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BEFORE THE WASHINGTON STATE

UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	Docket No. UE-050482
)	UG-050483
Complainant,)	
)	
vs.)	Volume III
)	Pages 85 - 367
AVISTA CORPORATION d/b/a)	
AVISTA UTILITIES,)	
)	
Respondent.)	
_____)	

A hearing in the above matter was held on October 17, 2005, from 9:30 a.m to 5:20 p.m., at 1300 South Evergreen Park Drive Southwest, Room 206, Olympia, Washington, before Administrative Law Judge KAREN CAILLE and Chairman MARK H. SIDRAN and Commissioner PATRICK J. OSHIE and Commissioner PHILIP B. JONES.

The parties were present as follows:

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5 Counsel DR 118 (excerpt excel worksheet)
6 176C ICNU - Avista's Response to Staff Data Request
7 147C
8 177 ICNU - Avista's Response to Public Counsel
9 Data Request 151
10 178C ICNU - Excerpt of Avista's Response to ICNU
11 Data Request 1.36C
12 179 ICNU - Avista's Response to ICNU Data Request
13 5.5
14 WILLIAM G. JOHNSON
15 181 William G. Johnson - WGJ-1T: Prefiled Direct
16 Testimony
17 182 William G. Johnson - WGJ-2: Power Supply Pro
18 Forma; 2004 Actual and Proforma Jan. 2006 -
19 Dec. 2006
20 183 William G. Johnson - WGJ-3: Brief Description
21 of Power Supply Adjustments
22 184 William G. Johnson - WGJ-4: Market Purchases
23 and Sales, Plant Generation and Fuel Cost
24 Summary, Pro Forma 1/2006 -12/2006
25

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1 185 William G. Johnson - WGJ-5: Energy Recovery
2 Mechanism Authorized Power Supply Expense and
3 Retail Sales
4 186 William G. Johnson - WGJ-6T: Rebuttal
5 Testimony 9/22/2005
6 187 William G. Johnson - WGJ-7: Rathdrum Purchase
7 Change in Revenue Requirement Rate Base
8 Treatment vs. Pro Forma Lease
9 Cross-Examination Exhibits
10 188 Public Counsel - Response to Public Counsel DR
11 186
12 189C Public Counsel - Avista Response to Public
13 Counsel DR 109(C)
14 190 Public Counsel - Avista Response to Public
15 Counsel DR 216
16 191 Public Counsel - Avista Response to Public
17 Counsel DR 108
18 192 Public Counsel - Johnson Workpaper p.87
19 193 Public Counsel - Avista Response to Public
20 Counsel DR 112
21 194 Public Counsel - Johnson Workpaper p.4
22 195 Public Counsel - Avista FERC Form 1 (2004)
23 (excerpt)
24 196 Public Counsel - Johnson Workpaper p.95
25

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1 197 Public Counsel - Avista Response to Public
2 Counsel DR 115
3 198 Public Counsel - Avista Response to Public
4 Counsel DR 198
5 199 Public Counsel - Johnson Workpaper p. 101 and
6 102
7 200 Public Counsel - Avista Response to Public
8 Counsel DR 116 and Supplemental Response to PC
9 DR 116
10 201C Public Counsel - Avista Response to PC DR 201
11 and 201(C)
12 202 ICNU - Avista's Response to ICNU Data Request
13 5.3
14 203 Public Counsel - Avista Response to Public
15 Counsel DR 232
16 DAVID D. HOLMES
17 211 David D. Holmes - DDH-1T: Prefiled Direct
18 Testimony
19 212 David D. Holmes - DDH-2: Meter Reading
20 Expenses 1995-2004; Estimated Project Costs
21 (2004 dollars); AMR Savings
22 RANDALL O. CLOWARD
23 221 Randall O. Cloward - ROC-1T: Rebuttal
24 Testimony 9/22/2005
25 PUBLIC COUNSEL

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1 JAMES R. DITTMER
2 231 James R. Dittmer - JRD-1T: Prefiled Direct
3 (Response) Testimony 8/26/2005
4 232 James R. Dittmer - JRD-2: Avista Electric
5 Accounting Adjustments
6 233 James R. Dittmer - JRD-3: Avista Gas
7 Accounting Adjustments
8 234 James R. Dittmer - JRD-4: Avista's Response
9 to Public Counsel DR 57
10 235 James R. Dittmer - JRD-5T: Rebuttal Testimony
11 9/22/2005
12 236 James R. Dittmer - JRD-6: Revenue Requirement
13 Summary for year ending 12/31/2004 (Electric)
14 237 James R. Dittmer - JRD-7: Revenue Requirement
15 Summary for year ending 12/31/2004 (Gas)
16 JIM LAZAR
17 241 Jim Lazar - JL-1T: Prefiled Direct (Response)
18 Testimony 8/26/2005
19 242 Jim Lazar - JL-2: Professional Qualifications
20 243 Jim Lazar - JL-3: History of Cost of Service
21 Analysis in Washington
22 244 Jim Lazar - JL-4: Electric Cost of Service
23 Results
24 245 Jim Lazar - JL-5: Electric Rate Spread
25 Between Classes

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1 246 Jim Lazar - JL-6: Residential Electric Rate
2 Design
3 247 Jim Lazar - JL-7: Small General Service
4 Electric Rate Design
5 248 Jim Lazar - JL-8: Natural Gas Cost of Service
6 Results
7 249 Jim Lazar - JL-9: Natural Gas Rate Spread
8 Between Classes
9 250 Jim Lazar - JL-10: Residential/Small General
10 Service Natural Gas Rate Design
11 251 Jim Lazar - JL-11: Glossary of Utility
12 Terminology
13 252 Jim Lazar - JL-12T: Rebuttal Testimony
14 9/22/2005 Revised October 6, 2005)
15 253 Jim Lazar - JL-13: Avista Base Rate Spread
16 Proposal
17 254 Jim Lazar - JL-14: Residential Rate Design
18 255 Jim Lazar - JL-15: Schedule 11 Small General
19 Service Rates
20 256 Jim Lazar - JL-16: Gas Rate Spread Based on
21 Public Counsel Revenue Requirement
22 257 Jim Lazar - JL-17: Schedule 101 Rate Design
23 258 Jim Lazar - JL-18: Avista Electric
24 Customer-Related Costs
25

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1 272 Stephen G. Hill - SGH-12: Sample Group: DCF
2 Cost of Equity Capital
3 273 Stephen G. Hill - SGH-13: CAPM Cost of Equity
4 Capital
5 274 Stephen G. Hill - SGH-14: Proof
6 275 Stephen G. Hill - SGH-15: Sample Group:
7 Modified Earnings-Price Ratio Analysis
8 276 Stephen G. Hill - SGH-16: Market-to-Book
9 Ratio Analysis
10 277 Stephen G. Hill - SGH-17: Ratemaking Capital
11 Structure
12 278 Stephen G. Hill - SGH-18T: Rebuttal Testimony
13 9/22/2005
14
15 MERTON R. LOTT
16 281 Merton R. Lott - MRL-1T: Prefiled Direct
17 (Response) Testimony 8/26/2005
18 282 Merton R. Lott - MRL-2: Electric Adjustments
19 Summary 12 Months Ended 12/31/2004
20 283 Merton R. Lott - MRL-3: Comparison Lott to
21 Avista and Settlement
22 284 Merton R. Lott - MRL-4: Electric Power Supply
23 Adjustment Part One--Calculation of Settlement
24 Level Step-by-step Power Supply
25

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1 285 Merton R. Lott - MRL-5: Electric Power Supply
2 Adjustment Part Two--Additional Adjustment
3 Step-by-step Power Supply
4 286 Merton R. Lott - MRL-6: Excerpt from Idaho
5 PUC Case No. AVU-E-04-1
6 287C Merton R. Lott - MRL-7TC: Rebuttal Testimony
7 9/22/2005
8 288 Merton R. Lott - MRL-8: Electric Adjustment
9 Summary 12 months ended 12/31/2004
10 289 Merton R. Lott - MRL-9: Comparison Lott to
11 Avista and Settlement
12 290 Merton R. Lott - MRL-10: Electric Power Supply
13 Adjustment PF-1
14 291 Merton R. Lott - MRL-11: White Paper re
15 Climate Change
16 292 Merton R. Lott - MRL-12: White Paper re
17 Climate Impacts on Pacific NW Water Resources
18 Cross-examination
19 293 Avista - Docket No. UE-011595 Memorandum of
20 Commission Staff Explaining Settlement
21 Stipulation
22 294 Avista - Avista's response PC-217 Supp-1
23 ICNU
24
25

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1 RANDALL J. FALKENBERG
2 301C Randall J. Falkenberg - RJF-1T: Prefiled
3 Direct (Response) Testimony
4 302 Randall J. Falkenberg - RJF-2:Professional
5 Qualifications
6 303 Randall J. Falkenberg - RJF-3: Excerpt from
7 Alan Buckley Testimony in Docket No. UE-032065
8 304 Randall J. Falkenberg - RJF-4: Columbia River
9 Flow and Drought Since 1750
10 305 Randall J. Falkenberg - RJF-5: Impact of
11 Filtered vs. Non-filtered Hydro Scenarios
12 Avista Aurora Model
13 306 Randall J. Falkenberg - RJF-6: Summary of
14 1879-2004 Hydro Data and Aurora Model Results
15 307 Randall J. Falkenberg - RJF-7: Illustration
16 of PacifiCorp Grid Model Hydro Shaping Logic
17 308 Randall J. Falkenberg - RJF-8: Optimized
18 Clark Fork Revenue vs. Five-Year Average Shape
19 309 Randall J. Falkenberg - RJF-9: Colstrip
20 Availability
21 310C Randall J. Falkenberg - RJF-10C: Excerpt of
22 Avista Response to ICNU Data Request No. 1.36
23 311 Randall J. Falkenberg - RJF-11: Avista
24 Response to ICNU Data Request Nos. 4.9 and
25 4.10

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1 312 Randall J. Falkenberg - RJF-12: William G.
2 Johnson Workpaper p. 87
3 313C Randall J. Falkenberg - RJF-13C: William G.
4 Johnson Workpaper p. 133
5 314 Randall J. Falkenberg - RJF-14: Avista
6 Response to ICNU Data Request No. 4.5
7 315 Randall J. Falkenberg - RJF-15T: Rebuttal
8 Testimony 9/22/2005
9 316 Randall J. Falkenberg - RJF-16: Avista's
10 response to ICNU DR No. 5.3
11 317 Randall J. Falkenberg - RJF-17: PacifiCorp
12 Hermiston Fuel Costs
13 318 Randall J. Falkenberg - RJF-18: Comparison of
14 Colstrip Planned Outages: Actual vs.
15 Stipulation
16 319 Randall J. Falkenberg - RJF-19: Prefiled
17 Direct Testimony of Verl R. Topham in Utah PSC
18 Docket No. 90-035-06
19 320 Randall J. Falkenberg - RJF-20: Excerpt of
20 Prefiled Direct Testimony of Walt Pollock and
21 Pamela Lesh in Oregon PUC Docket No. UE 113
22 Cross-Examination Exhibits
23 321 Avista - PacifiCorp - Grid User Documentation
24 Algorithm Guide
25

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1 322 Avista - AURORA Screen Shot From Falkenberg
2 "Run 123"
3 MICHAEL GORMAN
4 331 Michael Gorman - MPG-1T: Prefiled Direct
5 (Response) Testimony
6 332 Michael Gorman - MPG-2: Professional
7 Qualifications
8 333 Michael Gorman - MPG-3: Implied Stipulation
9 Return on Equity
10 334 Michael Gorman - MPG-4: Comparable Group
11 335 Michael Gorman - MPG-5: Growth Rate Estimates
12 336 Michael Gorman - MPG-6: Constant Growth DCF
13 Model
14 337 Michael Gorman - MPG-7: GDP Growth Rates
15 338 Michael Gorman - MPG-8: Public Utility Market
16 Book Ratio
17 339 Michael Gorman - MPG-9: Equity Risk
18 Premium--Treasury Bond
19 340 Michael Gorman - MPG-10: Equity Risk
20 Premium--Utility Bond
21 341 Michael Gorman - MPG-11: Utility Bond Yields
22 342 Michael Gorman - MPG-12: Comparable Group
23 Beta
24 343 Michael Gorman - MPG-13: CAPM Return
25 Estimates

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1 344 Michael Gorman - MPG-14T: Rebuttal Testimony
2 9/22/2005
3 345 Michael Gorman - MPG-15: ROE at Actual Common
4 Equity Ratio
5 346 Michael Gorman - MPG-16: Settlement Revenue
6 Above Avista's Costs at a 10.4% ROE
7 347 Michael Gorman - MPG-17: Settlement Revenue
8 Above Avista's Cost at a 9/8% ROE
9 KATHRYN IVERSON
10 351 Kathryn Iverson - KEI-1T: Rebuttal Testimony
11 9/22/2005
12 352 Kathryn Iverson - KEI-2: Professional
13 Qualifications
14 353 Kathryn Iverson - KEI-3: Summary of Avista
15 Cost Study Results
16 354 Kathryn Iverson - KEI-4: Summary of Original
17 Avista Rate Spread Proposal
18 355 Kathryn Iverson - KEI-5: Summary of Settlement
19 Agreement Rate Spread Proposal
20 356 Kathryn Iverson - KEI-6: Summary of Public
21 Counsel Rate Spread Proposal
22 357 Kathryn Iverson - KEI-7: Summary of Public
23 Counsel Rate Spread Proposal at Same Increase
24 as Settlement Proposal
25

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1 Cross-Exhibits for Settlement Panel Witnesses

2 MIKE PARVINEN

3 361 Public Counsel - Staff Response to Public

4 Counsel DR 2

5 362 Public Counsel - WUTC 15th Supp. Order

6 Granting Amendment to PSE PCA (UE-011570) and

7 Revised Exhibit A to PCA Stipulation. (May 13,

8 2003)

9 363 Public Counsel - Staff Response to Public

10 Counsel DR 3 (includes Avista Responses to PC

11 DR 218 and ICNU DR 6.1)

12 364 Public Counsel - Staff Response to Public

13 Counsel DR 4

14 365 Public Counsel - Staff Response to Public

15 Counsel DR 5

16 366 Public Counsel - Staff Response to Public

17 Counsel DR 6

18 367 Public Counsel - Staff Response to Public

19 Counsel DR 7

20 368 Public Counsel - Staff Response to Public

21 Counsel DR 8

22 HANK MCINTOSH

23 371 ICNU - Staff Data requests to Avista, dated

24 August 2, 2005

25

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1 372 ICNU - Staff Data Request to Avista, dated

2 August 3, 2005

3 BENCH EXHIBITS

4 375 Bench Request No. 3 - (Avista Response)

5 Monthly Power Cost Deferral Report for the

6 Month of December 2004, filed with the

7 Commission on January 13, 2005

8 376 Bench Request No. 4 - (Public Counsel

9 Response) Comparison Dittmer to Avista and

10 Settlement

11 377 Bench Request No. 5 - (ICNU Response)

12 Comparison Falkenberg to Avista and Settlement

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1 P R O C E E D I N G S

2 JUDGE CAILLE: Good morning, this is the
3 evidentiary hearing on a multi-party settlement in the
4 Avista rate case Dockets UE-050482 and UG-050483. The
5 purpose of this hearing is to determine whether the
6 Commission should accept the settlement agreement,
7 accept the settlement agreement with conditions, or
8 reject the settlement agreement. If the Commission
9 rejects the settlement agreement or accepts the
10 settlement agreement with conditions that are
11 unacceptable to the settling parties, then there will
12 necessarily be further process, and generally this means
13 that the litigation returns to the status at the time
14 the settlement was offered.

15 I'm going to now ask for the parties to enter
16 their appearances, and let's begin with Commission
17 Staff.

18 MR. TRAUTMAN: Thank you, Your Honor, Gregory
19 J. Trautman, Assistant Attorney General for Commission
20 Staff.

21 MR. FFITCH: Good morning, Your Honor, Simon
22 ffitich, Assistant Attorney General for the office of
23 Public Counsel.

24 MR. VAN CLEVE: Good morning, Your Honor,
25 Brad Van Cleve for the Industrial Customers of Northwest

0130

1 Utilities, and I would also like to enter an appearance
2 for Melinda Davison, who will also be participating in
3 the hearing.

4 JUDGE CAILLE: Thank you.

5 MR. ROSEMAN: My name is Ronald Roseman, I'm
6 an attorney who is representing the Energy Project.

7 MR. FINKLEA: Good morning Your Honor and
8 Commissioners, I'm Edward Finklea, counsel for the
9 Northwest Industrial Gas Users.

10 MR. MEYER: Good morning, David Meyer for
11 Avista.

12 JUDGE CAILLE: And let the record reflect
13 there are no other appearances.

14 I will just note for the record that today is
15 October 17th, and we are convened in a hearing room at
16 the Commission's offices in Olympia, Washington. The
17 order of business today is to first introduce the panel
18 of witnesses in support of the settlement, and if I
19 could ask those witnesses to take the chairs where some
20 of the current counsel are sitting.

21 And then I believe, Mr. Meyer, you're going
22 to lead off with your witness, introducing your witness
23 and qualifying the witness, and then the rest of counsel
24 will do the same. I understand that you have some
25 errata to the testimony of Mr. Norwood.

0131

1 MR. MEYER: We do, Your Honor, yes.

2 JUDGE CAILLE: Perhaps what I will do first,
3 I will have the witnesses all stand, and I will swear
4 you in as a panel.

5 (Witnesses KELLY NORWOOD, BRIAN HIRSCHKORN,
6 ROGER BRADEN, MICHAEL PARVINEN, JOELLE
7 STEWARD, HANK MCINTOSH, DONALD SCHOENBECK,
8 and CHARLES EBERDT were sworn in.)

9 JUDGE CAILLE: And, Mr. Meyer, if you would
10 like to begin.

11 MR. MEYER: Thank you, Your Honor.

12 Call to the stand Mr. Kelly Norwood,
13 Mr. Norwood has been sworn.

14

15 Whereupon,

16 KELLY NORWOOD,
17 having been first duly sworn, was called as a witness
18 herein and was examined and testified as follows:

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

20 BY MR. MEYER:

21 Q. Mr. Norwood, would you please state your name
22 and your employer.

23 A. Yes. Kelly O. Norwood, I'm employed by
24 Avista Utilities.

25 Q. And have you participated in what has been

0132

1 marked as the joint testimony identified and admitted
2 as, or not yet admitted, but identified as Exhibit
3 Number 1?

4 A. Yes.

5 Q. Do you have any corrections to make to that?

6 A. Yes, I have just a few corrections.

7 Beginning first on page 2, line 19, this is
8 of Exhibit 1. Page 2, line 19, the December should be
9 changed to January, and 2005 should be changed to 2006.

10 Then on page 4, line 3, strike the words, or
11 before, and change December 1, 2005, to January 1, 2006.

12 Page 13, line 5, change December 1, 2005, to
13 January 1, 2006.

14 And page 25, line 14, again change December
15 1, 2005, to January 1, 2006.

16 JUDGE CAILLE: I have that as line 15.

17 A. I apologize, mine is on line 14.

18 And then the next two bullet items on that
19 same page, page 25, and I have it beginning on line 15
20 but it's, for calendar year 2005, the level of the
21 deadband, all the way through the end of the second or
22 actually the third bullet there, thereafter until
23 further modified a \$3 Million deadband would apply,
24 those two bullet items should be stricken, taken out.

25 JUDGE CAILLE: Okay.

0133

1 MR. FFITCH: Your Honor, could I ask that the
2 witness restate that correction.

3 JUDGE CAILLE: Yes.

4 Would you, please, Mr. Norwood.

5 A. Yes, there are three bullet items on that
6 page, the first beginning with deadband, the second
7 beginning with full calendar year, the second two bullet
8 items in their entirety should be stricken.

9 And one last --

10 JUDGE CAILLE: So just to clarify for the
11 record, line 13, I'm sorry --

12 CHAIRMAN SIDRAN: Yeah, maybe I can step in
13 here, Mark Sidran. Your first correction when you
14 referenced to line 14 and then Judge Caille said it
15 showed up as line 15, it's actually line 13.

16 THE WITNESS: Okay.

17 CHAIRMAN SIDRAN: It's line 13 in our
18 Exhibit, which is in the first bullet.

19 THE WITNESS: Yes.

20 CHAIRMAN SIDRAN: That's the date you were
21 changing, and then you struck the ensuing two bullets?

22 THE WITNESS: That's correct, I apologize.

23 CHAIRMAN SIDRAN: Okay, thank you.

24 JUDGE CAILLE: And I'm duly clarified, I had
25 the wrong line, thank you.

0134

1 You may proceed.

2 THE WITNESS: Thank you.

3 A. One more page, page 37, and my line 9 says,
4 dollar amounts for the spread of, that's the line I want
5 to change. I want to change dollar to per therm, so it
6 should read, the applicable per therm amounts for the,
7 strike the words spread of the, continuing on that
8 sentence change column F to column B, change G to C, and
9 page 3 should be page 4. So I will read through that,
10 the applicable per therm amounts for the general
11 increase in the cost reallocation are shown in columns B
12 and C on page 4.

13 JUDGE CAILLE: Thank you.

14 A. I'm sorry, there is one more on line 13 in
15 the question.

16 JUDGE CAILLE: On the same page?

17 THE WITNESS: Yes, I'm sorry, on the same
18 page.

19 A. The line starts with, methodology used to
20 determine the proposed rates in column D, page 4.

21 That concludes the changes.

22 JUDGE CAILLE: Thank you.

23 BY MR. MEYER:

24 Q. Mr. Norwood, with those corrections having
25 been made, if I were to ask you the questions that

0135

1 appear in that jointly filed testimony, would your
2 answers be the same?

3 A. Yes.

4 Q. And are you also co-sponsoring what have been
5 marked for identification as Exhibits 2 and 3 consisting
6 of the settlement agreement as well as the amendment to
7 the settlement agreement?

8 A. Yes.

9 Q. And are those true and correct copies?

10 A. Yes.

11 MR. MEYER: With that, I now turn to
12 Mr. Hirschhorn.

13

14 Whereupon,

15 BRIAN HIRSCHKORN,

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

18 DIRECT EXAMINATION

19 BY MR. MEYER:

20 Q. Mr. Hirschhorn, for the record would you
21 please state your name and business employer.

22 A. My name is Brian Hirschhorn, I'm employed by
23 Avista Corporation.

24 Q. And are you also a co-sponsor of the joint
25 testimony submitted as Exhibit Number 1?

0136

1 A. Yes, I am.

2 Q. And do you have any additional corrections
3 beyond those that have just been made?

4 A. No, I don't.

5 Q. So if I were to ask you the questions that
6 appear in that joint testimony, would your answers be
7 the same?

8 A. Yes, they would.

9 MR. MEYER: I will turn to Staff.

10 MR. TRAUTMAN: Thank you, Your Honor, I would
11 like to start with Mr. Braden.

12

13 Whereupon,

14

ROGER BRADEN,

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

17

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

18

BY MR. TRAUTMAN:

19

Q. Mr. Braden, could you please give your full
20 name and your business position with the Commission for
21 the record.

22

A. Yes, Roger A. Braden, I'm the Assistant
23 Director for Energy at the Utilities, Washington
24 Utilities and Transportation Commission.

25

Q. Are you a joint sponsor or one of the

0137

1 sponsors of the joint testimony that's been filed and
2 marked as Exhibit 1?

3 A. Yes, I am.

4 Q. And with the corrections that have been
5 previously noted, is it true and correct to the best of
6 your knowledge?

7 A. It is.

8 Q. And are you also a joint sponsor to Exhibits
9 2 and 3, which are the settlement agreement and the
10 amendment to the settlement agreement?

11 A. Yes.

12 Q. And are those true and correct to the best of
13 your knowledge?

14 A. Yes.

15 MR. TRAUTMAN: Thank you.

16 Turning to Mr. Parvinen.

17

18 Whereupon,

19 MICHAEL PARVINEN,

20 having been first duly sworn, was called as a witness

21 herein and was examined and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. TRAUTMAN:

24 Q. Could you give your full name and position
25 with the Commission for the record.

0138

1 A. Yes, Michael Parvinen, I'm a regulatory
2 analyst with the Commission.

3 Q. Are you one of the sponsors of the joint
4 testimony that's been filed and marked as Exhibit 1?

5 A. Yes.

6 Q. And with the corrections that have been
7 previously noted, is it true and correct to the best of
8 your knowledge?

9 A. Yes.

10 Q. Are you also a sponsor to what has been
11 marked as Exhibits 2 and 3, the settlement agreement and
12 the amendment to the settlement agreement?

13 A. Yes.

14 Q. And are those true and correct to the best of
15 your knowledge?

16 A. Yes, they are.

17 MR. TRAUTMAN: Thank you.

18 Turning to Ms. Steward.

19

20 Whereupon,

21 JOELLE STEWARD,

22 having been first duly sworn, was called as a witness

23 herein and was examined and testified as follows:

24

25

0139

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

2 BY MR. TRAUTMAN:

3 Q. Could you give your name and position with
4 the Commission for the record.

5 A. My name is Joelle Steward, I'm a regulatory
6 analyst with the Commission.

7 Q. Are you one of the sponsors of the joint
8 testimony that's been marked as Exhibit 1?

9 A. Yes.

10 Q. And with the changes that have been
11 previously noted to that testimony, is it true and
12 correct to the best of your knowledge?

13 A. Yes.

14 Q. Are you also a sponsor to what has been
15 marked as Exhibits 2 and 3, the settlement agreement and
16 the amendment to the settlement agreement?

17 A. Yes.

18 Q. Are those true and correct to the best of
19 your knowledge?

20 A. Yes.

21 MR. TRAUTMAN: Thank you.

22

23

24

25

0140

1 Whereupon,

2 HANK MCINTOSH,

3 having been first duly sworn, was called as a witness

4 herein and was examined and testified as follows:

5 DIRECT EXAMINATION

6 BY MR. TRAUTMAN:

7 Q. And, Mr. McIntosh, could you give your full

8 name and position with the Commission for the record.

9 A. My name is Henry McIntosh, also known as Hank
10 McIntosh here, and I'm an analyst, a regulatory analyst
11 with the Commission Staff.

12 Q. Are you one of the sponsors of the joint
13 testimony that's been marked as Exhibit 1 in this
14 proceeding?

15 A. Yes.

16 Q. And with the changes that have been
17 previously noted to that testimony, is it true and
18 correct to the best of your knowledge?

19 A. Yes, sir.

20 Q. Are you also a sponsor to what's been marked
21 as Exhibits 2 and 3, the settlement agreement and the
22 amendment to settlement agreement?

23 A. Yes.

24 Q. And are those true and correct to the best of
25 your knowledge?

0141

1 A. Yes.

2 MR. TRAUTMAN: Thank you.

3 MR. FINKLEA: Your Honor, Mr. Finklea for
4 Mr. Schoenbeck.

5

6 Whereupon,

7 DONALD SCHOENBECK,

8 having been first duly sworn, was called as a witness

9 herein and was examined and testified as follows:

10 DIRECT EXAMINATION

11 BY MR. FINKLEA:

12 Q. Mr. Schoenbeck, are you the Donald Schoenbeck
13 who has sponsored Exhibit 1 as part of this panel?

14 A. Yes, I am.

15 Q. And are you also sponsoring Exhibits 2 and 3?

16 A. Yes, I am, the gas operations portion of
17 those exhibits.

18 Q. And with the corrections that have been
19 previously made this morning, Exhibit 1 and 2 and 3 are
20 correct to the best of your knowledge?

21 A. Yes, they are.

22 MR. FINKLEA: We would offer Mr. Schoenbeck's
23 testimony.

24 JUDGE CAILLE: All right.

25 And Mr. Roseman.

0142

1 Whereupon,

2 CHARLES EBERDT,

3 having been first duly sworn, was called as a witness

4 herein and was examined and testified as follows:

5 DIRECT EXAMINATION

6 BY MR. ROSEMAN:

7 Q. Mr. Eberdt, will you state your name for the
8 record, please.

9 A. My name is Charles M. Eberdt, that's
10 E-B-E-R-D-T, I'm the Director of the Energy Project at
11 the Opportunity Council in Bellingham, Washington.

12 Q. And have you had an opportunity to review the
13 joint direct testimony in this proceeding?

14 A. Yes, I have.

15 Q. That's marked as Exhibit 1. Do you have any
16 changes to that testimony?

17 A. No, I do not.

18 Q. On Exhibit 1, section number 7 entitled Low
19 Income Demand Side Management and Rate Assistance
20 Programs, that continues on page 28 and goes to almost
21 the bottom of page 29, have you had an opportunity to
22 review that testimony?

23 JUDGE CAILLE: Excuse me, Mr. Roseman, which
24 exhibit are you referring to?

25 MR. ROSEMAN: Exhibit 1, the joint direct

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1 testimony.

2 JUDGE CAILLE: Thank you. And again the page
3 reference?

4 MR. ROSEMAN: Pages 28 and 29.

5 JUDGE CAILLE: Thank you.

6 THE WITNESS: And the question is?

7 BY MR. ROSEMAN:

8 Q. The question is, have you reviewed that
9 testimony, and is the testimony true and correct today?

10 A. Yes, it is.

11 Q. And the testimony on pages 28 and 29
12 regarding low income and demand side management is the
13 testimony that you are sponsoring in this proceeding?

14 A. Yes.

15 Q. And, Mr. Eberdt, will you turn now to Exhibit
16 Number 3, paragraph 15, pages 6 and 7 and half of page
17 8.

18 Excuse me, that's Exhibit 2.

19 A. Thank you.

20 Yes.

21 MR. MEYER: Those pages again, I'm sorry?

22 MR. ROSEMAN: Pages 6, 7, and 8, and halfway
23 down page 8.

24 BY MR. ROSEMAN:

25 Q. Have you had an opportunity to review those

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1 pages in the settlement agreement?

2 A. Yes, I have.

3 Q. And do you continue, does the Energy Project
4 continue to sponsor and agree with those paragraphs?

5 A. Yes.

6 MR. ROSEMAN: We submit the Exhibits 1, 2,
7 and 3 for admission.

8 CHAIRMAN SIDRAN: Mr. Roseman, with respect
9 to Exhibit 1 at page 29, at least the Bench copies, this
10 would be again it's Exhibit 1, page 29, there is a
11 post-it or what appears to be a post-it, a photocopy of
12 a post-it that obliterates the text between lines 4 and
13 line 8 in about the middle, and we all apparently have
14 an obliterated piece of text, so if you could provide us
15 with a substitute page 29 that doesn't have a post-it
16 over the text, that would be helpful.

17 MR. ROSEMAN: Your Honor, I will be glad to
18 do that. Ours also has that little tab, so we will get
19 you a clean copy. I presume this is true of everyone in
20 the hearing room, so we will provide --

21 JUDGE CAILLE: Is that true?

22 MR. VAN CLEVE: Yes.

23 JUDGE CAILLE: So Avista does have a copy of
24 the page --

25 MR. MEYER: We have the real thing.

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1 JUDGE CAILLE: Perhaps you could provide us
2 during a break with a copy, thank you.

3 MR. MEYER: Your Honor, I believe the offer
4 had been made to have Exhibits 1, 2, and 3 into the
5 record.

6 JUDGE CAILLE: Is there any objection?
7 Then Exhibits 1, 2, and 3 are admitted.

8 MR. TRAUTMAN: Your Honor, I believe
9 Mr. Braden was going to commence with a short summary
10 and explanation of the settlement.

