

Docket Nos. UE-050482 & UG-050483  
Rebuttal Testimony of Merton R. Lott  
Exhibit No. \_\_\_\_ (MRL-7TC) REDACTED

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

DOCKET NOS. UE-050482 AND UG-050483

REBUTTAL TESTIMONY OF MERTON R. LOTT (MRL-7TC)

ON BEHALF OF

PUBLIC COUNSEL

September 22, 2005

**REDACTED VERSION**

REBUTTAL TESTIMONY OF MERTON R. LOTT (MRL-7TC)

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Exhibit No. \_\_\_\_ (MRL-8) Electric Adjustment Summary

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Exhibit No. \_\_\_\_ (MRL-11) Climate Impacts Group: “Climate Change”

Exhibit No. \_\_\_\_ (MRL-12) Climate Impacts Group: “Climate Impacts on Pacific  
Northwest Water Resources”

1 **I. INTRODUCTION AND SUMMARY**

2 **Q. Please state your name and address.**

3 A. My name is Merton R. Lott. My business address is 10809 103<sup>rd</sup> St. SW, Tacoma,  
4 Washington.

5 **Q. By whom are you employed?**

6 A. I am self employed as a consultant concentrating on utility rate work.

7 **Q. On whose behalf are you appearing?**

8 A. I have been retained by the Public Counsel Section of the Office of the Attorney  
9 General of the State of Washington ("Public Counsel") to review certain aspects of  
10 the recent rate application of Avista Corporation doing business as Avista Utilities  
11 ("Avista" or "Company").

12 **Q. Have you previously submitted testimony in this proceeding?**

13 A. Yes. My direct testimony, Exhibit No. \_\_\_\_ (MRL-1T), was submitted by Public  
14 Counsel on August 26, 2005.

15 **Q. Please summarize your rebuttal testimony.**

16 A. My rebuttal testimony will address the proposed settlement, the joint direct  
17 testimony in support of the settlement agreement (Joint Direct), and Mr.  
18 Falkenberg's testimony for ICNU as those documents relate to electric revenue  
19 requirement and the Energy Recovery Mechanism (ERM). I will start with a  
20 discussion of revenue requirement issues, indicating my positions on Mr.  
21 Falkenberg's proposals and on the adjustments included in the settlement and the  
22 supporting workpapers. Next I will discuss the ERM, addressing both the Joint  
23 Direct and Mr. Falkenberg's testimony.

1           **II. REVENUE REQUIREMENT: FALKENBERG ADJUSTMENTS**  
2

3   **Q. Are your Exhibit Nos. \_\_ (MRL-8) and (MRL-9) replacements for your original**  
4   **Exhibit Nos. \_\_ (MRL-2) and (MRL-3)?**

5   A. Yes. These exhibits display my current position on all the adjustments shown. I  
6   have included several of Mr. Falkenberg's adjustments upon which I take a position.  
7   I have also updated the adjustments I originally proposed to take into account  
8   additional information and workpapers supporting the settlement.

9   **Q. Which of Mr. Falkenberg's adjustments have you taken a position on?**

10   A. Mr. Falkenberg provides a summary list of his adjustments on page 4 of his direct  
11   testimony. Exhibit No. \_\_ (RJF-1CT). For the following items I have reached a  
12   definitive conclusion about whether or not to adopt Mr. Falkenberg's adjustment:  
13

14           I.     Aurora Power Supply Cost Issues

15                   Hydro Shaping

16                   Colstrip Capacity

17           II    Other Power Supply Cost Issues

18                   Wheeling Expense

19                   Rate Base Adjustment (Increase - Colstrip Upgrade)

20                   Depreciation Adjustment (Increase – Colstrip Upgrade)

1 **Q. Do you have positions on any of the other adjustments proposed by Mr.**  
2 **Falkenberg?**

3 A. Yes. For the following adjustments I have reviewed Mr. Falkenberg's testimony and  
4 found that his arguments have merit, but for various reasons I have concerns with his  
5 adjustments as discussed below:

6 I. Aurora Power Supply Cost Issues

7 1939-1978 Year "Filtered Hydro"

8 Colstrip Planned Outages

9 II. Other Power Supply Cost Issues

10 Kaiser DES contract

11 **Q. Do you have a position on Mr. Falkenberg's other Aurora Power Supply Cost**  
12 **issues (Colstrip Outage Rate, Generic Plant Maintenance, and Bidding**  
13 **Factors)?**

14 A. No. I am not sufficiently familiar with the facts surrounding these items or with how  
15 they are dealt with by the Aurora model to express an opinion.

16 A. **Hydro Shaping**

17 **Q. Turn now to your Exhibit Nos. \_\_ (MRL-8) and (MRL-9) and discuss the**  
18 **adjustment shown in Column (J).**

19 A. This item is Mr. Falkenberg's adjustment for hydro shaping. I have reviewed his  
20 testimony and, as discussed below, believe that his justification for this adjustment is  
21 convincing. Exhibit No. \_\_\_\_ (RJF-1CT), pp. 27-32.

1 **Q. What do you find convincing about Mr. Falkenberg's discussion?**

2 A. One of the problems I identified in my direct testimony was a concern about the  
3 Company's improper use of averaging techniques. I described two concerns. First,  
4 Avista uses inconsistent normalization periods in the calculation of its pro forma  
5 levels of net costs. See, Exhibit No. \_\_\_\_ (MRL-1TC), pp. 39-42, The second  
6 concern that I expressed was the use of normalization for an item based on a number  
7 of years when the cost would more appropriately be treated as a direct cost  
8 associated with a larger item, for example, brokerage fees and transmission expense  
9 related to market sales and purchases. See, Exhibit No. \_\_\_\_ (MRL-1TC), p. 47.

10 **Q. What has that to do with Mr. Falkenberg's proposal on hydro shaping?**

11 A. As described by Mr. Falkenberg, the Company has used a mechanical five year  
12 average of hydro to model its dispatch of its owned hydro resources in the running of  
13 the Aurora model. As Mr. Falkenberg points out, this is inconsistent with what  
14 happens in actual practice. In fact, these resources are dispatched consistent with the  
15 market conditions. Obviously these resources are operated with different curves  
16 each year, otherwise Avista should presumably be comfortable using a one year  
17 dispatch curve. These actual dispatching curves are based on events of the year in  
18 which they occur including market pricing, availability of other resources and  
19 several other factors such as the hydro conditions experienced. The truth is that in  
20 the real world there are actions the Company takes to reduce its costs. It does not  
21 simply follow a rigid mechanical schedule. Indeed, as Mr. Falkenberg point out and  
22 Company witnesses acknowledge, the Aurora model is supposed to simulate these

1 real-world decision making processes. See, Kalich, Exhibit No. \_\_\_\_ (CGK – 1) , pp.  
2 14-15; Falkenberg, Exhibit No. \_\_ (RJF-1CT), p. 29, ll. 9-31.

