustment**
11 **PC E 2.05 and (Exhibit No. JRD-3, Schedule No. 3, Adjustment PC G 2.06]**

12 **Q: Please continue by discussing your first revenue requirement adjustment that**
13 **you are sponsoring exclusively on behalf of Public Counsel.**

14 A: I am proposing needed modifications to Restating Adjustments proposed by Avista
15 for its electric and gas operations addressing federal current and deferred income tax
16 expense. Specifically, I am proposing a needed modification to the Company’s
17 electric operations adjustment 2.05 and gas operations adjustment 2.06.

18 **Q: Please describe the needed modifications to the Company’s electric operations**
19 **adjustment 2.05 and gas operations adjustment 2.06 – both of which deal with**
20 **restated income tax expense.**

21 A: My revision to the Company’s electric restating adjustment 2.05, which I reflect as
22 adjustment PC E 2.05 on attached Schedule No. 1 of Exhibit No. JRD-2, captures
23 three needed corrections. Specifically, adjustment PC E 2.05 revises the Company’s
24 original adjustment to eliminate two income tax expense entries recorded in the 2011
25 historic test year that relate to prior periods. Additionally, adjustment PC E 2.05

1 reflects the impact of a needed Schedule M deduction in the calculation of adjusted
2 test year cost of service current federal income that was inadvertently omitted within
3 the Company's original calculation. A similar Schedule M omission was identified
4 for Avista's gas operations. Accordingly, adjustment PC G 2.06 includes the needed
5 revisions to the Company's original adjustment necessary to synchronize Schedule M
6 deductions used in the current income tax expense calculation with related deferred
7 income tax expense included in the cost of service determination.

8 **Q: Is your understanding that the Company agrees with the revisions you have**
9 **included in adjustments PC E 2.05 and PC G 2.06?**

10 A: Yes. The source of my adjustment is the Company's revised response to Public
11 Counsel Data Request No. 152 which has been affixed to this testimony as Exhibit
12 No. JRD-4. It is my understanding that the Company agrees with the described
13 modifications, and intends to include such revisions in updated jurisdictional cost of
14 service calculations to be submitted in rebuttal or at some point in these proceedings.

15 **Q: What is the revenue requirement impact of the changes that you are proposing**
16 **to the Company's electric adjustment 2.05 and the Company's gas adjustment**
17 **2.06?**

18 A: Shown on Schedule No. 1 of Exhibit No. JRD-2 and Exhibit No. JRD-3, my revisions
19 to the Company's income tax adjustment reduces the revenue requirement by
20 \$2,941,000 and \$33,000 for electric and gas operations, respectively.

21 **PCB TRANSFORMER RESTATING ADJUSTMENT [Exhibit No. JRD-2,**
22 **Schedule No. 4, Adjustment PC E 2.14]**
23

1 **Q: Please continue by discussing your next proposed adjustment to test year**
2 **recorded operating results.**

3 A: My next adjustment reflects another proposed modification to an electric operations
4 Restating Adjustment originally proposed by Avista. Specifically, my adjustment PC
5 E 2.14 consists of a revised calculation of electric adjustment 2.14 related to PCB
6 transformer testing originally proposed by Avista.

7 **Q: Please discuss your understanding of the mechanics and intentions of the**
8 **Company's electric adjustment 2.14.**

9 A: During the years 2007 through 2011 Avista has undertaken testing of transformers to
10 identify PCB that would, in turn, result in a requirement to remove transformers
11 containing such pollutant. Testing undertaken during the noted multi-year period was
12 initially charged as cost of removal to the Accumulated Depreciation Reserve.
13 However, during the 2011 historic test year the Company made a determination that
14 such testing costs should have more appropriately been charged as an operating
15 expense. Accordingly, during the 2011 test year Avista posted a journal entry
16 wherein it reversed transformer testing charges originally made to the Accumulated
17 Depreciation Reserve, and in turn, posted such charges as a current period operating
18 expense. Thus, the noted reversing journal entry posted in the 2011 test year had the
19 impact of charging to test year expense *all* five years of transformer testing costs. To
20 some extent, with its electric adjustment 2.14, the Company recognized the
21 abnormality of the charging of five years of testing costs within the historic test year
22 as it first removed all testing cost charges transferred to expense associated with the

1 2007 through 2010 vintages – while leaving unadjusted the testing charges
2 attributable to 2011 activities.

3 However, after first removing the “prior period” testing charges recorded
4 within the historic test year, Avista then calculated an add back amount to capture a
5 proposed three-year amortization of testing charges incurred during years 2007
6 through 2010 that were recorded as a test year current period operating expense as a
7 result of the noted reversing journal entry.

8 **Q: Please describe the modifications to the Company’s electric adjustment 2.14 that**
9 **you are recommending be adopted by this Commission.**

10 A: First, the Company’s original calculation should be corrected to reflect the amount of
11 prior period testing costs to be removed from the 2011 historic test year. The
12 Company has identified within its response to Staff Data Request No. 269 an
13 overstated amount of prior period testing costs inadvertently removed from the 2011
14 historic test year. As I understand from a review of the Company’s response to Staff
15 Data Request No. 269, attached to this testimony as Exhibit No. JRD-5, when
16 undertaking its original 2.14 adjustment calculation Avista inadvertently removed
17 “total system” testing costs associated with years 2007 through 2010 rather than
18 correctly removing the amounts charged to Washington jurisdictional electric
19 operations. Accordingly, one purpose of my adjustment PC E 2.14 is reflect a correct
20 *Washington jurisdictional* expense amount to be removed from recorded test year
21 operating expense.

1 However, the second and more significant change to the Company’s original
2 electric 2.14 adjustment, is my recommended elimination of the Company’s proposed
3 three-year amortization of prior period expense amounts.

4 **Q: Please expand upon why it is appropriate to remove the Company’s proposed**
5 **three-year amortization of prior period testing expense?**

6 A: Very simply, these expenses are, by definition, “prior period expense” amounts that
7 should be eliminated from test year operating results. “Prior period” transactions are
8 routinely removed in developing adjusted test year operating result that will underlie
9 rates being developed. It is appropriate to do so as rates should be established to only
10 reflect ongoing costs. Reflection of prior period expenses in the current adjusted test
11 year operating results would result in a form of retroactive ratemaking – which is
12 generally and appropriately rejected in development of utility rates. Accordingly, I
13 am recommending adoption of adjustment PC E 2.14 that 1) corrects for an
14 inadvertent overstatement of prior period jurisdictional costs to be removed from test
15 year operating results, and 2) does *not* reflect the Company-proposed three-year
16 amortization of testing expenses incurred in years 2007 through 2010. As shown on
17 Schedule No. 1 of Exhibit No. JRD-2, my proposed revision to Avista’s electric
18 adjustment 2.14 reduces electric revenue requirement by \$327,000.

