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1 AVISTA CORPORATION, by DAVID J. MEYER,
2 General Counsel, East 1411 Mission Avenue, Spokane,
3 Washington 99220, Telephone (509) 495-4316, Fax (509)
4 495-8058, E-Mail david.meyer@avistacorp.com.

5 INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES,
6 by S. BRADLEY VAN CLEVE and MELINDA DAVISON, Attorneys
7 at Law, Davison Van Cleve, 333 Southwest Taylor Street,
8 Suite 400, Portland, Oregon, 97204, Telephone (503)
9 241-7242, Fax (503) 241-8160, E-Mail bvc@dvclaw.com.

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

2 JUDGE CAILLE: We are reconvened for the
3 third day of hearings in Avista's multi-party settlement
4 hearing, Docket Numbers UE-050482 and UG-050483, and
5 today is October the 19th. We are in the midst of the
6 cross-examination of Mr. Johnson, and, Mr. ffitch, you
7 are up.

8 MR. MEYER: Your Honor, just a preliminary
9 matter if we might.

10 JUDGE CAILLE: All right, go ahead.

11 MR. MEYER: Thank you. I had distributed an
12 exhibit that I would propose to mark as Exhibit 204, and
13 it occurs to me that this should be marked as a
14 confidential exhibit, and it's not on yellow paper, and
15 it's not otherwise identified as a confidential exhibit.
16 But this is in response to I believe a record
17 requisition of Mr. Van Cleve, and it follows on the
18 testimony of Mr. Peterson who had on the stand talked
19 about our updated review of our hedging surrounding our
20 thermal plants, and this is the workpaper that he had
21 reference to, so I would propose to, if you would like,
22 we can recopy this on yellow paper.

23 JUDGE CAILLE: I would like that.

24 MR. MEYER: Let's do it that way, and then we
25 can offer it -- would you like us to offer it later or

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1 at this time?

2 JUDGE CAILLE: I think you can offer it now.

3 MR. MEYER: And let's mark this, if we might,
4 as Exhibit 204C.

5 JUDGE CAILLE: Okay.

6 MR. MEYER: And we will resubmit.

7 JUDGE CAILLE: Mr. Meyer, are you going to be
8 using it before you resubmit?

9 MR. MEYER: No.

10 JUDGE CAILLE: So let me make sure that I'm
11 -- are you offering that exhibit now or when you
12 resubmit?

13 MR. MEYER: Well, I would like to offer it
14 now.

15 JUDGE CAILLE: All right.

16 MR. MEYER: Now I don't know whether there
17 will be further cross for example of this witness on
18 this exhibit. I think it's appropriate to have this in
19 the record now given the discussion yesterday.

20 JUDGE CAILLE: All right.

21 Is there any objection to the admission of
22 Exhibit 204C?

23 MR. FFITCH: No objection.

24 MR. TRAUTMAN: No objection.

25 MR. VAN CLEVE: No objection.

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1 JUDGE CAILLE: Then it is admitted.

2 MR. MEYER: Thank you.

3 JUDGE CAILLE: And, Mr. ffitch.

4 MR. FFITCH: Thank you, Your Honor.

5

6 Whereupon,

7 WILLIAM G. JOHNSON,

8 having been previously duly sworn, was called as a

9 witness herein and was examined and testified as

10 follows:

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, Mr. Johnson.

14 A. Good morning, Mr. ffitch.

15 Q. We resume. This morning I would like to
16 start off with just one or two questions about the
17 broker's fee and wheeling for system sales and purchases
18 issues and ask you to turn first to Exhibit 191, that's
19 one of your cross exhibits.

20 A. Okay, I'm there.

21 Q. And first of all, can you just give us a
22 brief bit of background what broker's fees are.
23 Presumably those are an expense the company incurs that
24 are looked at in a rate case, can you just explain, just
25 give us a bit more background on what that is?

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1 A. Broker fees are fees we pay to third parties
2 that arrange transactions. They're the people that put
3 together a willing buyer and a willing seller.

4 Q. For?

5 A. For power transactions. So we will typically
6 if we're buying term products, quarterly or monthly
7 products, we'll go through the broker market, and
8 they'll find a, if we're selling they'll find a buyer,
9 if we're buying they'll find a seller. They take like a
10 penny and a half per megawatt hour fee for putting the
11 two together to make the transaction happen.

12 Q. And that's for purchasing power that you
13 don't generate on your own to serve your needs, correct?

14 A. Could be for either purchasing power or
15 selling power.

16 Q. All right. And while we're on background
17 here, can you just describe what wheeling for system
18 sales and purchases is about?

19 A. Wheeling for system sales and purchases, or
20 we can call it short-term wheeling, is additional
21 wheeling we need to buy to move power typically from the
22 Mid-C to our system or from our system to Mid-C. We
23 have a limited amount of firm transmission rights to do
24 that, and when we have more power to move either way, we
25 buy additional transmission.

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1 Q. So essentially wheeling is a purchase of
2 transmission for your needs to send power or receive
3 power to your own system or other systems?

4 A. That's correct.

5 Q. Now let's look at Exhibit 191, and that's our
6 Data Request 108, which asks you to provide invoices for
7 test year broker fees, correct?