3 There is a second reason why the Company’s use of the five year average is  
4 inappropriate. The five year period used by Avista does not represent normal  
5 conditions. Based on the database used in Mr. Kalich’s charts in Exhibit No. \_\_\_\_  
6 (CGK-2), the average for the last five years for the Spokane River, Clark Fork, and  
7 The Dalles are all less than 85% of normal for the 60 years used by Mr. Kalich,  
8 1929-1988. This is also true for the 50 year period used in the settlement.

9 **Q. Please summarize the issue on hydro reshaping.**

10 A. Avista has a resource for which the level of generation is normalized over a 40 to 60  
11 year period. The Company has some control over when that resource will be  
12 utilized. As noted by Mr. Falkenberg, it is essential that the utilization be pro formed  
13 in a fashion consistent with real world efforts to minimize costs as opposed to a rigid  
14 mechanical schedule that does not match an appropriate decision making process.  
15 Exhibit No. \_\_\_\_ (RJF-1CT), p 30. Further, the Company in its calculation of this  
16 mechanical schedule has utilized a normalization technique that matches total normal  
17 water with shaping from substantially below average water.

18 //

19 ///

20 ////

21 /////

1 **B. Colstrip Capacity**

2 **Q. Do you agree with Mr. Falkenberg's adjustment for Colstrip Capacity?**

3 A. In part. Mr. Falkenberg, discusses this issue on pages 35-36 of his direct testimony.  
4 His discussion indicates, and the Company response to ICNU Data Request No.  
5 1.36 shows, that the Colstrip 3 and 4 resources will be upgraded with substantial  
6 economic benefits. The response to the data request shows that **[Begin**  
7 **confidential]** \*\*\*\*\*  
8 \*\*\*\*\* **[End confidential]** Just as  
9 the Company has pro formed new resources that add to the short term revenue  
10 requirement, such as Coyote Springs 2 and the Transmission Project, likewise the  
11 Colstrip 4 addition is a new resource that appears prudent and should be proformed  
12 into the rate proceeding, with benefits that reduce the revenue requirement.

13 I do not believe that it would be appropriate to include the Colstrip 3 upgrade  
14 into rates at this time, however, because **[Begin confidential]** \*\*\*\*\*  
15 \*\*\*\*\* **[End confidential]** In my opinion,  
16 therefore, this resource cannot be said to be entirely known and measurable.

17 **Q. What is your proposal regarding Mr. Falkenberg's Colstrip Capacity**  
18 **adjustment?**

19 A. I recommend that half of his adjustment should be implemented. Avista's Response  
20 to ICNU Data Request 1.36 Attachment-C regarding the Colstrip 3 and 4 upgrades  
21 indicates that each is **[Begin confidential]** \*\*\*\*\*  
22 \*\*\*\*\* **[End confidential]** Accordingly, half of the costs and benefits would be  
23 related to the Colstrip 4 upgrade. As a result, my proposal is to reduce net system



1 power supply costs by \$1,099,000 as opposed to Mr. Falkenberg's proposal to reduce  
2 net system power supply costs by \$2,197,000.

3 **Q. Does this Colstrip Capacity adjustment affect other adjustments proposed by**  
4 **Mr. Falkenberg?**

5 A. Yes. Mr. Falkenberg proposes a rate base adjustment and a depreciation adjustment.  
6 As with the Colstrip Capacity I do not propose to include the Colstrip 3 upgrade and  
7 therefore my amounts are approximately one half of Mr. Falkenberg's. Also, it  
8 appears that in his rate base adjustment Mr. Falkenberg does not deduct half of the  
9 first year depreciation from plant. As a result my numbers are not exactly one half of  
10 his amounts. In my Exhibit Nos. \_\_\_\_ (MRL-8) and (MRL-9), column (K) (new),  
11 labeled "Colstrip Capacity with rate base," I have combined these adjustments for  
12 the power supply, rate base and depreciation expense related to the Colstrip 4  
13 upgrade.

14 **C. Wheeling Expense**

15 **Q. What is your position regarding Mr. Falkenberg's proposed adjustment for**  
16 **"Wheeling Expense"?**

17 A. Mr. Falkenberg has identified a concern at page 39 of his testimony that I also  
18 addressed in my direct. Exhibit No. \_\_\_\_ (MRL-1T), p. 49, line 13. However, I don't  
19 believe his proposed adjustment fully measures the proforma level of this cost item  
20 for two reasons.

1 First, Mr. Falkenberg has not taken into account that wheeling expenses  
2 associated with market purchases and market sales are directly correlated to the level  
3 of those sales and purchases. A five year regression of sales and purchases to this  
4 expense has an R squared of over .94. Therefore, since the pro forma level of  
5 purchases and sales is substantially lower than the test year, the direct costs  
6 associated with these sales and purchases should also be substantially lower.

7 While Mr. Falkenberg is correct that the Company's five year average  
8 includes abnormal amounts, he simply does not go far enough in correcting the  
9 problem. He excludes the year 2000 as being abnormal but he does not remove  
10 expense for the year 2001. As shown in his Exhibit No. \_\_\_\_ (RJF-12), however,  
11 2001 is 50% higher than any of the other years. Even more important, 2001  
12 expenses are based on sales and purchase levels which are more than double the test  
13 year levels and more than eight times the level of purchases and sales proformed by  
14 Avista in its power supply adjustment. Both 2000 and 2001 show the obvious  
15 impacts of the energy crisis. As Avista itself points out in its discussion of the  
16 OASIS revenue adjustment, OASIS non-firm and short term firm revenues were two  
17 to three times higher in 2001 because of the energy crisis. For these reasons, 2001  
18 should also be excluded as abnormal.