19 **COLSTRIP AND COYOTE SPRINGS 2 VARIABLE MAINTENANCE**
20 **EXPENSE [Exhibit No. JRD-2, Schedule No. 6, Adjustment PC E 2.16]**

21 **Q: Please continue with a discussion of your next proposed adjustment to test year**
22 **recorded results of operations.**

1 A: My next adjustment, PC E 2.16, consists of proposed modifications to the
2 Company's electric Restating Adjustment 2.16 wherein Avista calculates an
3 adjustment to test year recorded variable maintenance expense – excluding internal
4 labor costs – associated with its ownership interest in the Colstrip Units 3 and 4 as
5 well as Coyote Springs Unit 2. The purpose of the Company's electric operations
6 Restating Adjustment 2.16 is purportedly to reflect the intentions of a stipulation
7 reached in Docket UE-110876 that was ultimately approved by this Commission that
8 provided for prospective rate and accounting treatment to be afforded Avista's
9 ownership interest of variable maintenance expense incurred at each noted production
10 facility.

11 The differences between my calculations and that of the Company fall into
12 two categories. First, the vast majority of the Company's electric adjustment 2.16 is
13 a result of its employment of largely budgeted 2012 variable maintenance expense at
14 the noted plants to calculate a deferral amount. The Company then proposes to
15 amortize the budgeted deferral amount over a four-year period – or the agreed-upon
16 amortization period from the Docket No. UE-110876 stipulation. I do not observe
17 any language in the Docket No. UE-110876 stipulation that suggests or indicates that
18 the parties were agreeing to use budget-to-baseline data to derive an amount to
19 include as amortization expense in future rate cases. Second, I believe the Company
20 has misinterpreted the intentions of the parties regarding the baseline amount of
21 variable maintenance expense to be included in future rate proceedings such as this
22 current docket.

1 **Q: Please expand upon your first difference regarding the use of budgeted data to**
2 **be used in calculating deferred variable maintenance expense.**

3 A: First, I would note that Avista has prepared its production maintenance adjustment
4 2.16, in part, by incorporating a four-year amortization of the difference in actual-
5 incurred 2011 variable production maintenance expense at the two plants (excluding
6 company internal labor) versus the “baseline” amount assumed to have been
7 incorporated in the development of base rates that were in effect during the 2011
8 historic test year. Since actual amounts incurred were *less than* the baseline amount
9 considered in the development of base rates, this deferral consisted of increasing
10 actual incurred 2011 production maintenance expense with the offset to a *Regulatory*
11 *Liability* account. Thus, one part of the Company’s 2.16 production maintenance
12 adjustment consists of reflecting a four-year amortization of the credit amount
13 recorded within the Regulatory Asset account during the 2011 test year. The effect of
14 this portion of the Company’s production maintenance expense adjustment 2.16 is to
15 *credit* or *refund* over a four-year period the over collection of variable production
16 maintenance expense that occurred during the 2011 historic test year. This element of
17 the Company’s 2.16 production maintenance expense is fully compliant with the
18 noted stipulation – and therefore, I take no exception to this element of the
19 Company’s adjustment 2.16.

20 The Company then undertakes a calculation that considers two months of
21 2012 actual production maintenance expense (i.e., January and February 2012
22 available at the time of the Company’s direct filing) plus ten months of budgeted
23 2012 production maintenance expense multiplied times the Washington jurisdictional

1 Plant/Transmission allocator.¹ From this 2012 two-months-actual/ten-months-
2 budgeted amount the Company then subtracts the baseline amount of Washington
3 jurisdictional expense amount agreed to by the parties within the Docket No. UE-
4 110876 stipulation assumed to be being collected in current base rates.² The
5 Company then proposes to amortize over four years the largely *budgeted under*
6 *collection* of variable production maintenance expense. It is this second calculation
7 employed utilizing mostly budgeted 2012 information to which I object. I see no
8 authority or guidance in the prior case stipulation that supports this broad use of
9 budgeted data to derive an appropriate “Restating Adjustment.”

10 **Q: What is the relevant language from the Docket No. UE-110876 that addresses**
11 **deferrals and amortizations of production maintenance expense.**

12 A: The relevant language from the Docket No. UE-1108767 stipulation addressing actual
13 deferrals to be recorded each annual period consists of the following:

14 In order to address the variability in year-to-year maintenance costs,
15 beginning in 2011 the Company will be allowed to defer changes in
16 maintenance costs related to its Coyote Springs 2 (CS2) natural gas-
17 fired generating plant located near Boardman, Oregon, and its fifteen
18 (15) percent ownership share of the Colstrip 3 & 4 coal-fired
19 generating plants located in southeastern Montana. The Company will
20 compare actual, non-fuel, maintenance expenses for the Coyote
21 Springs 2 (FERC Accounts 551-554) and Colstrip 3 & 4 (FERC
22 Accounts 510-514) plants with the amount of the same expenses
23 identified as the baseline in the applicable deferral year, and defer the
24 difference from that baseline.³

25

¹ 2012 total system amount of \$6,418,58/Washington jurisdictional amount of \$4,182,351 derived using the 2011 Washington jurisdictional Plant/Transmission allocator)

² 2012 total system amount of \$6,418,587/Washington jurisdictional amount of \$4,182,351 derived using the 2011 Washington jurisdictional Plant/Transmission allocator.

³ *WUTC v. Avista Corporation, d/b/a Avista Utilities*, Docket Nos. UE-110876 and UG-110877, (*Consolidated*) Order 06, Appendix A, Settlement Stipulation at ¶ 10.

1 The quoted language from the stipulation gives the guidance as to how Avista
2 should record deferred variable maintenance expense for the two noted production
3 sites during 2012. Absent from the stipulation is any language that suggests, implies
4 or indicates that it was/is the parties' intentions to use largely budgeted information to
5 derive any amount of amortization expense to be included within the development of
6 rates in this current rate case. Further, my understanding is that this Commission has
7 generally not accepted budgeted expense information in the development of base
8 rates. Accordingly, given past UTC practices regarding use of budgeted information
9 in the development of base rates, and the complete absence of any such authority to
10 use budgeted information in the prior case stipulation, I submit that the element of the
11 Company's variable production maintenance expense adjustment that consists of
12 expected 2013 amortization derived primarily from employment of *budgeted* 2012
13 Colstrip/CS2 maintenance expense should be rejected. Specifically, I am proposing
14 rejection of the Company proposed \$1,110,006 of budgeted 2013 production
15 maintenance amortization expense that was derived primarily by considering
16 budgeted 2012 expense in excess of the baseline amount agreed to in the prior rate
17 case stipulation.