8 A. That's correct.

9 Q. And in the response, you indicate that these
10 fees vary from year to year and are a function of both
11 the fee rates and the volume of sales and purchases,
12 correct?

13 A. That is correct, it varies from year to year.
14 The average of the five years is \$93,000.

15 Q. All right. And that's a five year period
16 which runs from 2000 through 2004?

17 A. That's correct.

18 Q. All right. Now if I can get you, please, to
19 turn to Exhibit 192.

20 A. Okay, I'm there.

21 Q. And this is a copy of a page of your
22 workpapers regarding wheeling for system sales and
23 purchases, correct?

24 A. That is correct.

25 Q. Now in your rebuttal testimony you state

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1 that:

2 Short-term wheeling is typically
3 purchased to move excess power from the
4 Mid-Columbia or the Mid-C to Avista's
5 system.

6 Correct?

7 A. From the Mid-C to our system or our system to
8 Mid-C.

9 Q. All right. And I'm referring specifically to
10 your rebuttal, which is Exhibit 187 I believe, pardon
11 me, that's Exhibit 186, page 6, lines 4 through 6.

12 A. I'm there.

13 Q. So that's where you make that statement,
14 correct?

15 A. That's correct.

16 Q. Now let's take a look at Exhibit 192, and
17 this is an excerpt from your workpapers on wheeling as
18 we indicated. This is the workpaper or the page that
19 you used to calculate the five year average on this cost
20 item, correct?

21 A. What I'm showing there is the past five year
22 expense, and then as a pro forma expense I used the five
23 year average.

24 Q. All right. And where is the five year
25 average shown on that sheet?

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1 A. It says average 2000 to 2004, \$348,000.

2 Q. All right. And the 2000 level shown on this
3 workpaper is \$835 Million, correct?

4 A. That's \$835,000.

5 Q. I'm sorry, I stand corrected, \$835,000, and
6 that is more than twice any of the other years on the
7 sheet, correct?

8 A. That's correct.

9 Q. And the 2001 level of \$399,000 is almost 50%
10 higher than the next highest year, 2004, is it not?

11 A. Well, it's approximately a little over
12 \$100,000 more than 2004, the test year.

13 Q. All right. Now next I want to ask you to
14 turn to Exhibit 195, please. First of all, can you just
15 describe what 195 is, Mr. Johnson?

16 A. It's a page out of the FERC Form 1 showing
17 our transmission expenses for 2004.

18 Q. All right, and FERC Form 1 is an annual
19 report that your company and other utilities file with
20 FERC providing a lot of information about the company's
21 operations, correct?

22 A. That's correct.

23 Q. And if we look at page 2 of this exhibit on
24 the bottom right-hand corner, we see, do we not, that
25 the total expense shown for transmission of electricity

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1 is \$9.455 Million, right?

2 A. That's correct.

3 Q. Now in your supporting exhibits, I guess I
4 will just direct you there to make it easier for you,
5 I'm directing you to WGJ-2, which is, if I can just have
6 a moment, Exhibit 182, line 54 of Exhibit 182, you show
7 for this same account 565 a total of \$9,448,000; are you
8 there?

9 A. Yes, I am.

10 Q. All right. And my question simply is, are
11 these figures intended to represent the same revenue,
12 same expense, pardon me?

13 A. Well, in general they are, but without
14 studying it, I'm not sure if they're all exactly the
15 same.

16 Q. Well, we could go down and match the revenues
17 from Exhibit 195 to this exhibit line by line, but is it
18 correct that for the most part -- let's go back to line
19 47 of your Exhibit 182, which is wheeling for system
20 sales and purchases, and that shows an amount of
21 \$268,000, correct?

22 A. That's correct.

23 Q. Now isn't it correct that for the most part
24 this is represented on line 195, excuse me, on Exhibit
25 195, which is again the FERC Form 1 exhibit that we were

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1 just looking at, represented by the items that are coded
2 NF standing for non-firm in column B of the Exhibit 195;
3 do you follow the question?

4 A. In general I think they're coded NF, but I
5 can see that there's some Northwestern Energy NF in
6 there that we don't classify as short-term wheeling or
7 system wheeling.

8 Q. Okay, you anticipated my next point, which is
9 there is one major exception, and that's the
10 Northwestern Energy amount. That's for the most part
11 represented by Garrison-Burke shown at line 52 of your
12 Exhibit 182, correct?

13 A. That's correct.

14 Q. So therefore this \$268,000 which is shown on
15 your Exhibit 182 is composed for the most part of the
16 small BPA non-firm purchases on lines 5, 6, and 7 of 195
17 and the other non-firm purchases on lines 13 through 16
18 and line 1 of the next page of the exhibit; is that
19 right?

20 A. I don't know if that's exactly right, but in
21 general that's correct, yes.

22 Q. All right. And if we look at starting at
23 line, if we look at the last five entries that we just
24 reviewed, going backwards second page is Tacoma Power
25 and then we go to Snohomish, Seattle City Light, Puget

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1 Sound Energy, and Portland General, those all represent
2 west of the Cascades utilities, correct?