19 **D. Hydro Normalization (1939-1978 Year "Filtered Hydro")**

20 **Q. Do you have an opinion on Mr. Falkenberg's proposal to use "filtered hydro"**  
21 **based on a 40 year average?**

22 A. Yes. With one qualification that I will discuss below, I concur with his testimony.

23 Mr. Falkenberg's testimony provides a good explanation of hydro normalization and

1 an overview of the history of Commission treatment of this question. I agree with  
2 his statement that the basic issues are: (1) whether outlier years should be excluded;  
3 and (2) which and how many years should be included.

4 Mr. Falkenberg takes a very reasonable approach. I concur with his use of a  
5 filtered average, which excludes extreme low and high hydro years. Mr. Falkenberg  
6 points out how this makes particular sense in view of the fact that Avista has an  
7 ERM, as Staff witness Buckley observed in testimony in the 2004 PacifiCorp rate  
8 case. Exhibit No. \_\_\_\_ (RJF-1CT), pp. 10-14. I also agree with Mr. Falkenberg  
9 that the use of a 40-year time period for hydro normalization is the best approach. I  
10 differ with his analysis only with respect to the 40-year period chosen. As discussed  
11 below, I believe it is preferable to use more recent data.

12 **Q. Do you disagree with the settlement agreement on hydro normalization?**

13 A. Yes. For hydro normalization, the settlement is based on use of a 50 year average  
14 for the years 1929-1979. The methodology is the one used by Staff and PSE in  
15 PSE's 2004 general rate case, Docket UE-040641/UG-040640, essentially a  
16 "cumulative average" approach, as distinct from use of a "rolling average."

17 **Q. Which methodology is preferable in your opinion?**

18 A. There are two basic alternative approaches to hydro normalization. One is the  
19 "cumulative average" method, which takes an average of all the available historical  
20 data regarding streamflow. The other is to use a rolling average for the most recent  
21 time period (e.g. 30 years, 40 years). In my opinion, the rolling average is preferable  
22 because it is more sensitive to trends in the data, and therefore, is a more accurate

1 reflection of the current situation. It is also not as susceptible to cumulative error as  
2 the cumulative average method.

3 As Mr. Falkenberg's historical review reflects, use of the rolling average  
4 approach was affirmed by the Commission as the preferred approach and applied in  
5 both Avista and PSE cases several times. Exhibit No. \_\_\_\_ (RJF-1CT), pp. 7-10.

6 While Avista's 1999 rate case settlement adopted a compromise between a 40 year  
7 and 60 year water approach, the Commission itself has not ordered discontinuance of  
8 the rolling average approach for Avista in favor of the cumulative average approach.

9 The Commission did depart from the use of the rolling average in PSE's 2004  
10 rate case, adopting the Staff/PSE proposal to use a modified 50-year cumulative  
11 average. For the reasons addressed in Mr. Falkenberg's testimony, this is not the last  
12 word on hydro normalization. The Commission's order made clear that parties were  
13 encouraged to continue discussion of the subject. *WUTC v. PSE*, Docket Nos. UE-  
14 040641, UG-040640, Order No. 06, ¶ 131. Moreover, a different approach was  
15 employed by Staff in the 2004 PacifiCorp case. In addition, the PSE order's  
16 adoption of the Staff 50-year approach was based on the conclusion that the hydro  
17 data had been shown to be trend-less. *Id.*, ¶ 128.

18 **Q. Why is it significant if hydro data is shown to reflect trends?**

19 A. If trends in the data exist, the use of a cumulative average of available data tends to  
20 mask the trends and therefore yields an irrelevant and outdated result. To use a  
21 simple example, assume one wishes to estimate the average height that a male child  
22 born in 2005 will attain by age 25. Further assume the generally accepted fact that  
23 human stature has generally been increasing over time as diet has improved. Simply

1 averaging all of the available data since 1776 would not yield the most accurate  
2 result. Instead it would significantly mask the existence of the trend to increased  
3 height. When trends are occurring, the use of all existing data results in averages  
4 that do not represent the present, rather they represent a past that no longer exists.  
5 The use of a rolling average of the most recent data available avoids this problem.

6 **Q. Is there evidence that there have been trends in temperature, precipitation, and**  
7 **snow-pack in the Pacific Northwest in the last century?**

8 A. Yes. One such piece of evidence is the 250 year study submitted by Mr. Falkenberg  
9 as Exhibit No. \_\_\_\_ (RJF-4), which concludes, *inter alia*, that statistics studied  
10 “exhibit positive trends over time.” Id., p. 2. One author of the 250 year study is  
11 from the Climate Impacts Group, Joint Institute For the Study of the Atmosphere and  
12 Ocean, University of Washington (CIG). CIG has performed analysis which is  
13 summarized on the UW website  
14 (<http://www.cses.washington.edu/cig/pnwc/cc.shtml>). Exhibit No. \_\_\_\_ (MRL-11).  
15 This report indicates that during the period 1920-2000 the Columbia River basin has  
16 experienced an increase in temperature and in precipitation. The website also  
17 reflects a decrease in snow pack during the 1950-2000 time period. A related report  
18 forecasts that there will be less winter snow accumulation, higher winter  
19 streamflows, earlier snowmelt, earlier spring streamflow and lower summer  
20 streamflow. For summer streamflows the report forecasts a potential reduction of of  
21 30-50 %. (<http://www.cses.washington.edu/cig/pnwc/pnwwater.shtml>.) Exhibit. No.  
22 \_\_\_\_ (MRL-12)

1           This evidence of trends in the climate and streamflow data seriously  
2           undermines a fundamental premise underlying the adoption of the 50-year  
3           cumulative average methodology in the settlement, i.e., that hydro data is trend-less.  
4           It suggests the continuing appropriate use of the rolling average.

5   **Q.   You stated that you agree with Mr. Falkenberg’s adoption of a “filtered” 40**  
6   **year approach, with one reservation. Could you explain your reservation?**

7   A.   My only concern with Mr. Falkenberg’s proposal is the specific 40 year period  
8           which he employs, the years from 1939-1978.  The newest data in this sample is 27  
9           years old.  Using data that is 27 years old and older fails to capture the changing  
10          nature of the data and the trends which I have discussed above, which reveal strong  
11          evidence that streamflow is changing, not only in total, but also in shape (summer vs.  
12          winter).  The use of the most recent 40 year rolling average is also consistent with  
13          the use of the rolling average for temperature normalization in Commission  
14          ratemaking.