18 **Q: Please continue by discussing your second disagreement surrounding the**
19 **Company's interpretation of the intentions of the parties regarding the baseline**
20 **amount of variable maintenance expense to be included in future rate**
21 **proceedings - such as this current docket.**

22 A: The disagreement regarding the amount of variable production maintenance expense
23 to be included in this first "future general rate case" following the parties entering

1 into the Docket No. UE-110876 stipulation hinges on interpreting the following
2 language quoted from such stipulation:

3 The amount of expense to be included for recovery in future general
4 rate cases would be the actual maintenance expense recorded in the
5 test period, less any amount deferred during the test period, plus the
6 amortization of previously deferred costs.⁴
7

8 More specifically, the disagreement centers upon whether the parties understood that
9 the starting point “actual maintenance expense recorded in the test period” amount set
10 forth in the quoted stipulation language was intended to be *inclusive* or *exclusive* of
11 any deferred maintenance expense entries (“adds” or “subtracts” to actual incurred
12 maintenance expense to bring reported maintenance expense amounts up to/down to
13 the baseline amount being recovered in base rates). The Company’s interpretation, as
14 stated within its Supplemental Response to Public Counsel Data Request No. 93 –
15 affixed as Exhibit No. JRD-6, is that that the starting point “actual maintenance
16 expense recorded in the test period” would be *exclusive* of deferral entries made
17 during the 2011 test period. Further, the Company’s interpretation of the quoted
18 stipulation language is that effectively any maintenance expense deferral recorded
19 within the test year then be either added or subtracted to such starting point test
20 period maintenance expense amount that *excluded* any such deferrals to arrive at the
21 total amount of variable production maintenance to be considered in the development
22 of new base rates being established. I believe this is an incorrect and strained
23 interpretation of the quoted stipulation language.

24 **Q: Please explain.**

⁴ *WUTC v. Avista Corporation, d/b/a Avista Utilities*, Docket Nos. UE-110876 & UG-110877 (*Consolidated*), Order 06 at ¶10.

1 A: First, the Company’s interpretation that “actual maintenance expense recorded in the
2 test period” would be recorded maintenance expense *exclusive* of deferral entries
3 effectively implies that, *but for one exception to only be followed in 2012*, the parties’
4 Docket No. UE-110876 intents were to always use the 2011 “baseline” amount –
5 which was based upon 2009 actual maintenance expense - for inclusion in all future
6 base rate proceedings. Indeed, if that were the parties’ intentions, it would have been
7 much more transparent to simply state that “for future rate cases the parties agree to
8 assume that the ongoing level of variable production maintenance, excluding
9 amortization of prior year deferral amounts, will be a total system amount of
10 \$9,123,024 – or the 2009 total system actual incurred amount that is being used as the
11 baseline amount for 2011.”

12 Second, the Company’s position requires an interpretation that, even though
13 the stipulation specifically utilizes the language “actual maintenance expense
14 recorded in the test period” as the starting point in the calculation, that what the
15 stipulating parties and ultimately this Commission *really meant* was that it was
16 intended to be “actual maintenance expense – *exclusive of deferral entries* – recorded
17 in the test year.” Again, I submit that if the Company’s interpretation of the relevant
18 quoted language were intended within the stipulation, that the stipulation would have
19 been drafted much more clearly to better capture such intended result.

20 Third, in my view it would be completely illogical and inconsistent for the
21 stipulation to have laid out clearly that the baseline amount for 2011 would be \$9,123
22 million (total system) based upon 2009 actual costs while establishing the 2012
23 baseline amount of \$6.419 million (total system) based upon 2010 actual maintenance

1 expense, but then expect the parties to break such trend of using last-test-period actual
 2 amounts for creating a baseline amount to be rolled into base rate development in
 3 future rate cases – and instead resort back to utilizing the 2011 baseline amount
 4 (again, based on 2009 actual costs). In short, I believe the Company’s interpretation
 5 is illogical and inconsistent with the clear language of the stipulation.

6 **Q: Please describe specifically the second modification to the Company’s**
 7 **production maintenance adjustment.**

8 A: I am proposing that the “ongoing” variable production maintenance expense be
 9 established at the 2011 historic test year level of recorded “actual” maintenance
 10 expense *exclusive* of any deferral entries. Or if one wants to go through the
 11 mechanical steps of the stipulation language, I am proposing that the ongoing level of
 12 variable production maintenance expense to be considered in the development of base
 13 rates be calculated as follows:

Table 2		
Public Counsel’s Development of Baseline Production Maintenance Expense		
	Total System	Washington Jurisdictional
“2011 Actual Maintenance Expense Recorded in the Test Year”	\$9,129,024	\$5,918,106
“Less [Any] Amount Deferred During the Test Year”	(\$795,824)	(\$516,251)
Equals “Amount of Expense to be Included for Recovery in Future General Rate Cases”	\$8,327,200	\$5,401,855

1 **Q: How does the step-by-step calculation reflected on Table 2 above, following strict**
2 **interpretation of stipulation language, compare to the Company’ calculation and**
3 **interpretation of the stipulation’s language?**

4 A: The Company’s effective interpretation of the stipulation’s language and following
5 calculation occur as shown Table 3 below:

Table 3		
Avista’s Development of Baseline Production Maintenance Expense		
	Total System	Washington Jurisdictional
“2011 Actual Maintenance Expense Recorded in the Test Year” <i>Exclusive of Deferral Entries</i>	\$8,327,200	\$5,401,855
“ Less <i>Plus</i> [Any] Amount Deferred During the Test Year”	\$795,824	\$516,251
Equals “Amount of Expense to be Included for Recovery in Future General Rate Cases”	\$9,129,024	\$5,918,106

6
7 Again, the upshot of the Company’s interpretation is to simply include in
8 development of rates being established in this docket the baseline level of
9 maintenance expense agreed to have been in effect during the 2011 test year – or in
10 other words, the amount of actual variable maintenance expense incurred in 2009
11 which was the “baseline” amount in effect for 2011. If that result were truly the
12 intentions of the stipulation, such intentions could have been achieved with much
13 simpler and straight forward language – rather than relying on the strained
14 interpretation that Avista undertakes to arrive at the higher 2011 baseline amount.

1 **Q: What is the revenue requirement impact of adjustment PC E 2.16?**

2 A: As shown on Schedule No. 1 of Exhibit No. JRD-2, the revenue requirement impact
3 of modifying the adjustment originally calculated by Avista is \$1,703,000.

4 **RESTATE FEDERAL INCOME TAX EXPENSE FOR ACTUAL 2011**
5 **DOMESTIC PRODUCTION ACTIVITIES DEDUCTION TAKEN [Exhibit**
6 **No. JRD-2, Schedule No. 7, Adjustment PC E 2.18]**

7 **Q: Please discuss your next adjustment to test year results of operations.**

8 A: My next adjustments revises test year federal income tax expense to reflect the actual
9 Domestic Production Activities Deduction (DPAD) now expected to be taken for the
10 2011 tax year. When calculating “recorded” 2011 current income tax expense, the
11 Company utilized a DPAD estimate that was considerably lower than the DPAD now
12 calculated and expected to be taken when filing its 2011 corporate income tax return.
13 Thus, the impact of my adjustment PC E 2.18 is to lower test year federal income tax
14 expense to reflect the larger DPAD expected to be taken for tax year 2011.