3 A. That's correct.

4 Q. And in total the energy charges paid by them
5 as shown on this page add up to just over a quarter
6 million dollars, \$250,000, but the vast majority of that
7 goes to Snohomish PUD, correct?

8 A. So you're adding up lines 12 through 1 on the
9 next page, through Tacoma?

10 Q. Correct.

11 A. That would look to be, yeah, your math looks
12 to be approximately correct.

13 Q. All right. Snohomish alone has \$192,000 of
14 that on line 16, correct?

15 A. That's correct.

16 Q. Now let's turn now, if you wouldn't mind, to
17 Exhibit 192. Again, this is your workpaper for wheeling
18 system sales and purchases, and this shows the megawatt
19 hours, and the year 2000 shows both sales and purchases
20 twice that of any other year, correct?

21 A. You are on Exhibit 192?

22 Q. We should be on Exhibit 193, I apologize.

23 A. 193 shows total system purchases and sales,
24 not short-term system purchases and sales that we use
25 short-term wheeling for. So, you know, we've got an

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1 apples and oranges case here, you're trying to compare
2 short-term wheeling with total system purchases and
3 sales.

4 Q. That's fine, but in terms of what this
5 specific exhibit shows, it does show that the year 2000
6 does have both sales and purchases twice that of any of
7 the other years shown, correct?

8 A. Yes, there was a large volume of transactions
9 in 2000.

10 Q. All right. Then the year 2001 is again
11 dramatically larger than any of the three remaining
12 years, correct?

13 A. It's larger.

14 Q. All right, if you would like to choose a
15 different adjective, or is that an adverb, we can do the
16 math.

17 Let's now go back to Exhibit 192. If you
18 exclude the years 2001 and 2002 from the averages, is it
19 correct that 2004 is the highest of the three years in
20 that time frame for both system sales and purchases?

21 A. That's correct.

22 Q. All right. Let's move on to a different area
23 now, Mr. Johnson, and I'm going to ask you to turn to
24 page 11 of your rebuttal testimony, which is Exhibit
25 186, and if you could go to line 19, please.

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1 A. Okay, I'm there.

2 Q. And there you state that in every year from
3 2000 through 2005 Avista purchased firm Garrison-Burke
4 transmission during some point in the year; is that
5 right? Isn't that what you state there?

6 A. That's correct.

7 Q. Please turn to Exhibit 197, that's Public
8 Counsel data, the response to Public Counsel Data
9 Request 115, and in that data request we asked the
10 company to provide all the invoices for Garrison-Burke
11 transmission for the years 2004 and 2001, correct?

12 A. Well, in this data request you asked for the
13 years 2004 and 2001.

14 Q. Right, I believe that's what I said, but in
15 any event that's correct?

16 A. Okay.

17 Q. 2004 and 2001.

18 Would you please turn to the page that is
19 marked 16 with a circle at the bottom, that's exhibit,
20 or excuse me, page 17 of the exhibit, it's the invoice
21 for June 2001, correct; do you have that?

22 A. That's correct, yes, I have that.

23 Q. And this page shows, doesn't it, that Avista
24 is being charged \$141,000 for firm transmission by
25 Montana Power?

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1 A. Well, there's -- it's not -- that's \$141,000
2 total, there's non-firm in there also, \$16,887 was
3 non-firm.

4 Q. I stand corrected, both types are being
5 charged for here, and we can see the breakdown up on the
6 left-hand column there where it's described as firm
7 daily versus non-firm hourly. So this does indicate
8 that firm daily wheeling was sold to Avista by Montana
9 Power in that month, right?

10 A. In that month we bought 27 days of firm
11 demand wheeling, yes.

12 Q. All right. Now if you could go back to the
13 beginning of the exhibit starting on page 2, and if we
14 look at each invoice, pages 2 through 12, do you see
15 that each of them refers to point-to-point wheeling,
16 just take a look through those. Can you please identify
17 where on any of those invoices there's any reference to
18 firm charges?

19 A. Mr. ffitch, I noticed this the other day when
20 I was looking through these, that Northwestern didn't
21 put the demand charges in when they billed us. What I'm
22 referring to is I used our accounting records, actual
23 accounting records that were provided to me by our
24 accountant who pays the bill to Northwestern, and he
25 assures me that we did pay \$4,679 of firm demand charges

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1 in 2004 even though it didn't show up on Northwestern's
2 bills. And I don't find that unusual, because
3 transmission billing is notoriously inaccurate in a lot
4 of cases, and there's lots of true-ups, and the
5 accountants know what was truly billed even if it
6 doesn't show up on the invoice.

7 Q. So are there any records which reflect that
8 firm transmission was actually billed to Avista?

9 A. Our records, our accounting records, the way
10 we grouped it into non-firm payments and demand payments
11 shows making demand payments in 2004.

12 Q. Is there any record from Northwestern Energy
13 that indicates that the firm transmission was provided
14 to you other than these invoices?

15 A. I don't know if there is or not. I don't
16 know if we have a memo from them or if there's something
17 else from them that would show that, no.