15   **Q.   Is there more recent data that can be used for hydro normalization?**

16   A.   Yes.  Mr. Falkenberg’s exhibits include information for 1949-1988 and information  
17          up through 2004.  Exhibit No. \_\_ (RJF-5), Exhibit No. \_\_ (RJF-6).  I acknowledge  
18          that there is a dispute among analysts about whether, because “rule curves” have not  
19          yet been developed, the most recent data is sufficiently “complete” to enable its use  
20          in hydro analysis.  Mr. Falkenberg discusses this point, noting that Company witness  
21          Kalich dismisses the issue as insignificant in this case.  Exhibit No. \_\_\_\_ (RJF-1CT),  
22          p. 12.  While Mr. Falkenberg has chosen not to get entangled in this controversy, it is  
23          my view that we should not allow the perfect to be the enemy of the good on this

1 issue. The value of using “good” data which is much more recent outweighs the  
2 value of awaiting the “perfect” data which typically is many years old.

3 **Q. Have you made calculations using the most recent 40 years ending in 2004?**

4 A. Yes. First, I calculated an unfiltered 40 year average by taking the average of the  
5 most recent 40 years shown on Exhibit No. \_\_\_\_ (RJF-6) in the column headed  
6 “Linear Model Power Costs.” This unfiltered average was \$87.9 million. I then  
7 calculated a filtered average as follows: I calculated the standard deviation of the  
8 most recent 40 years of data (\$24,882,000). I then added and subtracted the standard  
9 deviation from the average, creating a range of \$62,980,000-\$112,744,000. All years  
10 within the most recent 40 years that were within the range were summed. Of the 40  
11 years 27 met the filter. The sum was divided by 27 to equal \$85.31 million. This is  
12 my preferred calculation.

13 **Q. Can you discuss the revenue impact of different approaches to hydro**  
14 **normalization?**

15 A. Avista and Staff have chosen methodologies which yield the highest cost impact of  
16 any of the alternatives. The following table shows the relative results of the different  
17 approaches discussed.

18 //

19 ///

20 ////

21 /////

1

**Table 1: Alternative Hydro Normalization Results**

<b>Methodology/Source</b>	<b>Cost Impact</b>	<b>Supporting Party/Witness</b>
60-year cumulative average unfiltered (RJF-5)	\$90.54 million	Avista (original position)
50-year cumulative average unfiltered (RJF-5)	\$90.29 million	Settlement
40-year rolling average through 2004, unfiltered (RJF-6)	\$87.5 million	Merton Lott calculation based on (RJF-6)
All data 1879-2004 unfiltered (RJF-6), p.3	\$85.6 million	Falkenberg calculation
<b>40-year rolling average through 2004 filtered, (RJF-6)</b>	<b>\$85.3 million</b>	<b>Lott preferred calculation based on (RJF-6)</b>
All data 1879-2004 filtered (RJF-6), p.3	\$82.49 million	Falkenberg calculation
<b>40-year avg. 1939-78 filtered (RJF-5)</b>	<b>\$82.2 million</b>	<b>Falkenberg recommendation</b>

2

3 **Q. What is your conclusion with regard to hydro normalization?**

4 A. I recommend that the Commission reject the settlement approach based on 50-year  
 5 water. Avista's original recommendation based on 60-year water should be rejected  
 6 for the same reasons. I agree with and support Mr. Falkenberg's use of a 40-year  
 7 filtered approach. Mr. Falkenberg's recommendation is more reasonable and  
 8 defensible than that of the settling parties. I do have a concern with regard to the  
 9 particular 40 year period he has selected. I have described an alternative approach



1 for the Commission based on the more recent data, if the Commission wishes to  
2 consider this variation on the Falkenberg approach.

3 **Q. Do Public Counsel revenue requirement exhibits contain an adjustment for**  
4 **hydro normalization?**

5 A. No, not at this time. I believe there is sufficient information in the record to enable  
6 the Commission to calculate an adjustment depending on the alternative it selects, or  
7 for a party to do so in response to a bench request. Adoption of either Mr.  
8 Falkenberg's or my recommendation would further reduce Public Counsel's revenue  
9 requirement.

10 **Q. What other adjustments proposed by Mr. Falkenberg do want to address?**

11 A. I have comments related to two other adjustments, "Colstrip Planned Outages" and  
12 "Kaiser DES Contract."

13 **E. Colstrip Planned Outages**

14 **Q. What are your comments with respect to the Colstrip Planned Outages**  
15 **adjustment?**

16 A. With respect to Colstrip Planned Outages, Mr. Falkenberg's arguments are entirely  
17 correct. The Company's initial filing should not have spread Colstrip's scheduled  
18 maintenance outages through the entire year. Such treatment is inconsistent with the  
19 actual planned maintenance schedules and with the prudent economics of operating  
20 and maintaining these and similar plants.

21 The settlement makes an adjustment for Colstrip Planned Outages. The  
22 settlement workpapers indicate that these outages have now been re-spread to the  
23 months of March, April, May and June, with greater amounts in April and May and

1 smaller amounts in March and June. In my view, this new dispatch still appears to  
2 be inconsistent with the more prudent outage periods of late April through June. It  
3 would therefore appear that the settlement still contains improper dispatching of the  
4 Colstrip resource. The workpapers and explanations provided in support of the  
5 settlement calculation indicate that the adjustment was not based on rerunning the  
6 model. Utilizing these settlement workpapers, I cannot reproduce the level  
7 calculated by Mr. Falkenberg, a reduction to Washington power cost of \$1,643,000  
8 (\$1,718,000 in revenue). This is not to say that Mr. Falkenberg's number is in error.  
9 The problem may arise because my source, the Company workpaper, is only an  
10 extract. By utilizing the Avista workpaper and spreading the outages to May and  
11 June, I calculate a Washington power cost adjustment of \$958,000. The resulting  
12 revenue impact of this revision is \$1,002,000 compared to the stated \$564,000 in the  
13 settlement.

14 **Q. Please summarize your position on Colstrip Planned Outages.**

15 A. The Commission should adopt Mr. Falkenberg's position regarding the economic  
16 dispatch of Colstrip in the Aurora model. In adopting this position, the Commission  
17 should determine whether or not Mr. Falkenberg's calculation is appropriate. Even  
18 if the Commission does not accept his \$1,718,000 revenue reduction calculation, the  
19 Commission should at minimum adopt a revision to the Company calculation  
20 resulting in a reduction in revenue requirement of \$1,002,000. The difference  
21 between this and the settlement revenue requirement impact is reflected in my  
22 revision to the power supply adjustment PF1 in Exhibit Nos. \_\_\_\_ (MRL -8) and  
23 (MRL-9).