11 JUDGE CAILLE: All right, go ahead,
12 Mr. Braden.

13 MR. BRADEN: Thank you, Your Honor.

14 I'm going to try to keep this quite brief
15 because this settlement has been of record for a couple
16 of months now, and everyone has had a chance to review
17 it and the supporting testimony. I do want to take just
18 a few minutes to kind of set the stage since this
19 settlement agreement is the focus of the next few days
20 of hearing.

21 In part I wanted to briefly recap the process
22 by which it was developed. Through the initial
23 scheduling for this docket, settlement conferences were
24 designated to be held beginning at the end of July of
25 this year. Those meetings were held, all parties were

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1 in attendance. We had two days of meetings on the 27th
2 and the 28th of July and then broke for the weekend and
3 came back on the 3rd of August. During the course of
4 those meetings, there was discussion of various proposed
5 adjustments and philosophies and positions the various
6 parties felt were appropriate for discussion and
7 inclusion in the case and for any settlement. Following
8 the meeting on the 3rd at which time there was not any
9 agreement amongst any of the parties, there were a
10 series of E-mails and follow-up proposals, and data was
11 provided in response to some of the issues that had been
12 raised during the face-to-face meetings, and these
13 E-mails and exchanges continued for another week or so
14 until finally on August 12th, the date you will notice
15 on the settlement agreement, four of the six parties
16 involved in this docket came to agreement on common
17 terms embodied in the settlement agreement. Those
18 parties were the Energy Project, the Northwest
19 Industrial Gas Users Group, Commission Staff, and the
20 Company. Public Counsel and Industrial Customers of
21 Northwest Utilities declined to sign the settlement and
22 are here to present those issues during the course of
23 this hearing.

24 As a result of the settlement agreement, the
25 parties have prepared joint testimony. I will not

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1 belabor the points raised in that testimony. I just
2 want to briefly summarize the nature of the settlement
3 elements that tie to the settlement. In terms of bottom
4 line, and as the Commission is aware, this case involves
5 both natural gas and electricity rates, and so we'll
6 speak in terms of those respective services and relative
7 costs associated with each.

8 The initial case as filed by the company was
9 a request for \$35.8 Million for additional electricity
10 revenue, which would have amounted to about a 12 1/2%
11 increase in electricity rates on average and \$2.9
12 Million for natural gas, which would have been an
13 increase of about 1.7%. The total would have been
14 approximately \$38.7 Million for the two services
15 combined. This settlement resulted in substantially
16 reduced numbers. The electric number went to \$22.1
17 Million or approximately 7.7%. The gas number was
18 reduced below \$1 Million to \$968,000 or only .6%
19 increase. The total of these increases is approximately
20 \$23 Million.

21 Those are the naked numbers, but there are a
22 number of factors that contributed to the agreement on
23 those numbers amongst the settling parties. One of the
24 foremost ones, as in many rate cases, was the cost of
25 capital component, of which there are two key

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1 sub-elements associated with that, one being the
2 percentage of common equity stock that is attributed to
3 the company's capital structure. In the original
4 filing, Avista submitted a number of 44% common equity
5 in their capital structure, the settling parties
6 designated 40%. I have further discussion on that issue
7 because there are some special elements in the
8 settlement associated with that.

9 But moving on just briefly to capture the
10 summary of the capital issues, the other major component
11 is the rate of return on that common equity. Avista had
12 requested in their initial filing 11.5% return on
13 equity, the settlement provides for 10.4%.

14 The combination of the various components of
15 the capital structure, the debt, as well as the equity,
16 and the rates of return allowed and the interest being
17 charged or paid for the debt combine to result in a what
18 we call our overall rate of return number. In this case
19 the request from Avista was originally 9.67% overall
20 rate of return, and the settlement proposes 9.11% rate
21 of return.

22 I wanted to kind of emphasize this part of
23 it, because as you look at the attachments to the
24 settlement agreement, you will notice that there is a
25 large amount of money associated with the capital

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1 structure agreement in terms of the impacts on the
2 revenue requirement when you look at changes in rate
3 base and the way that those returns factor into the
4 revenue requirement. In general, the reduction from the
5 requested amount in capital both in terms of common
6 equity structure and rate of return reduce the electric
7 rates by approximately \$9 Million and in the gas area by
8 approximately \$1.4 Million. So combined, this
9 represents over \$10 Million of the amount that was
10 negotiated for a reduction from the original request.

11 I mentioned that I wanted to highlight the
12 equity structure issue, the common equity structure,
13 because this was an unusual situation in this case and
14 was a key part of the settlement. As it turns out, of
15 course Avista, like many of the utilities in today's
16 business environment, is part of a much more complex
17 business structure. Avista Utilities is a unit of
18 Avista Corporation, which is the publicly traded stock,
19 and under Avista Corporation are other business
20 activities that are not regulated utilities activities.
21 There were some serious questions and intensive
22 discussion amongst the parties about how to balance the
23 relative role of common equity as a capital device as a
24 means of raising capital for the utilities versus the
25 overarching Avista Corporation.

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1 Some analysis suggested that the utility was
2 capitalized with substantially less common equity by
3 virtue of the nature of the other businesses under the
4 corporate umbrella and that the amount of return on
5 common equity for the utility, the portion that is being
6 regulated and subject to this adjudication, should be
7 substantially lower than was requested. During the
8 course of negotiation, we came up, the settling parties
9 came up with a proposal that was incorporated into the
10 settlement that recognizes that there are, in fact, some
11 differences between the capital structure of the
12 regulated and unregulated subcomponents of the
13 corporation and designated a 40% common equity marker,
14 if you will, in this case for purposes of determining
15 the revenue requirement that the settlement agreement
16 incorporates. But at the same time the parties insisted
17 upon putting in the settlement agreement some incentive,
18 some more than incentive I guess, even some penalties if
19 Avista Corporation were not able to actually increase
20 the percentage of common equity capitalization for the
21 utility.

22 And so there is a requirement in the
23 settlement agreement that the company will increase its
24 common equity capitalization for the utility, and two
25 benchmarks were built into this. One is that the actual

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1 capitalization to common equity for the utility will
2 increase to 35% at a minimum by the end of 2007 and to
3 38% by the end of 2008. Should the company fail to meet
4 either of these benchmarks, there are automatic
5 reductions in rate of 1% in each of these instances that
6 would go into effect shortly thereafter those deadlines.
7 So it's an unusual effect, and I just wanted to
8 highlight that, because I think there will be
9 considerable discussion. There was considerable
10 discussion in the course of the settlement, and I think
11 that there will be further discussion for the Commission
12 to hear in this proceeding.

13 The other major component of the revenue
14 requirement is a collection of accounting, what we call
15 accounting adjustments in general. There were roughly
16 15 or so in the electric side and half a dozen or so in
17 the gas side of the business. These are itemized in the
18 exhibits and in the joint testimony on pages 16 through
19 20. They involve such subjects as taxes, property and
20 income taxes, power supply costs, fuel costs, a number
21 of different administrative and general costs such as
22 labor, leases, customer deposits, and such, and they are
23 itemized and will be addressed specifically. These are
24 a variety of components that are generally considered to
25 be, any of them, administrative and general expenses of

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1 doing operation, and the combined effect of these
2 adjustments is approximately a little over \$4 Million
3 for purposes of the settlement. So the cost of capital
4 implications and these various adjustments are primarily
5 the components that you will hear about that reduce the
6 original request for the numbers that I have provided,
7 referenced.

8 There are a couple of other additional
9 components to the settlement I just want to briefly
10 highlight. One of them relates to the energy recovery
11 mechanism or ERM or E-R-M as you will variously hear it
12 called over the next couple of days. I think the
13 Commission is generally familiar with this. It's a
14 mechanism for adjusting power supply related costs. It
15 arose due to a prior order of this Commission which in
16 turn arose in considerable due to the energy crisis in
17 the West. It was primarily the catalyst for it, and
18 it's a mechanism that's still in effect. It involves a
19 large deferral balance that is outstanding, roughly \$100
20 Million. And whether that balance goes up or down in
21 fact depends on the conditions in the power markets,
22 also depends on how this mechanism works.

23 Two changes were made in the settlement
24 agreement that we're asking for your endorsement of.
25 One was a reduction of the deadband. The deadband is a

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1 portion of the energy recovery mechanism which provides
2 that the company absorbs all impacts, both positive and
3 negative, within a set point that is determined by power
4 supply cost base line. And so the first \$9 Million,
5 whether positive or negative, is totally the company's
6 responsibility under the ERM. A request was made in the
7 filing by the company to reduce that deadband to zero,
8 and through the course of the negotiations a compromise
9 was struck to reduce it in the settlement to \$3 Million.
10 So after the \$3 Million deadband is consumed, either
11 positive or negative, then there's a sharing mechanism
12 between consumers and the company of 90% rate payer
13 financial responsibility or benefit and 10% company. So
14 that only change there is reducing the actual amount
15 from \$9 Million to \$3 Million, a reduction of two
16 thirds. There will be discussion about the rationale
17 behind that during the course of this, but it's an
18 important aspect of the change.

19 The other change associated with ERM in the
20 settlement agreement is to increase what is called the
21 surcharge, which is a special rate portion of Avista's
22 rates set aside for repayment of this large deferral
23 balance I referenced a moment ago that arose as much as
24 anything out of the energy crisis. The settlement
25 agreement proposes that that surcharge be increased by

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1 10%. Currently, while it varies from year to year, the
2 surcharge produces about \$27 Million a year of annual
3 revenues. This 10% increase would therefore mean an
4 increase of about \$2.7 Million on average of additional
5 revenues. All of those revenues are dedicated to
6 repayment of the deferral balance.

7 Now increases in costs that under the ERM
8 would add to the deferral tend to be an offset against
9 that, so it's unclear exactly how much money each year
10 will go against the deferral, but this is an effort to
11 increase the amount of money available to try to reduce
12 that deferral balance as quickly as possible.

13 Other ideas were discussed in the course of
14 the settlement about the ERM, and some of them appear to
15 have good merit and should be looked into more fully, so
16 the parties have agreed in the settlement and would
17 involve any interested stakeholders in a post case
18 discussion to consider other ways that we might improve
19 the operation of the ERM going forward.

20 Just briefly I want to highlight the
21 inclusion in the settlement agreement of low income and
22 demand side management program enhancements. In this
23 case there is a shifting of some revenues or some funds
24 available to increase spending in the demand side
25 management area of about \$200,000 a year and an increase

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1 in the LIRAP fund, which is Low Income Rate Assistance
2 Program, of about \$600,000 a year. There are also a
3 number of program enhancements or operational changes to
4 allow more flexibility in the use of these funds in the
5 administration of these programs.

6 The settlement also involves some relatively
7 minor shifts from the initial company proposal with
8 regard to rate spread, generally moving towards parity.
9 Parity in this concept means that basically customers
10 pay essentially an amount equivalent to the cost of
11 providing them a service amongst the various classes.

12 One other item I want to highlight is the
13 inclusion of references to the Coyote Springs 2 natural
14 gas generating facility. As is evident through the
15 testimony, Avista made a purchase of the second half of
16 the Coyote Springs 2 plant, and that was included within
17 this general rate case. The costs are included in the
18 settlement numbers. There wasn't any express language
19 in the settlement concerning that acquisition, whether
20 there is substantial testimony in the joint testimony
21 concerning Staff's review of that acquisition, and both
22 the inclusion of the numbers and the testimony are
23 intended to evidence Staff's recommendation that that
24 resource acquisition be determined to be prudent.

25 Finally let me just say that this was the

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1 settlement as a result of an extensive and I think very
2 productive and open settlement discussion process that
3 took place over many days, both in person and through
4 exchanges of data and other communications. As in all
5 settlements, it's not perfect, it doesn't represent any
6 individual party's ideal position. It is a compromise.
7 It's not based on mathematical formulas. It's a matter
8 where there are certain offsets that occur in the course
9 of negotiation. But Staff and all the parties who have
10 signed the settlement agreement and submitted joint
11 testimony believe that the compromises reached are fair,
12 just, reasonable, and sufficient under the
13 circumstances, and we support the settlement and urge
14 the Commission's subsequent approval. Thank you.

15 JUDGE CAILLE: Thank you, Mr. Braden.

16 All right, now I'm going to ask the panel to
17 please vacate the chairs, and we will start with
18 cross-examination of individual panel witnesses, and I
19 believe the first witness to take the stand will be
20 Mr. Eberdt.

21 And, Mr. Eberdt, while you're taking the
22 stand, I just want to verify with the parties that the
23 parties are stipulating to all of the cross-examination
24 exhibits.

25 I am seeing nods around the room, no one

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1 objects, so all of the cross-examination exhibits except
2 for the one that Mr. ffitch has mentioned that has not
3 been provided yet, will be provided tomorrow morning,
4 all of the cross-examination exhibits are admitted, and
5 I will provide the court reporter with a list of those
6 specific exhibits.

7 All right, Mr. Eberdt, you have been
8 previously sworn. And, Mr. Roseman, would you just like
9 to introduce your witness again.

10 MR. ROSEMAN: Yes.

11

12 Whereupon,

13

CHARLES EBERDT,

14 having been previously duly sworn, was called as a
15 witness herein and was examined and testified as
16 follows:

17

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

18

BY MR. ROSEMAN:

19

Q. Good morning, Mr. Eberdt, can you state the
20 organization that you're the director of.

21

A. The Energy Project.

22

Q. And can you -- you have already -- have you
23 -- excuse me.

24

25

Have you sponsored any testimony other than
the joint direct testimony that is listed that is

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1 Exhibit 1T?

2 A. No.

3 MR. ROSEMAN: I tender Mr. Eberdt for
4 cross-examination.

5 JUDGE CAILLE: And Mr. ffitch.

6 MR. FFITCH: Thank you, Your Honor.

7

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

9 BY MR. FFITCH:

10 Q. Good morning, Mr. Eberdt. I understand that
11 we should welcome you back from overseas travel, and so
12 if there's a little bit of jet lag involved in the Q&A
13 here, we'll understand.

14 I just want to start out with a couple of
15 questions to make sure I understand the Energy Project's
16 participation in the settlement. Do you have a copy of
17 the settlement agreement there?

18 A. No, I don't.

19 MR. FFITCH: You may not need, this isn't a
20 very detailed question, but if you want to hand him a
21 copy, I can hold off a second.

22 BY MR. FFITCH:

23 Q. Can you take a look at page 2 of what's been
24 marked as Exhibit 2, and this is the settlement
25 agreement, page 2, paragraph 5.

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1 A. Yes.

2 Q. And can you look at the last sentence there,
3 that sentence states that:

4 The Energy Project supports the
5 settlement agreement as a whole but
6 takes no position on any specific issue
7 other than those set forth in Section 15
8 below.

9 A. Yes.

10 Q. Correct?

11 A. That is correct.

12 Q. And Section 15 is the low income portion of
13 the settlement, correct?

14 A. That is correct.

15 Q. And it's my understanding the Energy Project
16 has not undertaken any analysis of the cost of capital
17 in this case?

18 A. That is correct.

19 Q. And there has been no Energy Project analysis
20 of power cost issues?

21 A. No, sir.

22 Q. Of energy recovery mechanism issues?

23 A. None.

24 Q. No review of the Aurora model?

25 A. No, sir.

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1 Q. And so to summarize, there's been no Energy
2 Project review of any of the adjustments in Attachment A
3 to the settlement?

4 A. That's correct.

5 Q. So when the agreement says that the Energy
6 Project supports the agreement as a whole, that doesn't
7 mean that the Energy Project supports the specific
8 settlement outcomes on any of those issues; am I
9 understanding correctly?

10 A. I'm not quite sure how to answer that
11 question. Since we have not investigated those specific
12 items, I assume that's true.

13 Q. And you're not taking any position on any of
14 those items?

15 A. That's correct.

16 Q. And you're not taking any position on the
17 specific rate increases proposed by Staff or the
18 Commission, or excuse me, or of Avista in this
19 settlement, correct?

20 A. No, we are not.

21 Q. Now the joint direct includes information
22 about your experience. About how many years have you
23 been working on issues related to energy efficiency or
24 DSM programs in Washington?

25 A. Since 1982, 1981.

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1 Q. Quite a few years?

2 A. Yeah.

3 Q. Is it correct that there are two primary low
4 income bill assistance programs available to eligible
5 customers in Avista's service territory, and that would
6 be the Low Income Energy Assistance Program, LIHEAP,
7 which is a federal program, and the Low Income Rate
8 Assistance Program, LIRAP, which is Avista's program; is
9 that correct?

10 A. Yes.

11 Q. And the federal program, LIHEAP, is not
12 involved in this settlement; am I correct?

13 A. That's correct.

14 Q. And by way of background, the Low Income
15 Assistance Program, LIRAP, and the demand side
16 management programs receive funds from public purpose
17 tariff riders which generate revenues from rate payers,
18 Avista rate payers, correct?

19 A. Yes.

20 Q. And those are Schedule 91 for electric
21 customers and Schedule 191 for gas customers, right?

22 A. That is correct.

23 Q. Do you have a sense of the percentage of
24 eligible households served by these programs in Avista's
25 territory?

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1 A. I don't have a good sense of the number of
2 eligible households served by energy efficiency or by
3 DSM except that it's very low. The energy assistance
4 programs combined, well, again for the energy assistance
5 programs the number I have in mind is a combination of
6 LIHEAP and LIRAP, and that gets us a little over 30%.

7 Q. Thank you.

8 And do you have a projection as to the
9 increase in the percentage of eligible households that
10 will be served as a result of the additional \$600,000
11 for LIRAP?

12 A. No, I don't have a projection in numbers of
13 households largely because the rate increases that have
14 occurred over the last four or five years are likely to
15 mean households would actually receive additional funds
16 instead of that money being spent on an additional
17 household. In other words, the award would be larger
18 because of the need being higher, so I can't tell you,
19 it's not a straight line linear function.

20 Q. So am I understanding that it's possible that
21 the 30% of eligible households that you mentioned might
22 not increase as a result of this settlement?

23 A. Oh, I think the number will increase, I just
24 can't give you a very specific number. I don't know if,
25 for example, if the increase in funding is 20%, I

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1 couldn't tell you that we would actually hit 50%.

2 Q. 50% of eligible households?

3 A. Right.

4 Q. Do you have any sense of the ball park of
5 that incremental increase you're talking about?

6 A. In terms of actual fund levels or in terms of
7 numbers of households? I'm getting confused.

8 Q. The increase in percentage of eligible
9 households served.

10 A. No, I don't.

11 Q. All right. But in any event, for the
12 remaining percentage of low income customers in Avista's
13 service territory, this settlement agreement, this low
14 income settlement agreement does not provide any
15 benefits for those unserved customers, correct?

16 A. Would you ask that question again, please.

17 Q. For the eligible customers who are not served
18 by Avista's programs, the programs that are the subject
19 of this low income settlement, the settlement does not
20 provide any benefits; isn't that correct?

21 A. That would be correct, yes.

22 Q. Would you agree, Mr. Eberdt, that in general
23 as natural gas prices rise, and particularly when gas
24 prices rise significantly, it makes even more economic
25 sense to encourage consumers to conserve and for

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1 customers to undertake energy efficiency measures?

2 A. Yes.

3 Q. And isn't it the case that the programs
4 funded through Schedule 191 are the primary means
5 through which Avista encourages rate payers to engage in
6 energy efficiency?

7 A. As far as I know.

8 Q. And I would like you to turn to the Exhibit 2
9 again, the settlement agreement, to page 7, top of page
10 7, could you read the next to the last sentence in the
11 top paragraph there beginning, there will be no.

12 A. (Reading.)

13 There will be no corresponding decrease
14 in natural gas DSM programmatic funding,
15 and there will be no increase to
16 Schedule 191 before January 1st, 2008.

17 Q. Do you understand the term corresponding
18 decrease in natural gas DSM to mean that natural gas
19 demand side management or DSM will remain at the
20 depressed levels they were during the period when the
21 company was recovering a negative balance in the
22 schedule 91 and 191 accounts?

23 A. I'm sorry, but I'm not following the
24 question.

25 Q. Let me try to simplify it a little bit.

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1 There is a reference here to, in this statement, to a
2 decrease in programmatic funding for natural gas DSM.

3 A. Right.

4 Q. And my question essentially is relative to
5 what level of funding for that program?

6 A. I don't think I can answer that question.

7 Q. And just one more question about this
8 sentence in the agreement. Is it the case that the
9 settlement precludes the Company or the Commission from
10 increasing funding for gas DSM programs by increasing
11 Schedule 191 because of this limitation for over two
12 years?

13 A. That would appear to be the agreement, yes.

14 MR. FFITCH: Thank you, Mr. Eberdt.

15 Your Honor, those are all the questions I
16 have.

17 JUDGE CAILLE: Any redirect, Mr. Roseman?

18 MR. ROSEMAN: Just a few questions, Your
19 Honor.

20

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

22 BY MR. ROSEMAN:

23 Q. Mr. Eberdt, can you tell me the clients or
24 the customers that are served by LIRAP and LIHEAP in the
25 Avista service territory, can you identify generally who

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1 they are?

2 A. Well, these would be households that are
3 living at or below 125% of the federal poverty level,
4 and generally speaking the bulk of the customers will be
5 significantly below 125% of the federal poverty level.

6 Q. And if the \$600,000 per year in the LIRAP
7 program was not available, what effect would it have on
8 this community?

9 A. Well, the rate increases that have been seen
10 to date even before this rate case have had the effect
11 of really diminishing the ability of the funds that
12 Avista provides from having an effect on the households
13 that we're trying to serve, so we're actually serving
14 more households, but they are getting less assistance in
15 each case. So I think that problem would be exacerbated
16 by not getting the program increases that are being
17 proposed.

18 MR. ROSEMAN: Thank you, I have nothing
19 further.

20 JUDGE CAILLE: Anything further, Mr. ffitch?

21 MR. FFITCH: No, thank you, Your Honor.

22 JUDGE CAILLE: All right, thank you,
23 Mr. Eberdt, you're excused.

24 THE WITNESS: Thank you.

25 MR. FINKLEA: Your Honor, if I could indulge,

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1 it's my understanding from discussing with Mr. ffitch
2 this morning that Public Counsel now has no questions of
3 Mr. Schoenbeck, so if we could possibly allow
4 Mr. Schoenbeck to retake the stand so that his Exhibit
5 2T which has also be premarked as Exhibit 5 could be
6 entered into the record, then I could allow
7 Mr. Schoenbeck to return to his office.

8 JUDGE CAILLE: All right.

9 Mr. Schoenbeck, will you please retake the
10 stand, and you have been previously sworn.

11 Go ahead, Mr. Finklea.

12 MR. FINKLEA: Thank you, Your Honor.

13

14 Whereupon,

15 DONALD SCHOENBECK,

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

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

20 BY MR. FINKLEA:

21 Q. Mr. Schoenbeck, what has been marked this
22 morning for identification as Exhibit 5, which was
23 previously marked as DWS-2T, was rebuttal testimony you
24 submitted, and I would ask if you have any changes to
25 that testimony this morning?

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1 A. No, I do not.

2 Q. And if I were to ask you the same questions
3 contained in that testimony, would your answers then be
4 the same today?

5 A. Yes, they would be.

6 MR. FINKLEA: Your Honor, I would offer
7 Exhibit 5 for the record.

8 JUDGE CAILLE: Is there any objection to the
9 admission of Exhibit Number 5?

10 MR. FFITCH: Your Honor, I have no objection.
11 Since Mr. Schoenbeck is on the stand, I would like to
12 just ask him I think one question if I may.

13 JUDGE CAILLE: Go ahead, Mr. ffitich.

14

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

16 BY MR. FFITCH:

17 Q. Mr. Schoenbeck, you're a consultant for
18 Northwest Industrial Gas Users, correct?

19 A. That's correct.

20 Q. And you are not and Northwest Industrial Gas
21 Users is not commenting upon or supporting or endorsing
22 the electric rate portion of this settlement; isn't that
23 correct?

24 A. That's correct.

25 MR. FFITCH: Those are all the questions I

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1 have, thank you, Your Honor.

2 JUDGE CAILLE: No redirect?

3 MR. FINKLEA: No, Your Honor.

4 JUDGE CAILLE: Thank you.

5 And you are excused, Mr. Schoenbeck.

6 THE WITNESS: Thank you.

7 JUDGE CAILLE: I'm not sure if I made it
8 clear on the record that Exhibit Number 5 is admitted.

9 Ms. Steward I believe will take the stand
10 next, and, Ms. Steward, you have been previously sworn.

11 Mr. Trautman, if you will please introduce
12 your witness again.

13 MR. TRAUTMAN: Thank you.

14

15 Whereupon,

16 JOELLE STEWARD,
17 having been previously duly sworn, was called as a
18 witness herein and was examined and testified as
19 follows:

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

21 BY MR. TRAUTMAN:

22 Q. Good morning, could you please give your name
23 and position with the Commission for the record.

24 A. My name is Joelle Steward, and I am
25 regulatory analyst with Commission Staff.

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1 Q. And you previously indicated that you are a
2 sponsor for Exhibits 1, 2, and 3, have you sponsored any
3 other exhibits to this proceeding?

4 A. No.

5 MR. TRAUTMAN: Thank you, and, Your Honor,
6 Ms. Steward is available for cross.

7 JUDGE CAILLE: And, Mr. ffitch, I see you
8 have about 15 minutes for Ms. Steward.

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

10

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

12 BY MR. FFITCH:

13 Q. Good morning, Ms. Steward.

14 A. Good morning.

15 Q. Have you read Mr. Jim Lazar's testimony on
16 residential electric rate design in this proceeding?

17 A. Yes.

18 Q. And do you recall that he discussed both the
19 load factor basis for steeply inverted rates and the
20 hydrothermal block basis for steeply inverted
21 residential rates?

22 A. Yes.

23 Q. In your analysis of residential rates in this
24 case, did you obtain any data from the company on the
25 relative load factor of residential usage in the first

0171

1 block versus the second or third block?

2 A. No.

3 Q. Did you explicitly take the relative load
4 factor of different types of residential usage into
5 account when agreeing to a particular residential rate
6 design proposal in this case?

7 A. No.

8 Q. Ms. Steward, would you agree that most
9 residential customers use electricity for lights and
10 appliances and that this usage is not very weather
11 sensitive?

12 A. Yes.

13 Q. And do you have an opinion as to whether the
14 first block of 600 kilowatt hours is generally about the
15 same size as typical residential usage for lights and
16 appliances?

17 A. You mean up to 600 kilowatt hours a month?

18 Q. Correct.

19 A. Yes.

20 Q. Do you have an opinion, do you agree that --

21 A. Oh, I agree.

22 Q. Okay. And would you agree that in general
23 residential usage in the third block in most cases
24 involves electric heating or cooling?

25 A. Yes.

0172

1 Q. And would you agree that those uses are
2 highly weather sensitive?

3 A. Yes.

4 Q. In your analysis of residential rates, did
5 you obtain any data from the company on the cost of or
6 quantity of power from hydro, coal, natural gas, or
7 other specific types of resources?

8 A. Did I obtain from the company, not
9 necessarily. I'm aware of their general fuel mix.

10 Q. Okay. Did you explicitly take the relative
11 costs of hydro, coal, natural gas, and other resources
12 into account in this case when agreeing to a particular
13 residential rate design proposal?

14 A. No.

15 Q. I think that I have already asked this
16 question, perhaps not quite so specifically, but would
17 you agree that most customers with usage in the 1300
18 kilowatt hour plus block in the winter are electric heat
19 customers?

20 A. Probably.

21 Q. And would you agree that most of those
22 electric heat customers will not also be getting bills
23 this winter for natural gas, propane, or oil heating?

24 A. If their primary heating equipment is
25 electric and that's what they're using, then yes.

0173

1 Q. Okay. So the main impact they will see on
2 their winter home heating bills is the approximately 10%
3 increase that the Staff is supporting in this case,
4 correct?

5 A. Correct.

6 Q. Are you generally familiar with the recent
7 changes in the company's natural gas rates as a result
8 of recent PGA filings that --

9 A. I --

10 Q. Excuse me -- that have been approved by the
11 Commission in the past year?

12 A. I don't know the specific number, but I'm
13 generally familiar that they are higher.

14 Q. Would you agree that the net effect of these
15 is about a 60% increase in natural gas rates since last
16 winter?

17 A. As I said, I'm not familiar with the specific
18 numbers off the top of my head, so.

19 Q. Does that sound about right, or would you
20 prefer to just not say?

21 A. I would prefer not to say.

22 Q. Would you also agree that customers using
23 propane or heating oil will also be seeing increases in
24 the same range as natural gas as a result of the general
25 runup in oil and gas prices over the past year?

0174

1 A. I actually -- I can not say, I don't track
2 those costs.

3 Q. Would you agree that it's likely that they
4 will see some degree of increase?

5 A. According to all the meteor reports, yes.

6 Q. Under the proposed across the board increases
7 in this case, the customers with natural gas, propane,
8 or heating oil for space heat will see both the increase
9 in rates from this case on their electric bill for
10 lights and appliances and something more like assuming a
11 60% increase, which I know you haven't agreed to, a
12 significant increase in their home heating bills; is
13 that correct?

14 A. Okay.

15 MR. FFITCH: Those are all the questions I
16 have, Your Honor.

17 JUDGE CAILLE: Redirect?

18 MR. TRAUTMAN: No, Your Honor.

19 JUDGE CAILLE: All right, you're excused,
20 Ms. Steward.

21 And the next witness to take the stand is
22 Mr. Parvinen.

23 MR. FFITCH: Your Honor, may I have a moment
24 to confer while Mr. Parvinen is taking the stand?

25 JUDGE CAILLE: Certainly.

0175

1 MR. FFITCH: Thank you, Your Honor.

2 JUDGE CAILLE: Mr. Parvinen, you have been
3 previously sworn, and, Mr. Trautman, will you please
4 introduce your witness again.

5 MR. TRAUTMAN: Thank you, Your Honor.

6

7 Whereupon,

8 MICHAEL PARVINEN,

9 having been previously duly sworn, was called as a
10 witness herein and was examined and testified as
11 follows:

12 DIRECT EXAMINATION

13 BY MR. TRAUTMAN:

14 Q. Good morning, Mr. Parvinen.

15 A. Good morning.

16 Q. Could you please give your full name and
17 position with the Commission for the record.

18 A. Michael Parvinen, I'm a regulatory analyst.

19 Q. And you previously indicated that you have
20 co-sponsored Exhibits 1, 2, and 3, have you sponsored
21 any other exhibits to this proceeding?

22 A. No.

23 MR. TRAUTMAN: Thank you.

24 Mr. Parvinen is available for
25 cross-examination.

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1 JUDGE CAILLE: And, Mr. ffitch, I show you
2 have 45 minutes for Mr. Parvinen.

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

4

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

6 BY MR. FFITCH:

7 Q. Good morning, Mr. Parvinen.

8 A. Good morning.

9 Q. Could you just remind us again what is your
10 specific position with the Commission Staff?

11 A. My title is regulatory analyst. Primarily I
12 work in the revenue requirements area for gas and
13 electric companies.

14 Q. Okay. And your chief expertise is in
15 accounting; am I correct?

16 A. That's correct.

17 Q. Now on this particular case, are you
18 responsible for multiple issues in the settlement?

19 A. Yes.

20 Q. Can you state which ones those are?

21 A. Well, it would be all of the -- the general
22 -- the overall revenue requirement calculation and
23 primarily the adjustments that support that calculation.