15 **Q: Why is it appropriate to reflect adjustment PC E 2.18?**

16 A: Very simply, more exact or refined calculations of the deduction expected to be taken
17 for tax year 2011 became available following the close of the Company’s 2011
18 financial statements which had recorded current income tax expense based upon a
19 preliminary estimate of the DPAD available at 2011 year end. Accordingly, it is
20 appropriate to reflect better “actual” information regarding the 2011 DPAD now
21 available. Further, I believe that reflection of the 2011 “actual” DPAD deduction is a
22 conservatively low estimate of the DPAD that can be expected to be realized
23 prospectively.

1 **Q: Please explain your characterization of the 2011 “actual” DPAD as a**
2 **“conservatively low estimate of the DPAD that can be expected to be realized**
3 **prospectively.”**

4 A: The Domestic Production Activities Deduction is basically a function of the taxable
5 income determined to be resulting from the utility’s production function operations.
6 Further, the production function’s taxable income is primarily a function of, or
7 significantly impacted by, its before-tax equity return. With a growing production
8 function rate base resulting in a larger targeted before-tax equity return in this
9 proceeding, it logically follows that prospectively the DPAD can be expected to grow
10 from historic levels. That stated, I am aware that the “production function’s taxable
11 income” is not solely a product of the production function’s before-tax targeted return
12 on equity, but also includes incorporation of book/tax timing differences that can
13 fluctuate – sometimes significantly – from year to year. In general, however, with an
14 increasing production function rate base and resultant growing targeted production
15 function before-tax equity return, it follows that over time the DPAD should be
16 growing. Thus, I conclude that simply reflecting the “actual” DPAD expected to be
17 taken for 2011, which would not consider growth in the targeted before-tax
18 production function equity return being sought by Avista in this proceeding, can be
19 considered “a conservatively low estimate of the DPAD that can be expected to be
20 realized prospectively.” As shown on Schedule No. 1 of Exhibit No. JRD-2, the
21 revenue requirement of adjustment PC E.2.18 is \$515,000.

1 **ELIMINATE NON-RECURRING PERFORMANCE EXCELLENCE COSTS**
2 **[Exhibit No. JRD-2, Schedule No. 8, Adjustment PC E 2.19 and Exhibit No.**
3 **JRD-3, Schedule No. 5, Adjustment PC G 2.14]**
4

5 **Q: Please describe your next adjustment to test year results of operations.**

6 A: My next adjustment impacts Washington jurisdictional electric as well as gas
7 operations. Electric operations Restating Adjustment PC E 2.19 and gas operations
8 Restating Adjustment PC G 2.14 eliminate non-recurring costs incurred within the
9 2011 historic test year for the management consulting firm Booz & Associates to
10 undertake an efficiency initiative commonly referred to as the “Performance
11 Excellence Initiative.”

12 **Q: Has the Performance Excellence Initiative been discussed in Avista witnesses’**
13 **testimony?**

14 A: Yes. Mr. Scott Morris as well as Mr. Don Kopczynski briefly discuss the
15 Performance Excellence Initiative. As the noted Avista witnesses describe, this
16 initiative consisted of review of a number of Avista’s practices and processes
17 undertaken by the outside consulting firm of Booz & Company. In 2010 Phase I of
18 the initiative was undertaken by Booz & Company. Within Phase I various processes
19 and practices, and particular areas for improvement were identified. Within Phase 2
20 of the Performance Excellence initiative various practices and procedures identified
21 for improvement in Phase I began to be implemented throughout 2011.

22 **Q: What are the objectives of the process improvements that began to be**
23 **implemented during 2011?**

1 A: Overall the objectives were to reduce certain costs immediately or in the short term,
2 over a period of time reduce the rate of growth in certain cost increases, and in some
3 cases, to optimize the type and timing of investments in plant, that would in turn, be
4 expected to reduce the life-cycle costs of certain plant investments.

5 **Q: When were the various Phase 2 process improvements implemented?**

6 A: Out of a total of 17 process improvements implemented, 14 process changes were
7 implemented in 2011, with the earliest changes occurring in the second quarter of
8 2011. Four process changes continued to be implemented in 2012, with the last one
9 scheduled to occur in the third quarter of 2012. A complete listing of the process
10 improvements and attendant implementation time frame were provided within
11 Attachment C to the Company's response to Public Counsel Data Request No. 65 –
12 which has been affixed to this testimony as Exhibit No. JRD-7.

13 **Q: Is it your understanding that following implementation of the final four process**
14 **improvements in 2012 that the Performance Excellence initiative is complete?**

15 A: Yes, at least with regard to employment of contractor Booz & Company. The
16 phasing out of Booz & Company involvement is also evidenced by the significant
17 decline in expenditures for the firm experienced in 2012. Accordingly, adjustments
18 PC E 2.19 and PC G 2.14 are proposed to eliminate this “non-recurring” test year
19 expense.

20 **Q: If all Booz & Company costs are eliminated as “non-recurring” as you are**
21 **proposing, does such elimination effectively become a “disallowance” of such**
22 **costs?**

1 A: Not necessarily. I would first note and emphasize that Booz & Company Phase I
2 costs incurred in 2010, which was the test period in Avista’s 2011 rate case (Docket
3 Nos. UE-110876 and UG-110877) were voluntarily eliminated by Avista from cost of
4 service development in that proceeding. Thus, the Company’s position of seeking
5 cost recovery in the current docket represents a modification to the position it took in
6 its last Washington retail rate case.

7 Second, the various process improvements only began to be implemented in
8 the second quarter of 2011, with four process improvements being implemented
9 sometime in 2012. Accordingly, only a small fraction of total benefits expected to be
10 gleaned from the Phase 2 efforts would have materialized and therefore have had the
11 impact of reducing 2011 expense levels. Further, the Company has not proposed any
12 “restating” or “pro forma” adjustments to capture the full savings expected to be
13 realized from the Phase 2 efforts. As described earlier, some of the initiatives have a
14 goal of reducing capital expenditures and/or reducing the rate of growth in costs over
15 a longer period of time. Nonetheless, some of the initiatives are designed to achieve
16 immediate cost reductions – only a small fraction of which would have been captured
17 in test year results of operations. Thus, until Avista’s “next rate case,” such savings
18 will inure to the benefit of Avista’s shareholders. Or in other words, savings from
19 newly implemented initiatives retained for shareholders can be viewed as offsetting,
20 at least in part, the “non-recurring” Booz & Company costs that I am proposing to
21 eliminate from test year recorded operating expense.

1 **Q: Since many of the expected benefits from Performance Excellence are expected**
2 **to be realized over time, might it be reasonable to amortize such costs over a**
3 **number of years?**

4 A: For reasons previously stated I am not recommending such an approach. However,
5 such a proposal would be preferable to, and more equitable than, full inclusion of
6 2011 Booz & Company costs as “ongoing” expenses, which is effectively the
7 Company’s position in this proceeding. However, if the Commission were inclined to
8 even consider an amortization of Booz & Company costs over some number of years,
9 it should at a minimum, impute as an offset to such amortization expense some
10 annualized level of expense reduction expected to be realized immediately following
11 full implementation of each process improvement completed in 2011.