1 **F. Kaiser DES Contract**

2 **Q. What are your comments with respect to Mr. Falkenberg's adjustment "Kaiser**  
3 **DES Contract"?**

4 A. I have reviewed Mr. Falkenberg's testimony and the data request concerning  
5 Avista's proposed adjustment which increases Washington power supply costs by  
6 \$208,000. I agree with Mr. Falkenberg that the workpaper and the response to the  
7 identified ICNU data request do not demonstrate the appropriateness of the  
8 adjustment. However, I have not reviewed the subject matter sufficiently to  
9 determine if the amount of the adjustment is appropriate or not. This adjustment is  
10 not redundant with any adjustment proposed by Public Counsel.

11

12 **III. REVENUE REQUIREMENT:**  
13 **RESPONSE TO SETTLEMENT AND JOINT DIRECT**

14

15 **Q. In your direct testimony you included a comparison to the settlement results but**  
16 **indicated that as you did not have full supporting documentation you were**  
17 **uncertain as to whether you had properly displayed the breakdown of some of**  
18 **the adjustments included in the settlement. Can you now confirm your**  
19 **positions on these adjustments?**

20 A. Yes. It would appear that the assumptions I used to create my Exhibit Nos. \_\_\_\_  
21 (MRL-2) to (MRL-5) were all correct. The three adjustments I assumed for OASIS  
22 revenue, Borderline Wheeling revenues, and Production Factor adjustment are all  
23 correct. Exhibit No. \_\_\_\_ (MRL - 4), p. 1 Further, my breakdown of the additional

1 miscellaneous adjustments starting with Colstrip Fuel and ending with BPA

2 Townsend Garrison Wheeling is also correct. Exhibit No. \_\_\_\_ (MRL-4), p. 2

3 **Q. You also indicated in your direct testimony that the Company had not yet**  
4 **provided full working papers supporting the settlement adjustments and the**  
5 **transmission adjustments. Do you now have more complete information**  
6 **regarding these adjustments?**

7 A. Yes. Because the supporting information provided in the Joint Direct was very  
8 limited, substantial effort was required in discovery to attempt to determine the basis  
9 of the adjustments. From responses to data requests submitted in August and a  
10 number of follow-up conferences with Avista personnel, I have finally obtained  
11 sufficient information regarding most of the proposed transmission adjustments to  
12 make informed comments on them at this time.

13 **Q. Based on the information obtained through discovery on the transmission**  
14 **adjustment and on the supporting documentation for the settlement**  
15 **adjustments do you have any revisions to your original positions?**

16 A. Yes. The following list identifies the items for which I have modified my  
17 adjustments or have further statements to make rebutting the settlement position  
18 regarding a particular adjustment:

19 1) Transmission Expense adjustment. I have eliminated the line item which  
20 decreased expenses for Transmission Expense Load Dispatch. Exhibit No. \_\_\_\_  
21 (MRL-5), p. 1.

22 2) Colstrip Maintenance. I have comments on errors contained in the settlement  
23 agreement revenue impact. Exhibit No. \_\_\_\_ (MRL-4), p. 2

1           3)     Kettle Falls Fuel Conversion Factor. I have further rebuttal of the work  
2 papers provided in support of the calculation. Exhibit No. \_\_\_\_ (MRL-4), p. 2

3           4)     Borderline Wheeling revenues. I concur in the amount, but have some  
4 concerns about the methodology used by Avista. Exhibit No. \_\_\_\_ (MRL- 4), p. 1

5           5)     PPL-Dry Gulch. New adjustment related to transmission revenue for PPL-  
6 Dry Gulch. See new Exhibit No. \_\_\_\_ (MRL-10).

7     **Q.     Please start with your Transmission Expense revision.**

8     A.     Originally the Company had not supplied information surrounding its adjustment of  
9 \$116,000 to Electric Scheduling and Accounting services. Responses to my requests  
10 on the transmission adjustment have now supported this adjustment and my rebuttal  
11 Exhibit No. \_\_\_\_ (MRL-10)(“Transmission Expense”column) excludes the \$116,000  
12 amount while retaining the removal of the budgeted amount for Colstrip 500Kv  
13 maintenance.

14     **Q     What are your comments on Colstrip Maintenance?**

15     A.     I have discussed my position on Colstrip maintenance earlier in my testimony and  
16 have supported a minimal additional adjustment in the amount of \$477,000 in  
17 Column 10 of my rebuttal Exhibit No. \_\_\_\_ (MRL -10). However, it appears from the  
18 workpapers provided in response to data requests that this adjustment in attachment  
19 A to the settlement is not a revenue requirement impact as shown but rather an  
20 expense level. After taking into account the tax effect and then converting it to  
21 revenue, it appears this amount should have been approximately \$22,000 greater.

1 **Q. What are your comments concerning Kettle Falls Fuel Conversion?**

2 A. The Company has not provided a simple worksheet clearly depicting the exact  
3 adjustment they propose. However, based on the information they have provided,  
4 the main difference between my adjustment and that included in the settlement is a  
5 difference in the assumed conversion factor used to translate tons into MWh. As I  
6 stated in my direct testimony, the Company utilized a conversion factor of 1.4 tons  
7 per MWh. Exhibit No. \_\_\_(MRL-1T), pp. 42-43. The lower the conversion factor  
8 the lower the expense. In my direct testimony, I proposed to increase the cost per  
9 ton and to increase the conversion factor. In fact, my recommended price per ton is  
10 one half cent higher than the input rate used in the settlement.

11 For a number of adjustments, the Company has argued that unrepresentative  
12 years should not be used in the averaging process to determine normalized revenue.  
13 Here, however, the Company has modified its original proposal moving from the 1.4  
14 conversion factor to the simple three year average of 1.513. The Company's  
15 continued vacillation on how to calculate a normalized level is a serious concern.  
16 Avista appears to remove or exclude abnormal years depending upon whether it is to  
17 Avista's benefit. To be fair to Avista, I have excluded the abnormal years each time  
18 Avista has so indicated and I have also excluded them here. If Avista had simply left  
19 its conversion factor as stated in its direct case, my adjustment would have been  
20 more favorable to the Company than the adjustment included in the settlement.