24 Q. So that would include the adjustments shown
25 on Attachment A to the settlement?

0177

1 A. Yes. Some of the detail behind those
2 adjustments would be other witnesses, but.

3 Q. Okay. Let me start out by asking you a
4 question about, a couple of questions about the issue of
5 production property adjustment. Is that a term you're
6 familiar with?

7 A. Yes.

8 Q. Could you just describe in your own words for
9 the Bench and the record what the production property
10 adjustment addresses in general, not in this particular
11 case but conceptually.

12 A. Okay. In general it's related to taking the
13 production facilities' costs and costs related to those
14 production facilities. When they get built into a rate
15 case, if they're built into the case based on the rate
16 year, what those levels are at the rate year including
17 power supply expenses, usage at the rate year. Then
18 they need to all be factored back to the test period
19 levels. So, for example, production facilities, if
20 their projected usage in the rate year is at the rate
21 year volumes, then you would bring those back using a
22 production factor to bring those back to a rate year
23 level so it's comparable. Again, you kind of use a
24 matching concept of matching all of costs and revenues.

25 Q. Now did you review the testimony of

0178

1 Mr. Norwood in this proceeding and the rebuttal
2 testimony specifically?

3 A. Yes.

4 Q. I realize this is obviously not your
5 testimony, but --

6 MR. FFITCH: Can I approach the witness, Your
7 Honor, and just I want to ask him a question on this
8 topic about Mr. Norwood's testimony, and I can provide
9 him with a copy?

10 JUDGE CAILLE: You may approach.

11 BY MR. FFITCH:

12 Q. Now, Mr. Parvinen, I have provided you with a
13 copy of Mr. Norwood's rebuttal testimony there, which is
14 Exhibit Number 12, and I have directed your attention to
15 a particular page. Could you just tell us what page
16 number --

17 JUDGE CAILLE: Excuse me, Mr. ffitch, I
18 believe you're referring to Number 11.

19 Q. I apologize, that's correct, Exhibit Number
20 11, and I have directed you to a particular page there,
21 Mr. Parvinen, have I not?

22 A. Yes, page 8.

23 Q. Thank you. Now actually my question is quite
24 hopefully straightforward, which is, have you reviewed
25 that portion of the testimony, and is that in your view

0179

1 an essentially accurate description of the production
2 property adjustment? And if you need a take a minute to
3 refresh your memory, that's fine.

4 A. Yes, that's correct.

5 Q. Thank you, Your Honor. Thank you,
6 Mr. Parvinen, those are all the questions I have
7 regarding that exhibit.

8 In the establishment of general rates,
9 Mr. Parvinen, do you believe that the first and foremost
10 task is to establish what is the fair, just, reasonable,
11 and sufficient level of the rates?

12 A. Yes.

13 Q. And would you agree that in order to
14 establish a PCA or an ERM, an earnings recovery
15 mechanism, that is balanced or symmetrical, that first
16 the base rates need to be accurately calculated and set
17 at the fair, just, reasonable, and sufficient level so
18 that when the costs go up or down, the symmetrical
19 sharing bands will actually operate equally?

20 A. In general, yes, that's true.

21 Q. Well, let me elaborate on that just a bit.
22 If you have sharing bands about or around a base line as
23 in Avista's ERM, but in the setting of rates you
24 intentionally left out an adjustment that was necessary
25 to lower base rates, let's just use as an example an

0180

1 overstatement of fuel costs, this is a hypothetical
2 example, if you in your analysis determine that it is a
3 clear overstatement of fuel costs, that would ordinarily
4 be the subject of an adjustment to base rates, now in my
5 hypothetical you leave out that adjustment, haven't you
6 removed the symmetry of the ERM mechanism, because even
7 though the mechanism may account for the same items
8 somehow, it doesn't automatically give the rate payers
9 the lower rates because of the sharing arrangement, in
10 other words because that reduction is actually run
11 through the ERM mechanism with the sharing formula?
12 That's a long question, did you follow me?

13 A. I think I have the gist of what you were
14 saying, and I guess my answer would be as a single
15 component I would agree that that could be true. In the
16 development of the mechanism, it may be symmetrical in
17 that there may be, you know, and it's possible that had
18 that been a known item that there was something to
19 offset that to where the symmetry still exists.

20 Q. Okay. Can I ask you to turn to what's been
21 marked as Exhibit 362. This is one of your
22 cross-examination exhibits.

23 A. Okay.

24 Q. It's a copy of a Commission order, and would
25 you accept that this is the order allowing revised

0181

1 exhibits to the Puget Sound Energy power cost
2 adjustment --

3 A. Yes.

4 Q. -- settlement?

5 A. Yes.

6 Q. And I ask you to turn to the page titled A-4
7 production adjustment, I will have a page number for you
8 in a moment, that's page 22 of the exhibit. Do you have
9 that?

10 A. It took me a while, yes, now I'm there.

11 Q. All right, page 22 of the exhibit. Now,
12 Mr. Parvinen, you have worked on Puget Sound general
13 rate cases before, correct?

14 A. Yes, I have.

15 Q. And would you agree that the production
16 adjustment of the type shown here in this exhibit has
17 been included in virtually every Puget Sound Power and
18 Light general rate case in recent years?

19 A. Yes.

20 Q. During your experience?

21 A. Yes.

22 Q. Now if you take a look at the first column,
23 that's headed pro forma, those amounts are the pro forma
24 results of the case with respect to each of the items
25 excluding the production adjustment, correct, that's in

0182

1 the Puget case that's the subject of this order?

2 A. Would you go ahead and repeat that for me,
3 please.

4 Q. The numbers shown in the first column are the
5 pro forma results of the Puget rate case with respect to
6 each of the items listed, excluding the production
7 adjustment?

8 A. Yes.

9 Q. Now in the second column under the word
10 production, you see the number 2.84%?

11 A. Yes.

12 Q. And would you accept that this is what is
13 known as the production factor?

14 A. Yes, that's correct.

15 Q. And that represents the reduction from rate
16 year loads to the test year, which in the Puget case had
17 been the year ended June 30, 2001, correct?

18 A. That's correct.

19 Q. And as a result of this adjustment, net
20 operating income was increased by \$1.1 Million, and
21 that's shown on line 25 in the far right?

22 A. Right, that's correct.

23 Q. In the box, correct?

24 A. Right, yes.

25 Q. Now I'm going to ask you to turn to Exhibit

0183

1 A-1 to this order, which I will give you a page number,
2 that will be page 18 of this same exhibit, Exhibit 362,
3 and ask you to refer -- I'm sorry, are you there?

4 A. Yes.

5 Q. And could you refer to lines 10 through 26,
6 please. Those represent the individual cost items
7 included in the PCA as either variable or fixed costs,
8 correct?

9 A. Yes.

10 Q. Now please take a look at lines 33 and 35,
11 the fixed rate items are coded with an A in parentheses,
12 correct?

13 A. Yes.

14 Q. And that's referring to the codes up above in
15 the column next to the test year numbers in between the
16 test year and the rate year numbers, correct?

17 A. Yes, that's true.

18 Q. And those items include fixed production,
19 appreciation, and other such expenses, correct?

20 A. Yes.

21 Q. And then items coded with a C represent
22 variable cost items, correct, that's line 35?

23 A. Yes, that's right.

24 Q. Items such as fuel, purchase power, secondary
25 sales, transmission, and other variable items, correct?

0184

1 A. Yes, that's true.

2 Q. Now if I could ask you to focus on the fixed
3 items, just for comparison I want you to look at lines
4 23 and 24, depreciation expense, and for depreciation
5 for transmission you can see the test year number of
6 \$4.851 Million, correct?

7 A. Yes, I see that.

8 Q. And that's the test year number, and if we go
9 across to the rate year, it's the same level, correct?

10 A. Yes.

11 Q. If we go to the other depreciation number,
12 production depreciation on line 23, the test year
13 depreciation expense is \$1,060,000 less than the rate
14 year level, is it not?

15 A. Well, it is less, I will accept the number
16 subject to check.

17 Q. Okay, thank you. Now if you look back again
18 at page 22, Exhibit A-4, and look at line 11, you can
19 see under the production column, do you have that?

20 A. Yes.

21 Q. You can see that same amount was the
22 adjustment to depreciation and amortization, that same
23 amount being the \$1.06 Million, correct?

24 A. Yes, that's the amount in the production
25 column, yes. Oh, right, okay, I see how they tie, yes.

0185

1 Q. Now do you know or would you accept that
2 every item that is included in the production adjustment
3 and also treated as a fixed item is adjusted in this
4 fashion in the Puget filing here?

5 A. I would accept that subject to check. I
6 would have to go through on each item and check page by
7 page or number by number on those two pages, but it
8 makes sense, I would accept that subject to check.

9 Q. Thank you. I would like to move on to
10 another area, talk a bit about the energy recovery
11 mechanism revenue credit.

12 A. Okay.

13 Q. First question is, Mr. Parvinen, in the
14 energy recovery mechanism, what is the retail revenue
15 credit, how does it work in 25 words or less?

16 A. It's actually a similar component to this in
17 that it gives customers a credit for increased,
18 generally it's an increase, in change in volumes from
19 the test period volumes. So in general, as your retail
20 loads grow, a credit is given for those increased
21 volumes based on the same type of costs we have been
22 talking about, the fixed components of production
23 facilities, production facilities expenses and so forth.

24 Q. And in Avista's direct testimony in this
25 case, how did Avista propose to change the calculation

0186

1 of the retail revenue credit?

2 A. They did not propose in testimony a change to
3 do that.

4 Q. Do you agree that the original filing
5 modified the calculation of the ERM retail revenue
6 credit, although it wasn't addressed in testimony?

7 A. Yes.

8 Q. And how does the settlement deal with this
9 issue?

10 A. The settlement deals with it basically in
11 that at the end of this rate case, at the end of, well,
12 by December, the end of December, the parties will get
13 together, the company will initiate a process so the
14 parties can get together and discuss modifying,
15 changing, eliminating, or continuing forward with the
16 existing model of the ERM where these types of items or
17 other modifications can be made. The Staff had only
18 proposed changes that are in the settlement at this
19 time. Anything further would be adjusted or potentially
20 adjusted after those discussions at the end of December.

21 Q. So how will that correct this issue; are you
22 saying that essentially it will be addressed later on in
23 the collaborative process?

24 A. It is an item that can be, that can and I'm
25 sure will be addressed in those discussions at that

0187

1 time. In the settlement it was not deemed a significant
2 enough item to warrant dealing with it in the context of
3 the settlement.

4 Q. All right.

5 Next topic I would like to address, which is
6 the calculation of transmission revenues, can you please
7 describe the basis that the OASIS revenue -- now OASIS
8 is an acronym, can you tell us what that OASIS stands
9 for?

10 A. Actually, I don't know what it stands for.

11 Q. You could look it up as they say, hold on one
12 moment.

13 Would you accept that it stands for open
14 access same time information system?

15 A. Yes, I would accept that.

16 Q. Would you please describe the basis that the
17 OASIS revenue is calculated in the settlement revenue
18 requirement?

19 A. I'm trying to remember specifically how we
20 got to the number it was based on.

21 Q. Would you accept that the revenue from the
22 first half of the year 2005 was annualized by comparing
23 revenue in the first half of the year to total years
24 over the last five years?

25 A. Yes.

0188

1 Q. Have you reviewed the workpapers Avista
2 supplied in response to Public Counsel Data Request 217
3 and 218?

4 A. Yes, I have seen those. It's been a while,
5 and I think 217 was modified recently or at least part
6 of 217, but I have seen those.

7 Q. Modified subsequent to the settlement
8 agreement?

9 A. Yes.

10 Q. And would you accept that in response to
11 these data requests, the company has provided several
12 documents, and one of those shows the lowest level of
13 OASIS revenue in the last five years to be \$3.1 Million,
14 and in another the lowest amount is shown to be \$2.4
15 Million, is that familiar to you?

16 A. Yes, that's familiar.

17 Q. Did you investigate the difference between
18 those two responses?

19 A. Through the -- when we were first raising
20 these issues in the settlement where there was numerous
21 discussions on those levels, so yes, we had looked into
22 that.

23 Q. But these additional items were presented
24 after the settlement; isn't that correct, is that when
25 you looked into this was after the settlement?

0189

1 A. During the discussions in the settlement we
2 had agreed on a number based on the methodology, we had
3 talked about how the number was calculated. I guess I
4 actually hadn't seen the actual calculation until later
5 after the settlement.

6 Q. Okay. Let's move to another issue,
7 borderline revenue. Can you describe the calculation of
8 borderline revenue as represented in the settlement?

9 A. Yeah, I believe that one was based on an
10 average of the last three or five years, I can't
11 remember. There was a number of different averages used
12 throughout the case.

13 Q. Would you accept that it was calculated using
14 the revenue from the first half of the year 2005,
15 annualizing that, and then comparing revenue in the
16 first half of the year to the total years over the last
17 five years in the same manner as the OASIS revenues?

18 A. Yes, I would accept that.

19 Q. What is your basis for believing that using
20 the first half of 2005 is a reasonable method of
21 calculating a pro forma level for those revenues?

22 A. Basically when it came down to what numbers
23 to use for settlement purposes, we looked at those
24 numbers as being reasonable in the context of the
25 information that was provided. Were they hard, concrete

0190

1 calculations that would normally be accepted as a pro
2 forma, in that case I would say probably not. But for
3 settlement purposes, they were deemed as reasonable
4 representations.

5 Q. All right. And could you please explain how
6 the actual transmission revenues for borderline and the
7 PPL Dry Gulch account are calculated? Would you accept
8 that this calculation uses annual demand within the last
9 12 months ratcheted so that a month's demand carries
10 forward until it's expired or replaced at a higher
11 level?

12 A. That sounds right, yes.

13 Q. Would you agree that this is not the way
14 Avista pro forma'd either of these two accounts in its
15 original filing?

16 A. That's correct.

17 MR. FFITCH: Your Honor, I have one other
18 line of questioning, it may take a few more minutes.

19 JUDGE CAILLE: I think this would be a,
20 Mr. ffitich, this would be an appropriate time for us to
21 take our morning recess, and let's take a ten minute
22 recess, be back at 11:11.

23 (Recess taken.)

24 JUDGE CAILLE: Mr. ffitich, if you could just
25 indulge me for a moment, could I please ask the witness

0191

1 what is borderline?

2 THE WITNESS: Yes, it's another retail
3 wheeling revenue component. It shows up in the
4 settlement agreement, let me see, in Attachment A of
5 Exhibit 2, so it's Attachment A to the settlement
6 agreement, which is Exhibit 2, in Footnote Number 2, so
7 it's a component within the power supply adjustment.

8 JUDGE CAILLE: Thank you, you may proceed.

9 MR. FFITCH: Thank you, Your Honor.

10 BY MR. FFITCH:

11 Q. Mr. Parvinen, the settlement that you have
12 just referred to, Exhibit 2, was filed on August 12th;
13 am I correct?

14 A. Yes.

15 Q. And the date of the joint direct testimony
16 that you have co-sponsored is August 26th; is that
17 correct?

18 A. That's correct.

19 Q. And Public Counsel also filed extensive
20 direct testimony and exhibits on August 26th, correct?

21 A. Yes.

22 Q. Did Staff direct any data requests to Public
23 Counsel with respect to its testimony?

24 A. No.

25 Q. And you yourself have not filed any rebuttal

0192

1 testimony on any of the issues addressed in Public
2 Counsel's filing on the 26th, correct?

3 A. No, that's correct.

4 Q. I'm going to ask you to turn to Exhibit 363,
5 do you have that? That's one of your cross exhibits.

6 A. Okay.

7 Q. And Exhibit 363 is Public Counsel Data
8 Request Number 3 to Staff and the answer, correct?

9 A. Yes.

10 Q. And this inquires about an adjustment called
11 the pro forma labor non-exempt, correct?

12 A. Yes, that's correct.

13 Q. And that is also an adjustment that shows up
14 as one of the line items on Attachment A to the
15 settlement, which is Exhibit 2, correct?

16 A. Yes.

17 Q. And is it fair to paraphrase this data
18 request as a request to Staff to provide calculations,
19 documentation, rationale, or reasoning in items A, B,
20 and C supporting the adjustment; is that correct?

21 A. That's correct.

22 Q. And if we look -- and the only information
23 that you provided in response to A, B, and C if we look
24 down in the response section is the response to two data
25 requests, correct, ICNU Data Request 6.1 and Public

0193

1 Counsel Data Request 218, that's the only response to A,
2 B, and C, correct?

3 A. That's correct.

4 Q. Now I have attached copies of those two data
5 requests, and they're incorporated as part of this
6 exhibit.

7 A. Right.

8 Q. And could you turn to page 2 of the exhibit,
9 please, that's the cover page of Public Counsel 218.

10 A. Okay.

11 Q. And that was prepared on August 31st, 2005,
12 correct, you can see it at the top?

13 A. Right, okay.

14 Q. By company employees, correct?

15 A. Yes.

16 Q. And now can I ask you to turn to page 21 of
17 that exhibit, that's the cover page of the ICNU Data
18 Request 6.1, do you have that?

19 A. Yes.

20 Q. And what date was that prepared?

21 A. August 28th, 2005.

22 Q. And so both of those responses were prepared
23 by the company and were prepared and provided after the
24 settlement agreement, correct?

25 A. Yes.

0194

1 Q. And after the date of the joint direct
2 testimony, correct?

3 A. Yes.

4 Q. Now I'm going to ask you to turn to Exhibit
5 364, also one of your cross exhibits, and this exhibit
6 is Public Counsel Data Request Number 4, and it relates
7 to pole attachment, electric pole attachment fees,
8 correct?

9 A. Yes.

10 Q. And again, that is one of the adjustments
11 shown on Exhibit 2, Attachment A to the settlement,
12 right?

13 A. Yes, that's correct.

14 Q. And we asked the same questions with respect
15 to this adjustment, and if we look down in the response
16 area, the supporting information provided was the same,
17 i.e., the same two data requests as the last matter we
18 discussed, correct?

19 A. Yes, that's correct, yes.

20 Q. Now if we go to Exhibit 365, this is a Public
21 Counsel, I'm sorry, let me make sure I've got my numbers
22 correct here, 365 is Public Counsel Data Request 5?

23 A. Yes.

24 Q. And this asks for support for the gain on
25 sale of miscellaneous property adjustment, correct?

0195

1 A. Yes.

2 Q. And the questions are the same, and then the
3 Staff answer to the DR is the same again; isn't that
4 correct?

5 A. That's correct.

6 Q. And if I asked you these same questions about
7 Exhibit 366, which relates to the lease adjustment, and
8 367, which relates to the miscellaneous expense
9 adjustment, would your answers be the same?

10 A. Yes, they would.

11 Q. Those are essentially identical data requests
12 regarding different adjustments, the Company and the
13 Staff's response is identical?

14 A. Yes, that's correct.

15 Q. Now which exhibit do you have open in front
16 of you there? Do you have the number, the DR number?

17 A. DR Number 6.

18 Q. Okay, that will work fine. Can you take a
19 look at part D.

20 JUDGE CAILLE: Excuse me, for the record DR 6
21 is which exhibit?

22 MR. FFITCH: Sorry, Your Honor, that's
23 Exhibit 366.

24 JUDGE CAILLE: Thank you.

25 BY MR. FFITCH:

0196

1 Q. And I'm just referring the witness to part D
2 of the question, and that's, as with these other
3 exhibits, Mr. Parvinen, that's an identical part of the
4 series of requests for each of these exhibits, isn't it?

5 A. Yes, that's correct.

6 Q. And we asked Staff for counter arguments that
7 it had considered regarding its litigation risk on these
8 different adjustments, correct?

9 A. Yes.

10 Q. And Staff objected as indicated here in the
11 response down below, correct?

12 A. That's correct.

13 Q. And then can I ask you to turn to Exhibit
14 368; do you have that?

15 A. Yes, I have that.

16 Q. And that's Public Counsel Data Request Number
17 8, correct?

18 A. Yes.

19 Q. And that asks you or asks Staff to provide a
20 list of adjustments that Staff would envision proposing
21 if the case were not in settlement, correct?

22 A. That's correct.

23 Q. And the Staff's response down below is an
24 objection to the question, correct?

25 A. That's correct.

0197

1 Q. At the time of the settlement, did Staff have
2 a litigation position on the various issues in the rate
3 case?

4 MR. TRAUTMAN: Objection.

5 JUDGE CAILLE: Any response, Mr. ffitch?

6 MR. FFITCH: I will withdraw the question,
7 Your Honor.

8 I believe that's all the questions I have for
9 this -- may I have a moment, Your Honor?

10 JUDGE CAILLE: Yes.

11 MR. FFITCH: Thank you, Your Honor, that's
12 all the questions I have on cross.

13 JUDGE CAILLE: All right, any redirect,
14 Mr. Trautman?

15 MR. TRAUTMAN: Yes, very briefly.

16

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

18 BY MR. TRAUTMAN:

19 Q. Mr. Parvinen, you earlier received a series
20 of questions asking you about Puget Sound Energy's PCA;
21 do you remember that exchange?

22 A. Yes.

23 Q. Is the PCA for Puget Sound Energy, is it
24 identical to the ERM for Avista?

25 A. No, they are different. I mean the companies

0198

1 are different, they operate differently, so the
2 mechanisms that they're both under would be different,
3 and they are different. One example is that, you know,
4 Avista has its retail revenue credit component built
5 into the ERM that we have talked about. Puget does not
6 have that built into their mechanism. They have a
7 similar type of mechanism, the production factor
8 adjustment that we talked about, and that's built into
9 their rate case as opposed to the PCA mechanism. So
10 that's one of the differences, but yes, they are
11 different.

12 Q. In that example you just related, do those,
13 does the adjustment you related that's in the ERM,
14 namely the retail revenue cost, does that address the
15 production property adjustment?

16 A. In general, yes. It also incorporates other
17 things. It's based on the total change in volumes as
18 opposed to a projection back to rate year, so it's
19 different, but yet it still incorporates a lot of the
20 same components, the production components. But again,
21 they're different, but yet the general idea is the same.

22 MR. TRAUTMAN: Thank you, that's all I have.

23 JUDGE CAILLE: Anything further, Mr. ffitch?

24 MR. FFITCH: No, Your Honor.

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

0199

1 BY CHAIRMAN SIDRAN:

2 Q. Mr. Parvinen, just one question, are you
3 familiar with Mr. Norwood's response in the exhibit that
4 you reviewed that was a response to the assertion that
5 the ERM already accounted for these differences in
6 production credit?

7 A. Yes.

8 Q. And do you agree or disagree with that
9 testimony?

10 A. In general I would say partially, I partially
11 agree in that the theory, it incorporates the theory.
12 It takes a lot of the same ideas and accounts for the
13 same ideas. But like I said, it's a little bit
14 different. It incorporates more than just -- it's more
15 than just a production factor adjustment. As long as
16 volumes grow for just retail load growth, then they
17 would be much more comparable, but it also takes into
18 account total changes. So whether that's normal or
19 colder would get incorporated. Average load changes, if
20 the average consumption goes down, that would be
21 incorporated, if it goes up, that would be incorporated.
22 So there's other differences but -- I kind of lost your
23 original question.

24 Q. Well, let me try reframing it. Do you agree
25 or disagree with Mr. Norwood's testimony, which is I

0200

1 take it to the effect that the production credit is
2 already factored into the ERM and that it would be in
3 effect double counting if you were to follow the
4 suggestion raised by Public Counsel that it be done in
5 the rate base?

6 A. Yes, yes, I would agree with that.

7 CHAIRMAN SIDRAN: Thank you.

8 JUDGE CAILLE: Anything further for this
9 witness?

10 All right, Mr. Parvinen, you're excused.

11 And, Mr. McIntosh.

12 MR. FFITCH: Your Honor, Public Counsel,
13 while Mr. McIntosh is coming up, Public Counsel had
14 identified some cross for Mr. McIntosh in the initial
15 estimates, we're now reducing that estimate
16 significantly, and I think it appears that Mr. Van Cleve
17 is probably going to cover our area, so I'm going to
18 request that he be permitted to go first and that we may
19 not have any additional questions, or we may just have
20 limited questions when he's done.

21 JUDGE CAILLE: That would be fine.

22 And, Mr. McIntosh, you have been previously
23 sworn.

24 And, Mr. Trautman, if you would like to
25 introduce your witness.

0201

1 MR. TRAUTMAN: Thank you, Your Honor.

2

3 Whereupon,

4 HANK MCINTOSH,

5 having been previously duly sworn, was called as a

6 witness herein and was examined and testified as

7 follows:

8 DIRECT EXAMINATION

9 BY MR. TRAUTMAN:

10 Q. Mr. McIntosh, could you please give your name
11 and position with the Commission for the record.

12 A. Yes, my name is Hank McIntosh, I'm a
13 regulatory analyst with the Commission Staff.

14 Q. Thank you. And you have previously been
15 identified as one of the co-sponsors to Exhibits 1, 2,
16 and 3, are there any other exhibits which you are
17 sponsoring in this proceeding?

18 A. No.

19 MR. TRAUTMAN: Thank you very much.

20 And, Your Honor, Mr. McIntosh is available
21 for cross-examination.

22 JUDGE CAILLE: You may proceed, Mr. Van
23 Cleve.

24 MR. VAN CLEVE: Thank you, Your Honor.

25 CROSS - EXAMINATION

0202

1 BY MR. VAN CLEVE:

2 Q. Mr. McIntosh, can you explain what your role
3 was in the review of this case.

4 A. Well, my role was primarily to look at power
5 supply related issues as well as in particular the
6 prudence of the acquisition of Coyote Springs 2.5.

7 Q. Were you also responsible for looking at
8 issues related to natural gas supply for electric
9 generation?

10 A. Well, yes, that was generally covered.

11 Q. And could you turn to Exhibit A to the
12 settlement stipulation.

13 A. Although other analysts supported me on that
14 to be clear.

15 Exhibit A, yes.

16 Attachment A?

17 Q. Yes, that's Attachment A, I'm sorry.

18 Does this exhibit identify the adjustments to
19 the company's filed case that the settling parties have
20 agreed to?

21 A. Yes, that's true.

22 Q. And can you point out which of those
23 adjustments relate to the issues that you reviewed in
24 the case?

25 A. Well, some of them I guess, probably power

0203

1 supply categories at the bottom, Coyote Springs 2 fuel,
2 that would be it.

3 Q. Did you review the results of the Aurora
4 power cost study?

5 A. Yes, as is submitted by the company.

6 Q. And is this the first rate case that Avista
7 has used the Aurora model for purposes of setting rates?

8 A. No, I believe they have used it in the Idaho
9 jurisdiction.

10 Q. Is it the first time that they have used the
11 Aurora model in Washington to set rates?

12 A. I don't know.

13 Q. Would you agree that the use of the Aurora
14 model was in response to past criticism by this
15 Commission of Avista's power cost modeling?

16 A. Well, I can't say that I know they selected
17 this model specifically due to some specific criticism,
18 no.

19 Q. Are you aware that there were criticisms in
20 the past of Avista's power cost modeling?

21 A. Oh, yes.

22 Q. And was the basis of that criticism that it
23 didn't calculate power costs on an hourly basis but it
24 was on a monthly basis?

25 A. That was, yes, my memory is that that was

0204

1 generally a criticism, yeah.

2 Q. And do you think since this is the first case
3 that Avista is using Aurora to set rates in Washington
4 that the use of that model deserves thorough scrutiny in
5 this case?

6 A. Well, yes and no. I think that it's a well
7 known model, it's used in other jurisdictions and other
8 power supply rate setting problems in our jurisdiction.
9 I don't think there's a particular extra level of
10 scrutiny required because Avista is using that model.

11 Q. Would you characterize the Avista or the
12 Aurora model as a fairly complex and sophisticated
13 model?

14 A. Well, yes.

15 Q. Can you describe what your qualifications are
16 for reviewing a utility production cost model?

17 A. Well, I have used them before in other jobs,
18 and I have gone to the user training on this particular
19 model, and I have a history with the power business and
20 the way dispatch orders electric power systems.

21 Q. Can you describe in this case what you did to
22 review the Aurora results?

23 A. We replicated the results in site, we did
24 some fuel sensitivities and some water eater
25 sensitivities.

0205

1 Q. Is that it?

2 A. Well, we further adjusted some maintenance
3 patterns.

4 Q. Was it your role to review the prudence of
5 Avista's acquisition of the remaining half of the Coyote
6 Springs 2 plant?

7 A. Yes.

8 Q. Would you agree that the acquisition of that
9 share of Coyote Springs 2 increased Avista's exposure to
10 gas price risk?

11 A. Yes.

12 Q. And would you accept subject to check that
13 Avista entered into the purchase and sale agreement for
14 that share of Coyote Springs 2 in October 2004?

15 If you need a reference for that, it's at
16 Mr. Peterson's testimony, page 14.

17 A. Okay, well, subject to check then.

18 Q. And would you also accept subject to check
19 that Avista assumed ownership of the second half of
20 Coyote Springs 2 on January 20th, 2005?

21 A. Subject to check.

22 Q. And is Coyote Springs 2 considered a base
23 load plant?

24 A. It's a combined cycle combustion turbine and
25 often plays the role of a base load plant.

0206

1 Q. Were you a witness in the PSE PCORC case,
2 power cost only rate case, the most recent one?

3 A. There have been two.

4 Q. The most recent one.

5 A. Yes.

6 Q. And did you attend the hearing, and were you
7 on the panel supporting the settlement in that case on
8 October 6th?

9 A. Yes.

10 Q. And do you recall at that hearing that a
11 representative of PSE testified that all but 12% of the
12 company's gas risk for 2006 had been hedged?

13 A. No.

14 Q. Do you know what percentage of Avista's gas
15 supply risk was hedged at the time that Staff entered
16 into the settlement?

17 A. A very small amount I think.

18 Q. And are you familiar with the case in which
19 the Commission imposed a disallowance on PSE for
20 imprudence related to the management of the Tenaska gas
21 supply?

22 A. Yes.

23 Q. And was part of the reason for that
24 disallowance that PSE had relied on the short-term
25 market instead of looking at longer-term alternatives?

0207

1 A. That was part.

2 Q. I think I want to refer you to a document
3 that I handed to you before you went up, and it's just
4 an excerpt from the Commission's order in that case,
5 which is Order Number 14 in Docket Number UE-031725.

6 JUDGE CAILLE: Is this an exhibit, Mr. Van
7 Cleve?

8 MR. VAN CLEVE: No, it isn't, Your Honor.

9 MR. TRAUTMAN: Do you have a copy of that?

10 JUDGE CAILLE: And could the Bench have a
11 copy, please.

12 MR. MEYER: And counsel would like a copy as
13 well.

14 BY MR. VAN CLEVE:

15 Q. Do you have page 43 from Order Number 14 in
16 front of you, Mr. McIntosh?

17 A. I think I do, yes.

18 Q. And I would like to refer you to paragraph
19 91, and it's really the second half of it I would like
20 you to focus on where, and I will just read it, it says
21 that:

22 It's clear to us that during the test
23 year PSE did not have a prudent
24 purchasing strategy in place. Instead
25 of developing a comprehensive strategy

0208

1 and a balanced approach considering
2 opportunities in short-term,
3 intermediate-term, and long-term gas
4 markets, PSE simply continued its
5 practice of buying in a short-term
6 market.

7 Do you see that?

8 A. Yes.

9 Q. And is it your understanding that PSE has
10 substantially improved its risk management practices
11 since the time of the Tenaska order?