12 **Q: What is the revenue requirement impact of adjustments PC E 2.19 and PC G**
13 **2.14?**

14 A: As shown on Schedule No. 2 of Exhibit No. JRD-2 and Exhibit No. JRD-3, the
15 revenue requirement impact is \$1,183,000 and \$321,000 for electric and gas
16 operations, respectively.

17 **ELIMINATE EMPLOYEE AWARDS/EVENTS AND DISCRETIONARY**
18 **GIFTS [Exhibit No. JRD-2, Schedule No. 9, Adjustment PC E 2.20 and Exhibit**
19 **No. JRD-3, Schedule No. 6, Adjustment PC G 2.15]**

20 **Q: Please discuss your next proposed adjustment to test year results of operations.**

21 A: My next adjustment, designated as PC E 2.20 and PC G 2.15 for electric and gas
22 operations, respectively, removes the cost of a number of discretionary employee
23 appreciation events, service awards, , and gifts. Specifically, this adjustment removes
24 costs associated with two annual appreciation events hosted by Avista –namely, the

1 “Trailblazer Event” which is a dinner that includes a hosted bar, which recognizes
2 employees and retirees and the “Employee Summer Picnic” which is annual event for
3 Avista employees and their families. In addition, this adjustment removes \$5,379 in
4 costs for gifts such as a “lined journal” and “Monaco classic pen” purchased by
5 Avista for attendees of a WEI meeting the Company hosted.⁵ Other costs removed
6 include discretionary gift certificates provided by Avista to customers and costs
7 associated with “employee service awards.” These awards are provided to all
8 employees, regardless of performance, on service anniversaries beginning after five
9 years of service and every five years thereafter.⁶ Awards consist of gift items
10 employees may choose from a catalog, such as a “Bulova Clock” or a “Cabella’s
11 Hunting Bag.”⁷ Each of the noted costs I am proposing to eliminate, while perhaps
12 appreciated by employees and/or customers, are discretionary and above any stated
13 compensation commitments. While such discretionary expenditures are inappropriate
14 for inclusion in rate development “in the best of times,” they are particularly
15 burdensome and inappropriate for cost of service inclusion in these trying financial
16 times of continued high unemployment and “belt tightening” that is being undertaken
17 by both businesses and individuals. Accordingly, such costs should be eliminated
18 from test year expenses.

19 **Q: Did Avista remove or eliminate any of the noted costs for items delineated on**
20 **adjustments PC E 2.20 and PC G 2.15?**

⁵ Avista’s Response to Public Counsel Data Request No. 195, Attachment A.

⁶ Avista’s Response to Public Counsel Data Request No. 28.

⁷ Avista’s Response to Public Counsel Data Request No. 178, Attachment A.

1 A: Yes. Avista voluntarily eliminated one-half of the cost of an employee picnic that
2 occurred during the 2011 test year. Thus, a portion of the amount removed within
3 adjustments PC E 2.20 and PC G 2.15 simply consists of eliminating the remaining
4 half of such picnic costs that Avista did not voluntarily remove from cost of service
5 development.

6 **Q: Do you know why Avista gave certain customers discretionary gift certificates ?**

7 A: The Company's response to Public Counsel Data Request No. 41 (attached as Exhibit
8 No. JRD-8), which addresses such question, is somewhat vague. Purportedly some of
9 the gifts were in exchange for allowing the Company to hook up a new customer by
10 tapping into an existing customer's service line – thus avoiding the cost of digging a
11 trench and installing an entirely new and longer service line. Presumably receiving
12 this permission allows the Company to avoid a somewhat higher service installation
13 costs for a new customer by gaining the permission to do a tap in to an existing
14 customer's service -which the existing customer does not necessarily have to
15 authorize. However, it was not possible from the information provided by the
16 Company to determine whether certain gift certificates may be cost beneficial.
17 Accordingly, I am proposing to remove all customer gifts. However, if the Company
18 believes that providing certain gift certificates to customers is cost beneficial it can
19 provide such a showing in a future general rate case.

20 **Q: What is the revenue requirement impact of adjustments PC E 2.20 and PC G**
21 **2.15?**

1 A: As shown on Schedule No. 2 of Exhibit No. JRD-2 and Exhibit No. JRD-3, the
2 revenue requirement impact is \$60,000 and \$16,000 for electric and gas operations,
3 respectively.

4 **ELIMINATE MEMBERSHIP DUES AND CHARITABLE CONTRIBUTIONS**
5 **[Exhibit No. JRD-2, Schedule No. 10, Adjustment PC E 2.21 and Exhibit No.**
6 **JRD-3, Schedule No. 7, Adjustment PC G 2.16]**

7 **Q: Please describe your next adjustment to test year results of operations.**

8 A: With adjustment PC E 2.21 and PC G 2.16 for electric and gas operations,
9 respectively, I am proposing to eliminate the cost of membership dues or fees paid to
10 various civic, social and economic development organizations, as well as to eliminate
11 the cost of charitable contributions erroneously recorded to above-the-line operating
12 expense.

13 **Q: Does Avista record all civic and economic development organization dues to**
14 **above-the-line operating expense accounts?**

15 A: No. Avista's policy is to record one-half of such costs to utility operations and one-
16 half to non-utility or below-the-line operations. Thus one element of the my noted
17 adjustments removes from utility operating expense the 50% of civic and economic
18 development organization dues and membership fees that Avista charged above-the-
19 line or to utility operating expense in 2011.

20 **Q: What are the types, and purposes, of the civic and economic development**
21 **organizations for which whose membership costs you are proposing to remove?**

1 A: Many of the civic organizations consist of community chambers of commerce and
2 rotary club organizations. Examples of economic development organizations include
3 Inland Northwest Partners and Latah Economic Development Council.⁸

4 **Q: Why do you propose to eliminate all of the cost of the various civic and economic**
5 **development organizations?**

6 A: With regard to the various civic organizations, there is no clear or direct benefit to
7 ratepayers. I would expect the Company feels some influence by civic leaders to
8 participate in such organizations to uphold an image of a good corporate citizen or
9 simply chooses to be a good corporate citizen by participating in – and contributing to
10 – such organizations. However, as a utility providing a regulated and monopolistic
11 essential service, its business operations are, at most, tangentially impacted by
12 participation in such organizations.

13 Beyond the conceptual arguments supporting disallowance of such costs, it is
14 my understanding that the Commission has previously determined that dues and
15 membership fees for civic organizations should not be recovered through rates,
16 stating: “[t]he costs of memberships in social, fraternal, and civic-spirited
17 organizations are properly to be assigned to the company’s shareholders.”⁹ In
18 another case, the Commission ordered that club dues must consistently be borne only
19 by shareholders:

20 The Commission mindful of... of *Jewell v. Washington*...
21 which both stated and implied certain limits upon the
22 Commission’s discretion in attributing expenses to ratepayers,
23 is of the opinion that none of the club dues and similar

⁸ Avista’s Response to Public Counsel Data Request No. 29, Attachment A.