18 Q. All right. And this response was prepared on
19 May 11 and provided to us on or about that day, was it
20 not, Mr. Johnson?

21 A. Yes.

22 Q. And this is a continuing data request, as are
23 all the data requests, in which there is a request to
24 the respondent to provide us with any additional
25 information with regard to the request that comes to

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1 light after the original response is provided; isn't
2 that true?

3 A. That's true, but we did provide the invoices
4 as you requested.

5 Q. Right.

6 Let's move on to Exhibit 198, and
7 coincidentally this is the response to Public Counsel
8 198, so the law of randomness actually provides us with
9 some symmetry here. I think this may be the only time
10 out of all the hundreds of exhibits where there's this
11 kind of coincidence, so.

12 A. Can you tell me what 198 is?

13 Q. 198 is a request for invoices for
14 Garrison-Burke for the other three years, 2000, 2002,
15 and 2003.

16 A. Okay.

17 Q. And you only were able to provide invoices
18 for the years 2002 and 2003, correct, no invoices for
19 2000?

20 A. We provided a worksheet that showed all the
21 billings for the year 2000. We followed that up with a
22 voice mail with Mr. Lott if that would be acceptable and
23 an E-mail. We didn't get a response back.

24 Q. That's fine, but --

25 A. So what we provided was the information that

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1 would have been exactly the same as on the invoices.

2 Q. All right. Well, looking at the invoices
3 that you did provide, again if you would just take a
4 minute to look at pages 3 and the following pages, again
5 none of these invoices refer to the sale of firm
6 transmission by these different utilities to Avista,
7 correct?

8 A. Can you repeat that?

9 Q. Can you show me anywhere on the invoices that
10 you provided that there is a record of firm transmission
11 being provided to Avista by these sellers, either
12 Montana Power or Northwestern?

13 A. Once again I'm going to refer to my source of
14 information, which is our actual booked accounting
15 records, that show us paying firm demand charges in all
16 those years even if Northwestern didn't put it on the
17 bill.

18 Q. All right.

19 Please turn to Exhibit 117, this is an
20 exhibit that was offered through Mr. Falkner, and you
21 may not have a copy of that up there. If not, I'm going
22 to ask if your counsel can assist.

23 MR. MEYER: I will provide it.

24 MR. FFITCH: Thank you.

25 BY MR. FFITCH:

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1 Q. And can I, well, first of all, that is Public
2 Counsel Data Request 217 on the cover sheet, and that's
3 a request for workpapers supporting a number of
4 different adjustments, correct, just in general, and
5 then the specific --

6 A. Can you say it again, I have been handed --
7 okay, this is response 217, Public Counsel 217?

8 Q. 217.

9 A. Okay.

10 Q. And just generally this is a general request
11 asking for supporting workpapers for a number of
12 adjustments relating to actually to transmission power
13 supply.

14 A. Well, it appears to be related to
15 transmission revenues.

16 Q. All right. And then what you have then
17 provided are three pages discussing OASIS revenues,
18 correct?

19 A. That's correct, yes, appears to be correct.

20 Q. All right. And this is simply an excerpt
21 from the data request.

22 MR. MEYER: Mr. ffitch, just so we're on the
23 same exhibit, what is the title of the second page of
24 the Exhibit 117?

25 MR. FFITCH: The exhibit pagination?

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1 MR. MEYER: No, no, what's the title of the
2 second page of this exhibit?

3 MR. FFITCH: Okay, using the exhibit
4 pagination it's Avista OASIS non-firm and short-term
5 firm electric revenues.

6 MR. MEYER: Okay.

7 MR. FFITCH: And, Your Honor, this is marked
8 on the second and third pages as confidential for
9 settlement purposes only, my only purpose with this
10 exhibit is to get the witness to read a sentence in off
11 of the first page, and I'm not sure if the company has a
12 concern about whether that's confidential or not, that
13 would be the last sentence of the third paragraph.

14 MR. MEYER: Beginning, the company believes?

15 MR. FFITCH: Correct, and I will note that
16 this doesn't appear to have been provided to us
17 confidentially or under a protective order, I'm just
18 asking because of the captions on the pages.

19 MR. MEYER: No, we don't have a problem if
20 you read that out loud.

21 MR. FFITCH: Okay.

22 BY MR. FFITCH:

23 Q. With those preliminaries, Mr. Johnson, are
24 you with us, we're on page 2 of the exhibit under the
25 heading key factors, the second paragraph, are you

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1 there?

2 A. I'm there.

3 Q. And that begins by discussing the impact of
4 market conditions when comparing revenues for 2000
5 compared to other years, and could you just read the
6 last sentence of that paragraph, please.

7 A. (Reading.)

8 The company believes that 2001 was an
9 anomaly and should not be used for
10 future revenue forecasts since the
11 energy crisis observed was an
12 extraordinary event.

13 But I would like to point out that the energy
14 crisis didn't have any effect on our Garrison-Burke
15 wheeling because Garrison-Burke wheeling is only used
16 for the overflow of Colstrip energy that we can't get
17 over our BPA firm transmission rights. Has nothing to
18 do with energy prices or energy crises. It's a tariff
19 rate, and the volume is completely unrelated to the
20 energy prices in the market.