12 A. Yes, it's my understanding.

13 Q. Have you evaluated Avista's overall risk
14 management strategy for gas used in electric generation?

15 A. Have not.

16 Q. On page 21 of the joint testimony at lines 16
17 and 17, it's talking about a prudence review, and it
18 says that the, and it's referring to a Commission order,
19 and it says:

20 This order suggests methods and
21 processes of decision making are
22 important elements of a prudence review.

23 Do you agree with that statement?

24 A. Yes.

25 Q. And have you evaluated Avista's strategy for

0209

1 hedging the gas risk of its acquisition of Coyote
2 Springs 2?

3 A. Yes, I looked at the price risk for Coyote
4 Springs 2.

5 Q. And did you look at the company's strategy
6 for supplying gas to that plant during the rate year?

7 A. Did not.

8 Q. In PSE's 2005 integrated resource plan, it
9 describes a programmatic hedging strategy that PSE has
10 put in place. Do you know if Avista has a similar
11 program?

12 A. I'm sorry, would you repeat that question.

13 Q. I'm asking you whether Avista has a
14 programmatic hedging strategy in place?

15 A. Not to my knowledge.

16 Q. If you could turn to page 23 of the joint
17 testimony at the bottom of the page, the question that
18 starts on line 19, did Staff consider the impact of
19 natural gas prices in its evaluation of CS2?

20 A. Yes.

21 Q. And it says that:

22 The Staff review did not include any
23 review of the future fuel costs since
24 there is no specific commodity contract
25 in place.

0210

1 Can you explain what that means?

2 A. We didn't consider the commodity problem,
3 fueling the unit, to be part of the acquisition problem
4 of determining prudence for the purchase. Thus the
5 acquisition of the turbine is independent of the
6 decision on exact methods of fueling it.

7 Q. So in your view it was prudent to acquire
8 Coyote Springs 2 without a strategy for managing the gas
9 supply risk?

10 A. It could have been, and I think it is. I
11 think that the point is to how one doesn't buy the gas
12 before one owns the plant.

13 Q. If you could refer to a series of cross
14 exhibits that we had identified for Mr. Peterson, which
15 begins with Exhibit 96.

16 MR. TRAUTMAN: Mr. Van Cleve, does he have
17 those exhibits?

18 MR. VAN CLEVE: He does, I gave them to him.

19 A. Oh, okay.

20 BY MR. VAN CLEVE:

21 Q. And Exhibit 96 is --

22 JUDGE CAILLE: Could you just hold on a
23 minute while the Bench gets its exhibits.

24 Go ahead, Mr. Van Cleve.

25 BY MR. VAN CLEVE:

0211

1 Q. Exhibit 96 is a Avista response to Staff Data
2 Request 40; is that correct?

3 A. Yes.

4 Q. Have you reviewed this data response and the
5 attached energy resources risk policy?

6 A. I have a 40 and a 40C, is that the same
7 exhibit?

8 Q. They're actually slightly different.

9 A. Oh.

10 Q. 40 contains an answer and 40C --

11 A. Is a risk policy.

12 Q. -- pertains to risk policy, but they're all
13 one data response, or they're all one cross-examination
14 exhibit, excuse me.

15 Have you reviewed the risk policy?

16 A. I have looked at it, yes.

17 Q. And have you come to a conclusion about
18 whether the risk policy represents a prudent strategy
19 for hedging gas risk?

20 A. As a general matter?

21 Q. Yes.

22 A. No.

23 Q. As specifically related to Coyote Springs 2,
24 have you come to a conclusion about whether the risk
25 policy represents a prudent strategy for hedging gas

0212

1 risk?

2 A. No.

3 Q. In the first page of Exhibit 96 in the second
4 paragraph of the response.

5 A. Okay.

6 Q. The third sentence up from the bottom of that
7 paragraph, it says, the company does not attempt to
8 model the potential future gas or electric price
9 changes.

10 A. I'm not with you.

11 Q. It's in the second paragraph of the response
12 on page 1, it's 5 lines up from the bottom of the second
13 paragraph.

14 A. Is it the third paragraph of the response?

15 Q. It's the second paragraph of the response,
16 fifth line up, begins, the company does not attempt to
17 model potential future gas or electric price changes.

18 A. I see that.

19 Q. And do you think that's reasonable?

20 A. I would prefer that the company had a
21 demonstrated effort of modeling forward prices. I know
22 that's a bit difficult subject. It takes a long time to
23 develop good modeling approaches, and maybe they can be
24 helped by good consultants. In general I'm not entirely
25 pleased with that, but I'm not entirely devastated

0213

1 either.

2 Q. If you could look at the next cross exhibit,
3 which is 97, and this is the Avista response to Staff
4 141, and the request is, please describe the fuel
5 acquisition policy Avista is using to supply its gas
6 fired resources. Have you reviewed this response?

7 A. Yes.

8 Q. Do you have an understanding of what that
9 policy is?

10 A. Yes, I do.

11 Q. Could you explain it?

12 A. Well, my understanding is in practice the
13 policy is or amounts to studying forward curves for
14 electricity and gas and estimating their requirements
15 for both in the future and computing or figuring in an
16 intuitive way positions that are advantageous to the
17 company for points in the future.

18 Q. And is it your understanding that the company
19 doesn't use any fundamentals analysis in determining how
20 to supply gas for its electric generating resources?

21 A. You mean a fundamentalist gas price model? I
22 don't understand your question.

23 Q. Yes.

24 A. That's my understanding.

25 Q. If you could refer to Exhibit 98, which is

0214

1 the Staff response or the Avista response to Staff 142.

2 And by the way, was this series of data requests, are
3 those requests that you were responsible for asking?

4 A. Yes.

5 Q. And the request here is to discuss any
6 technique used to decide on the benefits and costs of
7 being short of gas in future operating conditions, and
8 the response says that the company doesn't have any
9 algorithms or techniques to choose between spot gas and
10 longer-term gas purchases. Do you think that's prudent
11 for the company to not have such techniques in place?

12 A. I would be happier if they had some such
13 techniques.

14 Q. The settlement assumes a natural gas price of
15 \$7.25; is that correct?

16 A. That's true.

17 Q. And how was that number calculated?

18 A. That number is estimated by a procedure of
19 using 90 days of NYMEX forwards and averaging them for
20 the period of the rate year.

21 Q. And can you explain your understanding of
22 what Aurora does with that gas price input?

23 A. Well, it -- that -- that will price out --
24 that actually -- that is, of course, a local price, it's
25 not -- that will drive the market as well as -- I mean

0215

1 turbines that are -- at least Coyote Springs 2 in
2 Avista's portfolio.

3 Q. So it determines market prices as well as the
4 dispatch of Avista's resources?

5 A. That's correct, yeah.

6 Q. And the \$7.25 number, is that assumed to be
7 in place for every hour of the rate year?

8 A. No, I don't believe so, I believe that's the
9 average of the hours of the rate year. In other words
10 it's a price shape.

11 Q. And how is that determined?

12 A. That reflects the price shape of the
13 underlying elements of the averaging. I don't have
14 those numbers with me.

15 Q. Did you request from the company information
16 about actual gas that it had already acquired for the
17 rate year?

18 A. No, we did not.

19 Q. Do you know if anybody else in the case did?

20 A. You mean in the Staff?

21 Q. No, any party.

22 A. Something tells me they did.

23 Q. Do you have Exhibit 202?

24 A. What is Exhibit 202?

25 Q. It is a cross exhibit identified for

0216

1 Mr. Johnson.

2 A. No, I guess I don't.

3 MR. VAN CLEVE: May I approach the witness,
4 Your Honor?

5 JUDGE CAILLE: Yes, you may.

6 BY MR. VAN CLEVE:

7 Q. Exhibit 202 is an ICNU data request that asks
8 for information regarding natural gas purchases for
9 2006; is that correct?

10 A. That's correct.

11 Q. Have you reviewed this data response?

12 A. I have not.

13 Q. Would you agree subject to check that the
14 average of the prices on page 2 of Exhibit 202 is \$6.85?

15 A. The average of what numbers on this thing?

16 Q. The gas purchase price listed in the fourth
17 column over in that exhibit.

18 A. So you're asking for the average of the bold
19 faced dollars per decatherm?

20 Q. Yes.

21 A. Okay, I will accept that subject to check.

22 Q. Do you think that what the company has
23 already acquired for gas is a relevant factor?

24 A. That would depend on its quantity.

25 Q. Well, based on the quantities listed here, do

0217

1 you think this is relevant information that should have
2 been considered in the settlement?

3 A. I don't know.

4 Q. Okay, I would like to ask you some questions
5 about Mr. Falkenberg's proposed adjustments; did you
6 review those?

7 A. You're talking about his rebuttal testimony
8 and --

9 Q. I'm talking about the adjustments that he
10 proposed in his direct testimony and --

11 A. Oh, yes.

12 JUDGE CAILLE: Mr. Van Cleve, do you have a
13 reference for us?

14 MR. VAN CLEVE: Yes, Your Honor, it's Exhibit
15 301, and I'm going to refer to page 4, which was the
16 page of his exhibit which was revised on October 13.

17 THE WITNESS: Oh.

18 MR. VAN CLEVE: And I believe I --

19 THE WITNESS: You gave me that page.

20 MR. VAN CLEVE: -- gave one to Mr. McIntosh
21 before he took the stand.

22 BY MR. VAN CLEVE:

23 Q. Referring to page 4 of Exhibit 301, there's a
24 table at the bottom identified as table 1; do you see
25 that?

0218

1 A. Yes.

2 Q. And this is a summary under number 1, and
3 there's items listed 1 through 7 of Mr. Falkenberg's
4 proposed adjustments.

5 A. Yes.

6 Q. The first adjustment relates to
7 Mr. Falkenberg's proposal to exclude one standard
8 deviation from the mean from the hydro years that are
9 input into Aurora; did you evaluate that issue?

10 A. Well, I thought about that issue, yes. What
11 do you mean by evaluate?

12 Q. Were you the Staff person responsible for
13 looking at that issue?

14 A. No, I wasn't.

15 Q. And who was?

16 A. Yohannes Mariam.

17 Q. The second issue regarding hydro shaping, and
18 this relates to the fact that the company used a five
19 year average of the hydro shape that was input into
20 Aurora rather than a hydro dispatch that would be
21 responsive to future market prices, were you the Staff
22 person responsible for that issue?

23 A. Yes, I think so. Well, I collaborated with
24 Mr. Mariam on that too.

25 Q. And you believe that this adjustment is

0219

1 incorrect?

2 A. Yes, that's right.

3 Q. And can you explain why?

4 A. Because I think that hydro is typically used
5 in Avista's system to clip loads, not to extract
6 economic rents. However, what that means is it's not a
7 profit taking operation. It sometimes is the case that
8 their high load hours and high price hours are
9 determinate, but the operation is -- low load hours are
10 -- the dispatch of hydro, which is primarily run of the
11 river, is to clip peaks.

12 Q. Would you agree that Avista is a net seller
13 in the market?

14 A. That's true.

15 Q. And is over 50% of their generating supply
16 hydro?

17 A. In terms of energy?

18 Q. Yes.

19 A. Yes.

20 Q. And it's your position that the operators of
21 that system don't run the system to maximize its
22 economic value?

23 A. I think they clip peaks first, take economic
24 rents second.

25 Q. Let's move on to the next adjustment, the

0220

1 Colstrip capacity adjustment, were you the Staff person
2 responsible for that issue?

3 A. Yes.

4 Q. And my understanding of this issue is that
5 the operators of Colstrip plan to upgrade the capacity
6 of that facility during the rate year, but that wasn't
7 included in the settlement; is that correct?

8 A. That's true.

9 Q. And why shouldn't it be included?

10 A. Well, because it has to be a known and
11 measurable event. That would mean it's not only its
12 benefits but its costs have to be before us. So the
13 benefits could be simulated as if it were going to
14 happen, but the cost of that upgrade weren't in the cost
15 side of the equation, so to be consistent they shouldn't
16 be there.

17 Q. Did you investigate whether the operators of
18 Colstrip had provided budgets for those upgrades?

19 A. I didn't investigate that.

20 Q. So you're saying that it wasn't a known and
21 measurable cost because the company didn't include it in
22 its case?

23 A. Because it wasn't -- money hadn't been spent.

24 Q. So the money has to be spent for it to be
25 known and measurable?

0221

1 A. For it to exist.

2 Q. Were you also responsible for the issues 4,
3 5, and 6 that relate to plant outages?

4 A. Yes, the Colstrip outage, yes.

5 Q. And let's take the first one, the Colstrip
6 planned outage, my understanding of this adjustment is
7 it relates to unrealistic assumptions about when planned
8 maintenance will occur, and what's your criticism of
9 that adjustment?

10 A. I think the adjustment is based on the idea
11 that it's possible to optimize maintenance of that so
12 that the most -- the best time of the year can be
13 selected when there are other constraints in play,
14 namely availability of labor and parts, which makes the
15 picking and choosing the best, most economically
16 advantageous times difficult.

17 Q. Now was this an issue that was addressed in
18 the settlement?

19 A. Yes, I think so.

20 Q. And do you know what the basis for the
21 adjustment in the settlement was, how it was calculated?

22 A. Yes, it was based on an economic -- the most
23 economically advantageous positioning of the planned
24 maintenance, yeah.

25 Q. And do you know whether that is consistent

0222

1 with the actual maintenance schedule that's been
2 proposed for the rate year by the operator?

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

4 Q. And do you know if the company reran Aurora
5 to calculate the outage amount, the adjustment in the
6 settlement?

7 A. You mean, oh, I see, no, I don't -- think
8 they did not, no.

9 Q. Okay, I just wanted to ask you about one
10 final adjustment, which is the bidding factors. Were
11 you the person responsible for looking at that issue for
12 Staff?

13 A. Yes.

14 Q. And can you explain your understanding of
15 what the bidding factors are?

16 A. Yes, the bidding factors are adjustments that
17 one puts on the cost of dispatch or benefits of dispatch
18 for particular units to make their behavior of dispatch
19 more realistic in the given modeling context before the
20 analyst.

21 Q. Is the idea to use forward price, forward
22 price curves to recalibrate the model; is that what the
23 bidding factors do?

24 A. They could be used to do that. They could be
25 used to use -- they're a general tool that exists in the

0223

1 software.

2 Q. And how did Avista use them in this case?

3 A. They adjusted bidding factors to make
4 dispatch particularly of Coyote look more realistic with
5 respect to their experience and at the same time be
6 consistent with the forward electricity prices they were
7 observing.

8 Q. If you could refer to Exhibit 371 --

9 JUDGE CAILLE: Mr. Van Cleve, are you going
10 into a new line of questioning?

11 MR. VAN CLEVE: Yes, Your Honor.

12 JUDGE CAILLE: I think this would be a good
13 time for us to take our lunch recess, so we will
14 reconvene at 1:30.

15 (Luncheon recess taken at 12:05 p.m.)

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1 A F T E R N O O N S E S S I O N

2 (1:30 p.m.)

3 JUDGE CAILLE: We are back from our lunch
4 recess, and we are ready to continue the
5 cross-examination of Mr. McIntosh.

6

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

8 BY MR. VAN CLEVE:

9 Q. Mr. McIntosh, could you refer to Exhibit 174
10 at page 2, and this is the rebuttal testimony of
11 Mr. Kalich.

12 A. Okay, page 2, rebuttal of Kalich, yes.

13 Q. I just wanted to follow up on this discussion
14 we were having about the bidding factor adjustment, and
15 if you look at line 29 on page 2, it's fairly brief,
16 could you just read number 6 there where it talks about
17 bidding factors.

18 A. Sure.

19 Bidding factors are designed to align
20 forward natural gas and electricity
21 prices so that they reflect current
22 relationships between the two commodity
23 prices.

24 JUDGE CAILLE: And, Mr. McIntosh, if you will
25 just speak a little more slowly for the benefit of the

0225

1 court reporter, please.

2 THE WITNESS: Sure.

3 BY MR. VAN CLEVE:

4 Q. Could you keep on and read the next two
5 sentences, please.

6 A. (Reading.)

7 Absent bidding factors and a correct
8 representation of the relationship of
9 natural gas and electricity, company
10 resources are not dispatched in a proper
11 manner. The company's power supply
12 expenses therefore would not be properly
13 calculated absent bidding factors.

14 Q. And is that paragraph that you just read
15 consistent with your understanding of how bidding
16 factors are used in the Aurora model?

17 A. Yes, it's consistent with what I have said
18 before.

19 Q. And you would agree that the gas price input
20 to the Aurora model was updated as part of the
21 settlement?

22 A. That's true.

23 Q. And do you know if the bidding factors were
24 updated also?

25 A. I just don't remember right now.

0226

1 Q. Well, let's assume that they weren't updated,
2 would that create a potential mismatch, the fact that
3 gas was updated and bidding factors were not?

4 A. Well, yes, it's possible, and it's -- in
5 adjusting numbers for settlement, all kinds of things
6 are possible just as adjustments for normalization of
7 maintenance can distort the answer.

8 Q. I would like you now to refer to Exhibit 371,
9 which was a cross exhibit identified for you.

10 A. Okay, and it was?

11 Q. 371.

12 A. And that was a letter from the Staff or to
13 the Staff?

14 Q. That is a set of data requests from the Staff
15 to the company.

16 A. Okay, what I have is responses from the
17 company.

18 Q. You don't have Exhibit 371 in front of you?

19 A. Apparently not.

20 MR. TRAUTMAN: May I approach the witness?

21 JUDGE CAILLE: Yes, you may.

22 BY MR. VAN CLEVE:

23 Q. Do you have the exhibit now?

24 A. Yes.

25 Q. And is this a set of data requests that was

0227

1 sent by the Staff to the company on August 2nd, 2005?

2 A. Let's see, yes, it was.

3 Q. If you look at page 1 of Exhibit 371, the
4 last sentence in the letter, it says that any questions
5 concerning the data requests should be directed to Hank
6 McIntosh; is that correct?

7 A. That is correct.

8 Q. Are you the author of these data requests?

9 A. I am.

10 Q. And some of these requests are the same ones
11 that we were looking at earlier this morning; is that
12 correct?

13 A. That's right.

14 Q. For instance number 141?

15 A. That's right.

16 Q. Which asks about the fuel acquisition policy?

17 A. That's right.

18 Q. And 143 asks about the risk management plans?

19 A. Right.

20 Q. And 144 asks about unit startup commitment,
21 scheduling, and dispatch, what's that question aimed at?

22 A. I'm sorry, which?

23 Q. 144.

24 A. Well, that question is aimed at fuel
25 management, startup problem.

0228

1 Q. And if you look at 147, it says:
2 Please provide the planned maintenance
3 schedule for each of the Colstrip units
4 for years 2003 to 2007.

5 Do you see that one?

6 A. I see that.

7 Q. So is that relevant to the issue that
8 Mr. Falkenberg was raising about the maintenance
9 schedules for Colstrip?

10 A. Well, I think he was raising the issue of
11 historical patterns of maintenance.

12 Q. Wasn't that what this question is asking
13 about?

14 A. Well, it looks to me like it's a combination
15 of history and future.

16 Q. And if you look at question 160.

17 A. Mm-hm.

18 Q. It says:
19 Please describe the methods used to
20 estimate forced outage rates for Aurora
21 inputs.

22 A. I'm with you.

23 Q. And is that asking about the question that
24 Mr. Falkenberg raised about the generic outage rates
25 used in Aurora?

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1 A. He did raise a similar question.

2 Q. And would you -- first let me refer you, do
3 you have the joint settlement testimony in front of you?

4 A. I do.

5 Q. And if you refer to page 6 of the joint
6 testimony, which is Exhibit 1 at line 17.

7 A. Yes.

8 Q. And at line 19 it says that:

9 At the time of the August 3rd settlement
10 meeting that it was reasonable to expect
11 discovery to be substantially complete.

12 Do you see that?

13 A. I see it.

14 Q. And given the large number of outstanding
15 data requests on power cost issues, is that really a
16 correct assumption?

17 A. To say that, substantially complete?

18 Q. Yes.

19 A. I think it's accurate to say that. The
20 reason is that many of the questions issued in the
21 exhibit you refer to were asked face to face in meetings
22 with the company and on the telephone with members of
23 the company, and this was a matter of gaining concrete
24 for the record responses.

25 Q. Well, referring back to Exhibit 371.

0230

1 A. Which was the letter?

2 Q. Yes, that's the Staff data requests.

3 A. Okay.

4 Q. You would agree, would you not, that the
5 answers to these Data Requests 141 through 163 were
6 received after the settlement was signed?

7 A. That's after the settlement?

8 Q. Yes.

9 A. Right.

10 Q. And for instance with Data Request 141
11 regarding the fuel acquisition policy, had you
12 previously made that request to the company informally?

13 A. I previously discussed this with the company
14 and expressed an interest in receiving this, and I
15 formalized these to guarantee acquisition of
16 information.

17 Q. And had you received the risk management
18 policy prior to asking this request?

19 A. Well, where's it -- well, you see, this
20 question actually doesn't ask for the formal fuel
21 acquisition policy memo, it asks for a description of
22 fuel acquisition policy. But I guess because of the
23 previous redundancy, yes, we were in possession of the
24 policy, yeah.

25 Q. And with respect to Request Number 147, had

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1 you previously received the planned maintenance schedule
2 for the Colstrip units?

3 A. I frankly don't remember that one.

4 Q. Could you refer to Exhibit 372, which is
5 another data request from the Staff that was dated
6 August 3rd.

7 A. Yes.

8 Q. Now is the information that Request Number
9 165 is seeking, had you previously obtained that
10 information from the company?

11 A. No, I had asked for an estimate before and
12 received that and formalized the request this way. I
13 had come up with this estimate myself by looking at Form
14 1's and wanted to confirm what their understanding was
15 of the data in the database.

16 MR. VAN CLEVE: That's all the questions I
17 have, Your Honor.

18 JUDGE CAILLE: Redirect.

19 MR. TRAUTMAN: Thank you.

20

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

22 BY MR. TRAUTMAN:

23 Q. Mr. McIntosh, do you recall that Mr. Van
24 Cleve went through a line of questions that inquired
25 about the Staff review of the company's hedging

0232

1 strategy?

2 A. Well, yes, I do.

3 Q. You do recall that line of questions?

4 A. I do.

5 Q. Did you have discussions about the company's

6 hedging strategies as part of the review of the

7 company's case?

8 A. Yes.

9 Q. And when did you have those discussions?

10 A. I think they were in June. I will have to

11 find a notebook and find that conversation.

12 Q. But approximately that time frame?

13 A. Yes.

14 Q. And what did the company indicate was its

15 strategy for hedging during those discussions?

16 A. Well, this tells you for hedging it was as

17 described to me a matter of getting -- putting together

18 position reports 18 months forward using data from

19 over-the-counter traders and other sources for

20 electricity price and gas price and computing reasonable

21 positions for their units in the market as they were

22 unfolding. This is a matter of making a good guess

23 about what the future generation prospects are for a

24 unit and the price of gas at the same time. When one

25 comes up and then one buys ahead, one can buy either

0233

1 electricity ahead or gas ahead, and this way hedging is
2 effective. This is not -- sort of financial derivative
3 hedging as the newspapers often describe it.

4 Q. Do you have an opinion about whether or not
5 this is a reasonable approach?

6 A. It is reasonable.

7 Q. I believe you also indicated that the company
8 did not use mathematical formulas in determining its
9 hedging strategy; is that correct?

10 A. That is true.

11 Q. And is this required to make Avista's
12 approach reasonable in your view?

13 A. No, I don't think so.

14 Q. Do all utilities take the same approach to
15 hedging?

16 A. No.

17 Q. And so do they all use mathematical formulas?

18 A. By mathematical formulas, you mean a
19 sophisticated set of equations and models?

20 Q. Yes.

21 A. Mathematical models and computer models which
22 might help them understand the price behavior of the
23 future?

24 Q. Yes.

25 A. Well, no, they don't all do that, no.

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1 MR. TRAUTMAN: That's all the questions I
2 have.

3 JUDGE CAILLE: Any followup?

4

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

6 BY MR. VAN CLEVE:

7 Q. Mr. McIntosh, did you make a determination
8 that it was prudent for the company to be short on gas
9 for the rate year?

10 A. No, I didn't address their position per se, I
11 determined prudence of an approach.

12 MR. VAN CLEVE: Thank you.

13 JUDGE CAILLE: Chairman Sidran.

14

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

16 BY CHAIRMAN SIDRAN:

17 Q. Mr. McIntosh, counsel asked you a series of
18 questions, the thrust of which related to the timing of
19 these data requests and receipt of information in
20 relationship to the timing of the settlement agreement
21 being reached.

22 A. Right.

23 Q. My question is, did you review all of the
24 materials that were submitted in response to these data
25 requests, albeit they may have come in after the

0235

1 settlement agreement?

2 A. Yes.

3 Q. And did your review of those materials have
4 impact on your opinion as to the reasonableness of the
5 settlement?

6 A. It confirmed my opinion.

7 CHAIRMAN SIDRAN: Thank you.

8 JUDGE CAILLE: Thank you, you're excused,
9 Mr. McIntosh.

10 I believe the next witness is --

11 MR. MEYER: Mr. Norwood.

12 JUDGE CAILLE: -- Mr. Norwood.

13 Mr. Norwood, you have been previously sworn.

14 THE WITNESS: Yes.

15 JUDGE CAILLE: Mr. Meyer, you may introduce
16 your witness.

17

18 Whereupon,

19 KELLYNORWOOD,

20 having been previously duly sworn, was called as a

21 witness herein and was examined and testified as

22 follows:

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

24 BY MR. MEYER:

25 Q. Mr. Norwood, are you ready?

0236

1 A. I'm ready.

2 Q. Okay. You have prefiled rebuttal testimony
3 that has been identified as Exhibit Number 11; is that
4 correct?

5 A. That's correct.

6 Q. And do you have any changes or corrections to
7 make to that?

8 A. I have one correction to make on page 5.

9 Q. If you will just wait a moment.

10 A. Yes.

11 Q. All right, please proceed.

12 A. Yes. On page 5 at the bottom there's a
13 Footnote 2 which includes a number of numbers. All of
14 those numbers are in thousands, so you should add three
15 zeroes to each of those numbers. That's the only change
16 that I have.

17 Q. So if I were to ask you the questions that
18 appear in that prefiled rebuttal testimony with those
19 corrections having been made, would your answers be the
20 same?

21 A. Yes.

22 Q. Are you also sponsoring what has been marked
23 for identification as Exhibit Number 12?

24 A. Yes.

25 Q. Was that prepared by you or under your

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1 direction and supervision?

2 A. Yes, it was.

3 Q. Is the information contained therein true and
4 correct?

5 A. Yes.

6 MR. MEYER: With that, Your Honor, I move for
7 the admission of Exhibits 11 and 12.

8 JUDGE CAILLE: Is there any objection to the
9 admission of exhibits 11 and 12?

10 Hearing none, those exhibits are admitted.

11 MR. MEYER: The witness is available for
12 cross.

13 JUDGE CAILLE: Could I ask, Mr. Van Cleve,
14 for you to bring me one of those sheets of the order of
15 witnesses, I seem to have misplaced mine up here, and
16 I'm at a loss without it.

17 MR. FINKLEA: Here you are.

18 JUDGE CAILLE: Is Public Counsel going to go
19 first on Mr. Norwood?

20 MR. FFITCH: Yes, Your Honor, thank you. May
21 I proceed?

22 JUDGE CAILLE: Oh, yes.

23

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

25 BY MR. FFITCH:

0238

1 Q. Good afternoon, Mr. Norwood.

2 A. Good afternoon, Mr. Ffitch.

3 Q. And I just have a few questions, I probably
4 won't use up all the time that I have allotted today.

5 Let me just ask you to turn to your Exhibit
6 11, which is your rebuttal testimony, and go to pages 8
7 and 9. Starting on page 8, we have already looked at
8 that earlier today with Mr. Parvinen, and that's where
9 you address the production property adjustment, correct?

10 A. Yes, I see that.

11 Q. And you talk about Mr. Lott's theory on this
12 issue in that section as well, correct?

13 A. Yes.

14 Q. Now if you could turn to the top of page 9,
15 the first in line 1 of page 9, you state that if there
16 were no offsetting adjustments, Mr. Lott would be
17 correct.

18 A. Yes, I see that.

19 Q. And you go on to say that the production
20 factor would be correct except for the fact that the ERM
21 already exists or already deals with that issue.

22 A. Yes.

23 Q. That's your essential dispute with Mr. Lott,
24 correct?

25 A. Yes.

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1 Q. Does Mr. Lott support the ERM as it now
2 exists?

3 A. Mr. Lott has recommended some changes to the
4 ERM, so no, he doesn't support all the existing
5 parameters of the ERM.

6 Q. Okay. And, in fact, doesn't Mr. Lott suggest
7 in his testimony that the Puget Sound Energy power cost
8 adjustment is more properly designed and that the Avista
9 ERM, energy recovery mechanism, could be easily modified
10 to achieve the same results?

11 A. Mr. Lott makes reference to a properly
12 designed PCA. I don't know that he identifies the Puget
13 one as being the proper PCA, so I don't know that I
14 would agree with that.

15 Q. All right.

16 A. There's a number of ways to put together a
17 mechanism, and I think there's a number of mechanisms
18 that would be considered proper and reasonable, and I
19 think the ERM is also one of those.

20 Q. Well, I'm just asking you to confirm
21 Mr. Lott's theory, but if you don't recall, that's fine,
22 we'll go on to my next question.

23 Could you turn, please, to page 10, and on
24 page 10 there is a question that starts on line 17 which
25 refers to Mr. Lott's testimony and says that Mr. Lott

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1 states that a production property adjustment has been
2 used for many years in Puget Sound Energy rate cases;
3 that's correct, right, that's the question?

4 A. Yes.

5 Q. Then if you look over at your answer on the
6 last paragraph of your answer on page 11, you state at
7 line 14, thus the fact that some form of production
8 property adjustment has been used in the past for PSE
9 does not in and of itself mean, paraphrasing, that
10 that's appropriate here. That's your testimony,
11 correct?

12 A. That's correct.

13 Q. So you don't dispute that Puget Sound Energy
14 has had a production factor adjustment in its general
15 rate proceedings over the last many years with the
16 Commission; isn't that correct?

17 A. No, I do not. And as you have mentioned, the
18 PCA is different than the ERM that we have. The
19 production factor adjustment addresses the same kinds of
20 costs that the ERM, the retail revenue credit adjusts in
21 the ERM. And so there are two different mechanisms, two
22 different adjustments to deal with the very same issue
23 and the very same costs.

24 Q. Well, I understand that that's where we have
25 a dispute in this case, but I just wanted to clarify

0241

1 that this answer to your testimony there with regard to
2 what Puget Sound Energy has been doing.

3 A. Yes, and it may be appropriate for that to be
4 in Puget's case. But as I mentioned, our mechanism is
5 different, and it's appropriate to have a different
6 adjustment to deal with those production costs in the
7 ERM. But it's really important not to double count and
8 to assume that the production factors should be in ours
9 just because it's in Puget's, you can't draw that
10 conclusion.

11 Q. All right.

12 Now let's look a little more specifically at
13 the Puget Sound Energy PCA, the issue of how to deal
14 with a production factor for the fixed costs in Puget's
15 power cost adjustment has been dealt with and included
16 in the settlement that creates the PCA, has it not?

17 A. Could you direct me to a place where that's
18 in there.

19 Q. Well, these were the exhibits that we looked
20 at with Mr. Parvinen this morning, and if you give me a
21 minute I can give you those cites.