⁹ *WUTC v. Cascade Natural Gas Corp.*, Docket No. U-78-76, Second Suppl. Order, p. 10.

1 expenses challenged in this item should hereafter be
2 attributable to ratepayers, and that if the company chooses to
3 continue to make such expenditures it should record the same
4 as below-the-line items attributable to shareholders.¹⁰

5 Accordingly, I submit that the 50% of such membership dues that the
6 Company has not voluntarily eliminated from costs supporting its rate request should
7 also be eliminated from test year recorded results of operations.

8 **Q: Is it Avista's position that some portion of charitable contributions should be**
9 **charged to ratepayers?**

10 A: No. The charitable contributions that are included as an element of adjustment PC E
11 2.21 and PC G 2.16 were identified by Avista when answering data requests as items
12 that should have been charged below-the-line or to non-utility operations. My
13 understanding from responses to data requests is that the Company agrees with the
14 elimination of charitable contributions identified within adjustments PC E 2.21 and
15 PC G 2.16.

16 **Q: What is the revenue requirement impact of adjustments PC E 2.21 and PC G**
17 **2.16?**

18 A: As shown on Schedule No. 2 of Exhibit No. JRD-2 and Exhibit No. JRD-3, the
19 revenue requirement impact is \$88,000 and \$24,000 for electric and gas operations,
20 respectively.

21 **ELIMINATE PROMOTIONAL AND ENERGY EFFICIENCY**
22 **ADVERTISING [Exhibit No. JRD-2, Schedule No. 11, Adjustment PC E 2.22**
23 **and Exhibit No. JRD-3, Schedule No. 8, Adjustment PC G 2.17]**

24 **Q: Please describe your next adjustment to test year results of operations.**

¹⁰ *WUTC. v. Puget Sound Power & Light Co.*, Docket No. U-78-21, Second Suppl. Order, pp. 59-60. *See also, WUTC. v. Wash. Natural Gas Co.*, Docket NO. U-79-15, Second Suppl. Order, pp. 26-27.

1 A: With adjustments PC E 2.22 and PC G 2.17 for electric and gas operations,
2 respectively, I am proposing to eliminate the cost of advertisements for energy
3 efficiency initiatives and other miscellaneous energy efficiency costs which are
4 properly recovered through Avista’s Schedule 91 and 191 DSM tariff rider.
5 Additionally, for gas operations PC G 2.17 eliminates the cost of an advertising
6 campaign known as “Go Green by Going Blue” which is designed to promote use of
7 natural gas over other energy alternatives.¹¹

8 **Q: Does elimination of energy efficiency advertising costs result in a “disallowance”**
9 **of costs?**

10 A: No, as noted, the energy efficiency costs – if prudently incurred and approved for
11 recovery – can be collected through the Company’s DSM tariff rider tracker. In fact,
12 my understanding is that the Company agrees that most, and perhaps all, of the
13 energy efficiency costs that I am proposing to eliminate with adjustments PC E 2.22
14 and PC G 2.17 should be properly removed from test year operating expense.

15 **Q: Are promotional advertising costs, such as the Company’s “Go Green by Going**
16 **Blue” ad campaign, properly recovered in base rates?**

17 / /

18 / / /

¹¹ Avista’s Response to Public Counsel Data Request No. 27, Attachment, Natural Gas Folder, and Public Counsel Data Request No. 303, Attachment A.

1 A: No. It is my understanding that Washington law prohibits recovery of promotional or
2 image-related advertising. Primarily, WAC 480-100-223 provides:

3 The UTC will not allow expenses for . . . advertising to
4 *encourage any person or business to select or use the service or*
5 *additional services of an electric utility, to select or install any*
6 *appliance or equipment designed to use the electric utility’s*
7 *service, or to influence consumers’ opinions of the electric*
8 *utility.*¹²
9

10 The Commission has previously disallowed advertising where the advertising was
11 “clearly promotional” and “designed to encourage consumers to select the service of
12 the utility.”¹³

13 **Q: What is the revenue requirement impact of adjustments PC E 2.22 and PC G**
14 **2.17?**

15 A: As shown on Schedule No. 2 of Exhibit No. JRD-2 and Exhibit No. JRD-3, the
16 revenue requirement impact is \$3,000 and \$17,000 for electric and gas operations,
17 respectively.

18 **ELIMINATE CERTAIN CORPORATE AIRCRAFT COSTS [Exhibit No.**
19 **JRD-2, Schedule No. 12, Adjustment PC E 2.23 and Exhibit No. JRD-3,**
20 **Schedule No. 9, Adjustment PC G 2.18]**

21 **Q: Please describe your next adjustment to test year results of operations.**

22 A: With adjustments PC E 2.23 and PC G 2.18 for electric and gas operations,
23 respectively, I am proposing to eliminate corporate aircraft costs associated with two
24 trips – the purposes of which are not essential to the provision of monopolistic utility
25 service. Specifically, I am proposing to eliminate corporate aircraft costs incurred for
26 a Company representative to attend a meeting of utility chief executive officers with

¹² Emphasis added.

¹³ *WUTC v. Wash. Natural Gas. Co.*, Docket No. UG-920840, Fourth Suppl. Order, p. 12.

1 Governor Otter in Idaho. The purpose of the meeting was, in part, to discuss energy
2 legislation being proposed in Idaho. Additionally, I am proposing to remove aircraft
3 costs incurred for a trip for an Avista employee to attend an American Red Cross
4 Recognition Service.

5 **Q: Are costs associated with legislative activities properly charged to ratepayers?**

6 A: I understand that Washington law prohibits investor-owned utilities from collecting
7 from ratepayers “direct or indirect expenditures for political or legislative
8 activities.”¹⁴ Accordingly, the aircraft costs for an Avista representative to attend a
9 meeting surrounding legislative initiatives in Idaho are not properly recoverable from
10 ratepayers.

11 **Q: Why are you recommending disallowance of aircraft costs to attend an
12 American Red Cross Recognition Service?**

13 A: While it may be admirable that an Avista employee earned such an award, the cost for
14 attending such recognition service is clearly not necessary for the provision of
15 essential utility service. Accordingly, such costs should also be eliminated from test
16 year operating expense.

17 **Q: What is the revenue requirement impact of adjustments PC E 2.23 and PC G
18 2.18?**

19 A: As shown on Schedule No. 2 of Exhibit No. JRD-2 and Exhibit No. JRD-3, the
20 revenue requirement impact is \$5,000 and \$1,000 for electric and gas operations,
21 respectively.

¹⁴ WAC 480-90-213 (gas) and 480-100-213 (electric).

