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BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

DOCKET NO. UE-010395

REBUTTAL TESTIMONY OF THOMAS J. HOOVER
REPRESENTING THE AVISTA CORPORATION

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Thomas J. Hoover and my business address is 700 Fifth Avenue, Suite 4500, Seattle WA 98104.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am a partner with the firm of Deloitte & Touche LLP and have been with Deloitte & Touche for 27 years.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I graduated from the University of Notre Dame with a degree in Business Administration and Accounting. I am licensed as a Certified Public Accountant in the States of Washington and Nevada. I am a member of the Washington Society of Certified Public Accountants and the American Institute of Certified Public Accountants. I am the Partner-in-Charge of the Assurance and Advisory practice in the Seattle office and am the leader of our Western Region Utility Industry Group. The majority of my practice involves working in the utility industry. For the past 15 years I have been the lead partner of our Northwest utility industry practice serving a wide variety of publicly owned and investor owned utilities. My experience also includes 2 years in our national office in New York where I was responsible for researching and formulating the firm's position on technical accounting issues.

Q. DID YOUR FIRM AUDIT THE FINANCIAL STATEMENTS OF AVISTA CORP (THE "COMPANY") AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2000?

A. Yes we did. I was the lead partner on that engagement.

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Q. DID YOU EXPRESS AN OPINION ON THOSE FINANCIAL STATEMENTS?

A. Yes we did. Following our audit of the financial statements, which were included in Form 10-K filed by the Company with the Securities and Exchange Commission (SEC), we concluded that, in our opinion, the consolidated financial statements presented fairly, in all material respects, the financial position of Avista Corp and subsidiaries at December 31, 2000 and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Q. IS YOUR FIRM INDEPENDENT WITH RESPECT TO THE COMPANY?

A. Yes we are. Our professional standards and those of the SEC require that we maintain independence with respect to our clients both in fact and in appearance. This includes being precluded from any ownership interests in the Company. Independence also requires that the lead partner serving a public company such as Avista cannot serve the company for more than 7 consecutive years without a complete break in service for at least 2 years. This is done to further assure objectivity in our audits.

Q. WHAT REVIEW PROCESS DO YOU FOLLOW PRIOR TO RENDERING AN OPINION ON FINANCIAL STATEMENTS?

A. Prior to rendering an opinion, all financial statements, footnotes, and disclosures are reviewed by a second partner who has significant experience with the firm along with expertise in the industry. This review includes having the second partner discuss significant accounting and reporting issues, such as accounting for deferred energy costs, with the engagement team. This partner is referred to as the "concurring partner." It is his/her responsibility to ask questions of the

1 engagement team and challenge their conclusions to insure that all significant matters are
2 appropriately addressed.

3 Q. HAVE YOU READ THE TESTIMONY OF MERTON R. LOTT WITH
4 RESPECT TO THE ACCOUNTING FOR POWER COST DEFERRALS AS A
5 REGULATORY ASSET?

6 A. Yes I have.

7 Q. DO YOU AGREE WITH THE STAFF'S POSITION THAT THE
8 COMPANY INAPPROPRIATELY APPLIED THE PRINCIPLES OF FAS NO. 71 AS IT
9 RELATES TO THE ACCOUNTING FOR THE POWER COST DEFERRALS IN
10 WASHINGTON?

11 A No, I do not agree with that conclusion. As noted by Mr. Lott, Paragraph 9 of
12 FAS No. 71 states:

13 "Rate actions of a regulator can provide reasonable assurance of the existence
14 of an asset. An enterprise shall capitalize all or part of an incurred cost that
would otherwise be charged to expense if both of the following criteria are met:
15 a. It is probable that future revenue in an amount at least equal to the
capitalized cost will result from inclusion of that cost in allowable costs for
16 ratemaking purposes.
17 b. Based on available evidence, the future revenue will be provided to permit
recovery of the previously incurred cost rather than to provide for expected
18 levels of similar future costs. If the revenue will be provided through an
automatic rate-adjustment clause, this criterion requires that the regulator's
intent clearly be to permit recovery of the previously incurred cost."
19 [Emphasis added]

20 The FASB realized that, in a regulatory environment, requiring a company to obtain absolute
21 assurances was unrealistic. Reasonable assurances can be given, but there are always matters,
22 such as prudence, to be determined prior to including a cost in rates. The statement thus makes it
23 clear that a company does not need absolute assurance prior to capitalizing a cost, only

1 reasonable assurance.

2 Further, the statement requires that it be probable that the cost will be allowable for ratemaking
3 purposes. Again, it does not establish an absolute standard, only a standard of probability –
4 something that can be reasonably expected or believed.

5 Judgment is required to evaluate reasonable assurance and probability. The FASB
6 specifically addressed the issue of evaluating evidence and using judgment when it stated that it
7 would “not attempt to categorize types of evidence and the reliance that should be based on each.
8 Rather, this Statement [FAS 71] indicates the degree of assurance required, and judgment must
9 be exercised to evaluate whether that degree of assurance is present in various circumstances”

10 Based on all the available evidence, we concurred with the Company’s conclusion that it
11 was appropriate and in accordance with generally accepted accounting principles to defer power
12 costs as authorized by the Commission’s accounting order.

13 Q. WHAT PROCESS DID YOU FOLLOW AND WHAT DOCUMENTS DID
14 YOU REVIEW TO COME TO THAT CONCLUSION?

15 A. The process we followed was to first discuss the issue with Company personnel.
16 We then reviewed a variety of documents related to the issue. These documents included FAS
17 No. 71, the FERC Chart of Accounts, the Staff Memo, the Company’s Petition and the
18 Commission’s Order related to the Company’s request to establish the deferred energy
19 accounting. Throughout this time we discussed the matter internally, with members of the
20 engagement team, and with the Concurring review partner. We looked at other utilities in the West
21 region to try to understand how they were addressing this issue. We also drew upon our other
22 experiences to try to compare this issue with analogous situations we may have seen elsewhere.

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We then used this information to develop our conclusion that it was appropriate and in accordance with generally accepted accounting principles to defer the power costs.

Q. Does that conclude your rebuttal testimony?

A. Yes, it does.