22 A. Thank you.

23 Q. Exhibit 362.

24 A. I will need a copy of that, I don't believe I
25 have one.

0242

1 MR. FFITCH: Can counsel provide that, it's a
2 copy of the 15th Supplemental Order in the --

3 MR. MEYER: Yes, we have an extra here.

4 You're referring to Exhibit 362, that's the
5 one?

6 MR. FFITCH: Exhibit 362.

7 THE WITNESS: I have it.

8 BY MR. FFITCH:

9 Q. Mr. Parvinen walked us through Exhibit A-1 to
10 this order and Exhibit A-4, Exhibit A-1 is page 18.

11 A. I see it, I have it.

12 Q. And Exhibit A-4 is page 22, and the title on
13 page A-4 is production adjustment; do you have that?

14 A. I do have it, yes.

15 Q. And really this is quite a general question,
16 but I'm happy to have you refer to this, I am tying back
17 to this. And the question is again the issue of how to
18 deal with the production factor for the fixed costs in
19 the Puget Sound Energy power cost adjustment mechanism
20 has been dealt with and included in the settlement
21 creating that power cost adjustment, correct?

22 A. No, not a similar mechanism, not a similar
23 calculation as this. I guess you would have to show me
24 where that's included.

25 Q. So is --

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1 A. Are you referring to the retail revenue
2 credit?

3 Q. I'm referring to the Puget Sound Energy PCA
4 and asking you if in that PCA they have dealt with the
5 production property adjustment issue?

6 A. Oh, in this, in the Puget, I'm sorry.

7 Q. Correct, I'm just confirming --

8 A. I'm not familiar with that case, so I guess I
9 couldn't speak to this adjustment or what it would --
10 the details of what it would represent. On its face I'm
11 assuming that that's what it is, it's a retail -- an
12 adjustment for production costs.

13 Q. All right.

14 A. I'm not intimately familiar with this
15 particular order or the calculations that are here.

16 Q. All right. I have a question about the
17 retail revenue credit factor. Does the application of
18 the retail revenue credit factor in the earnings, or
19 excuse me, the energy recovery mechanism, the ERM,
20 automatically refund lower unit costs to customers, or
21 are those dollars instead passed through the sharing
22 mechanism first?

23 A. Could you be more specific, I'm not sure what
24 you're asking.

25 Q. If you have lower unit costs that you are

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1 able to calculate or develop through the retail revenue
2 credit, do those lower costs get passed through in their
3 entirety to customers through a refund or credit type
4 mechanism, or instead in the ERM are those dollars first
5 run through the sharing mechanism?

6 A. All of the dollars that flow through the ERM
7 go through the sharing mechanism, and there's a reason
8 for that. All the dollars should be for the most part
9 treated the same whether you're on the upside or the
10 downside. The decision has been made that there should
11 be some kind of a sharing, and right now we have the \$9
12 Million deadband and the 90/10 sharing, so they're
13 treated the same as any other dollar that goes through
14 the ERM. The objective of the ERM to begin with is --

15 MR. FFITCH: Your Honor, I believe the
16 witness is going beyond the scope of the question here.
17 I did not ask about the objective of the ERM, just about
18 the operation of the retail credit factor.

19 JUDGE CAILLE: The witness is directed to
20 just answer the question.

21 BY MR. FFITCH:

22 Q. So, Mr. Norwood, as I heard your answer, the
23 answer is, yes, that the dollars, as all dollars do,
24 flow through the sharing mechanism, all dollars in the
25 ERM?

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1 A. That's right.

2 Q. And earlier, Mr. Norwood, I asked Ms. Steward
3 a question about the impact of the recent PGA filings
4 for Avista within the last year; were you here for that
5 question?

6 A. Yes, I was.

7 Q. Would you agree that as a result of the
8 company's PGA filings within the last year and those
9 that are pending that customers will see an increase of
10 about 60% in natural gas rates since last winter?

11 A. I don't know what the numbers were from a
12 year ago, I'm familiar with the numbers this year.

13 Q. Do you have a number in mind for what that
14 increase would be?

15 A. This year I think it's about 23%, 24%.

16 Q. But you don't know how that relates to the
17 rates that were being paid last year?

18 A. Do not.

19 MR. FFITCH: Those are all the questions I
20 have, thank you, Your Honor.

21 JUDGE CAILLE: Mr. Van Cleve.

22 MR. VAN CLEVE: Thank you, Your Honor.

23

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

25 BY MR. VAN CLEVE:

0246

1 Q. Mr. Norwood, in your rebuttal testimony you
2 state that you have reduced your electric litigation
3 case by about \$2.4 Million; is that correct?

4 A. I think the electric has declined by a little
5 over \$1 Million, let me get to that spot.

6 Yes, electric has been reduced by about \$2.4
7 Million.

8 Q. If you can refer to page 5 of your rebuttal
9 testimony.

10 A. Yes, I'm there.

11 Q. And are these the adjustments that you're
12 making to your original filing for your litigation case?

13 A. That's correct.

14 Q. And it appears that the two largest
15 adjustments are number 6 and 7, can you describe both of
16 those?

17 A. Yes. Item number 6, through the discovery
18 process and review of the case, we discovered that we
19 had double counted some dollars there, and so we
20 identified that in the settlement discussions. That is
21 line number 6 CS2 gas transportation, and so we are
22 subtracting that out of our revenue requirement request.

23 Item number 7 is Coyote Springs 2 fuel, and
24 that is basically in going through the settlement
25 discussions what we're working toward is trying to

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1 reflect in our rates what we know today to be the costs
2 going forward, and that reflects then the cost of gas
3 for CS2 at the time we entered into settlement
4 discussions.

5 Q. And does that adjustment also reflect a
6 difference in the hydro years, or is that based on your
7 filed case?

8 A. I think you would need to ask Mr. Kalich that
9 question. He would have been the one that ran the
10 numbers.

11 Q. Okay. One question I had is that the similar
12 adjustment in Attachment A to the stipulation.

13 A. Yes.

14 Q. Which is also labeled CS2 fuel is \$3.651
15 Million.

16 A. Yes.

17 Q. And I was trying to understand whether the
18 difference between that and your adjustment was based on
19 the water years that were used?

20 A. I asked Mr. Falkner the answer to that
21 question, and he told me, and I have forgotten what the
22 difference is. There are some differences in some of
23 those numbers, so you will have to ask Mr. Falkner, I
24 apologize.

25 Q. Okay.

0248

1 If you could turn to page 14 of your rebuttal
2 testimony.

3 A. I'm there.

4 Q. And I would like to ask about some questions
5 about your proposed or the settlement's reduction of the
6 ERM deadband from \$9 Million to \$3 Million.

7 A. Yes.

8 Q. And were you involved in the development of
9 the ERM mechanism?

10 A. Yes, I was.

11 Q. And would you agree that the settlement
12 stipulation that provided for the ERM did not have any
13 provision for reducing the deadband?

14 A. That's correct. It left open the opportunity
15 to the future to discuss it, but it did not specifically
16 provide for it in the stipulation.

17 Q. And that settlement provided that the company
18 would make a filing on or before December 31st, 2006, to
19 review the ERM.

20 A. Yes, on or before.

21 Q. And is that stipulation that adopted the ERM
22 in that order, is the company requesting that the
23 Commission modify that order in this case, or would it
24 continue to apply?

25 A. No, there's the opportunity at any point in

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1 time to come in and to request changes in costs, whether
2 they be in the general rate case, the stipulation did
3 not prohibit a request at any point in time to change
4 the deadband.

5 Q. Now that stipulation did provide that the
6 company would bear the burden of proof of demonstrating
7 that any proposed change to the ERM was in the public
8 interest; is that right?

9 A. I believe that's correct.

10 Q. And what is the justification for reducing
11 the ERM or the ERM deadband from \$9 Million to \$3
12 Million?

13 A. If you look back, Mr. Van Cleve, over the
14 past several years, we have absorbed the deadband in
15 each of every year that the ERM has been in place, and
16 that's really driven by the volatility in gas costs as
17 well as the low hydro conditions that we continue to
18 experience. What we have tried to do as a company is to
19 get healthy in the past three to five years. Part of
20 that is recovering our costs, and we have not been able
21 to recover our costs due in large part to the high gas
22 costs and low hydro generation. We have had four of the
23 last five years has been below normal hydro. What we
24 had proposed in this case was to eliminate the deadband
25 to allow us an opportunity to recover our costs so that

0250

1 we can buy down debt and get back toward an investment
2 grade credit rating. And through the settlement
3 discussions, we agreed to a lesser deadband of \$3
4 Million as opposed to the \$9 Million when our original
5 proposal had been zero. If you look at in Idaho we have
6 no deadband, we have a pure 90/10 sharing. So our
7 effort really has been to try to get back to financial
8 health, and reducing the deadband is one way to do that.
9 And if you look at analysts such as AG Edwards, they
10 noted that with regard to the reduction from 9 to 3 in a
11 report they issued August 16th, indefinite positive,
12 electric recovery mechanism deadband would be reduced to
13 \$3 Million annually from \$9 Million. Standard & Poor's
14 also has commented that that's a very positive
15 development to reduce that deadband so that the company
16 can get closer to recovering its costs.

17 Q. Can you look at your testimony at the bottom
18 of page 14.

19 A. I'm there.

20 Q. Do you see the question:

21 Is the current ERM mechanism viewed by
22 the financial community as being
23 effective in recovery of cost as
24 compared to other power supply
25 mechanisms in place across the country?

0251

1 And your answer is no; is that right?

2 A. Yes.

3 Q. And you quote from a Bank of America
4 securities report; is that right?

5 A. That's correct.

6 Q. And if you look at Exhibit 15, I believe you
7 will find that it is a company data response that has
8 the page out of that report that you quote from.

9 A. Yes, I have it.

10 Q. And if you look at the second page of Exhibit
11 15 where you note at the bottom --

12 A. Is it labeled page 3 of 3 at the top?

13 Q. Page 2 of 3, it's the cover page to the
14 report.

15 A. I see it.

16 Q. And did you note at the bottom where it says
17 that:

18 Bank of America seeks new business with
19 the companies mentioned in its research
20 reports. As a result, investors should
21 be aware that the firm may have a
22 conflict of interest that could affect
23 the objectivity of this report.

24 A. Yes, I see that.

25 Q. Now on the next page, page 3, if you look in

0252

1 the box at the bottom, and there is a paragraph that
2 says adjustment clauses.

3 A. Yes.

4 Q. And that's what you quote from in your
5 testimony, right?

6 A. Yes.

7 Q. And in your testimony, you say there are two
8 major points to note from this report, and the first is
9 that the ERM is less effective at providing cost
10 recovery for Avista than other similar mechanisms for
11 utilities across the country.

12 A. Yes.

13 Q. And can you tell me where it says that, can
14 you point to where it says that in this report?

15 A. I'm looking at, Mr. Van Cleve, page 3 under
16 adjustment clauses:

17 This deadband approach has subjected the
18 utilities to greater earnings volatility
19 than a simple recovery mechanism.

20 I'm also aware in looking at some of the
21 other states that there are other mechanisms that
22 provide dollar for dollar recovery or something similar
23 to what we have in Idaho where there is no deadband,
24 there's a 90/10 sharing. You can also look at Standard
25 & Poor's reports, other rating agency reports, as well

0253

1 as the analysts who continually note that we are
2 absorbing \$9 Million through the deadband.

3 Q. Well, isn't it true, Mr. Norwood, that this
4 report is providing a very simplistic one page summary
5 of the status of regulation in each state?

6 A. I think it's significant that they note that
7 the deadband is causing the utility to have greater
8 earnings volatility than other mechanisms would provide.

9 Q. Well, it says rather than a simple recovery
10 mechanism. I mean it doesn't attempt to quantify the
11 amount of risk that Washington utilities are subject to
12 compared to other states; isn't that right?

13 A. Yes, but I think you can also look at the
14 credit ratings of the utilities in the state of
15 Washington with Avista being one step below investment
16 grade and Puget being one step above investment grade,
17 and I think the information that's presented here on
18 adjustment clauses and return on equity may be part of
19 the reason why we're right there on the edge.

20 Q. Is the company's credit rating for first
21 mortgage bonds investment grade?

22 A. Yes, I believe it is.

23 Q. If you could look at Exhibit 14.

24 A. I have it.

25 Q. Which is a copy of a Moody's report.

0254

1 A. I have it.

2 Q. And if you could refer to page 5 of Exhibit
3 14.

4 A. I am there.

5 Q. Now this report is dated January 28, 2005, so
6 it was issued before you filed your rate case, correct?

7 A. Mine shows June of '04 unless I'm looking in
8 the wrong spot, Mr. Van Cleve. I think there were two,
9 there were two reports that you have provided here. One
10 is dated January of '05, and the other one is dated --

11 Q. I see.

12 A. -- June of '04.

13 Q. Okay. In any event, they were both before
14 you filed your rate case?

15 A. Yes.

16 Q. And under rating rationale in the second
17 paragraph, it says that the additional capacity, and
18 it's talking about increases in supply power, combined
19 with an ERM mechanism now available in Washington should
20 reduce earnings volatility associated with variability
21 and hydro conditions; is that right?

22 A. Yes.

23 Q. And then it goes on to cite strength in
24 regulatory relations in Washington.

25 A. Yes, I see that.

0255

1 Q. As justification for the rate increase.

2 Now there's no mention of any problem with
3 the \$9 Million deadband here, is there?

4 A. In more recent reports you will see concerns
5 related to the persistence of absorbing \$9 Million.

6 Q. And are there reports of that kind that were
7 issued before the rate case was filed?

8 A. Let's see, I'm not sure of the answer to
9 that. The ones I'm referring to were provided in a
10 response to an ICNU request. There's one dated in
11 September I believe.

12 Q. But aren't those reports merely noting that
13 it's good for bond holders that the deadband has been
14 reduced?

15 A. No, I think there's recognition by the rating
16 agencies and the analysts that continuing to absorb \$9
17 Million per year plus is inhibiting the company's
18 opportunity to pay down its debt and recover its credit
19 rating.

20 MR. VAN CLEVE: That's all I have, Your
21 Honor.

22 JUDGE CAILLE: Any redirect, or I'm sorry,
23 Mr. Meyer?

24 MR. MEYER: I'm sorry, were there
25 Commissioner questions first?

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1 JUDGE CAILLE: I believe we'll do the
2 redirect first.

3 MR. MEYER: Very well. Yes, I have a few.

4

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

6 BY MR. MEYER:

7 Q. Do you recall your exchange with respect to
8 the retail revenue credit as part of the ERM?

9 A. Yes, I do.

10 Q. And you were asked about whether the
11 operation of that credit as it appears in the ERM would
12 be subject to the sharing mechanism; do you recall that?

13 A. Yes, I do.

14 Q. And I believe you were about to explain why
15 you thought that was appropriate; would you please
16 elaborate?

17 A. Yes. When you design a mechanism, you have
18 to be careful about cherry picking certain elements of
19 the costs and say that those should be flowed through
20 dollar for dollar and others should be subjected to the
21 sharing mechanism. We had proposed that there be no
22 deadband, and so therefore any deviations in cost,
23 whether they be up or down, would be a 90/10 sharing.
24 And therefore, if they go the opposite way, then
25 customers get the benefit of that going the opposite

0257

1 direction. So I have concerns about suggesting that
2 certain cost categories should receive -- should be
3 treated differently than others.

4 Q. And so at the time the ERM was created and
5 approved for implementation, was it envisioned that the
6 revenue credit would work in such a way that it would be
7 subject to that sharing?

8 A. Yes, that's correct.

9 Q. While we're on the subject of the ERM, you
10 were asked by Mr. Van Cleve to refer to portions of your
11 testimony where you were assessing how the ERM was being
12 viewed by the investment community; do you recall that
13 colloquy back and forth?

14 A. Yes.

15 Q. Okay. Now is it the company's position that
16 an ERM per se is a necessary adjunct to rate making?

17 A. Absolutely.

18 Q. And what is it then, is it the deadband
19 that's at issue here?

20 A. Yes. If you look at the credit rating
21 agencies again, they have noted the importance of the
22 ERM mechanism itself given the volatile natural gas
23 prices as well as the hydro conditions that we have been
24 experiencing. And so what we're really addressing here
25 is not the mechanics of the mechanism. The mechanics of

0258

1 the mechanism really have proven themselves. It's been
2 in place for three years here in this state, there's
3 been a filing every year where the results have been
4 reviewed and approved. The same kind of mechanism has
5 been in place in Idaho since 1989. So the mechanics of
6 the mechanism actually are sound. What we're talking
7 about here is reducing the deadband to address better
8 recovery of costs.

9 Q. And you also referred I think in your words
10 to the persistence of absorbing the \$9 Million deadband,
11 what has been the company's history in that regard?

12 A. Well, since the mechanism was approved
13 effective in July of '02, the company has absorbed over
14 \$9 Million per year, the \$9 Million plus 10% of
15 additional dollars.

16 Q. And you referred also to the 90/10 sharing on
17 top of any absorption?

18 A. That's correct.

19 Q. Okay. Lastly you were asked, I believe the
20 reference was back to the table that appeared at page 5
21 of your rebuttal testimony where you laid out the
22 company's litigation position.

23 A. Yes.

24 Q. And you were directed to two entries there,
25 line 6 and line 7, line 6 being the CS2 gas

0259

1 transportation adjustment.

2 A. Yes.

3 Q. And what is the amount of that adjustment?

4 A. \$3,296,000.

5 Q. And that represents a decrease from the
6 company's original filing?

7 A. Yes.

8 Q. Now was that adjustment, that \$3.3 Million
9 adjustment, something that the company brought to the
10 attention of the parties during the course of this
11 proceeding, or was it otherwise a matter first brought
12 to the company's attention by other parties?

13 A. No, the company discovered the error in
14 reviewing its own analysis and brought it to the
15 attention of Staff and other parties.

16 Q. And did the company voluntarily agree to
17 reduce its revenue requirement to begin with by that
18 amount?

19 A. Yes.

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

21 JUDGE CAILLE: Any recross?

22 Chairman Sidran.

23 CHAIRMAN SIDRAN: Well, first I just want to
24 note for the record with respect to, let's see, it's the
25 Bank of America Exhibit Number 15, in which it reports

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1 the V-tie of the commissioners, that while I acknowledge
2 I was a candidate for attorney general in 2004, I have
3 never been the mayor of Seattle.

4 THE WITNESS: I think they may know more
5 about finance than politics.

6 CHAIRMAN SIDRAN: One would hope.

7

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

9 BY CHAIRMAN SIDRAN:

10 Q. My question is in light of this colloquy
11 about the ERM compared to Puget's process for dealing
12 with a similar issue, do you have any changes that you
13 wish to make to your testimony on the point that it
14 would be in effect a double counting if you were to make
15 this adjustment in both the basic rates and through the
16 ERM mechanism?

17 A. No, it's very clear that to do both would
18 double count. If you look at the exhibit that
19 Mr. ffitch took me through where, in the Puget case,
20 where they did the production factor adjustment, if you
21 look at those accounts, those are the same accounts.
22 There may be some minor differences, but those are
23 essentially the very same accounts that are used in
24 developing our retail revenue credit. So we can quibble
25 about whether the adjustment should be \$33 a megawatt

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1 hour or \$34 a megawatt hour, and there may be some
2 differences between us and Puget on that calculation,
3 but the bottom line is the retail revenue credit is
4 designed to do the very same thing that the production
5 factor adjustment does for Puget.

6 CHAIRMAN SIDRAN: Thank you.

7

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

9 BY COMMISSIONER OSHIE:

10 Q. Mr. Norwood, a couple questions to follow up.
11 Let's go to Exhibit 14, one of the cross exhibits of
12 Mr. Van Cleve's, on page 5 of 6.

13 A. I'm there.

14 Q. I want to refer you all the way down to the
15 bottom of the page in the paragraph heading, what could
16 change the rating down.

17 A. Yes.

18 Q. And just to paraphrase, what I understand is
19 that there, you know, this seems to say that there's
20 regulatory risk and that there is risk involved in the
21 trading company transactions.

22 A. Yes.

23 Q. And I just wanted to ask if you believe that
24 these, that they weight those risks equally in this
25 report?

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1 A. That is -- I can't -- obviously I can't speak
2 for the rating agencies, and Mr. Malquist could probably
3 add -- probably do a better job answering the question.
4 What I continue to look at are the rating agency
5 reports. They acknowledge and they recognize that there
6 is some risk associated with a trading operation. What
7 we are seeing and even in this case when you look at the
8 both Public Counsel and ICNU's witnesses, they have
9 compared the business profile risk for Avista to the
10 proxy group of companies that they have identified as
11 being similar, and what you see there is that, in the
12 case of ICNU's witness, Mr. Gorman, the risk profile is
13 6 for Avista, and the risk profile for the proxy group
14 is also 6. So even with the Avista Energy risk there,
15 it doesn't overwhelm the overall risk profile of the
16 corporation. And I think if you look at the S&P
17 reports, the Moody's reports, they are acknowledging
18 more and more that we -- they see that we have scaled
19 back the Avista Energy trading operations, they have
20 given -- we have adequate liquidity bidding, they have
21 confirmed that there's risk management policies in
22 place, and so that has provided more comfort around that
23 part of the business.

24 Q. I want to go back to testimony, actually it
25 was a question of I guess Mr. McIntosh, but it has to do

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1 with how the company purchases gas for its electric
2 generation. And, you know, understanding at least at
3 some level how the company purchases gas on its
4 distribution company for natural gas in which it buys
5 approximately 50% in firm long-term contracts or
6 contracts moving out through the rate year, they have
7 50% or roughly 50% in contracts that are indexed to
8 natural gas prices, and then they have a small amount
9 that they use to follow load as well as pull storage
10 from I guess the Jackson Prairie. Well, I was surprised
11 to hear that the company at least from the testimony
12 perhaps made it better said it was unclear as to whether
13 the company employed that kind of strategy in purchasing
14 gas for electric generation or whether it tends to as I
15 believe there's some testimony here about how it layers
16 the contracts.

17 A. Right.

18 Q. So perhaps you can elaborate a bit on that
19 and also how much the company, if at all, relies on
20 Avista Energy to acquire its gas for electric
21 generation.

22 A. Okay. First of all, on Avista Energy, we do
23 not rely in any sense on them in acquiring natural gas
24 at this point either for the LDC part of the business or
25 for generation. That is all done in house in the energy

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1 resources group under Mr. Peterson. When you look at
2 the strategy in how we layer in gas, and indeed we do,
3 and I would like to show you an exhibit in just a minute
4 that has been introduced here that illustrates this, but
5 we take the position report, and the position report is
6 nothing more than what we see 18 months in the future
7 for our electric resource needs, and we have some
8 options out there as to how we meet that need. You can
9 buy it short term, and we have our loads, we have some
10 long-term contracts, we have thermal, hydro, we layer
11 all that in, and you're going to have some differences
12 in those months. But then you have a choice to make, do
13 you buy gas, thermals, or do you buy in the marketplace?
14 And what Mr. Peterson does in his shop is they will
15 layer in gas to fill in the holes to make sure we comply
16 with the risk policy which limits how far out of balance
17 we can be over time, and so they have a very regimented
18 policy that they follow there.

19 I would like to address you to Exhibit 202 I
20 believe is the number, which is the table of, if someone
21 would confirm for me the proper exhibit number, it says
22 forward gas purchases on it.

23 MR. MEYER: For the record, this is --

24 A. It's ICNU response to 5.3.

25 MR. MEYER: -- 5.3, and it was a cross

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1 exhibit for Mr. Johnson, so why don't we just wait a
2 moment, Mr. Norwood, until everyone is there.

3 COMMISSIONER OSHIE: Yes, Mr. Norwood, I'm
4 trying to locate 202. I have 201.

5 MR. MEYER: May I approach, I have an extra
6 copy here if that would be helpful.

7 COMMISSIONER OSHIE: That would be fine,
8 counsel.

9 Thank you.

10 A. On the second page it shows a table of
11 natural gas purchases for electric generation, and this
12 is essentially for Coyote Springs 2, and what you see on
13 here, the first column is delivery month. If you go
14 over to trade date, what that says is in February of '05
15 we bought 5,000 decatherms per day for January of '06.
16 That's about one year in advance. You can see the cost
17 is \$6.81. Now today that price is probably in the \$12
18 to \$13 per decatherm range. As you go down the list,
19 you can see here in January how we have layered in
20 purchases for January of '06 over the course of time.
21 As you go down to the bottom, you can see through all
22 these purchases in some cases we purchased gas more than
23 one year in advance for the coming period. So even
24 though there were concerns expressed earlier about being
25 short gas, we're really not short gas. What we're doing

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1 is layering in some purchases over time based on our
2 electric resource needs. And if you tally these numbers
3 up, I believe we were about 40% hedged as you go to the
4 future at a price in the \$7 range, when right now we're
5 looking at \$10 to \$12 per decatherm. So I think we're
6 clearly doing what makes sense in terms of having a
7 strategy for layering and hedging over time.

8 COMMISSIONER OSHIE: Thank you very much for
9 the clarification.

10

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

12 BY COMMISSIONER JONES:

13 Q. Mr. Norwood, I think Mr. Van Cleve brought up
14 the point that some of your debt is rated above
15 investment rate.

16 A. Yes, I believe you could confirm --

17 Q. Could you give us some indication of which
18 types of notes are above investment grade and which are
19 below investment grade and what percentage of your total
20 debt of over \$1 Billion, I think it's over \$1 Billion,
21 is below and above?

22 A. Let me give you my understanding, and then
23 I'm going to have to punt to Mr. Malquist who is going
24 to be on the stand here shortly, he's our Chief
25 Financial Officer. It's my understanding that our first

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1 mortgage bonds are a debt backed by first mortgage bonds
2 are triple b minus, which is the lowest rung of
3 investment grade, and I believe the balance of our debt
4 is below investment grade. In terms of the amount, I'm
5 going to have to defer to Mr. Malquist as to how much is
6 there.

7 COMMISSIONER: Thank you.

8 JUDGE CAILLE: Anything further for this
9 witness?

10 All right, thank you, Mr. Norwood, you're
11 excused.

12 And Mr. Braden is next.

13 Will Public Counsel be going first with the
14 questioning on this witness?

15 MR. FFITCH: Yes, Your Honor.

16 JUDGE CAILLE: And, Mr. Braden, you have been
17 previously sworn.

18 Mr. Trautman, please introduce your witness.

19 MR. TRAUTMAN: Thank you, Your Honor.

20

21 Whereupon,

22 ROGER BRADEN,

23 having been previously duly sworn, was called as a
24 witness herein and was examined and testified as
25 follows:

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

2 BY MR. TRAUTMAN:

3 Q. Good afternoon, Mr. Braden.

4 A. Afternoon.

5 Q. Could you please give your name and position
6 with the Commission for the record.

7 A. Roger Braden, I'm the Assistant Director for
8 Energy with the Commission.

9 Q. And you previously indicated that you're one
10 of the co-sponsors of Exhibits 1, 2, and 3, have you
11 also prepared for this proceeding what's been marked as
12 your rebuttal testimony Exhibit 4?

13 A. Yes, I have.

14 Q. And are the statements in that testimony true
15 and correct to the best of your knowledge?

16 A. Yes, they are.

17 MR. TRAUTMAN: Your Honor, I move for the
18 admission of Exhibit 4.

19 JUDGE CAILLE: Is there any objection to the
20 admission of Exhibit 4?

21 Hearing none, Exhibit 4 is admitted into the
22 record.

23 MR. TRAUTMAN: Thank you, and Mr. Braden is
24 available for cross.

25 JUDGE CAILLE: You may proceed, Mr. ffitch.

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1 MR. FFITCH: Thank you, Your Honor.

2

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

4 BY MR. FFITCH:

5 Q. Good afternoon, Mr. Braden.

6 A. Good afternoon.

7 Q. First you're going to have to satisfy my
8 curiosity, I note that the initials on your testimony
9 are EMD, and I wondered is that you, or if not, who is
10 EMD?

11 A. This was a test to see if we had inquisitive
12 minds. That was a typographical error.

13 Q. Okay. So your counsel did not have you make
14 any corrections to your testimony on the stand, but what
15 should that read?

16 A. RAB.

17 Q. RAB. And who is EMD?

18 A. One of the staff in the attorney general's
19 section.

20 Q. Oh, okay.

21 A. Which took us a while to figure out.

22 Q. Still a mystery there, I'm trying to --
23 everybody can go back and look at the personnel list and
24 figure out whose initials those are.

25 I'm going to ask you to turn to Exhibit 4,

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1 which is your rebuttal, correct?

2 A. Okay.

3 Q. And are you the lead witness for Staff in
4 this proceeding?

5 A. Yes, I am.

6 Q. You're an attorney by training, correct?

7 A. Yes, I am.

8 Q. So you're not testifying as an accountant or
9 a cost of capital expert or an economist on those issues
10 in this case?

11 A. No, as lead my role is often to summarize and
12 present in a generalized form testimony presented by
13 other Staff experts.

14 Q. Okay. But in this case, there is no other
15 testimony presented by other Staff experts?

16 A. As rebuttal testimony, no, the only testimony
17 would have been that which was incorporated into the
18 joint testimony previously identified and discussed.

19 Q. Okay. So the rebuttal is the only response
20 by Staff to the testimony and exhibits filed by Public
21 Counsel on August 22nd, correct?

22 A. That's correct.

23 Q. And your rebuttal does not address any of the
24 specific issues, with an emphasis on specific, raised by
25 Public Counsel regarding the settlement or Avista's

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1 initial filing, does it?

2 A. That's correct, we chose not in this forum to
3 get into specific numbers and the debate associated with
4 that.

5 Q. Okay. Now on page 2 of Exhibit 4 at line 7
6 you state that given the Staff's "assessment of the
7 merits", the settlement is in the public interest,
8 correct?

9 A. Correct.

10 Q. Now other than Exhibit 4, Staff has not
11 shared its assessment of the merits on any specific
12 issue with the Commission or the other parties to the
13 case.

14 A. Except in the context of the settlement
15 discussions which I referenced earlier in my testimony.

16 Q. But in terms of what is a matter of the
17 evidence in this case before the Commission.

18 A. Nothing in the record, that's correct.

19 Q. The only rebuttal on any specific issue comes
20 from the company in this case, correct?

21 A. That's correct.

22 Q. When Staff is deciding whether to settle a
23 specific proceeding, Mr. Braden, in your opinion is the
24 Staff workload or the allocation of Staff resources an
25 appropriate factor to be considered in whether to settle

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1 a case or not?

2 A. The extent to which Staff workload factors
3 into it tends to have bearing in terms of the ability to
4 do the analysis leading up to the settlement discussions
5 and/or the presentation of the case through a full
6 adjudication. But other than that, it has no bearing.

7 Q. Was freeing up Staff resources for other
8 cases a factor in the decision to settle this case?

9 A. No, it was not. We were allocated for our
10 cases that are pending, our major cases, prior to the
11 settlement being reached, so there was not any
12 readjustment or reallocation of Staff that even flowed
13 from the settlement. In fact, this process required
14 that people remained engaged, so there has been no Staff
15 freed up by the settlement per se at this point.

16 Q. So it's your testimony that that
17 consideration played no role whatever in Staff's
18 decision to settle this case?

19 A. Oh, I don't know that I would be that
20 absolute. Obviously as a manager, in my mind I am
21 trying to allocate my resources on a limited basis, as
22 you are at Public Counsel, but I would say it was not a
23 driver of any material consequence.

24 Q. Can I have you turn to, I guess we're still
25 on page 2, now go to line 15 on this page, and beginning

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1 on line 15 you discuss the Public Counsel litigation
2 position generally, correct?