21 **Q. What is your testimony regarding the Borderline Wheeling revenue**  
22 **adjustment?**

1 A. I do not take issue with the amount included in the settlement for this item. I do have  
2 a serious concern about the methodology used to calculate this revenue item in the  
3 Company's original case, however. Because the Settlement Agreement in ¶ 20  
4 specifies that no specific methodology is being approved, I will address my concerns  
5 in more detail later in the proceeding if necessary. In summary, there are three flaws  
6 in the Company calculation. First, Avista uses a five-year period which excludes  
7 the test year, the highest year of the last five. Second, the calculation failed to  
8 measure the actual average billing units during the five year period, substantially  
9 understating the total revenues. The Company should have used the rolling  
10 "ratcheted demand" methodology. The third flaw is that the data show a smooth  
11 trend of increasing revenues for this item, as opposed to substantial fluctuation. To  
12 average this account over a period of time therefore understates the appropriate level  
13 of revenues.

14 For these reasons, while I do not dispute the settlement amount, I believe it is  
15 important to express my concern about this methodology, in the event that the issue  
16 arises at a later time. It is also an issue with respect to the next adjustment.

17 **Q. Your next adjustment addresses PPL-Dry Gulch revenue. Please explain what**  
18 **the concern is here.**

19 A. As implied by the title, this adjustment involves a contract with PP&L at a single  
20 location named Dry Gulch. Mr. Falkner's workpaper PF1-5 indicates that the  
21 proforma level of revenue for this item was based on a three year average. As with  
22 the Borderline Wheeling revenue proforma, Avista's calculation has several flaws.

1 This transmission revenue sub-account is calculated by Avista on a monthly basis in  
2 a similar fashion to that used for Borderline Wheeling.

3 Based on review of an additional supporting workpaper submitted in  
4 response to Public Counsel data requests, it appears this item is based on a five year  
5 average ending in 2003 rather than a three year average as stated in Mr. Falkner's  
6 workpaper. That five year average was then escalated. The averaging technique was  
7 the same one used in the Borderline Wheeling account and produced a level of  
8 revenue less than the revenue level in any of the five years being averaged.

9 My review of the revenue generated using the rolling "ratcheted demand"  
10 methodology resulted in a three year average of \$279,000 as compared to the level  
11 in Avista's initial filing and the settlement of \$245,000. My Exhibit No. \_\_\_\_ (MRL-  
12 10) shows the impact of increasing this revenue to its more appropriate level.

13 **Q Please summarize the additions and revisions to your direct case as they flow**  
14 **into your exhibits.**

15 A. First, my original Exhibit No. \_\_\_\_ (MRL-4) is unmodified. This exhibit represents  
16 the adjustments included in the settlement that impact the power supply adjustment.  
17 As I indicated earlier my original assumptions concerning these adjustments all  
18 remain intact.

19 Next, looking at my new Exhibit No. \_\_\_\_ (MRL-10), this is a revision of my  
20 Exhibit No. \_\_\_\_ (MRL-5). In the new Exhibit No. \_\_\_\_ (MRL-10) I have revised the  
21 Transmission Expense adjustment included in the original Exhibit No. \_\_\_\_ (MRL-5),  
22 and proposed two new adjustments -- revised Colstrip Maintenance and PP&L Dry  
23 Gulch Transmission revenue. Based on my review of additional supporting



1 information I concluded that the revision to the Transmission Expense increased  
2 system expenses before taxes by \$116,000 and this is appropriate. The revised  
3 Colstrip Maintenance adjustment reflects the additional reduction in system expense,  
4 \$477,000, that I calculated utilizing the Company model rather than the calculation  
5 proposed by Mr. Falkenberg. This adjustment is the minimum adjustment the  
6 Commission should make if Mr. Falkenberg's position is adopted, to be used in the  
7 event the Commission does not adopt his amount. Finally the PP&L Transmission  
8 revenue for Dry Gulch is increased by \$34,000.

9 As a result my additional adjustment, on a total system basis, is revised from  
10 an increase in NOI of \$1,723,000 to an increase in NOI of \$1,980,000. When  
11 allocated to Washington and coupled with the Washington adjustment shown in  
12 Exhibit No. \_\_\_\_ (MRL-4), the total power supply adjustment decreases net operating  
13 income by \$2,559,000, rather than the \$2,727,000 stated in Exhibit No. \_\_\_\_ (MRL-  
14 5).

15 **Q. Where do these amounts go to next?**

16 A. Exhibit No. \_\_\_\_ (MRL-8) is a revision of my direct case Exhibit No. \_\_\_\_ (MRL-2).  
17 Exhibit No. \_\_\_\_ (MRL -8), contains the summary of the proforma power supply  
18 adjustments in the Column (H) revised. In addition to the revision to Column (H),  
19 two new adjustments have been added in Columns (J)(new) and (K)(new).  
20 Column (J)(new) represents my full acceptance of Mr. Falkenberg's Hydro  
21 Reshaping adjustment. The adjustment results in an increase in net operating income  
22 on a Washington basis of \$1,804,000. Column (K)(new) presents my revisions to  
23 Mr. Falkenberg's three adjustments to include the upgrade at Colstrip 3 and 4. As

1 shown in Column (K)(new) my adjustment increases net operating income by  
2 \$444,000 and increases rate base by \$619,000.

3 **Q. Please explain how these revised and new adjustments flow into Exhibit No. \_\_\_**  
4 **(MRL-9).**

5 A. Exhibit No. \_\_\_ (MRL-9) is a revision of my Exhibit No. \_\_\_ (MRL-3). This exhibit  
6 calculates the revenue requirement difference between my proposed adjustments,  
7 those proposed by Avista in its initial filing, and the adjustments shown in the  
8 Settlement Attachment A. These revenue requirement impacts are based on Public  
9 Counsel's rate of return in those cases where the rate base is impacted.

10 The new revenue requirement impact of the power supply adjustments  
11 depicted in Column H is a decrease of \$2,075,000 from the settlement presentation.  
12 Mr. Falkenberg's hydro reshaping results in a decrease in revenue requirement of  
13 \$2,902,000 and my calculation of the Colstrip upgrade adjustments results in a  
14 reduction of revenue requirement of \$645,000.