21 Q. And I can see that you're reading my mind,
22 Mr. Johnson, because the company excluded the year 2001
23 in the Garrison-Burke adjustment, did it not?

24 A. No, we used a five year average for
25 Garrison-Burke.

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1 Q. I'm sorry, included, you did include the year
2 2001?

3 A. We used it because it's random, it's based on
4 the overflow of Colstrip energy. It has nothing to do
5 with market prices, it's at a tariffed rate. So the
6 two, OASIS revenue and Garrison-Burke transmission, are
7 completely unrelated.

8 Q. Now Mr. Lott excluded the year 2001 from his
9 average, are you aware of the fact that Mr. Lott also
10 excluded the year 2001 from his calculation of OASIS
11 revenues?

12 A. I'm not sure what he did on OASIS revenues.
13 I'm not, well, first, I'm a merchant employee, I'm not
14 even supposed to know about OASIS revenues or anything
15 in the transmission group.

16 Q. All right. What is a merchant employee,
17 Mr. Johnson?

18 A. Deal with wholesale power and sales, power
19 supply. Generally all --the people in power supply are
20 not allowed to, you know, deal directly with our
21 transmission group, the separation between transmission
22 and the merchant employees.

23 Q. Are you an employee of Avista Utilities?

24 A. Yes, I am.

25 Q. Well, if we get into areas where I'm asking

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1 you or presenting you with exhibits that you're not
2 supposed to see, and I know there's at least one in here
3 I believe that refers to confidentiality for merchant
4 employees, perhaps counsel can assist with warning us
5 about those areas.

6 Let's move on to the Rathdrum lease area, can
7 you to turn to Exhibit 199, it's one of your cross
8 exhibits, and also to Exhibit 201, we're going to be
9 looking at both of those. Now actually let's start out
10 with Exhibit 201, and let's go to page 3 of that
11 exhibit, the exhibit page 3, these are slides or bullet
12 point type summaries, correct?

13 A. That's correct.

14 Q. And my purpose for going here is that this
15 provides us with a good summary of the history of
16 Rathdrum, does it not?

17 A. Primarily what appears to be as a history,
18 yes.

19 Q. All right. And Rathdrum is a combustion
20 turbine plant, it's part of the company's generation
21 resources, right?

22 A. Right, it's a two unit plant in Rathdrum,
23 Idaho.

24 Q. All right. And as this indicates, the plant
25 was built in 1993 through '95 and then was sold to WP

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1 Funding and leased back, correct?

2 A. That's correct.

3 Q. And can you just describe or identify what WP
4 Funding is?

5 A. I'm not really an expert at all in this area,
6 but my understanding is it's a subsidiary that was
7 created in order to facilitate this lease.

8 Q. Okay, well, we'll come back to this. Let's
9 go now back to Exhibit 199, and this is an excerpt from
10 your workpapers, correct?

11 A. Well, this is my workpaper for the Rathdrum
12 lease, yes.

13 Q. All right. And this is related to the
14 modification of the Rathdrum lease, right, or the
15 anticipated modification or anticipated termination of
16 the Rathdrum lease?

17 A. At the time the pro forma was developed, we
18 knew we had to do something with the lease, and the
19 assumption was that we would sort of change the lease to
20 a principal and interest payment versus an interest only
21 payment that had been occurring prior to that. So the
22 pro forma was developed based on an amortization of the
23 remaining lease balance over the remaining lease life at
24 the then current interest rate in the lease.

25 Q. Okay. Now looking at Exhibit 200, this is

0649

1 the response to Public Counsel 116, and that's the
2 company's original response to 116, that's dated May
3 20th, 2005, correct?

4 A. Well, I see the original response is May
5 11th.

6 Q. All right, correct, that's page 1 of the
7 exhibit, and that would be the original response, page 2
8 is then a follow-up response. Now both the second page
9 of this Exhibit 199 and also Exhibit 200 describe the
10 original proposal for Rathdrum, don't they, and that was
11 -- are you there? Let's just look down for example at
12 the answer to question B, second page of Exhibit 200,
13 are you there?

14 A. You're talking second page 200?

15 Q. Right.

16 A. Okay.

17 Q. The follow-up answer to 216. And there
18 describe the original proposal for Rathdrum being to
19 calculate a replacement lease payment for the existing
20 lease which was to expire in August and September of
21 this year, correct?

22 A. Well, at that time, yes, that's what it says.
23 But as I pointed out in my rebuttal testimony, the
24 decision now has been made to purchase that facility.

25 Q. Right.

0650

1 A. So that facility won't be a leased facility.
2 Going forward it's a purchased facility, which will have
3 revenue requirements.

4 Q. That's fine, but just bear with me here as we
5 walk through these. The lease payment was in essence a
6 capital payment which was calculated using an interest
7 rate of 8.369% and a term of 173 months, correct? We
8 can see that down at the bottom.