3 A. Yes.

4 Q. And at line 22 you characterize the evidence
5 presented by Public Counsel as taking on a bookend
6 character and then at line 23, one end of the spectrum;
7 is that right?

8 A. Correct.

9 Q. By these statements, do you mean to say that
10 a litigation position or Public Counsel's litigation
11 position is inherently incorrect or suspect?

12 A. I think that you mentioned that my background
13 is as an attorney, and I was a trial attorney for many
14 years as well as being involved in many aspects of the
15 energy industry. And my experience, which was the basis
16 for this testimony, is that parties tend to take
17 relatively extreme positions, not saying that all
18 aspects of their position are unreasonable or
19 unrealistic, but that they tend to try to offset each
20 other as a matter, as a practical matter of litigation
21 strategy.

22 Q. So it's your testimony that Public Counsel
23 has taken relatively extreme positions in this case?

24 A. In my view, yes.

25 Q. It's true, isn't it, that the Commission not

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1 infrequently adopts the so-called litigation position of
2 the company or the Staff or Public Counsel or industrial
3 customers or other interveners to a case; isn't that
4 correct?

5 A. Elements of a position are adopted. As a
6 rule in my somewhat limited experience with this
7 Commission, I found that it's more often a matter of
8 some middle ground that is actually achieved through
9 perhaps taking extracts from various parties' positions,
10 but the end result is more of a middle ground.

11 Q. Well, let me ask that question again. It is
12 true, is it not, that this Commission on a specific
13 issue not infrequently accepts the litigation position
14 of one or more of the parties before it?

15 A. I hate to quibble, but, you know, I'm not
16 going to say what constitutes frequency in this
17 situation. I do know that positions are from time to
18 time accepted as presented as part of a case.

19 Q. Let's take a look at page 1, if you wouldn't
20 mind, same exhibit, Exhibit 4, and line 8, well,
21 beginning at line 7, you state, Staff assessed what it
22 understood to be the litigation position of all parties
23 including its own. That is a correct reading of the
24 statement, is it not?

25 A. Yes.

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1 Q. And so that implies that the Staff has a
2 litigation position in this case, correct?

3 A. Staff had a preliminary litigation position.
4 They did not finalize the litigation position because of
5 the timing of the settlement.

6 Q. If the Commission does not approve this
7 settlement, one outcome that could occur is that Staff
8 will present its own litigation position in this case,
9 correct?

10 A. That's correct.

11 Q. You're not suggesting that the Commission
12 then discount Staff's position because it is of a
13 bookend character or at one end of the spectrum or an
14 uncompromised litigation advocacy position, you're not
15 suggesting that, are you?

16 A. How could I possibly make such a suggestion?
17 Actually, you know, what I find is that the constituency
18 that we all represent, and we all represent various
19 interests, tend to bear on our position into various
20 issues. And my personal belief is that Staff's position
21 is the only one in the current proceedings that
22 represents everyone's interests. So it's my view that
23 our positions tend to be the closest to what I would
24 call middle ground.

25 Q. And it's your position then that Staff does

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1 and should be taking into account the input and the
2 interests of the residential and small business
3 customers of Avista Utilities in this case?

4 A. Certainly.

5 Q. And the interests of the industrial customers
6 as well?

7 A. Yes.

8 Q. And given that, you still believe it's
9 reasonable for the Staff to move ahead with a settlement
10 in which all of those customers have declined to join
11 and have objected to the settlement?

12 A. I would say that those two parties, Public
13 Counsel and ICNU who do represent those interest groups,
14 have refused to join. I think it's too broad to say
15 that all those customers have refused in the sense, you
16 know, you are in a representative capacity as we are,
17 but, you know, I understand that the, you know, the
18 interests from your perspective are not being served by
19 the settlement.

20 Q. And as a practical matter, none of the
21 customers other than the Energy Project who are paying
22 the rates that would result from this settlement have
23 agreed to this; the only parties that have agreed to the
24 rate increase in this settlement are the Staff and the
25 company, neither of whom will actually be impacted by

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1 these rates, correct?

2 A. The gas users association is an exception I
3 believe.

4 Q. On the electric side.

5 A. Oh, on the electric side, that's true.

6 Q. It's true, Mr. Braden, isn't it, that Staff
7 and Public Counsel jointly retained Steve Hill or
8 Stephen Hill as their cost of capital expert in this
9 proceeding?

10 A. Yes.

11 Q. And so if this case had not been settled,
12 Staff and Public Counsel would have been jointly
13 sponsoring cost of capital testimony by Mr. Hill, would
14 they not?

15 A. Most likely.

16 Q. And that testimony would have been a
17 litigation position as you term it, wouldn't it?

18 A. That's correct.

19 MR. FFITCH: Those are all my questions,
20 thank you, Your Honor.

21 JUDGE CAILLE: Mr. Van Cleve.

22 MR. VAN CLEVE: Thank you, Your Honor.

23

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

25 BY MR. VAN CLEVE:

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1 Q. Mr. Braden, I would like to go back to some
2 comments you made in your opening statement about the
3 settlement, and that had to do with the substantial
4 reduction in the filed case that was being achieved
5 through the settlement; do you recall that?

6 A. Yes.

7 Q. And you would agree, would you not, that
8 Mr. Norwood in his rebuttal testimony reduces the
9 company's litigated case on the electric side to \$33.4
10 Million?

11 A. Yes, by the statements I made in my opening,
12 I tried to clarify that was the original filing numbers
13 I was referring to.

14 Q. And you would also agree, wouldn't you, that
15 the actual rate impact of the settlement is
16 approximately a \$25 Million rate increase?

17 A. The numbers that I quoted in my opening were
18 approximately \$23 Million. Correct me if I'm wrong, but
19 I was under the understanding it was about \$22 Million
20 plus for the electric and less than \$1 Million for the
21 gas.

22 Q. But I guess the way I'm looking at it is from
23 the view of a customer and how much their rates are
24 actually going to go up, and there's also this increase
25 in the ERM surcharge, so --

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1 A. Okay, excuse me, my comment did not include
2 the surcharge. I referenced that later in my
3 presentation, yes, so that would be the impact of
4 approximately another \$2.7 Million.

5 Q. So if we're comparing the company's current
6 litigation case to the settlement, it's \$33.4 Million
7 versus \$25 Million?

8 A. The company's modified case presentation made
9 no reference to the surcharge, so I would see that as
10 somewhat of a variable. I'm not certain how that would
11 be treated in a litigation presentation by the company.
12 But assuming that that was not included in the company's
13 litigation case, then your numbers are correct.

14 Q. Did the company propose to increase the
15 surcharge in its direct case?

16 A. No, that was an idea that was presented in
17 the course of settlement.

18 Q. Now can you tell us again what you think the
19 role of the Staff should be in a general rate case?

20 A. Certainly. I think our role is to scrutinize
21 the filing for accuracy, for compliance with law and
22 Commission orders, and also to in essence look out for
23 the interests of all parties involved in the proceeding,
24 that is those who are consumers of the product and those
25 who provide the product, the rate payers and the

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1 company, because our mandate is fair, just, reasonable,
2 and sufficient, which includes all aspects of that
3 spectrum.

4 Q. So as Staff, are you concerned at all with
5 the level of rate increases that the Avista customers
6 have experienced over the last five years?

7 A. I think it's extraordinarily hard on rate
8 payers at all levels, residential, commercial,
9 industrial, agricultural, but it is in fact a reflection
10 of the chaos we're seeing in the energy industry, both
11 in this region and nationwide and internationally.

12 Q. And are you aware that Boise Cascade
13 testified at the public comment hearing that their rates
14 have gone up over 60% since 2000?

15 A. I wasn't aware of that fact, but it doesn't
16 surprise me.

17 Q. And do you think this impact on customers is
18 something the Commission should consider when it's
19 balancing the interests of investors and rate payers?

20 A. I see it as a factor, but I see it as
21 primarily a result of the reality of the situation, not
22 something that's the fault of the company in any way
23 that they should be penalized.

24 Q. Now you say at page 2 of your rebuttal
25 testimony that the Staff carefully reviewed the ICNU and

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1 Public Counsel testimony; is that right?

2 A. That's correct.

3 Q. And you go on to make this sweeping claim
4 that the adjustments being proposed by Public Counsel
5 and ICNU are not valid or justifiable; is that right?

6 A. Where are you referring to specifically,
7 please?

8 Q. I'm referring to page 3 at line 14.

9 A. Okay, I have made the statement that Staff
10 does not accept them as a valid or justifiable basis for
11 rejecting the settlement. That's not the same as saying
12 the adjustments are not without any merit.

13 Q. So did you or did Staff evaluate in detail
14 whether each of the adjustments have merit?

15 A. We did in a balancing manner to essentially
16 determine whether we felt they were of a significant
17 enough nature that they justified us rethinking the
18 settlement in any way or even backing out of the
19 settlement in any way if that were impossible. But
20 basically it was a matter of saying these points have
21 some validity to them, but in the overall picture of
22 things in the balance of things, they don't justify
23 overturning what we think is an overall fair deal.

24 Q. So the Staff didn't come to a firm conclusion
25 about which proposed adjustments of ICNU or Public

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1 Counsel had merit and which ones did not?

2 A. Some of the adjustments that are included in
3 the settlement were based on matters originally brought
4 to Staff and I believe the company's attention by either
5 Public Counsel or ICNU, and to that extent those have
6 actually been incorporated into the settlement.

7 Q. And what about the adjustments that weren't
8 included in the settlement?

9 A. Essentially bears on the comment a moment
10 ago, we just made the judgment, as you do in
11 settlements, that some things stay and some things go in
12 the effort of seeking what we feel is a fair balance.

13 Q. And why is it that the Staff chose not to
14 present any testimony addressing the adjustments
15 proposed by ICNU and Public Counsel?

16 A. Well, it's in part a matter of the settlement
17 process itself. As my testimony tends to focus as you
18 said in very broad and sweeping terms because it was
19 intended to emphasize the nature of this process as
20 being more beyond a certain point a matter of judgment
21 and compromise as opposed to formulas and numbers, and
22 we felt that getting into the weeds on specific
23 adjustments at this stage was going to be
24 counterproductive in light of the nature of the
25 settlement and how it was achieved.

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1 Q. But you're saying that you did, in fact, get
2 into the weeds and evaluate each adjustment.

3 A. Certainly, we felt it was only a matter of
4 due diligence to look at them as closely as we felt was
5 necessary.

6 Q. But you have chosen not to share any of that
7 analysis with the other parties or the Commission?

8 A. Other than our broad conclusion.

9 Q. Now you characterize the testimony of both
10 ICNU and Public Counsel as litigation oriented, correct?

11 A. Yes.

12 Q. And why is it that testimony that is seeking
13 to make for instance the power cost modeling of Avista
14 more accurate, why is that considered litigation
15 oriented?

16 A. Well, that's a matter of spin I would say.
17 You know, in any litigation arena, people tend to take
18 positions, as I discussed before, that tend to be I
19 guess more toward one end of a spectrum than in the
20 middle. It's just the nature of our adversarial system,
21 and it's up to the finder of fact to sort out and
22 determine where the truth lies. And in this situation,
23 it's somewhat different than in a fully litigated, fully
24 adversarial context, because we have already an effort
25 by some of the parties to find that compromise and

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1 present it as a solution. So these types of hearings
2 are unusual because some parties are presenting what I
3 call litigation positions, which are essentially their
4 most extreme positions that they believe in. I'm not
5 saying that they're not justified or believed in by the
6 parties. But in terms of the overall picture, we are
7 presenting something different in a settlement, and so
8 that was the reason for not bringing in the details and
9 resting on the nature of the compromise.

10 Q. Now I think you in your testimony
11 characterized your approach as a mid point rather than a
12 bookend approach?

13 A. Yeah, I called it middle ground a moment ago,
14 but the same concept.

15 Q. And in your view the settlement is the middle
16 ground?

17 A. That's you can use that term, mid point, a
18 balance, it's an effort to compromise conflicting
19 issues, evaluate litigation risks, and use our best
20 judgment as to what we think meets the statutory
21 standard of fair, just, reasonable, and sufficient.

22 Q. And what are the two points that the mid
23 point is between?

24 A. They're not ironclad sharp crystal points,
25 they're general senses of the parties' respective

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1 positions. You know, there are different elements to
2 each parties' position, the different components such as
3 the power costs, the different adjustments, the capital
4 structure. So I, you know, like I say, it's not
5 mathematical, it's judgment.

6 Q. Now you said that the Staff balances the
7 interests of the customers and the company; is that
8 right?

9 A. Yes.

10 Q. And the company has a litigation position in
11 its filed case?

12 A. Yes.

13 Q. So is your mid point halfway between that
14 balancing and the company's litigation case?

15 A. I would say you're taking a mathematical
16 approach again. It's not 50%. It's where the various
17 factors as we evaluate them and look at their legitimacy
18 and their potential value and risks, where we fall out.

19 Q. Would you agree that the basic standard for
20 setting rates is that rates should be set based on the
21 utility's revenue requirement?

22 A. The reason I'm hesitating, to ask that seems
23 too narrow to me. The revenue requirement is the number
24 we always end up with, but the factors that go into it,
25 you know, have varying significance and are determined

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1 through a lot of different policy judgments in fact as
2 you're evaluating them. So in a simplistic sense, that
3 is the bottom line number, yes.

4 Q. Well, would you agree that rates should be
5 set based on the utility's cost of service?

6 A. Yes, including within that their right for a
7 reasonable return.

8 Q. And what if one of the bookends, let's say, I
9 want to give you a hypothetical, let's say that one of
10 the bookends is party A's litigation position, and it's
11 a completely accurate representation of the utility's
12 cost, and party B, the opposition, has a completely
13 outlandish position, the mid point approach wouldn't
14 make sense in that case, would it?

15 A. I was once told by a geometry teacher at one
16 point that every point along the line is its mid point,
17 because you can always go exactly the same distance each
18 direction at any given time. In that instance, we would
19 have one of Mr. ffitich's examples where a party's
20 litigation position is the right answer. I didn't mean
21 in my testimony, if that's the implication, to imply
22 that there is never any shred of truth in a litigation
23 position. In fact, in your hypothetical it certainly is
24 possible that that can be the balance point.

25 Q. Now one of the reasons that's been cited for

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1 the settlement is the need for the company to obtain an
2 investment grade credit rating; is that right?

3 A. That has been cited primarily by the company.

4 Q. And that's in the joint testimony, isn't it?

5 A. That is true.

6 Q. And you heard the testimony earlier that at
7 least part of the debt of the company is already
8 investment grade, didn't you?

9 A. Yes, I gather there will be more testimony on
10 that, but my understanding that's in secured mortgage
11 bonds, which means that they're collateralized. It's
12 not the general credit of the company that backs them.

13 Q. And if Avista Corp's credit rating is being
14 held below investment grade because of poor performance
15 by unregulated subsidiaries, do you think that's a
16 relevant consideration?

17 A. I do.

18 Q. And did you consider that?

19 A. We did.

20 Q. I just have one last question for you, if you
21 could look at page 14 of the joint testimony.

22 A. Okay.

23 Q. And I would like to refer you to the question
24 that begins at line 11.

25 A. Okay.

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1 Q. And it says at line 17 that the 10.4% rate of
2 return used in the settlement falls well within the
3 reported average ranges from this regulatory focus
4 publication; is that right?

5 A. Yes.

6 Q. And is that how ROE is normally determined in
7 a rate case in Washington, by looking at national
8 averages?

9 A. No, the reference to the ROE report is what I
10 would call a sanity check. When you have made a
11 negotiation and you have arrived at a number, you raise
12 your head up, you look around and say does this make
13 sense, and this was a factor we considered in
14 determining that that was a reasonable compromise
15 number.

16 Q. I was wrong, I have one more question. If
17 you could look at Exhibit 7, which I believe was a cross
18 exhibit identified for you.

19 A. I didn't think there were any for me.

20 MR. TRAUTMAN: No, no.

21 A. So I don't have any available.

22 Q. This is the Staff memorandum explaining the
23 settlement stipulation from the last rate case where the
24 ERM was adopted.

25 MR. TRAUTMAN: You didn't identify it for

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1 Mr. Braden.

2 MR. VAN CLEVE: I have a copy that can be
3 provided to him.

4 THE WITNESS: Okay, I have a document here,
5 UE-011595, the memorandum of Staff Commission,
6 Commission Staff; is that the document you are referring
7 to?

8 MR. VAN CLEVE: Yes.

9 BY MR. VAN CLEVE:

10 Q. If you could turn to page 9 of the
11 memorandum, which is page 10 of the cross exhibit.

12 A. Okay.

13 Q. And if you look at the paragraph that starts
14 at the very bottom of the page, begins this energy
15 recovery mechanism.

16 A. Yes.

17 Q. Required compromise from all parties, and it
18 says that:

19 Staff's interests include imposing
20 sufficient risk on the company to
21 justify the existing return on equity,
22 placing incentives on the company to
23 maintain good power purchasing
24 practices, and giving the company the
25 flexibility to manage its power

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1 portfolio as it sees fit.

2 Do you see that?

3 A. Yes, I do.

4 Q. And it says that the Staff believes that the
5 ERM accomplishes those goals. And I'm just wondering
6 how it's consistent with those goals to reduce the
7 deadband in the ERM from \$9 Million to \$3 Million which
8 reduces the risk to the company, reduces the incentives
9 to manage its costs, and gives it less flexibility to
10 manage its power supply?

11 A. Well, it's primarily due to the fact that
12 there's another major consideration that isn't captured
13 in this language that you have just referenced, which
14 has to do with the existence of prepurchased gas
15 arrangements with the Coyote plant and Avista's entering
16 into contracts that at that time were substantially out
17 of market. Part of the deadband purpose was to provide,
18 if you will, somewhat of a penalty to the company for
19 those out of market purchases. Now I am speaking based
20 on history as I have reviewed it. I was not part of
21 that process, but my understanding is that those
22 contracts have now expired, and that was one additional
23 factor in saying that there was less reason for that
24 magnitude of a deadband. The reason Staff negotiated
25 for in the settlement retention of some deadband was to

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1 maintain the sort of incentive that you are referencing
2 in the language we just discussed from the order, that
3 plus the 90/10 sharing.

4 Q. Would you agree that reducing the deadband
5 shifts risk to customers?

6 A. It also creates opportunity for benefit to
7 customers in the sense that the deadband goes both ways.
8 We have reset the base line as a result of the case, and
9 it's a possibility that a good hydro year, for example,
10 could turn this the other way, and then a smaller
11 deadband could benefit customers.

12 MR. VAN CLEVE: Thank you, that's all I have.

13 JUDGE CAILLE: Commissioners?

14 Any redirect?

15 MR. TRAUTMAN: No redirect.

16 JUDGE CAILLE: Thank you, Mr. Braden, and
17 this might be a good time for our afternoon recess.

18 (Recess taken.)

19 JUDGE CAILLE: Mr. Hirschhorn, you have been
20 previously sworn, and, Mr. Meyer, if you will introduce
21 your witness.

22 MR. MEYER: Thank you, Your Honor.

23

24 Whereupon,

25 BRIAN HIRSCHKORN,

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1 having been previously duly sworn, was called as a
2 witness herein and was examined and testified as
3 follows:

4 DIRECT EXAMINATION

5 BY MR. MEYER:

6 Q. Mr. Hirschhorn, have you submitted prefiled
7 direct testimony which was marked as Exhibit 151
8 together with accompanying Exhibits 152 through 158?

9 A. Yes, that's correct.

10 Q. And are you also sponsoring what has been
11 marked as Exhibit 159, which is your rebuttal testimony?

12 A. Yes.

13 Q. Do you have any changes to make to any of
14 these items?

15 A. No, I don't.

16 Q. So if I were to ask you the questions that
17 appear in those testimonies, would your answers be the
18 same?

19 A. Yes, they would.

20 Q. And is the information contained within the
21 accompanying exhibits true and correct to the best of
22 your knowledge?

23 A. Yes.

24 MR. MEYER: With that, I move the admission
25 of Exhibits 151 through 159.

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1 JUDGE CAILLE: Is there any objection?

2 Then Exhibits 151 through 159 are admitted
3 into the record.

4 MR. MEYER: Thank you, Your Honor, and the
5 witness is available for cross.

6 JUDGE CAILLE: And, Public Counsel, you have
7 45 minutes.

8 MR. FFITCH: Thank you, Your Honor, I will
9 try to stick to that.

10

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

12 BY MR. FFITCH:

13 Q. Good afternoon, Mr. Hirschhorn.

14 A. Good afternoon, Mr. ffitch.

15 Q. First I would like to ask you to turn to page
16 6 of the settlement agreement, Exhibit Number 2.

17 A. I have page 6 of the settlement agreement.

18 Q. Okay. And could you look at section 15-A,
19 which is the low income settlement titled Low Income
20 Demand Side Management and Rate Assistance Programs.

21 A. Yes, I have that.

22 Q. And I would like to call your attention to
23 the first sentence, and that sentence reads:

24 The company will provide an additional
25 \$200,000 to fund low income demand side

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1 management, DSM, subject to cost
2 effectiveness under the utility costs
3 test. At present, the company provides
4 over \$900,000 per year in low income DSM
5 funding.

6 Is that an accurate reading?

7 A. Yes.

8 Q. I would like to ask you about the \$900,000
9 for low income DSM that's described as being provided by
10 the company. Could you turn, please, to Exhibit 166,
11 that's one of your cross exhibits, and that is a
12 response to Public Counsel Data Request 229.

13 A. Yes, I have that.

14 Q. Thank you. Do you agree that in part A,
15 well, let me back up a little bit, let's just focus on
16 what this asks here. Asks a series of questions about
17 different aspects of the low income demand side
18 management program, correct?

19 A. Yes.

20 Q. In request A we ask you to indicate the
21 amount of funding for low income DSM efforts provided
22 per year by rate payers through Schedule 91, that's the
23 electric side, and Schedule 191, that's the gas side,
24 correct?

25 A. Yes.

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1 Q. And we asked you to provide a breakdown of
2 the amount collected for each schedule. And do you
3 agree that in part A of the response down at the bottom
4 you indicate that \$774,916 is collected from Avista rate
5 payers annually through Schedules 91 and 191?

6 A. Yes.

7 Q. Do you also agree that in part B of this same
8 exhibit, you indicated that Avista received funding from
9 the Conservation and Renewable discount program known as
10 C&RD, in the amount of \$184,000 for 2003 and \$332,000
11 for 2004, that's your answer to the DR, correct?

12 A. Yes, correct.

13 Q. And just to clarify, the Conservation and
14 Renewables Discount Program is a Bonneville Power
15 Administration program, correct?

16 A. Yes, that's correct.

17 Q. So if we were to refer back to the settlement
18 agreement sentence that we just looked at a moment ago,
19 would you agree that it would be more accurate for that
20 sentence to describe the \$900,000 for low income DSM as
21 being provided by Avista rate payers and BPA as opposed
22 to being provided by the company?

23 A. Yes, I would. It is provided by rate payers
24 through collection through the right of rates, and that
25 \$900,000, well, about half of it represents a state tax

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1 credit that the utility gets for LIRAP funding. And the
2 other --

3 Q. I'm sorry, I was going to say we'll get to
4 that.

5 A. Oh, okay.

6 Q. And also as we just discussed, some of the
7 funding comes from BPA as well?

8 A. Yes.

9 Q. But the money does not come from the company
10 shareholders, correct?

11 A. That's correct.

12 Q. Now let's go back and look at 166 again,
13 Exhibit 166, same data request we were just looking at,
14 and let's look specifically at request portion C, and
15 that asks:

16 Please indicate what portion of the
17 additional \$200,000 will be made
18 available from a reallocation of
19 existing Schedule 91 general DSM funds.

20 Correct?

21 A. That's correct.

22 Q. Now let's look at your answer down below in
23 section C, and first of all the answer discusses the
24 negative tariff rider balance that Avista has been
25 working to recover since 2002; isn't that correct?

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1 A. That's correct.

2 Q. And by way of background for the
3 Commissioners, the company, the negative balance for the
4 company was a result of Avista ramping up expenditures
5 on energy efficiency during the 2000-2001 energy crisis,
6 correct?

7 A. That's correct.

8 Q. And so at that point, the company had a
9 decision to make about whether to raise the tariff
10 rider, Schedule 91 and 191, or to reduce program
11 expenditures, correct?

12 A. That's correct, yes.

13 Q. And the decision was to reduce program
14 expenditures during the period while the negative
15 balance was being retired?

16 A. I don't, well, we built up a large negative
17 balance during that time, and part of the rider funds
18 that were collected subsequent to that time have gone
19 toward paying that balance down.

20 Q. Okay. And that's been since 2002, correct?

21 A. Correct.

22 Q. And so the way the numbers work out, for
23 every dollar Avista collected from rate payers for
24 demand side management programs since 2002, only about
25 60 or 62 cents was devoted to programs, while the

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1 remaining 38 cents went to pay down the negative tariff
2 rider balance; isn't that the case?

3 A. I would accept that subject to check, I
4 haven't seen those numbers.

5 Q. Okay. So about a third of the funding was
6 diverted from programs since 2002 if those numbers are
7 correct, right?

8 A. Subject to check.

9 Q. And in this Exhibit 166, again looking at
10 part C, continuing to look at part C, the answer
11 indicates that the tariff rider balance was returned to
12 zero in August of 2005, correct?

13 A. That's correct.

14 Q. That's about the fourth line from the bottom
15 of the answer.

16 A. Mm-hm.

17 Q. Now on page 6 of the settlement again, same
18 page of Exhibit 2, settlement agreement, the settlement
19 provides that, "The company will provide an additional
20 2,000," this is the same sentence that we referred to
21 before, "an additional \$200,000 to fund low income DSM,"
22 correct?

23 A. Yes, that's correct.

24 Q. Please read the last sentence on 166, the
25 last sentence to response C.

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1 A. (Reading.)

2 The \$200,000 in increased funding for
3 limited income DSM activities will be
4 derived from the portion of the DSM
5 tariff rider revenues that for the past
6 three years have been directed to
7 recovering the negative tariff rider
8 balance.

9 Q. So just to make sure I'm clear, the \$200,000
10 in "additional funding" is from revenues that were
11 collected from rate payers through the tariff riders,
12 correct?

13 A. Yes, that's correct.

14 Q. And the \$200,000 in "additional funding" is
15 available because the negative tariff rider balance has
16 been recovered so that now Avista can again spend every
17 dollar collected from rate payers rather than just 62
18 cents on the dollar, correct?

19 A. That's correct.

20 Q. And this additional funding would have been
21 available for Avista's energy efficiency programs in any
22 event even without this settlement, wouldn't it?

23 A. Yes, to the extent the tariff rider rates
24 were not changed as a result of programs going forward
25 and estimated funds needed to fund those programs.

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1 Q. Okay. But assuming all other things
2 remaining equal, this additional funding would have been
3 available in any event?

4 A. Yes, to the extent it was needed to fund cost
5 effective DSM, yes.

6 Q. All right. And so the settlement does not
7 represent an overall increase in Avista energy
8 efficiency funding, correct?

9 A. I believe on comparing the last several years
10 when a lot of those dollars were collected to recover
11 the negative balance, now all the dollars, the negative
12 balance is recovered, all of those dollars will be going
13 to fund DSM programs or to LIRAP, all the dollars
14 collected from this point forward, so I have a hard time
15 comparing those on an equal basis I guess.

16 Q. Well, I understand your answer.

17 A. Okay.

18 Q. But essentially you're saying that other than
19 the fact that there was that diversion to pay off the
20 negative balance, there's no overall increase in the
21 amount collected from rate payers and devoted to energy
22 efficiency?

23 A. That's correct.

24 Q. I would like to ask you a few questions
25 specifically about the Low Income Rate Assistance

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1 Program, LIRAP, and again Exhibit 2, the settlement,
2 look at the next sentence in section 15-A, and that
3 sentence states:

4 The company will provide an additional
5 \$600,000 per calendar year for two years
6 to the Low Income Rate Assistance
7 Program, LIRAP; at present the company
8 provides approximately \$3 Million per
9 year in LIRAP funding.

10 Correct?

11 A. That's correct.

12 Q. Now I'm going to ask you to turn to cross
13 Exhibit 167, that is the company's response to Public
14 Counsel Data Request 230.

15 A. Yes, I have that.

16 Q. And in that request part A, we asked Avista
17 to indicate the amount of funding for the Low Income
18 Rate Assistance Program provided per year by rate payers
19 through the public purpose tariff riders, and that's a
20 reference to Schedules 91 and 191, correct?

21 A. Yes, that's correct.

22 Q. And then we asked you to provide a breakdown
23 of the amount collected for each schedule, right?

24 A. Yes.

25 Q. If we look down at your answer in response A

0302

1 down below, would you agree, well, first of all I
2 believe I may have detected a typo for the last line
3 where it says year 4, LIRAP year 4, it appears to have
4 the same dates as LIRAP year 3. Do you want to look at
5 that for a moment and indicate whether that should be
6 5-1-04 through 4-30-05, would that be --

7 A. Oh, I would assume that that would be
8 correct, so that should be 5-1-03 through 4-30-05, I
9 believe that's correct.

10 Q. Well, the year 3 is 5-1-03 through 4-30-04.

11 A. Oh, I'm sorry.

12 Q. And then would year 4 be 5-1-04 through
13 4-30-05?

14 A. Yes, I'm sorry.

15 Q. All right.

16 A. I said '03 rather than '04, my mistake.

17 Q. Well, the question is, would you agree for
18 those last two years shown, which are 2003 and 2004,
19 rate payers provided over \$3 Million in funding for
20 LIRAP?

21 A. Yes.

22 Q. So again, would you agree that it would be
23 more accurate if the settlement described the \$3 Million
24 in low income assistance rate funding as being provided
25 by rate payers rather than by the company as stated in

0303

1 the settlement agreement?

2 A. It is -- it is provided -- my understanding
3 -- yes, it is provided through collections from the
4 tariff riders.

5 Q. All right. Now let's look at part B of that
6 same Exhibit 167, and in part B Public Counsel asked the
7 company to indicate the amount of funding that the
8 company has provided for the Low Income Rate Assistance
9 Program for calendar years 2003 and 2004 in addition to
10 the funds collected through the public purpose tariff
11 rider that we just looked at. And if we look down below
12 at the answer, we see that the company provided tax
13 credit amounts of for 2003 \$593,000 and for 2004
14 \$315,000, correct?

15 A. I'm sorry, Mr. ffitch, are you still on
16 Exhibit Number 167?

17 Q. Correct.

18 A. Okay. Oh, part B, okay, I'm with you, yes,
19 that's correct.

20 Q. Okay. And those are tax credit amounts that
21 the company made over to the Low Income Rate Assistance
22 Program, correct?

23 A. Yes, that's correct.

24 Q. And did those amounts in 2003 and 2004
25 reflect the full amount of the tax credit received by

0304

1 Avista during those years; do you know?

2 A. I don't know exactly. My understanding is
3 over the past several years the company has provided
4 approximately 90% of the tax credit dollars to either
5 low income DSM or LIRAP funding.

6 Q. All right. And this is a state tax credit,
7 correct?

8 A. Yes.

9 Q. So if we, now just sort of referring back to
10 this sentence in the settlement agreement, the reference
11 to the additional \$600,000 per calendar year for two
12 years, this is in section 15-A, second sentence.

13 A. Yes.

14 Q. We're still talking about the additional
15 \$600,000, is it correct that half of this amount or
16 \$300,000 per year will be from the public utility tax
17 credit we just discussed?