15

16 **IV. REBUTTAL REGARDING THE ENERGY RECOVERY MECHANISM**

17 **Q. Have statements in the Joint Direct given you reason to comment further on the**  
18 **proposed changes to the ERM?**

19 A. Yes. The Joint Direct makes the following statement in support of eliminating the  
20 deadband:

21 Q. Why did the Company originally propose to eliminate the  
22 deadband?

23 A. The deadband was developed in conjunction with a  
24 settlement related to some fixed-price contracts that were  
25 entered into by Avista during the energy crisis of 2001 to

1 provide natural gas for thermal generation. At the time of  
2 the settlement in May 2002, the forward price of natural  
3 gas was lower than the price in the contracts, and it was  
4 understood that, absent other changes in power supply-  
5 related costs, the Company would absorb a portion of the  
6 cost of the contracts through the deadband. The last  
7 remaining natural gas contract terminated on October 31,  
8 2004. Therefore, this element related to the deadband no  
9 longer exists. Joint Direct, p. 26, ll.1-9.

10  
11 This repeats verbatim Avista witness Mr. Peterson's direct testimony regarding the  
12 purpose of the original dead-band. Exhibit No. \_\_\_\_ (RRP-1T), p. 29, ll. 9-16.

13 The inclusion of the statement in the Joint Direct makes it appear to be a  
14 statement of the original intent of Avista and Staff in the 2002 settlement which  
15 created the ERM. However, the absorption of these assumed costs was not stated as  
16 the purpose of the dead-band by Staff, Avista, Public Counsel, or any other settling  
17 party, nor was it identified as the purpose in the Commission's order in Docket No.  
18 UE-011595 approving the settlement and adopting the ERM.

19 The Settlement Stipulation in UE-011595 which created the ERM states:

- 20  
21 3. Energy Recovery Mechanism beginning July 1, 2002:  
22 An Energy Recovery Mechanism (ERM) shall be  
23 implemented for the Company's electric operations  
24 beginning July 1, 2002. Under the ERM, 90% of the  
25 difference between actual and base power supply costs  
26 outside of a "Company Band" (Band) will be deferred to  
27 the Energy Cost Deferral Balance. The Company will  
28 absorb or benefit from the remaining 10%, positive or  
29 negative.  
30 The Company Band will be a symmetrical band of plus or  
31 minus \$9 million (Washington jurisdictional share) on a  
32 calendar-year basis. The Band will be prorated for July  
33 through December of 2002, resulting in a Washington  
34 jurisdictional Band of \$4.5 million for the partial year.  
35 During each calendar year, the Company will absorb or  
36 benefit from the first \$9 million of energy cost differences

1 (\$4.5 million for the last half of 2002), positive or negative,  
2 and will defer for later recovery 90% of the cost differences  
3 that exceed the Band, and will credit the energy cost  
4 deferral balance with 90% of the cost differences below the  
5 Band. *WUTC v. Avista Corporation*, Docket No. UE-  
6 011595, Fifth Supplemental Order Rejecting Tariff Filing;  
7 Approving and Adopting Settlement Stipulation, Appendix  
8 A (Settlement Stipulation), pp. 4-5.  
9

10 This section of the settlement makes no reference to the dead-band being set to  
11 insure that Avista would absorb the costs mentioned by Mr. Peterson. Instead it  
12 expressly indicates that the \$9 million dollar band is to be symmetrical.

13 At the hearing to review the 2002 settlement, in response to Commissioner  
14 questions, Avista witness Kelly Norwood stated the following concerning the design  
15 of the dead-band:

16 MR. NORWOOD: Thank you. Question No. 6, what is the  
17 basis for the nine-million-dollar figure, I think each of us probably  
18 ought to respond to what our rationale reasoning was for the nine  
19 million. From our perspective, it was a negotiated number, and I  
20 think there was an effort by the parties to try to reach a balancing of  
21 the sharing of costs and risks between customers and the Company.  
22 From our perspective, we took into consideration the variation of  
23 costs that we might expect to see in the future in determining that  
24 band, forward fuel contracts and other costs we were aware of on a  
25 going-forward basis. We considered the frequency of rate  
26 adjustments that may occur with that band and also took into  
27 consideration the fact that the band together with the 90/10 sharing  
28 above the band provides an incentive for the Company to make  
29 decisions that are in the best interest of the Company and its  
30 customers. Hearing Transcript, Docket No. UE-011595, p. 208, ll.  
31 5-22.  
32  
33

34 Again there was no reference to the cost absorption described in Mr. Peterson's  
35 testimony and the Joint Direct. Instead Mr. Norwood indicates that it was set as a  
36 balancing of the sharing of costs and risks between customers and the Company.

1 Finally, in its memorandum supporting the settlement the Staff stated:

2 As explained on pages 6-7 of Stipulation, ¶ II.3 a  
3 “Company Band” of \$9 million annually is created under the  
4 ERM. This means that if the power supply costs tracked by the  
5 ERM that exceed the “base” costs for those accounts by less than  
6 \$9 million in one year, and no power costs are added to power cost  
7 deferral balances and no rate change occurs.

8  
9 If the power supply costs tracked by the ERM exceed the  
10 “base” costs by more than \$9 million in one year, no rate change  
11 occurs immediately, but 90% of the excess is added to power cost  
12 deferral balances. Avista expenses the 10% excess portion.

13  
14 On the other side of the Band, if the power supply costs  
15 tracked by the ERM are less than the “base” costs by more than \$9  
16 million in one year, no rate change occurs immediately, either. But  
17 90% of the excess is used to offset power cost deferral balances.  
18 Avista realizes the 10% excess portion of the benefit. Docket UE-  
19 011595, Memorandum of Commission Staff Explaining Settlement  
20 Stipulation, p. 8 (Staff Memorandum).

21  
22 Again, there is no reference to the dead-band being set for any reason other than the  
23 creation of a symmetrical mechanism.

24 **Q. Why do you hope that the ERM was not designed as Mr. Peterson describes?**

25 A. If it was designed as Mr. Peterson describes then it is quite obvious that the  
26 mechanism was not established as a balanced mechanism. Rather it favored Avista  
27 over the rate-payers and shifted substantially more risk to the ratepayers than appears  
28 on the face of the mechanism.

29 **Q. Explain why the mechanism would not be balanced, while appearing to be so on  
30 its face?**

31 A. The ERM as written appears to be a balanced mechanism, with \$9 million dead-  
32 bands on both sides of a reasonable baseline and the same 90/10 sharing on both  
33 sides of the dead-band. The baseline was established in a general rate process and

1 supported by Staff, based on a thorough evaluation of Avista's pro forma power cost.  
2 Staff Memorandum, page 7. The baseline does not include any net revenue, or loss  
3 as assumed, from the sale of the fixed price gas. Thus the symmetrical sharing bands  
4 surrounding this reasonable baseline would appear to share the risk of fluctuation  
5 equally on the up side and the down side.