9 A. Yes, 8.3629 was at that point when the pro
10 forma was developed the current interest rate in the
11 lease.

12 Q. Okay. And the Rathdrum facility is ten years
13 old, correct?

14 A. Yeah, a little over ten years old.

15 Q. All right.

16 A. January '95 it went on line.

17 Q. Now very little, if any, of the original
18 investment in Rathdrum has been included in operating
19 expenses as of December 1st, 2005; is that correct?

20 A. I think you need to ask that a little
21 different way. I'm not quite understanding what you're
22 asking.

23 Q. I'm asking about depreciation, do you know?

24 A. There's been a lease expense in expenses.

25 Q. Any other portion of the original investment

0651

1 included in operating expenses?

2 A. I don't know the exact history, but I know we
3 restructured that lease maybe more than once.

4 Q. No principal has been included to date or
5 through September 1st, 2005; isn't that right?

6 A. I don't believe that's correct, because I
7 think we went to the original lease had principal
8 payments in it, and around the late '90's, maybe around
9 '98 we restructured the least to be interest only. So
10 it's only been since I believe around '98 that it's been
11 an interest only lease, it might have been '99.

12 Q. All right.

13 A. I don't know the exact date where we went to
14 interest only payments. And I would point out that the
15 last Washington rate case included the lower lease
16 amounts that was interest only, so Washington customers
17 haven't been paying for principal that wasn't really
18 being paid.

19 Q. Okay, thank you.

20 Can you look at Exhibit 199, please.

21 A. Okay.

22 Q. Is it correct that -- and page 2 of this
23 exhibit is a payment schedule for Rathdrum, correct?

24 A. That was the payment schedule I used in the
25 pro forma based on the then interest in the lease.

0652

1 Q. Okay. That's based on the 8.3629% interest
2 rate that we see at the top of the page, right?

3 A. That's correct.

4 Q. Is it correct that the payment schedule shown
5 here does not represent an actual offer made by the then
6 current lessor or any other potential lessor?

7 A. I don't know that there was any offers made.
8 I know that we made the decision to purchase the
9 facility, so I don't know if we ever went to the point
10 of having to get an offer on a lease rate since we made
11 the decision to purchase the facility instead.

12 Q. All right. Now please turn to Exhibit 200
13 again, and there's a discussion here in the B section of
14 the May board of directors meeting, correct? And this
15 is where the information is provided that the board of
16 directors decided to terminate the lease in May of 2005,
17 correct?

18 A. That's correct.

19 Q. And according to this exhibit, this was done
20 because the interest rate for the new lease was to
21 include the 0.85% at or for the lessor's equity and
22 administrative costs, correct?

23 A. I believe that's one of the factors in making
24 the decision to terminate the lease.

25 Q. All right. And the lessor was this entity

0653

1 called WP, what was the lessor's name, we just saw that
2 on the other exhibit, WP Funding; is that correct?

3 A. Yes, but I'm not an expert on this lease, so
4 I don't know if that was, you know, I don't know the
5 exact arrangements and who got the .85%, no.

6 Q. Okay, well, I'm just asking who was the
7 lessor?

8 A. I don't even know that for a fact, who was
9 the current lessor as of say August. Originally it was
10 WP Financing, but I don't know who -- if that was always
11 the case.

12 Q. Okay. Do you know what WP stands for?

13 A. No, I don't.

14 Q. All right.

15 Let's please go to Exhibit 201, the
16 non-confidential part of the response, this was what we
17 have been looking at before for background. Do you have
18 that?

19 A. Yes, I do.

20 Q. And this response in general asks for all the
21 analysis that was performed to determine whether
22 termination of the lease was in the best interests of
23 Avista rate payers, correct?

24 A. Yeah, I'm not intimately familiar with what
25 all these spreadsheets are, but I'm presuming the

0654

1 purpose was to determine what was in the best interests
2 of the customers in the long run.

3 Q. All right. And if we look at the response,
4 the next to the last sentence of the response indicates
5 that the interest costs embedded in the lease are higher
6 than interest costs issued by the company because of the
7 25 basis points for the administrative fees and 60 basis
8 points for the equity component adding up to the 0.85%
9 we were just talking about. Isn't that what the
10 response says? And then it goes on to say:

11 Hence a cost saving exists, and rate
12 payers benefit from the discontinuance
13 of the lease.

14 A. That's what it says, correct.

15 Q. Now could you please go to your Exhibit 187,
16 which is your schedule or Exhibit 7 I believe, WGJ-7.
17 Are you there?

18 A. Yes, I am.

19 Q. And can you tell us what is the rate of
20 return used in the calculation of revenue requirement on
21 this exhibit?

22 A. It would show it as being 9.11, which I
23 believe is the settlement rate of return.

24 Q. All right. Is that all tax deductible?

25 A. You're asking a question that's beyond my

0655

1 knowledge really. I'm not a finance person.

2 Q. Okay.

3 Now let's go back to Exhibit 201, the
4 company's response to Data Request 201, still in the
5 non-confidential portion of that, and I'm going to ask
6 you to turn to page 6, actually, I'm sorry, it would be
7 page 7 of the exhibit in the upper left-hand corner.
8 Can you take a look at the upper left-hand corner of
9 page 7 of that exhibit, please. There is a debt rate
10 there that is listed at 5.9%, correct, for the secure
11 triple B minus debt; isn't that right?