18 A. Yes, that's correct.

19 Q. And do you know, does that \$300,000 per year
20 reflect the full amount of the tax credit that Avista
21 believes it will receive for those two years?

22 A. The company has, my understanding is the
23 company has received a letter that the amount of the tax
24 credit for the ensuing year, the tax credit we will
25 receive in the next year will be approximately \$600,000.

0305

1 So what we have done is split that \$600,000 to provide
2 \$300,000 over the next two years. To the extent the tax
3 credit continues on the following year, we would provide
4 all those funds to either LIRAP or low income DSM
5 funding. So I might back up, the \$600,000 is the tax
6 credit we will receive sometime over the next 12 months,
7 and we have split that over the next two years.

8 Q. So the \$600,000 would be the 2005 number?

9 A. Yes, I believe it's mid 2005 to mid 2006 is
10 the year that's examined or the --

11 Q. Same dates that we're looking at here?

12 A. Yes.

13 Q. And so it sounds from your testimony that
14 it's likely there will be additional funds in the year
15 2006, correct?

16 A. The \$600,000 we know we're going to get a tax
17 credit for, and that was the amount that was committed
18 as part of the settlement agreement, we know we're going
19 to get the \$600,000. We split it up \$300,000 over the
20 next two years. Beyond that, we don't know for sure
21 that the tax credit will continue and we will get a tax
22 credit. But to the extent we do, those funds will be
23 provided to, like I said, LIRAP or low income DSM
24 funding.

25 Q. But that additional commitment that you have

0306

1 just related for the year 2006 for the speculative tax
2 credit is not a part of the settlement, correct?

3 A. It is not part of the settlement.

4 Q. It's just happening outside of the
5 settlement?

6 A. Yes.

7 Q. And so just I guess just to fill in the
8 blank, we have been talking about the \$600,000 figure
9 for each of two years, the other \$300,000 will come from
10 the revenues collected under the tariff rider, correct,
11 from rate payers?

12 A. They are actually dollars that we estimate at
13 the end of this year we will have collected but not
14 spent, and that amount has been again divided over the
15 next two years, \$300,000 in each of the next two years.

16 Q. Okay. And if Avista had not entered into
17 this settlement, where would Avista have allocated these
18 \$300,000 of rate payer provided natural gas DSM funds?

19 A. I think you have one, well, I think DSM cost
20 effective measures will continue to increase as energy
21 prices go up. So assuming that we don't spend those
22 dollars on programmatic measures going forward, I guess
23 one of two choices. Well, at some point you reduce the
24 rate if the dollars aren't spent on cost effective
25 measures. Our intent is to bring the balance to zero at

0307

1 a point in time, and that's our plan going forward is to
2 balance expenditures with rates become collected from
3 customers.

4 Q. But --

5 A. I know I hope that.

6 Q. What other programs would have been funded
7 with the \$300,000 if not the Low Income Rate Assistance
8 Program?

9 A. Well, we're, my understanding is we're in an
10 IRP process right now in Washington as well as Oregon,
11 and with increase in gas rates, price of gas we're
12 seeing as well as increase in electricity costs, that
13 would make more measures become cost effective over
14 time, so I think the need is going to grow.
15 Specifically what those measures are, I don't know.

16 Q. Is it likely that any of those funds would
17 have gone to LIRAP, Low Income Rate Assistance Program?

18 A. I don't know.

19 Q. Is it possible?

20 A. Oh, it's possible.

21 Q. All right.

22 Can I get you to turn, please, to Exhibit 2,
23 again the settlement agreement, but now we're going to
24 turn the page and look at the top of page 7. And if you
25 could look at the next to the last sentence in the top

0308

1 paragraph, and that sentence states:

2 There will be no corresponding decrease
3 in natural gas DSM programmatic funding,
4 and there will be no increase to
5 Schedule 191 before January 1, 2008.

6 Is that correct?

7 A. That's correct.

8 Q. As natural gas prices rise, and particularly
9 when gas prices rise significantly, would you agree that
10 in general it makes even more economic sense to
11 encourage customers to conserve and for customers to
12 undertake energy efficiency measures?

13 A. I would agree with that.

14 Q. And would you agree that the programs funded
15 through Schedule 191 are the primary means through which
16 Avista encourages rate payers to use natural gas more
17 efficiently?

18 A. That's the primary, yes.

19 Q. And I realize you're not here as a gas
20 expert, but would you agree we're generally in an era of
21 rising natural gas prices?

22 A. Yes.

23 Q. And isn't it the case that the settlement
24 precludes the company or the Commission from increasing
25 funding for gas DSM programs by increasing Schedule 191

0309

1 because of the limitation on increasing the tariff rider
2 for over two years in the settlement agreement?

3 A. The language, that is what the language in
4 the settlement agreement states. I would like to -- I
5 have some additional information around that point. The
6 rate that will be in place for the next two years
7 actually allows an increase in programmatic funding, not
8 a huge increase, but our estimates are that there will
9 be some funds for additional program measures. Now
10 whether that's enough to meet the need or the demand
11 remains to be seen, but Avista's committed to funding
12 all cost effective DSM measures, and if that means we
13 run a negative balance for a short period of time,
14 that's what we'll do, but we will fund all cost
15 effective DSM.

16 Q. Would that increment that you're talking
17 about be adequate to fund all cost effective measures?

18 A. I don't know over the course of two years. I
19 guess part of it depends on what happens to gas prices
20 and what the outlook looks like say a year from now. I
21 don't know, and that's one of the things I believe that
22 we're discussing at some length in the IRP process.

23 Q. And doesn't this provision create the
24 possibility that if we had another energy crisis like
25 2000-2001 and Avista again ramped up its DSM, then we

0310

1 could again see a negative balance created in the energy
2 efficiency account and a corresponding reduction of
3 funding for energy efficiency programs down the line?

4 A. I don't know about the reduction in funding
5 down the line. It could certainly result in a negative
6 balance again. If, you know, if all the parties agree
7 that, you know, at some later date that the proper
8 course of action would be to change the funding level
9 through the tariff rider, I would think that could be
10 done. But right now in the settlement agreement, that
11 does not allow for that. So at this point, given that,
12 if the need was there, we could run a negative balance
13 by funding cost effective measures, yes.

14 Q. But if that occurred, you would be back in
15 the same boat that you were in in 2002, would you not,
16 where you would have to allocate a portion of the funds
17 collected to retiring a negative balance, and those
18 would be diverted from programs, correct?

19 A. Yes, I don't see it being to that -- to the
20 magnitude it was in the 2001-2002 time period, but yes,
21 that could be the result.

22 Q. Thank you.

23 MR. FFITCH: I would like to go on to another
24 area now over in the rate design area, rate spread area.
25 And, Your Honor, we had distributed an exhibit, an

0311

1 illustrative exhibit, this morning which has been marked
2 as?

3 JUDGE CAILLE: It was marked as 403, that's
4 Mr. Hirschhorn. Actually, Mr. Ffitch, I would like to
5 change that to 168.

6 MR. FFITCH: 168, thank you, Your Honor.

7 JUDGE CAILLE: So 403 is now 168.

8 BY MR. FFITCH:

9 Q. And do you have a copy of that up there with
10 you, Mr. Hirschhorn?

11 A. Yes, I do.

12 Q. And in addition I'm going to start out with
13 directing the witness to Exhibit 163. It's one of our
14 cross exhibits, and that's a response to Public Counsel
15 Data Request 148. Do you have that, Mr. Hirschhorn?

16 A. I do.

17 Q. I will just wait until everyone has had a
18 chance to locate that.

19 Now, Mr. Hirschhorn, can I ask you first of
20 all just to agree with me that that request asks the
21 company for each year since 1975 to provide kilowatt
22 hours by rate schedule, correct?

23 A. Yes, that's correct.

24 Q. And if we look at page 2 of that document,
25 it's a pretty busy document, isn't it?

0312

1 A. It's pretty difficult to follow if you're not
2 familiar with it, yes.

3 Q. And what we have provided you with in Exhibit
4 168 is an illustrative exhibit taking a bit of data from
5 this document to try to bring some clarity in. So do
6 you recognize Exhibit 168 as a document that we had
7 showed you earlier for your review?

8 A. Yes, I do.

9 Q. And do you agree that this accurately
10 transposes the sales for the various rate schedules
11 shown from Exhibit 163?

12 A. Yes.

13 Q. And therefore would you agree that the
14 residential Schedule 1 sales have grown by a total of 3%
15 between 1982 and 2004; is that correct?

16 A. Yes, on an actual basis. These numbers
17 aren't weather normalized, but that could perhaps make a
18 difference of 5% at the most probably, so just a little
19 qualification there.

20 Q. Okay.

21 A. But yes, on an actual sales basis, yes,
22 that's correct.

23 Q. And just a brief footnote, we had asked for
24 data from 1975, and you were able to provide data from
25 1982 on, correct?

0313

1 A. Correct.

2 Q. So that's what we're looking at here?

3 A. Yes.

4 Q. Okay. Now when you say that there might be a
5 change of 5% one way or another in the numbers here,
6 that would be not 3% plus 5% or 3% minus 5%, would it?

7 A. No, 5% on top of 3% might be a little much.
8 It might be 5% to 6% different. I don't know what the
9 weather was like in 1982. I do know that generally
10 speaking 2004 was warmer than normal, so weather
11 normalized the sales would probably be higher. If 1982
12 went the other way, it would subtract some of the
13 kilowatt hours from the numbers. So it could be as much
14 as 5%, 5% or 6% different on a weather normalized basis,
15 but it's not going to go to 10% to 20% increase.

16 Q. All right. So with that proviso, looking at
17 the small general service schedule in the next section
18 down, schedules 11 to 12, the growth is about 5% since
19 1982, correct?

20 A. Yes, that's correct.

21 Q. And then large general service is 67%?

22 A. That's correct.

23 Q. And finally, the extra large general service
24 schedule has grown by 120%?

25 A. Yes.

0314

1 Q. Correct?

2 A. Yes, in terms of total load served under the
3 schedule, yes.

4 Q. And if the company's large general service
5 and extra large general service loads had grown at the
6 same rate as its residential and small commerce loads,
7 would you agree that the company might not have needed
8 as many new resources added to its system to meet load
9 growth over this period?

10 A. I would have to agree with that.

11 Q. Now I would like to ask you to turn to
12 Exhibit 165, and that's the response to Public Counsel
13 Data Request 210, and if you could please turn to page 3
14 of that exhibit.

15 A. Yes, I have that.

16 Q. I'm sorry, before you got there I was going
17 to ask you to confirm that this data request asks for
18 any residential electricity or gas elasticity studies
19 prepared by the company in the past three years,
20 correct?

21 A. Yes, that's correct.

22 Q. And you attached excerpts from the company's
23 draft 2005 electric and gas integrated resource plans,
24 right?

25 A. I believe --

0315

1 Q. That's what the response says.

2 A. Yes, that's correct.

3 Q. So now we go to page 3, and we look at figure
4 1.6, and that is the 2005 electric retail sales
5 forecast, correct?

6 A. Yes.

7 Q. And it's broken down between residential,
8 commercial, and industrial, is it not?

9 A. Yes, it is.

10 Q. And while we don't have the colors, would you
11 agree that the white bars in the center sections of
12 these different bars represent the commercial?

13 A. Yes.

14 Q. Customers?

15 A. Yes.

16 Q. These are not exactly the same categories as
17 your rate schedules; is that correct?

18 A. That's correct, there would be some overlap
19 between schedules.

20 Q. Okay. But would you agree that the
21 commercial category is forecast here to be the fastest
22 growing over the future as shown in this exhibit?

23 A. Yes, I would.

24 Q. And the residential growth and industrial
25 growth is much slower than the commercial growth?

0316

1 A. Yes.

2 Q. Thank you.

3 Now, Mr. Hirschhorn, would you agree that
4 Avista gets some of its power from hydro and some from
5 coal and some from other thermal resources and some from
6 natural gas power plants?

7 A. Yes.

8 Q. And would you agree that the cost of these
9 resources could be quite different?

10 A. Yes.

11 Q. And would you also agree that generally the
12 company's hydro power comes from older power plants that
13 the company has had for many years?

14 A. Yes, I would.

15 Q. In fact, the company used to be called
16 Washington Water Power, did it not?

17 A. Yes, it did.

18 Q. And these are the least expensive major
19 sources of power to Avista; is that right?

20 A. In terms of our generating resources, yes.

21 Q. Now have you had an opportunity to review,
22 I'm sorry, I need to get an exhibit number for you here,
23 this is the response to Public Counsel Data Request 232,
24 and that's been marked as Exhibit 401. This was not
25 identified for you, this was for Mr. Johnson, we

0317

1 understand that, we just wanted to --

2 JUDGE CAILLE: Mr. ffitch, could you now
3 refer to that as Exhibit 203.

4 MR. FFITCH: Exhibit 203, yes, Your Honor,
5 thank you.

6 THE WITNESS: I don't have a copy of that.

7 MR. FFITCH: Your Honor, I can provide a copy
8 unless counsel can assist.

9 MR. MEYER: I'm still trying to get to mine,
10 would you have an extra copy for us, please.

11 Thanks a lot.

12 THE WITNESS: Thank you.

13 BY MR. FFITCH:

14 Q. Have you had a chance to take a look at that
15 exhibit, Mr. Hirschhorn?

16 A. Yes, I have.

17 Q. And this exhibit shows the cost of the
18 company's hydro power as coal fired power and its other
19 thermal including nuclear and Kettle Falls and its
20 natural gas power, does it not?

21 A. Yes.

22 Q. And if we're looking at page 2 of the exhibit
23 with the chart, the second column shows that cost in
24 dollars per megawatt hour, correct?

25 A. Yes.

0318

1 Q. So could you translate that into a cents per
2 kilowatt hour that the customer might be more familiar
3 with seeing on their bill?

4 A. If one moves, let's see, from megawatt, oh,
5 okay, just move the decimal point 3 places over to the
6 left from where it exists, and coal for example, \$25.63
7 per megawatt hour would become 2.563 cents per kilowatt
8 hour.

9 Q. Okay.

10 A. And so forth down the line.

11 Q. So hydro would be 1.3 cents?

12 A. Yes.

13 Q. And biomass 5.1 cents and natural gas 12.1
14 cents; is that correct?

15 A. Yes.

16 Q. Did you take these different costs into
17 account when designing the residential rate blocks for
18 the company's residential rates in your testimony?

19 A. Certainly we looked at cost of new resources
20 we have added. We have also -- we have looked at a lot
21 of things when developing rate spread and rate design
22 proposals including cost of resources, are rates
23 providing the proper price signal to customers, so yes.
24 I didn't look at these specific costs if that's what
25 you're asking, no.

0319

1 Q. All right. And did you take these specific
2 costs for these different resources into account when
3 negotiating with the Commission Staff on the residential
4 rate design in this case?

5 A. Did we look specifically at these costs when
6 we were negotiating the rate design in the settlement?

7 Q. Right.

8 A. No.

9 Q. And your answer is no?

10 A. That's correct.

11 Q. I would like to now turn to the issue of
12 residential rate design, and as I understand the joint
13 testimony with Staff, Avista has proposed to apply the
14 increase, the rate increase in this case, to the
15 customer charge and to each of the rate blocks; is that
16 correct?

17 A. Yes, that's correct.

18 Q. And the customer charge is simply the initial
19 flat charge that every customer pays for being hooked up
20 to the system, correct?

21 A. That's correct.

22 Q. And then the rate blocks are different rates
23 that apply depending on the amount of electricity that
24 each customer uses, correct?

25 A. Each month, yes, that's correct.

0320

1 Q. And the difference is that Mr. Lazar applies
2 this increase only to the second and third blocks of the
3 rate; is that your understanding?

4 A. Yes, it is.

5 Q. And not to the customer charge and not to the
6 first block?

7 A. Yes, that's correct.

8 Q. I would like to ask you to now take a look at
9 Exhibits 160, 161, and 167 I believe.

10 MR. MEYER: I'm sorry, what was the reference
11 to the exhibits?

12 MR. FFITCH: 160, 161, and 167.

13 BY MR. FFITCH:

14 Q. I'm going to ask you a general question, and
15 then you can take a minute to check each of those if you
16 want to, but it's not a trick question. They're similar
17 requests, so in those requests we asked the company what
18 recent data it had on the relative load factors for
19 seasonal usage of residential customers in each of the
20 rate blocks and for a bill frequency analysis of those
21 customers using less than 600 kilowatt hours a month and
22 also for a bill frequency analysis of the customers
23 using power in the third block; is that right?

24 A. Yes, that's correct.

25 Q. And the company responded that it had no

0321

1 information that was responsive to the request, correct?

2 A. Yes.

3 Q. And that's the case for each of those data
4 requests that I have just listed?

5 A. Yes, that's correct.

6 Q. And just for explanatory purposes, could you
7 describe what a bill frequency analysis is?

8 A. Yes. Basically it takes each and every bill
9 and categorizes it by usage block. So a usage block for
10 example for zero kilowatt hours, so many number of bills
11 were rendered during the month and then so much usage
12 for that. Obviously zero because that's a zero billed
13 kilowatt hour block. For another example is a customer
14 is billed at using 10 kilowatt hours, let's say there
15 were 800 bills issued for 10 kilowatt hours, it provides
16 the number of bills and the total number of kilowatt
17 hours billed at that block and on down the line until
18 you go through all the bills that were rendered. And it
19 basically groups all the bills by usage block so you
20 know the number of bills that were rendered as well as
21 the total usage in that block.

22 Q. So then you know how many bills were issued
23 to customers who were only using power in the first 600
24 kilowatt hour block?

25 A. You know how many bills are issued, you don't

0322

1 know -- it doesn't track customers.

2 Q. I'm sorry, I meant to say bills.

3 A. Yes, you know how many bills were rendered.

4 Q. If the company wanted to perform the bill
5 frequency analysis, does it have the data to do so?

6 A. It does. The one thing it would have to
7 extract certain customers from the bill frequency.
8 Basically you do a query, extract those customers, and
9 then do a separate bill frequency. Our bill frequency
10 analysis right now is hard coded into the computer
11 systems. It's not like an Excel spreadsheet. It could
12 be created, but it would take a little bit of time, and
13 that's why the response was the information isn't
14 available, and it would take some time to create it.

15 Q. Would Public Counsel's rate design witness
16 have the information to do these studies unless the data
17 was provided by the company?

18 A. No.

19 Q. In general would you expect that those
20 residential customers using less than 600 kilowatt hours
21 per month are not electric heat customers?

22 A. Yes, I would expect that.

23 Q. And would you expect that most of these would
24 be natural gas heat customers?

25 A. Probably the majority of them are natural gas

0323

1 heat customers or some other heating source, propane,
2 perhaps wood, yes.

3 Q. Or oil?

4 A. Or oil.

5 Q. All right. Now I have asked this question
6 twice before today, and so I will give it a try with
7 you. How do the company's natural gas rates that will
8 be in effect this winter as a result of your PGA filings
9 compare to the natural gas rates that were in effect
10 last winter?

11 A. I heard the number that you used before, I
12 believe it was 60%. I don't have a check of that, but
13 I'm guessing they would be at least 50% higher. We had
14 a PGA this time last year, we had a general increase
15 last year, and then we have a 23 1/2% purchase gas
16 adjustment pending to be effective November 1st if
17 approved by the Commission, so at least 50%. I would
18 accept the 60% number subject to check.

19 Q. All right, thank you.

20 In general would you expect that residential
21 customers using more than 1300 kilowatt hours per month
22 in many cases are electric heat customers?

23 A. Yes.

24 Q. And assuming that the rate increase that the
25 company's agreed to with Staff is approved, how will the

0324

1 company's electric rates for this winter, this coming
2 winter, compare to the electric rates that were in
3 effect last winter?

4 A. The proposed increase is about 10% including
5 the surcharge increase and with essentially a uniform
6 percentage increase across the board in terms of the
7 blocks and the customer charge, about 10% higher.

8 Q. So however this case comes out, the company's
9 natural gas customers are facing much bigger increases
10 than over last winter than the electric heat customers?

11 A. They are facing a bigger increase, there's no
12 question about that. I did look, Mr. Lazar's testimony
13 made me curious, how the bills would compare after all
14 these increases go into effect. And a gas heat customer
15 would still be paying a little bit less than the same
16 customer that had electric heat, and that's assuming
17 about an 80% efficient gas furnace, which I believe is
18 close to average. Gas heat customer's bill would still
19 be a little bit less, not a lot. Obviously that huge
20 advantage of gas is disappearing quickly, but there
21 still is a little bit of a lower bill with gas heat. So
22 there's -- I would agree with the percentage increase,
23 they are facing a much higher percentage increase.

24 Q. That's essentially a reflection of the
25 erosion of the price advantage of the gas?

0325

1 A. For now, no question about it, yes.

2 Q. Did you take a look at gas versus heat pump?
3 I'm assuming your answer related to gas versus electric
4 resistance heat?

5 A. Yes. I didn't look at a heat pump. With the
6 efficiency of an electric heat pump, that slight price
7 advantage or bill advantage would be gone. Even in our
8 colder climate in Eastern Washington, a heat pump is not
9 200% efficient as it is in a moderate climate. So a
10 customer's bill that had electric heat pump for the
11 winter would probably be lower given the rates we're
12 looking at today.

13 Q. I would like to move on to a different area
14 now, if I could get you to look at Exhibit 164, that's a
15 response to Public Counsel 207.

16 A. I have that.

17 Q. And in this exhibit we asked for two examples
18 of gas line extension analyses that required customer
19 contribution and two that did not require the
20 contribution, correct?

21 A. Yes.

22 Q. Can you turn to the second page of the
23 exhibit, and do you see that the cost categories
24 included here, and this is on the table in the middle of
25 the page on the left-hand side under the heading

0326

1 category, do you see that the cost categories include
2 distribution main, service stub, plus traffic control
3 and permit?

4 A. Yes.

5 Q. Is that right?

6 A. Yes.

7 Q. So the cost of the service line is included
8 in the line extension analysis, correct?

9 A. Yes, it is.

10 Q. And for this example the total cost of the
11 proposed line extension was \$11,270, correct?

12 A. Yes, that's correct.

13 Q. Now over on the right-hand side of the table
14 there if we look down below that, the line that reads
15 credits in the amount of \$3,265 is shown; do you see
16 that?

17 A. Yes.

18 Q. And this represents a multiple of the
19 company's projected annual sales revenue from this
20 customer, does it not?

21 A. I believe it does, yes.

22 Q. So, for example, a subdivision, giving you a
23 hypothetical here, a subdivision with ten houses would
24 normally be expected to provide more revenue than a
25 single house and would therefore get a bigger credit

0327

1 than a single house; is that correct?

2 A. Yes.

3 Q. And a 5,000 square foot mansion, although
4 that's kind of a small mansion these days, but 5,000
5 square foot mansion with a gas heated swimming pool,
6 separate servants quarters, and a heated barn for the
7 race horses would be expected to use more gas than your
8 house or my house and would get a larger credit than we
9 would; is that correct?

10 A. Yes, it would.

11 Q. For residential customers, the company
12 invests up to three times annual revenues under its line
13 extension tariff, Schedule 151, correct?

14 A. Yes, that's correct.

15 Q. And above that amount, the customer must make
16 a contribution either in the form of a cash contribution
17 or an annual minimum payment; is that right?

18 A. Yes, that's correct.

19 Q. So, for example, if the mansion was expected
20 to use five times as much gas and pay five times as much
21 revenue as a normal house, it would get about five times
22 as much company paid line extension credit; is that
23 right?

24 A. Yes, that's correct.

25 Q. And the same would be the case with a

0328

1 commercial laundry with say 100,000 therms a year of
2 expected gas consumption?

3 A. Yes, that's correct.

4 Q. Use more gas, pay more revenue, get a bigger
5 credit than the residential customer?

6 A. Yes.

7 Q. Even the guy in the 5,000 square foot mansion
8 probably?

9 A. That's correct.

10 Q. And for the commercial sector, the company's
11 Schedule 152 line extension tariff also provides free
12 line extension up to three years revenue; is that
13 correct?

14 A. Yes.

15 Q. And if the commercial customer were expected
16 to provide 50 times as much revenue as a typical
17 residential customer, the company would pay up to 50
18 times as much for the line extension that serves them;
19 is that right?

20 A. We would provide a credit toward the
21 construction cost to that extent. We don't pay them
22 anything.

23 Q. I'm referring to the credit.

24 A. Yes.

25 Q. And that would be 50 times the residential?

0329

1 A. To the extent their usage is that much.

2 Q. Okay.

3 A. Yes.

4 Q. So in other words, the size of the credit is
5 a function of the expected sales volume, and that would
6 be independent of the customer count, correct?

7 A. I'm sorry, independent of the -- how does the
8 -- I thought we were talking about an individual
9 customer.

10 Q. One big customer gets more than one little
11 customer?

12 A. Yes.

13 Q. It's solely a function of the sales volume?

14 A. Usage, yes.

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

16 JUDGE CAILLE: Yes.

17 MR. FFITCH: Those are all the questions I
18 have, Your Honor.

19 JUDGE CAILLE: Thank you.

20 Any redirect?

21 MR. MEYER: Yes, I do, Your Honor, thank you.

22

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

24 BY MR. MEYER:

25 Q. Let's return, Mr. Hirschhorn, for a moment to

0330

1 DSM. Is it true that in September of 2003 Avista
2 received approval to almost double its Schedule 191 rate
3 to both maintain its gas DSM and to pay down the
4 negative DSM deferral balance?

5 A. Yes, that's correct.

6 Q. And isn't it true that the additional
7 \$200,000 DSM funding in the settlement represents
8 additional funding for low income customers?

9 A. Yes, it is additional funding for low income
10 customers, yes.

11 Q. Isn't it true that based on our current gas
12 programs, Avista has exceeded its target by over three
13 times?

14 A. Yes, that's correct.

15 Q. And doesn't that represent over 800,000
16 therms saved in the past year as opposed to a target of
17 just over 240,000 therms?

18 A. Yes.

19 Q. You were asked about Exhibit 401, do you have
20 that in front of you? That was a response to Public
21 Counsel 232, which was really a Johnson exhibit.

22 A. Oh, yes.

23 JUDGE CAILLE: Mr. Meyer, this is now Exhibit
24 203.

25 MR. MEYER: 203, that's correct, thank you.

0331

1 BY MR. MEYER:

2 Q. That Exhibit 203, page 2, had different
3 resources and different costs shown for each of those
4 resources; is that correct?

5 A. Yes.

6 Q. Well, given this exhibit and given these
7 numbers, would this cause you to change your rate design
8 recommendations?

9 A. No, it would not. Resource costs are not
10 specifically assigned to specific customers. Certainly
11 you look at both embedded resource costs and all your
12 resource costs for that matter and as well as potential
13 incremental costs in rate design, but I think you don't
14 assign the costs of specific resources to specific
15 customers. That's very difficult to do with the
16 dispatch of resources that the company uses.

17 Q. So this would not cause you to reconsider the
18 rate design contained within the settlement as proposed?

19 A. It certainly wouldn't cause me to change our
20 rate design proposal, no.

21 Q. Lastly, back to the number that I think
22 Mr. ffitch has been chasing around, the 60% figure, with
23 regard to that 60% referenced by Mr. ffitch for natural
24 gas increases, isn't it true that that comparison would
25 relate to bills coming this winter as compared with

0332

1 bills two winters ago?

2 A. Yes, it would as a matter of fact.

3 Q. Yeah.

4 A. That would be over a two year period, thank
5 you.

6 Q. And so it's not a comparison of this winter
7 to last winter?

8 A. Yes.

9 MR. MEYER: Okay, just thought I would
10 clarify that. That's all I have, thank you.

11 JUDGE CAILLE: Thank you.

12 Commissioners?

13 All right, then you're excused,

14 Mr. Hirschhorn.

15 Well, we are ahead of schedule, so we could
16 call Ms. Knox or Mr. Malquist.

17 MR. MEYER: We have Ms. Knox available to
18 testify.

19 JUDGE CAILLE: All right, let's have Ms. Knox
20 take the stand.

21 Ms. Knox, if you will please stand and raise
22 your right hand.

23 (Witness Tara Knox was sworn.)

24 JUDGE CAILLE: You may proceed.

25

0333

1 Whereupon,

2 TARA KNOX,

3 having been first duly sworn, was called as a witness

4 herein and was examined and testified as follows:

5

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

7 MR. MEYER:

8 Q. For the record, Ms. Knox, please state your
9 name and your employer.

10 A. My name is Tara Knox, and I am employed by
11 Avista Corporation.

12 Q. And have you prefiled both direct and
13 rebuttal testimony in this case?

14 A. Yes, I have.

15 Q. Do you have any changes to make to any of
16 that testimony?

17 A. No, I do not.

18 Q. So if I were to ask you the questions that
19 appear in your prefiled testimony identified as Exhibit
20 131 as well as in your rebuttal testimony identified as
21 Exhibit 136, would your answers be the same?

22 A. Yes, they would.

23 Q. Now you are also sponsoring accompanying
24 Exhibits 132, 133, 134, and 135 as well as 137?

25 A. That is correct.

0334

1 Q. And is the information contained in those
2 exhibits true and correct?

3 A. Yes.

4 MR. MEYER: With that, Your Honor, I move for
5 the admission of Exhibits 131 through 137.

6 JUDGE CAILLE: Is there any objection to the
7 admission of those exhibits?

8 Hearing none, the exhibits are admitted into
9 the record.

10 MR. MEYER: And the witness is available.

11 JUDGE CAILLE: Mr. ffitch.

12 MR. FFITCH: Thank you, Your Honor.

13 JUDGE CAILLE: I show 30 minutes for

14 Ms. Knox.

15 MR. FFITCH: I believe that's about right,
16 Your Honor.

17

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

19 BY MR. FFITCH:

20 Q. I'm first going to ask you, well, first I'm
21 going to say good afternoon, Ms. Knox.

22 A. Good afternoon, Mr. ffitch.

23 Q. I'm going to ask you first to turn to Exhibit
24 144, that was one of your cross exhibits, and that is
25 the response to Public Counsel Data Request 149.

0335

1 A. Yes, I see it.

2 Q. Do you have that?

3 A. Yes, I do.

4 Q. And in that data request we asked Avista for
5 each year since 1975, provide peak demand for the sum of
6 the 12 monthly peaks by separate rate schedule for
7 different types of customers represented by your
8 different rate schedules, correct?

9 A. Yes, that is correct.

10 Q. And if we could then turn to page 2 of the
11 exhibit, that is your response, correct?

12 A. Yes.

13 Q. And you were able to provide the data
14 starting in 1982 it looks like; is that right?

15 A. Yes, that's the first time we did the 12
16 monthly peaks.

17 Q. All right. And can you just state what the
18 units are that we're looking at here?

19 A. This is demand, these are KW, so it's
20 kilowatts.

21 Q. Kilowatts?

22 A. Kilowatts, yes.

23 Q. Now first let's take a look at the first
24 column, the first schedule column under Schedule 1, and
25 that is the residential class, correct?

0336

1 A. Yes.

2 Q. And if I could get you to look at the bottom
3 of the column, we see for a 1982 average 398,000
4 kilowatts, correct, and change?

5 A. Yes, that's correct.

6 Q. And then if you look up at the 2004 average,
7 we have the number 398,200 odd, correct?

8 A. Yes, that's correct.

9 Q. And so would you agree that there's been
10 virtually no growth in peak demand for residential class
11 Schedule 1 during that time period?