6 On the other hand, if it was assumed that the Company was to suffer losses  
7 on the sales of its fixed gas, as described by Mr. Peterson, then the fluctuations in  
8 other actual power costs would be shared based on a formula derived from the  
9 mechanism as they centered around a modified baseline. A modified baseline  
10 would be defined as the stated baseline plus the net loss assumed from the sale of the  
11 fixed price gas. In 2004 that loss was \$8.6 million. Assuming that the anticipated  
12 loss was in the neighborhood of that amount, then the bands would work as follows  
13 for actual fluctuations. On the increased cost side Avista would absorb the first \$1  
14 million and then the ratepayers would be responsible for 90% of any additional  
15 upside fluctuations. However, on the cost down-side Avista would be allowed to  
16 keep the first \$17 million of reduced costs from these fluctuation before the rate-  
17 payers would be allowed to share in additional amounts. There is simply no  
18 symmetry if Mr Peterson's description is correct.

19 **Q. What other concerns do you have with regard to the ERM settlement between**  
20 **Avista and Staff in this case?**

21 A. I am concerned that Staff has agreed to modify the dead-band without re-evaluating  
22 the ERM as a whole at the same time. At the time of original adoption of the ERM  
23 Staff stated:

1 The Energy Recovery Mechanism required compromises from all  
2 parties. Staff's interests included imposing sufficient risk on the  
3 Company to justify the existing return on equity, placing incentives  
4 on the Company to maintain good power purchasing practices, and  
5 giving the Company the flexibility to manage its power portfolio as  
6 it sees fit. Staff believes the proposed ERM accomplishes these  
7 goals. Staff Memorandum, pp. 9-10.  
8

9 After reaching a compromise in the original settlement based on a balancing of  
10 important interests, Staff here has simply agreed to further reduce Avista's risk and  
11 increase the ratepayer's risk without providing any compensating modifications to  
12 balance the ERM as a whole.

13 **Q. Is the position taken in this settlement consistent with the Staff positions on**  
14 **power cost adjustments in prior dockets?**

15 A. It does not appear to be. Staff has been a strong advocate for applying the power  
16 cost adjustment criteria I identified in my direct testimony to company requests. In a  
17 number of proceedings Staff has argued for rejection of company proposals that do  
18 not meet the Commission's standards.

19 **Q. What are your comments concerning Mr. Falkenberg's testimony regarding the**  
20 **ERM?**

21 A. While I do not propose to eliminate the ERM, I agree with most of the comments of  
22 Mr. Falkenberg. Mr. Falkenberg states:

23 While ICNU supported the ERM at a time when the Company's  
24 financial circumstances were dire, it was very concerned that "cost  
25 plus" ratemaking would not become so entrenched in the  
26 regulatory process so as to become a "way of life." Unfortunately,  
27 the Avista proposal and the subsequent narrowing of the deadband  
28 in the Stipulation does just that. It seeks to move away from the  
29 traditional concept of investors assuming the risks of operating the

1 business, and towards the concept of socializing unfavorable  
2 outcomes. While Avista and the Signing Parties would have  
3 ratepayers absorb risks normally borne by shareholders, no rights  
4 of ownership or other compensation for these additional risks are  
5 conferred upon them. Having started down the path of “cost plus”  
6 ratemaking when times were bad, the Company and Signing  
7 Parties now seek to shift further risks onto customers even when  
8 times are improving. This is not in keeping with ICNU’s  
9 understanding of the ERM when it was first implemented and  
10 ICNU strongly opposes this proposal. Exhibit No. \_\_\_\_ (RJF-1CT),  
11 pp. 43-44.

12 I would agree with what Mr. Falkenberg says here. The ERM was created at a time  
13 when Avista was in very difficult circumstances. As Staff noted at the time,  
14 compromises were made by all parties in designing the ERM. Circumstances have  
15 improved for Avista and it is not in the same desperate situation it was when the  
16 deferrals began or when the ERM was created. Unfortunately, in order to achieve  
17 settlement Staff has conceded additional movement to cost-plus regulation in the  
18 ERM. The ERM was not a proper PCA mechanism when it was created as I  
19 described in my direct testimony. This agreement moves it further away from that  
20 goal. Approval of this agreement will only make it more difficult to convince Avista  
21 to modify the existing mechanism to a mechanism which meets the needs of Avista  
22 and its customers and is consistent with the direction of this Commission.

23 It is essential that the Commission not weaken Avista’s responsibility at this  
24 time. The Commission should strengthen the ERM mechanism to limit it to those  
25 costs that the Commission has previously found belong in a PCA and to require any  
26 significant transfer of risk to be accompanied by an identifiable cost reduction  
27 benefit for the ratepayers.



1 **Q. In your direct testimony you indicated that in addition to the change in the**  
2 **dead-band the Company also modified the method it used to calculate the retail**  
3 **revenue credit factor in this proceeding. Does either the Settlement or the Joint**  
4 **Direct address this issue?**

5 A. No. The only change to the ERM addressed in the Settlement or the Joint Direct is  
6 the change in the dead-band from \$9 million to \$3 million. There is no  
7 acknowledgement that the Company's direct case has proposed a change in the  
8 calculation of the retail revenue credit factor. It appears that Staff is either unaware  
9 of this change, or is willing to accept the modifications even though Avista has  
10 provided no justification for the change.

11 **Q. What is your recommendation with respect to the ERM?**

12 A. The Commission should reject the dead-band modifications and the change in the  
13 retail revenue credit factor proposed by Avista and the Settlement Agreement. My  
14 preferred result is that the Commission adopt the broad modifications to the Avista  
15 ERM described in my direct testimony, in order to create a properly structured power  
16 cost adjustment mechanism. If the Commission concludes that this is not feasible in  
17 this docket, I recommend that the Commission should: (1) require the \$9,000,000  
18 dead-band to remain in place on a temporary basis; (2) direct Avista to recalculate  
19 the revenue credit factor to include all cost items include in the original factor; and  
20 (3) order the parties to immediately enter discussions to modify the ERM so that it

1 would be more consistent with the direction and the principles previously established  
2 by the Commission regarding the establishment of PCAs.

3 **Q. Does this conclude your rebuttal testimony?**

4 **A. Yes.**