12 A. That's what it shows, yes.

13 Q. And then 2 lines below that is the estimated
14 synthetic lease, excuse me, synthetic lease interest
15 rate of 6.85%, and that's stated to be the debt rate
16 plus the 0.85 grossed up to cover taxes on the equity,
17 correct?

18 A. I can't really speak to the details, I can
19 say it says 6.85 as the synthetic rate.

20 MR. MEYER: Your Honor, just a couple of
21 observations. This Exhibit 201, the designated witness
22 on the cover sheet is Ron Peterson. Responders that
23 helped pull this together were Ron McKenzie and Ryan
24 Kressel. We have Don Falkner here who is a later
25 witness who if the questioning is going to a lot of the

0656

1 financial details behind this might be able to respond
2 to some of these questions whether they relate to
3 taxation, that sort of thing. I just believe that this
4 witness is being asked to go beyond the scope of what
5 his testimony was in these particulars. He didn't
6 sponsor this response, and we do have a later financial
7 witness that might be able to help assemble the pieces
8 if that's required.

9 JUDGE CAILLE: I just want to make sure, is
10 this an objection?

11 MR. MEYER: It is an objection.

12 JUDGE CAILLE: All right. And that was the
13 basis for your objection?

14 MR. MEYER: Yes.

15 MR. FFITCH: Well, if the witness can't
16 answer and wants to defer to Mr. Falkner, we will be
17 happy to proceed that way. And I guess I will just try
18 to work through the remainder of my questions and see if
19 the witness, you know, if the witness can't answer, he
20 can indicate that Mr. Falkner is a better witness.

21 JUDGE CAILLE: All right, let's do it that
22 way.

23 BY MR. FFITCH:

24 Q. That just shortened up your cross,
25 Mr. Johnson.

0657

1 Just one other area I wanted to go to. In
2 your original testimony your proposed retail revenue
3 credit factor was 3.399 cents per kilowatt hour; is that
4 correct?

5 A. That's correct, yes.

6 Q. And in Ms. Knox's rebuttal in this case, she
7 suggested that if common costs were added that the
8 factor would become 3.739 cents per kilowatt hour; do
9 you recall that?

10 A. I don't recall that specifically. What I
11 recall was approximately \$3 per megawatt hour increase
12 in the retail revenue credit if we added the common
13 costs, but.

14 Q. Right.

15 A. I don't know if that adds to 3 exactly or
16 not.

17 Q. Well, would you accept that subject to check?

18 A. Subject to check.

19 Q. All right. So that's about 10% higher than
20 the retail revenue credit factor that you testified to,
21 is it not?

22 A. Roughly 3% higher, but I think you need to
23 put it in perspective that if we're calculating the
24 retail revenue credit on load growth, we're talking
25 about -- only talking about \$25,000 per megawatt hour,

0658

1 per megawatt load growth. So, you know, we're talking
2 about very small differences in this number as far as
3 the retail revenue credit goes.

4 Q. Roughly 10% higher is what I meant to say, I
5 believe you said roughly 3% higher.

6 A. I said 3, it's \$3 a megawatt hour, which
7 translates into only about \$25,000 per megawatt of load
8 growth. And we haven't had that much load growth, so,
9 you know, even if we add this higher number, depending
10 on what number we choose, which we could do something in
11 the ERM review process to look at this, it's not a
12 material difference in our ERM retail revenue credit.

13 Q. Subject to check, for 2004 the retail revenue
14 credit was \$3.55 Million, correct?

15 A. The total retail revenue credit was around
16 \$3.66 Million.

17 Q. All right.

18 A. But we're only talking about the difference
19 between say \$34 and \$37, so I'm only talking about the
20 difference of \$3 on load growth.

21 Q. And for the nine months ending September
22 2005, subject to check the retail revenue credit was
23 \$5,416,000; isn't that correct?

24 A. Subject to check.

25 MR. FFITCH: Can I just have a moment, Your

0659

1 Honor, I think that we're nearly finished.

2 Your Honor, I think that we're just checking
3 to make sure that we are being accurate about, you know,
4 holding things off for Mr. Falkner, and we could just
5 come back. Rather than hold things up, we'll allow
6 Mr. Van Cleve to go forward, and if we find one or two
7 other questions that we might have, if we might have
8 leave to add them on after he's finished.

9 JUDGE CAILLE: That would be fine.

10 MR. VAN CLEVE: Your Honor, I think we
11 already completed our cross of this witness yesterday,
12 and we have nothing further.

13 JUDGE CAILLE: Let's take our morning break
14 now, 15 minutes.

15 MR. FFITCH: And, Your Honor, we have
16 completed our review, and we don't have any further
17 questions on cross for Mr. Johnson.

18 JUDGE CAILLE: All right.

19 (Recess taken.)

20 JUDGE CAILLE: All right, we are back from
21 our morning recess, and I understand there's no more
22 questions from counsel.

23 Any more questions from ICNU?

24 MR. VAN CLEVE: No, Your Honor.

25 JUDGE CAILLE: All right, and there's no

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1 redirect and no questions from the Bench, so thank you,
2 Mr. Johnson, you're excused.