1 **ADJUSTMENT BASED ON RESULTS OF AVISTA’S INTERNAL**
2 **ACCOUNTING AUDIT [Exhibit No. JRD-2, Schedule No. 13, Adjustment PC E**
3 **2.24 and Exhibit No. JRD-3, Schedule No. 10, Adjustment PC G 2.19]**

4 **Q: Please describe your next adjustment to test year results of operations.**

5 A: With adjustments PC E 2.24 and PC G 2.19 for electric and gas operations,
6 respectively, I am proposing to eliminate an estimate of total non-utility costs
7 recorded during the test year as above-the-line utility operating expense. This
8 adjustment has been extrapolated from the results of an internal audit undertaken by
9 the Company pursuant to an agreement made in Docket Nos. UE-100467 and UG-
10 100468. The noted audit was agreed to by Avista following two rate cases in which
11 the Public Counsel had identified numerous accounting errors wherein the Company
12 had inappropriately booked non-utility or below-the-line costs to above-the-line
13 utility operating expense accounts. The audit performed in 2012 was the second of
14 three audits that Avista agreed to undertake pursuant to the stipulation reached in
15 Docket Nos. UE-100467 and UG-100468.

16 **Q: What were the 2012 internal audit findings?**

17 A: The audit was broken out into two subsets. Subset A tested only a sample of entries
18 to FERC Account Nos. 900 through 935. FERC Account Nos. 900 through 935
19 consist of customer information and billing functions as well as corporate
20 administrative and general functions. A second Subset B tested “all remaining
21 transactions not included in Subset A.” The internal auditors determined that for the
22 broader Subset B sample of transactions beyond FERC accounts 900 through 935 that
23 the errors were “occurring within our tolerable rate.” However, out of a Subset A
24 sample of 208 transactions reviewed, 21 transactions – or ten percent (10%) – were

1 identified as containing some form of account entry error. Most of the errors were
2 associated with an incorrect account coding between above-the-line or utility
3 operating expense accounts. However, one error resulted from incorrectly coding a
4 non-utility or below-the-line transaction to an above-the-line utility operating expense
5 account. As to overall results of the audit of Subset A, the internal auditors reported
6 that “we conclude with 95% certainty that appropriate accounting and allocation of
7 utility expenditures is *not occurring within our tolerable rate.*”¹⁵ Thus, by Avista’s
8 own internal auditor’s standards, the problems identified by Public Counsel in prior
9 rate cases have not been remedied.

10 **Q: How did you calculate an estimate of non-utility costs inappropriately recorded**
11 **within above-the-line utility operating expense accounts?**

12 A: I calculated the amount of non-utility costs inappropriately recorded within utility
13 operating expense accounts by first calculating the total value of non-utility errors
14 contained in the Subset A sample as a percentage of the total dollar amount of Subset
15 A transactions sampled. I then applied this error percentage to the total population of
16 Subset A expenditures. In other words, I assumed that the amount of below-the-line
17 expenditures erroneously recorded as utility operating expense found in the
18 population of total dollar amounts sampled would be applicable to the total
19 population of transactions from which the sample was taken. The dollars associated
20 with below-the-line transactions as a percentage of total transactions sampled were
21 less than a tenth of one percent (0.1%). Thus, even though the entire Subset A audit
22 concluded that 10% of transactions sampled contained errors, I have limited the

¹⁵ Exhibit No. EMA-4, p. 6.

1 estimate of non-utility costs erroneously charged to utility operating expense to the
2 relationship of erroneously charged non-utility cost found in the sample to the total
3 amount of expenditures in the entire population from which Subset A sample was
4 taken.

5 **Q: What is the revenue requirement impact of adjustments PC E 2.24 and PC G**
6 **2.19?**

7 A: As shown on Schedule No. 2 of Exhibit No. JRD-2 and Exhibit No. JRD-3, the
8 revenue requirement impact is \$18,000 and \$5,000 for electric and gas operations,
9 respectively.

10 **ALLOCATION OF A PORTION OF THE PULLMAN SMART GRID**
11 **DEMONSTRATION PROJECT COSTS TO THE IDAHO JURISDICTION**
12 **[Exhibit No. JRD-2, Schedule No. 14, Adjustment PC E 2.25]**

13 **Q: Please discuss your next adjustment to test year results of operation.**

14 A: Public Counsel Witness Ms. Nancy Brockway provides a discussion of the purpose
15 and economics of the Pullman Smart Grid Demonstration Project. Among other
16 things, Ms. Brockway describes how the Pullman Project is truly a “pilot” project
17 designed, in part, to glean information regarding costs and benefits to be derived from
18 such investment that will be used in the design and implementation of future smart
19 grid projects. Information gleaned from the Pullman Demonstration Project will be
20 used to help assess various considerations about future smart grid infrastructure –
21 including presumably whether, to what extent, over what time frame and exactly what
22 elements should be expanded. Within her testimony Ms. Brockway discusses how
23 the Pullman Smart Grid Demonstration Project is not justified based upon the true
24 life-of-the-plant economics of the plant upgrade – even with the significant subsidy

1 provided by the Department of Energy grant. Even though the Pullman
2 Demonstration does not meet typical need or economic justification, the Public
3 Counsel is not proposing a true “disallowance” of the project. However, given that
4 the Pullman Project cannot be justified by a life-of-the-plant economic study, and that
5 it is truly a “demonstration” project designed to eventually benefit Avista’s entire
6 electric system, Public Counsel is proposing to allocate a portion of the cost of the
7 Pullman Project to Avista’s Idaho jurisdiction. Accordingly, adjustment PC E 2.25
8 allocates 2011 test year end rate base and expense components associated with the
9 Pullman Demonstration Project to Avista’s Idaho electric operations utilizing the
10 Production Transmission Jurisdictional allocation factor effective in the 2011 test
11 year.

12 **Q: Please discuss how adjustment PC E 2.25 was calculated.**

13 A: Within its response to Public Counsel Data Request No. 244 REVISED, Avista
14 provided the rate base and expense component values associated with the December
15 2011 Pullman Smart Grid Demonstration Project that underlies its Restated 2011
16 Results of Operation. As shown on adjustment PC E 2.25, I have allocated to the
17 Idaho electric jurisdiction, using the Production Transmission Idaho Jurisdictional
18 allocation factor (i.e., 34.76%), the end-of-2011 rate base values, as well as annual
19 expense amounts included in the development of Avista’s 2011 Restated Results of
20 Operations

21 I would note that in its revised response to Public Counsel Data Request No.
22 244 Avista provided additional “costs” associated with the Pullman Smart Grid
23 Demonstration Project that are not actually included in the Company’s “Restated”

1 2011 Results of Operations. In other words, the noted response effectively provides
2 support for an additional \$110,019 of purportedly “known and measurable” total
3 Company annual costs associated with the SGDP that are not included in the
4 development of Avista’s electric operations revenue requirement calculated based
5 upon 2011 Restated Results of Operations. Inasmuch as no portion of the newly
6 identified costs associated with the SGDP are included within Avista’s 2011 Restated
7 Results of Operation, I have additionally allocated to the Washington electric
8 jurisdiction a portion of such costs using the Production Transmission Washington
9 Jurisdictional allocation factor. Thus, adjustment PC E 2.25 allocates the “total
10 Company” SGDP rate base and expense amounts included within Avista’s 2011
11 Restated Results of Operation, in part, to the Idaho electric jurisdiction, but also
12 allocates a portion of newly identified costs associated with the SGDP that are not
13 currently in Avista’s 2011 Restated Results of Operation to the Washington electric
14 jurisdiction. As shown on Schedule No. 1 of Exhibit No. JRD-2, the revenue
15 requirement impact of this adjustment, calculated utilizing the Company’s
16 recommended cost of capital, is \$462,000.