12 A. It has stayed relatively stable.

13 Q. Okay. Now can you look at the next column,
14 the small commercial class, we look at the bottom we see
15 a number of 81,486 kilowatts in 1982, the top column for
16 2004 we have 58,500 kilowatts. So would you agree that
17 this class has actually declined in peak demand?

18 A. Yes, the number has gone down. It's possible
19 that some of those customers have shifted to other
20 schedules.

21 Q. Part of this may be that the retail world has
22 changed over this time, larger number of small stores
23 perhaps in the 20 years ago and now we have a smaller
24 number of so-called big box stores, could that attribute
25 or account for part of this change?

0337

1 A. It's possible. I'm seeing almost an equal
2 increase in Schedule 21 as there is a decrease in
3 Schedule 11, which is why my initial response was that
4 there was probably some schedule shifting.

5 Q. And this next column, just to follow you
6 over, there is large commercial customers, Schedule 21,
7 22, correct?

8 A. Yes.

9 Q. And that shows if you sort of run your eye up
10 the column of numbers, there's quite a bit of movement
11 up and down, but in general there is an increase of from
12 188,000 at the bottom to 202,000 at the top, which is
13 somewhere between 5% and 10%, maybe closer to 10%, isn't
14 that right, and that's an increase?

15 A. That would be about right, yes.

16 Q. And then finally let's look at Schedule 25,
17 which is the extra large general service class, correct?

18 A. Yes.

19 Q. And in that column we see a number of 52,900
20 kilowatts for 1982, and that has increased to 120,500
21 for 2004, correct?

22 A. That is true.

23 Q. That's more than doubled?

24 A. Yes, part of that there was a large special
25 contract customer that switched to Schedule 25 in the

0338

1 mid '90's, and you can see a big jump from 82 in 1993 to
2 106 the following year, and I believe that was when that
3 special contract customer became a Schedule 25 customer.

4 Q. Okay.

5 Now we'll talk a little bit about methodology
6 questions, a delightful topic for 4:30 in the afternoon.
7 Your cost of service study uses a general approach
8 called a peak credit methodology, does it not?

9 A. Yes.

10 Q. And that is a methodology for classifying
11 production and transmission plant between the demand and
12 the energy cost components?

13 A. Yes.

14 Q. Is that correct?

15 A. Yes.

16 Q. And would you agree that the peak credit
17 method is designed to split the cost of generating units
18 between those units that, excuse me, between those costs
19 that would be incurred just to meet peak demand and
20 those costs over and above that level that are incurred
21 with non-peaking units and should be assigned to the
22 energy category of costs?

23 A. I believe what it is intended to do is to
24 provide a percentage of the non-peaking plants that
25 should be considered demand related because they

0339

1 participate in supplying power at times of peak demand.

2 Q. Well, let's take a simple example, let's take
3 a coal plant for example. Clearly the cost of building
4 a coal plant is higher than a natural gas combustion
5 turbine, correct?

6 A. One would expect so.

7 Q. However, because of lower fuel costs when the
8 full year costs of operating a coal plant are
9 considered, the coal plant is an economical choice for
10 base load power; is that the idea?

11 A. Yes.

12 Q. And the peak credit method assigns some of
13 the cost of the coal plant to peak and the rest to
14 energy in recognition of the fuel cost savings in
15 building the coal plant or that are achieved by building
16 the coal plant. Is that a concise summary of the
17 method?

18 A. It's certainly -- it splits the amount of the
19 base load plants that is allocated to energy with the
20 amount that is allocated to demand.

21 Q. Okay, and the demand being the service of the
22 peak demand?

23 A. Being the recognition that they are providing
24 service during peak demand.

25 Q. Now I'm going to ask you to turn to your cost

0340

1 of service or electric cost of service study workpaper,
2 and that is your page 59 from your workpaper. I worked
3 very hard to keep it near by, oh, yes, here it is.

4 MR. FFITCH: And that has been marked as
5 Exhibit 143 I believe, Your Honor?

6 THE WITNESS: I think she said 148.

7 MR. FFITCH: 148?

8 JUDGE CAILLE: Yes, 148.

9 MR. FFITCH: Thank you, I stand corrected.

10 JUDGE CAILLE: That was previously marked as
11 402.

12 BY MR. FFITCH:

13 Q. And just to identify this, Ms. Knox, this is
14 an excerpt from your workpapers in this case, correct?

15 A. Yes, it is.

16 Q. And this is where you computed the ratio that
17 you used in your study, correct?

18 A. That is correct, or the three ratios
19 actually.

20 Q. Okay. Can you just state what those ratios
21 are and bring us up to speed just for background
22 purposes?

23 A. We apply a separate demand energy
24 classification to thermal plant and then another ratio
25 to hydro plant, and then we take a weighted or an

0341

1 equally weighted ratio of the two, the thermal and
2 hydro, and apply that to transmission plant.

3 Q. All right. And so the ratios, and those are
4 shown in the boxes on this workpaper, correct?

5 A. That's correct.

6 Q. And the ratios are, for example for thermal
7 peak, the ratio means the percentage that's allocated to
8 energy versus to demand, so for example thermal is 54.67
9 and 45.3 to demand, correct?

10 A. Yes, that's correct.

11 Q. Now making this calculation, you treated the
12 Kettle Falls steam units and the Colstrip coal plants
13 and the Coyote Springs gas fired unit as base load
14 thermal units, did you not?

15 A. Yes, I did.

16 Q. And the cost per kilowatt hour for these
17 ranged from \$587 per kilowatt for Coyote Springs up to
18 \$2,837 per kilowatt for Kettle Falls, correct?

19 A. Yes.

20 Q. And those numbers I'm reading come from the
21 right-hand column under the heading cost per kilowatt
22 hours, correct?

23 A. Yes.

24 Q. And you can find the plant on the left-hand
25 side.

0342

1 Now I'm going to ask you to turn to -- I'm
2 sorry.

3 And in making this calculation, you treated
4 Kettle Falls CT, which is combustion turbine, the
5 Northeast Spokane combustion turbine, the Boulder Park
6 combustion turbine, and the Rathdrum combustion turbine
7 as peaking units, correct?

8 A. Yes.

9 Q. And the cost per kilowatt hour for those
10 ranged from \$433 for Northeast Spokane to \$508 per
11 kilowatt hour for Rathdrum, \$1,305 for Boulder Park, and
12 \$1,371 per kilowatt hour for Kettle Falls. I'm sorry,
13 I'm throwing in hours incorrectly here, I'm just meaning
14 to say dollars per kilowatt.

15 A. Yeah, KW capacity, yeah.

16 Q. Okay.

17 A. Then that is the range, that's a function of
18 the math, yes.

19 Q. Okay. And two of these peaking units have
20 costs that greatly exceed the costs of the Coyote
21 Springs base load combined cycle unit, do they not?

22 A. Yeah, however, the whole point of this
23 exercise is to come up with a weighted average, and
24 because both of those units that have, you know, the
25 kind of misleading high unit cost is because they have a

0343

1 very low number of units that you're dividing by, which
2 is also a function of the math. It becomes very
3 sensitive to the dollars in the numerator when the
4 denominator is very small. When you take the weighted
5 average of all of the peaking units together, it's only
6 589. And part of why the demand energy split for
7 thermal has gotten to be a larger demand percentage than
8 we have had in the past is that we have added the
9 extremely low cost per KW of the Coyote Springs, and
10 this is 2 and 2.5 is included in here. And that brings
11 down that weighted average thermal amount. Therefore,
12 when you make this comparison in the thermal peak credit
13 section that's boxed, it makes -- because the thermal
14 has come down, the peaking has stayed about the same as
15 it's been in prior cases, this has made this
16 relationship change a little bit.

17 Q. Okay.

18 If you can turn now to the response to
19 Exhibit 141. That's the response to Public Counsel Data
20 Request 133, do you have that?

21 A. Yes, I do.

22 Q. And this is asking a question about this
23 workpaper that we just looked at, and we asked you to
24 provide any analysis by the company or finding by the
25 Commission that these specific costs per kilowatt hour

0344

1 for Kettle Falls or Boulder Park, per kilowatt, boy, I'm
2 just on automatic pilot there, I apologize, cost per
3 kilowatt for Kettle Falls or for Boulder Park as a
4 reasonable estimate of the replacement cost in today's
5 market for peaking capacity; that was the request,
6 correct?

7 A. Yes.

8 Q. And the answer states that the costs you used
9 on this worksheet were simply, referring to page 59 of
10 your workpaper, were simply the original costs plus
11 construction escalation since they were built and "are
12 not based on anyone's judgment of the cost of peaking
13 capacity in today's market," correct?

14 A. Yes, that's what it states.

15 Q. All right. Now could you please turn to the
16 next Exhibit 142. And this is a response to Public
17 Counsel Data Request 134, which I asked you to provide
18 the monthly and annual capacity factor for each thermal
19 generating unit identified for the test year and each
20 month since the test year.

21 A. Yes, it is.

22 Q. Okay. And would you agree that the Kettle
23 Falls combustion turbine and the Boulder Park combustion
24 turbine were dispatched much more frequently than the
25 Northeast and the Rathdrum units?

0345

1 A. It looks that way, yes.

2 Q. And could you just explain to us how we can
3 tell that from looking at these columns of numbers?

4 A. The 2004 ratio at the top for Kettle Falls CT
5 is 14.4 and the Boulder Park is 7.6, whereas the
6 Rathdrum is .45 and the other is .02.

7 Q. So the higher numbers represent a much higher
8 level of dispatch of those units?

9 A. That would be my assumption.

10 Q. All right.

11 A. I consulted with Mr. Johnson to respond to
12 this data request, and he actually provided these
13 numbers. And if you want to know what they mean, you
14 would have to redirect your question to him.

15 Q. Okay. Well, I will ask you another question,
16 if you can answer it, that's fine. The response asked
17 for the annual capacity factors for each of the units,
18 can you identify where in the response this is shown?

19 A. I believe that's the first row that is
20 abbreviated INS capacity across the top.

21 Q. Okay.

22 A. I don't know.

23 Q. We can follow up on this with Mr. Johnson,
24 but it's our understanding that number is reflected in
25 the 2004 row; would you accept that subject to check

0346

1 with --

2 A. Certainly.

3 Q. -- with Mr. Johnson?

4 A. Subject to check.

5 Q. Okay.

6 Since the units, i.e., Kettle Falls and
7 Boulder Park, were run much more often, can we assume
8 that they have lower fuel and variable operating costs
9 than the Northeast and the Rathdrum plants?

10 A. Since my understanding is that the use of
11 resources is price driven rather than -- the use of
12 peaking resources is generally price driven rather than
13 load driven, my assumption would be that that would be
14 the case, at least at those particular points in time.
15 The other possibility is they may be leaning towards
16 being intermediate resources as opposed to specifically
17 peaking.

18 Q. Okay, you just anticipated my next question.

19 Did you assign any part of the capital costs
20 of these units to the energy components of costs in your
21 determination of the thermal peak credit factor?

22 A. I'm sorry, could you repeat that?

23 Q. Well, for Boulder Park and Kettle Falls, did
24 you assign any part of the capital costs of those units
25 to the energy component of the costs when you were

0347

1 determining the thermal peak credit factor?

2 A. No. The workpaper that you were looking at
3 before shows the creation of the ratio, and the demand
4 portion comes from the peaking units. The way we apply
5 the peak credit demand or those units when we get to the
6 plant balances on them in the cost of service are
7 allocated 100% demand.

8 I'm not sure if I answered your question,
9 because I couldn't quite -- I wasn't quite sure what
10 your question was.

11 Q. Next I would like you to turn to Exhibit 145,
12 that's the response to Public Counsel 215.

13 A. Yes, it is.

14 Q. And this was actually prepared by Mr. Kalich,
15 he's coming later and we can authenticate it with him,
16 and so I won't ask you to verify accuracy here, but just
17 ask you a couple of questions hopefully you can respond
18 to.

19 This is an excerpt from technical, if we look
20 at the second page, technical advisory committee
21 materials for the 2005 integrated resource plan,
22 correct?

23 A. That's what it looks like, yes.

24 Q. And let's go to page 3 to the second line and
25 the third line. Second line is labeled SCCT-Arrow, do

0348

1 you know what SCCT stands for?

2 A. I believe it's simple cycle combustion
3 turbine.

4 Q. Okay. And the next line is SCCT industrial,
5 and the costs are shown 6 columns over for those units,
6 correct? And for the Arrow model \$672 per kilowatt, and
7 for the industrial model \$422 per kilowatt, correct?

8 A. That's what it says.

9 Q. Would you agree that these are in the same
10 general range that your workpaper shows for the Rathdrum
11 and Northeast units, excuse me, turbines?

12 A. In the general range, yes, and certainly
13 within the range of the weighted average.

14 Q. And would you agree they're significantly
15 lower than your workpaper shows for Boulder Park and
16 Kettle Falls?

17 A. Yes. Once again because they are so small,
18 they're only a very small proportion of the \$589 per KW
19 that is used in the ratio.

20 Q. Okay.

21 A. Which is right in between those two numbers
22 on Mr. Kalich's table.

23 Q. Now can I get you to turn, please, to the
24 response to Public Counsel 135. I'm going to have to
25 find that for a minute here, bear with me.

0349

1 A. I believe it's numbered 143.

2 Q. Thank you. This exhibit shows the fixed and
3 variable operations and maintenance costs for the
4 Rathdrum, Boulder Park, Kettle Falls, and other thermal
5 generating units, doesn't it?

6 A. Yes, I believe so.

7 Q. And that's what O&M stands for is for
8 operations and maintenance, correct?

9 A. Yes, that's correct.

10 Q. Would you agree that the fixed operating
11 costs for Rathdrum, Boulder Park, and Kettle Falls
12 combustion turbines are significantly higher than for
13 Northeast, that's the first column of numbers?

14 A. Yes, those numbers are higher than the number
15 for Northeast.

16 Q. And, in fact, the fixed and variable costs
17 for the Kettle Falls combustion turbine which you
18 classify as a peaker unit are higher than the comparable
19 costs for the Coyote Springs plant which you classify as
20 a base load unit; would you agree?

21 A. Could you repeat that?

22 Q. Well, first I'm asking you to look at the
23 fixed --

24 A. I just missed what you said, could you repeat
25 it?

0350

1 Q. Okay. Fixed and variable operating costs for
2 the Kettle Falls combustion turbine which you classify
3 as a peaker unit are higher than the comparable costs
4 for the Coyote Springs plant which you classify as a
5 base load unit; isn't that correct?

6 A. That is true.

7 Q. I'm going to ask you to turn now to Exhibit
8 138, and this is a confidential exhibit. We'll have to
9 see if we can get through this without --

10 MR. FFITCH: I believe we can do this, Your
11 Honor, without discussing specific confidential
12 information. Just give me a moment to look at my
13 question, if I may, Your Honor?

14 JUDGE CAILLE: Sure.

15 BY MR. FFITCH:

16 Q. All right, Ms. Knox, I'm ready with my
17 question, and I don't believe that I'm going to get into
18 confidential information here, but if I have
19 inadvertently, you know, invited you to do that, then we
20 need to deal with that.

21 The question is, do you see that this exhibit
22 shows the costs the company is actually paying for some
23 peaking resources that it is purchasing from other
24 utilities?

25 A. When I discussed this exhibit with

0351

1 Mr. Johnson, who provided the information, he explained
2 to me that these contracts are for exchange capacity and
3 that they really are not comparable to purchasing
4 capacity from a plant. You really need to discuss any
5 particulars of this with Mr. Johnson, I'm not familiar
6 with the contracts at all.

7 Q. All right, well, the data request speaks for
8 itself in terms of what we asked for, and we did ask for
9 peaking capacity purchases and peaking capacity sales in
10 the last five years, and this answer was provided by
11 you, correct?

12 A. Yes, through Mr. Johnson. He provided me the
13 information, and I supplied the data response. My
14 understanding is that in general purchase contracts,
15 well, there's always a capacity component of every --
16 there's a KW in every KWH, so anything that you purchase
17 that is energy also has a capacity component. We very
18 seldom purchase specifically capacity.

19 Q. All right, well, none of those qualifications
20 were provided in this data response, were they?

21 A. Like I say, I passed on what Mr. Johnson sent
22 to me as the closest things that we had to what was
23 asked in the question.

24 Q. All right. Did you use the costs shown on
25 this exhibit or any peaking contract cost in computing

0352

1 the peak component of the peak credit calculation that
2 you performed?

3 A. No, it is entirely a replacement cost
4 comparison.

5 Q. This may be a question for Mr. Johnson if he
6 provided you this information, but do you know why this
7 information is confidential? The rest of the data about
8 the company owned plants is not.

9 A. This is -- these are not -- these are
10 contracts with other parties.

11 Q. All right.

12 MR. FFITCH: Now I guess I will ask, Your
13 Honor, I will ask the company to review whether or not
14 this exhibit needs to remain confidential. We may also
15 explore that with Mr. Johnson.

16 MR. MEYER: We will be happy to do that and
17 maybe put that very question to Mr. Johnson.

18 JUDGE CAILLE: All right.

19 MR. FFITCH: Just one more area, Your Honor,
20 I should be able to wrap up pretty close to 5:00.

21 BY MR. FFITCH:

22 Q. Ms. Knox, are you generally familiar with the
23 history of electric cost of service studies in
24 Washington?

25 A. I have read Mr. Lazar's exhibit, and I have

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1 been working with cost of service since the early '90's.

2 Q. All right, and so you're familiar with
3 Avista's experience on this issue since that time?

4 A. With a peak credit, or what's the issue?

5 Q. Just the general history of electric cost of
6 service studies.

7 A. Yes.

8 Q. All right. And so it's correct, isn't it,
9 that in 1985 the company presented a study which
10 classified production plant as 50% demand and 50%
11 energy; do you recall that? That's docket, if it helps
12 you, it's cause U-85-36.

13 A. I don't remember that specifically. I do
14 have a copy of the order from that case.

15 Q. The Third Supplemental Order?

16 A. Yes, that's correct.

17 Q. And would you accept that the company's
18 proposal in that case was rejected in that Commission
19 order?

20 A. Yes, I believe -- I -- there were a lot of
21 them in the '80's, and at least one of them had three
22 different cost of service studies that they provided. I
23 don't remember the 1985 one, if it had three different
24 choices or if that -- if the one that you stated was the
25 only thing that was provided.

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1 Q. Well, if you could look at page 45 of that
2 order, that would help you.

3 A. It says, none of the cost of service studies
4 presented was found totally acceptable.

5 Q. Right. And can you tell from that page
6 whether the company presented a study which classified
7 production plant as 50% demand and 50% energy? If you
8 can't find it --

9 A. Not on that page, I'm thinking it would have
10 to be back earlier.

11 Q. Possibly on the preceding page. That's okay,
12 I can look --

13 A. It doesn't appear to specifically discuss --

14 Q. Well, the order speaks for itself, I don't
15 need to have you --

16 A. It looks like on page 43 it talks about what
17 the company proposed. The company prepared two
18 alternative studies, so this was the one where there
19 were three studies, one using the average and excess
20 demand method, the other one using a method whereby
21 production costs were classified 50% demand and 50%
22 energy. I believe the company's main one in that case
23 was a peak credit method, but the 50% demand 50% energy
24 was an alternate that they provided to show the
25 sensitivity.

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1 Q. And that was not accepted in that case,
2 correct?

3 A. No, none of the items the way they were
4 presented were accepted.

5 Q. All right. Now moving ahead to 1999, the
6 Commission again rejected a company cost of service
7 study for electricity, and that's Docket 991606,
8 correct, Third Supplemental Order?

9 A. Yeah, I thought I had that right in front of
10 me. There were a number of issues in the 991606, and
11 the Commission accepted the way the company had
12 presented the production costs. They rejected the way
13 that the company had suggested an alternative for
14 administrative and general costs.

15 Q. And didn't the Commission state that Avista's
16 underlying cost of service study was not sufficiently
17 rigorous to rely on in that order?

18 A. I don't remember that.

19 Q. Page 109.

20 A. And that would refer to the fact that they
21 had not accepted essentially more than half of one of
22 the changes from how it had been done in the past.

23 Q. All right. Can you cite an example of a case
24 where the company has had an electric cost of service
25 study fully approved by the Commission?

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1 A. I don't know that there's been one -- that
2 there's been verbiage there in the 011595 case there was
3 silence regarding it, and in that one I had taken the
4 direction that was provided in the order in 991606 where
5 they liked that I had as much direct assignment of
6 administrative and general costs as possible, but they
7 did not like the treatment of the remaining
8 administrative and general costs. However, they
9 accepted the company's proposal for the Avista specific
10 application of peak credit and the 12 monthly peak
11 allocator. And so I incorporated the parts that the
12 Commission had accepted in this order, and then I
13 changed what was applied to those common costs to
14 replicate what had been approved for Puget in the 1992
15 case.

16 Q. Okay, well, you're anticipating my next
17 question. I was going to ask you about the Puget '92
18 case, and Avista, at that time Washington Water Power,
19 did participate in that Puget rate proceeding in 1992,
20 correct?

21 A. I do not recall that. I was not included in
22 it in terms of the cost of service collaborative. I was
23 not a party to that.

24 Q. All right, well, then perhaps you can't
25 answer this question, but do you know if -- so you don't

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1 know if Avista participated or not in the cost of
2 service study issues in that case?

3 A. I do not believe they did.

4 Q. Are you aware, would you agree that in that
5 case the Commission ordered a method that directed that
6 only 1/2 of the cost of the combustion turbine be
7 considered peak related because combustion turbines have
8 other benefits such as the ability to back up the hydro
9 system in a drought; are you familiar with, is that
10 correct?

11 A. Yes, the order had a lot of verbiage around
12 that.

13 Q. Okay.

14 A. For Puget.

15 Q. Would you also agree that in that docket the
16 Commission ruled that the highest 200 hours of peak
17 demand should be used for allocating those costs between
18 customer classes?

19 A. Yes, they took that directly from Puget's
20 planning criteria, which I took to be their current IRP.

21 Q. Okay.

22 A. And so it was related specifically to how
23 Puget planned to make use of their combustion turbines.

24 Q. So did you do either of those things in your
25 cost of service study, either the 200 hour issue or the

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1 issue I mentioned just before that?

2 A. In the 991606 case, which was our first case
3 after this order came out, I provided multiple scenarios
4 where I showed the company's preferred cost of service,
5 and then I also had one with the way the company had
6 done it in their last case, and then I had a third
7 scenario where I replicated everything in the Puget '92
8 order.

9 Q. Did you do that in this case?

10 A. No, I did not. I did provide a data response
11 to Public Counsel that I understood to attempt to
12 replicate what might be a reasonable approximation of
13 the percentages.

14 Q. Okay, I'm not sure if you're referring to my
15 next exhibit, but again you're doing a great job of
16 anticipating where I'm going so getting us finished a
17 little quicker perhaps. Exhibit 139 I believe is what
18 you're referring to. That is a response to Public
19 Counsel Data Request 120.

20 A. Mm-hm.

21 Q. And there you did provide an analysis that
22 the company prepared in 1993 using the methodology
23 approved for Puget, did you not?

24 A. Yes, this was some analysis that we requested
25 of the power resources department shortly after the

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1 Puget order came out in order to evaluate what they had
2 done.

3 Q. Okay.

4 A. The people in our power resources department
5 at that time could not understand what relation it might
6 have to the way we run our system.

7 Q. And am I correct that this study, which is
8 the same Commission approved Puget methodology, reached
9 a conclusion that 17% of the cost of production and
10 transmission facilities should be considered peak demand
11 related and 83% energy related? That's in the bottom --

12 A. That would be my assumption from the result
13 there. They simply took the methodology that had been
14 presented in that Puget case and replicated it. It's
15 still I believe it's a hypothetical versus a
16 hypothetical.

17 Q. Okay, and that 17% is shown on the bottom
18 right-hand corner.

19 A. Yes.

20 Q. Of the exhibit, correct?

21 A. And that was 1993.

22 Q. Now can I ask you to look at the last exhibit
23 here that I'm going to discuss, that's 140, and in that
24 we asked you to provide the contribution to the 200
25 highest system hours by customer class for each of the

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1 most recent three years, correct?

2 A. Yes, you did ask that.

3 Q. And your response does not provide that
4 information and states that it's not available, correct?

5 A. No. When I do the demand study for the 12
6 coincident peaks, I do a statistical estimation process
7 that's based on my weather normalization and billing
8 data, and I estimate the daily usage on the day of the
9 peak for each class, and then I take that daily
10 information and I apply a load shape to it from the last
11 8,760 hour study that we have, which represented the
12 1993 calendar year.

13 Q. Okay, so that's --

14 A. And so doing that for 600 individual hours
15 seemed to me to be a little more than was reasonable.

16 Q. But that's different than the highest 200
17 hours of peak demand methodology directed in the Puget
18 Sound Energy case, correct?

19 A. Well, Puget has the load information to be
20 able to just pull it. We have to create it from billing
21 data and estimation.

22 Q. All right. But my question is that your
23 methodology that you have just described is not the 200
24 hour methodology directed in the Puget order, correct,
25 it's a different methodology?

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1 A. What I provided to Public Counsel in the data
2 response?

3 Q. We're looking now at the next exhibit, which
4 is 140, response to Data Request 124, where you say the
5 information is not available.

6 A. Right. It would have to have been created 1
7 hour at a time for 200 hours, and for 3 years that is
8 600 hours of looking at, you know, applying those
9 statistical comparisons to each hour.

10 MR. FFITCH: All right, thank you.

11 Those are all the questions I have, Your
12 Honor.

13 JUDGE CAILLE: Any redirect?

14 MR. MEYER: Just very briefly.

15

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

17 BY MR. MEYER:

18 Q. Very simply, why do you not believe the Puget
19 method is the appropriate method for cost of service for
20 Avista?

21 A. One of the main drawbacks that I see to it is
22 that 200 hour peak that they include in there, which has
23 no meaning for the Avista system. We don't use our
24 peaking units for 200 hours. It is price driven, it can
25 happen at any time during the year, and, you know, this

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1 200 number had no meaning for us. The hypothetical
2 combustion turbine compared to a hypothetical combined
3 cycle combustion turbine did not make sense to our power
4 resources people, whereas when we take the relationship
5 of the replacement cost that is a number that's provided
6 annually so we have it, that number uses all of Avista's
7 specific resources in coming up with the relationship.

8 One thing about it is I did some sensitivity
9 testing on this to find out what would happen, you know,
10 the study that they requested went from 80% energy and
11 20% demand from what we had in the original study, I
12 wondered what would happen if I ran it with 100% energy
13 and no demand. And what I found was that the rate
14 spread rate design guidance provided by a zero demand, a
15 zero peak credit, was the exact same rate spread revenue
16 guidance that was provided by the study that we ran.
17 There was a slight shifting between Schedule 1 and
18 Schedule 25, because any time you play around with
19 demand and energy, that's where you're moving your
20 costs, you're kind of shifting them either away from
21 residential and to industrial or vice versa, and it
22 wasn't enough of a change to change what the guidance
23 is.

24 Therefore, what we have done in the
25 settlement, which moves towards that guidance where we

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1 have seen that Schedule 1 and Schedule 25 are
2 underearning, we give them more of percentage increase
3 than the other schedules, and we give 11 and 21, which
4 have habitually been overearning, less of an increase,
5 and this helps us make a positive movement towards what
6 we see in the study no matter what percentage of demand
7 you choose, unless you were to go to 100% demand, and I
8 don't think that's reasonable.

9 Q. Ms. Knox, in your rebuttal testimony you
10 furnished a table at page 5 that shows a comparison of
11 cost of service results using your method, the company
12 method, as opposed to the Puget method that you had
13 provided to Mr. Lazar in response to a data request. Do
14 you recall that?

15 A. Yes.

16 Q. And what did you find noteworthy about that
17 table when you did that comparison?

18 JUDGE CAILLE: Excuse me, could you just
19 refer to an exhibit number, Mr. Meyer.

20 MR. MEYER: Oh, I'm sorry, this is Ms. Knox
21 Exhibit 136 at page 5.

22 JUDGE CAILLE: Thank you.

23 BY MR. MEYER:

24 Q. The question being what do you find
25 noteworthy -- just a moment, let's allow time to get

0364

1 there.

2 What do you find noteworthy about that
3 comparison?

4 A. When I look at the return ratios for each of
5 the different customer classes, they do not change
6 materially. There is just, you know, a slight shifting
7 here and there, but it is not a material difference.

8 Q. So does it show that the same customer
9 classes either under or over recover the cost to serve
10 them?

11 A. Yes.

12 MR. MEYER: Okay, that's all I have, thank
13 you.

14 JUDGE CAILLE: Any recross?

15 MR. FFITCH: Can I have a moment, Your Honor,
16 please.

17 No recross, thank you, Your Honor.

18 JUDGE CAILLE: All right, then thank you,
19 Ms. Knox, you're excused.

20 THE WITNESS: Thank you.

21 MR. MEYER: Your Honor, we had one bit of
22 housekeeping I was supposed to remind you of.

23 JUDGE CAILLE: Yes, and we will not need the
24 following witnesses, Scott Morris, Don Kopczynski, David
25 Holmes, and Kathryn Iverson.

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1 MR. MEYER: Perhaps then tomorrow when we're
2 all a little fresher I can move the admission of those
3 exhibits.

4 JUDGE CAILLE: All right, let's do that.

5 MR. MEYER: Okay.

6 JUDGE CAILLE: And I would like, well,
7 actually the Commissioners can leave, and we can take
8 care of that if you like.

9 MR. MEYER: Okay.

10 JUDGE CAILLE: We should begin tomorrow
11 morning at 9:00 a.m. in order to accommodate the two
12 witnesses that need to be heard in the morning,
13 Mr. Avera and Mr. Gorman.

14 MR. MEYER: Okay.

15 JUDGE CAILLE: And I'm going to hold you to
16 very tight cross-examination times so that we can finish
17 them by noon.

18 MR. MEYER: Very well, thank you.

19 JUDGE CAILLE: All right, thank you.

20 And before we go off the record, I will do
21 that with Mr. Meyer. Mr. Meyer, do you want to go ahead
22 and offer those.

23 MR. MEYER: Yes.

24 MR. ROSEMAN: While Mr. Meyer is looking, I
25 would like to be excused from the hearing tomorrow, I'm

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1 not going to have any cross.

2 JUDGE CAILLE: All right, thank you,
3 Mr. Roseman.

4 MS. DAVISON: Your Honor, this is Melinda
5 Davison, and while Mr. Meyer is getting his numbers
6 together, perhaps I could go ahead and move the
7 admission of Kathryn Iverson's exhibits, which would be
8 Exhibits 351 through 357.

9 JUDGE CAILLE: Does anyone have -- I guess no
10 one has any objection to the admission of Ms. Iverson's
11 Exhibits 351 through 357?

12 MR. MEYER: No objection.

13 JUDGE CAILLE: Thank you, those are admitted.

14 MR. MEYER: Then I would move the admission
15 of Mr. Morris's Exhibits 21 and 22.

16 JUDGE CAILLE: Any objection?

17 They are admitted.

18 MR. MEYER: Mr. Kopczynski's Exhibits 41 and
19 42.

20 JUDGE CAILLE: Any objection?

21 They are admitted.

22 MR. MEYER: Mr. Holmes' Exhibits 211 and 212.

23 JUDGE CAILLE: Any objection?

24 They are admitted.

25 MR. MEYER: Thank you.

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1 JUDGE CAILLE: All right, thank you.

2 We are off the record.

3 (Hearing adjourned at 5:20 p.m.)

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