17 **OFFSET SAVINGS TO THE SPOKANE SMART CIRCUIT**
18 **PROJECT[Exhibit No. JRD-2, Schedule No. 15, Adjustment PC E 2.26**

19 **Q: Please discuss your next adjustment to 2011 results of operations.**

20 A: Within Public Counsel Data Request No. 241 Avista was requested to provide the
21 revenue requirements attributable to the Spokane Smart Grid Investment Project
22 included within Avista’s 2011 Restated Results of Operations. Within its original
23 response to Public Counsel Data Request No. 241 Avista provided only the rate base

1 and expense elements included within its 2011 Restated Results of Operations.
2 However, in a revised response to Public Counsel Data Request No. 241 Avista also
3 provided known cost savings that offset, in part, all the cost components included
4 within its 2011 Restated Results of Operation that were identified and quantified
5 within its original response to Public Counsel Data Request No. 241. It is my
6 understanding that Avista is essentially recognizing that the “cost savings” identified
7 in its revised response to Public Counsel Data Request No. 241 are properly reflected
8 as an offset to its request for cost recovery of its end-of-2011 investment in the
9 Spokane Smart Circuit Project. Accordingly, the adjustment reflected on adjustment
10 PC E 2.26 merely posts the cost savings “offset” amount to the Spokane Smart
11 Circuit Project identified by Avista within its revised response to Public Counsel Data
12 Request No. 241. As shown on Schedule No. 1 of Exhibit No. JRD-2 the revenue
13 requirement impact of adjustment PC E 2.26 is \$163,000.

14 **Q: Is Public Counsel proposing to allocate any portion of the Spokane Smart**
15 **Circuit Project to the Idaho jurisdiction?**

16 A: No, unlike the Pullman Project, the Spokane Smart Circuit Project is better justified
17 by a life-of-the-plant economic study and is not designated as a “pilot” project. In
18 other words, the Spokane Smart Circuit Project is expected to generate benefits that,
19 over the life of the investment, are anticipated to be reasonable in relationship to the
20 investment being made. It is neither a “pilot” or “demonstration” project. It is
21 therefore reasonable to assign all costs to Washington – as Avista proposes – as well
22 as all benefits to Washington. Accordingly, the Public Counsel is *not* proposing to
23 allocate any costs of the Spokane Project to Idaho.

1 **PROFORMA LABOR ADJUSTMENT COSTS [Exhibit No.JRD-2, Schedule**
2 **No. 20, Adjustment PC E 3.02 and Exhibit No. JRD-3, Schedule No. 15,**
3 **Adjustment PC G 3.00]**

4
5 **Q: Please describe your next adjustment to test year results of operations.**

6 A: I am proposing to modify the Company’s electric operations Pro Forma Adjustment
7 3.02 and the Company’s gas operations Pro Forma Adjustment 3.00. Each of the
8 noted Company adjustments reflect wage increases for non-executive labor expected
9 to occur through 2013 – or the first year rates resulting from these dockets are
10 expected to be in effect. I am recommending modifications to the noted Company
11 proposed electric and gas operations wage adjustment with adjustments PC E 3.02
12 and PC G 3.00 that I have calculated for Avista’s electric and gas operations,
13 respectively.

14 When calculating its proposed pro forma level of non-executive labor
15 expense, Avista annualized the impact of wage increases granted in the first quarter of
16 2012 and also calculated the impact of 2013 expected wage increases for those
17 months of 2013 that such increases are predicted to be in effect. I have accepted that
18 portion of Avista’s payroll adjustment that captures the annualized impact of the
19 increases that became effective in March 2012. However, I have eliminated or
20 excluded the predicted 2013 wage increases when calculating proforma non-
21 executive labor expense in adjustments PC E 3.02 and PC G 3.00.

22 **Q: Why have you eliminated the 2013 wage increases included within the**
23 **Company’s development of pro forma non-executive labor expense?**

1 A: First, with regard to the non-union 2013 increase, this is a “planned” increase that I
2 do not believe meets the “known and measurable” standard promulgated by WUTC
3 rules. Second, the union increases predicted for 2013 are based upon existing
4 bargaining agreements. However, such increases are well beyond the end of 2011
5 historic test year. Inclusion for such increases occurring so far beyond the end of the
6 historic test year creates a test year “mismatch” of revenues, expenses and rate base.
7 Accordingly, even though the union increases may be “known,” they occur
8 sufficiently beyond the end of the historic test year so as to create a distortion in the
9 measurement cutoff of cost of service components – and should therefore be
10 excluded.

11 **Q: What is the revenue requirement impact of adjustments PC E 3.02 and PC G**
12 **3.00?**

13 A: As shown on Schedule No. 2 of Exhibit No. JRD-2 and Exhibit No. JRD-3, the
14 revenue requirement impact is \$854,000 and \$238,000 for electric and gas operations,
15 respectively

16 **ADJUSTMENTS SPONSORED BY PUBLIC COUNSEL WITNESS MR.**
17 **SEBASTIAN COPPOLA**

18 **Q: Please identify the adjustments reflected in schedules that are included within**
19 **Exhibit No. JRD-2 and Exhibit No. JRD-3 that are being sponsored by Public**
20 **Counsel Witness Mr. Sebastian Coppola.**

21 / /

22 / / /

23 / / / / /

1 A: The following adjustments, reflected within referenced exhibits and schedules,
2 are being sponsored by Mr. Coppola:

Table 4		
Adjustment Numbers and Exhibit/Schedule References for		
Adjustments Sponsored by Public Counsel Witness Mr. Sebastian Coppola		
Adj't No.	Adjustment Description	Exhibit/Schedule Reference
PC E 2.15	Restate Incentives	Exh. JRD-2, Sch. 5
PC E 2.27	Board of Directors – Stock Comp.	Exh. JRD-2, Sch. 16
PC E 2.28	Board of Directors – Retainers	Exh. JRD-2, Sch. 17
PC E 2.29	Officers' Benefits	Exh. JRD-2, Sch. 18
PC E 2.30	Remove Compensation Study Costs	Exh. JRD-2, Sch. 19
PC G 2.12	Restate Incentives	Exh. JRD-3, Sch. 4
PC G 2.20	Board of Directors – Stock Comp.	Exh. JRD-3, Sch. 20
PC G 2.21	Board of Directors – Retainers	Exh. JRD-3, Sch. 21
PC G2.22	Officers' Benefits	Exh. JRD-3, Sch. 22
PC G 2.33	Remove Compensation Study Costs	Exh. JRD-3, Sch. 23

3

4 **Q: Does this conclude your direct testimony?**

5 A: Yes, it does.