3 Mr. Falkenberg.

4 Is it my understanding that Staff will not
5 have any cross for Mr. Falkenberg?

6 MR. TRAUTMAN: That's right.

7 JUDGE CAILLE: All right.

8 (Witness Randall J. Falkenberg was sworn.)

9 JUDGE CAILLE: Thank you.

10 Mr. Van Cleve.

11

12 Whereupon,

13 RANDALL J. FALKENBERG,

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

15 herein and was examined and testified as follows:

16 DIRECT EXAMINATION

17 MR. VAN CLEVE:

18 Q. Could you please state your name for the
19 record.

20 A. Randall Falkenberg.

21 Q. And on whose behalf are you appearing in this
22 proceeding?

23 A. ICNU.

24 Q. Have you prepared prefiled direct testimony
25 and exhibits that have been marked as Exhibits 301

0661

1 through 314?

2 A. Yes.

3 Q. Have you prepared prefiled rebuttal testimony
4 and exhibits that have been marked as Exhibits 315
5 through 320?

6 A. Yes.

7 Q. And do you have any corrections to your
8 testimony?

9 A. I have a few corrections.

10 Q. Could you please go through them.

11 A. Well, first of all, on page 4 I have a table.

12 Q. And you're referring to Exhibit 301?

13 A. Yes. On Exhibit 301, page 4, there is a
14 table that is my summary of recommended adjustments, and
15 I believe we had previously filed an errata to this
16 table that made a correction of \$50,000 approximately to
17 the wheeling expense adjustment. And that change has
18 been reflected in some of the subsequent summations on
19 that table. And since that's been previously provided,
20 I won't bother to go through all of the numbers.

21 On page 16 of Exhibit 301.

22 Q. Go ahead.

23 A. On line 14 it should say replacement power
24 costs of \$30 a megawatt hour, the word of is missing.

25 And on page 19 of Exhibit 301 at line 3, the

0662

1 word period should be periods, and on line 23 the word
2 the should be inserted in front of worst, so it should
3 say, one of the worst.

4 Q. Is that all the corrections you have?

5 A. Yes.

6 Q. And as corrected, are the answers in your
7 direct and rebuttal testimony true and correct to the
8 best of your knowledge?

9 A. Yes.

10 MR. VAN CLEVE: Your Honor, we would offer
11 Exhibits 301 through 320 and offer Mr. Falkenberg for
12 cross-examination.

13 JUDGE CAILLE: Is there any objection to the
14 admission of Exhibits 301 through 320?

15 MR. MEYER: No objection.

16 JUDGE CAILLE: Then they are admitted.

17 Mr. Meyer.

18 MR. MEYER: Thank you.

19

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

21 BY MR. MEYER:

22 Q. Good morning, Mr. Falkenberg.

23 A. Good morning.

24 Q. Mr. Falkenberg, would you agree that the
25 purpose of a power supply dispatch model is to

0663

1 reasonably and fairly determine expected operational and
2 market conditions during the pro forma period?

3 A. Well, I would say that it's the purpose is
4 really to determine normalized net power costs for
5 purposes of setting rates. That might well include the
6 things that you just mentioned.

7 Q. Has the company made use of the Aurora model
8 since at least 2002?

9 A. Yes.

10 Q. And has to the best of your knowledge the
11 company employed the Aurora model in two of its IRP's
12 since that time?

13 A. Yes.

14 Q. And, of course, the company through
15 Mr. Kalich is using the Aurora model for purposes of
16 adjustments in this proceeding, correct?

17 A. Yes.

18 Q. Now to the best of your knowledge, was this
19 model developed after a fairly extensive review by not
20 only Avista but the respective staffs of this Commission
21 and the Idaho commission?

22 A. Well, I understand that the model has had
23 review in various regulatory proceedings in Washington
24 and Idaho for example.

25 Q. And is this model rather extensively used by

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1 various clients across North America?

2 A. I believe there are a number of clients that
3 use the model, yes.

4 Q. And in our region do these clients include
5 the likes of Bonneville?

6 A. That's my understanding, yes.

7 Q. The Northwest Power Conservation Council?

8 A. I understand that's the case, yes.

9 Q. And several Northwest utilities?

10 A. Well, I know that I believe Idaho Power uses
11 it, I know that Avista uses it, and it is my
12 recollection that Puget Sound Energy uses it.

13 Q. In fact, hasn't Puget made use of the Aurora
14 model in the last two of its rate cases?

15 A. That is correct.

16 Q. And hasn't it made use of the Aurora model in
17 connection with its last two PCORC filings?

18 A. I couldn't confirm that, but I don't dispute
19 it.

20 Q. Okay. Would you agree that the model itself
21 is fairly sophisticated in what it seeks to accomplish?

22 A. Definitely.

23 Q. And given that level of sophistication,
24 doesn't the model require of the user some level of
25 training if not actual experience over time?

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1 A. Well, certainly it requires some training and
2 background in using that type of model.

3 Q. And we have already discussed just moments
4 ago the recent history, if you will, of the company, the
5 Staff, and other utilities in connection with their use
6 of this model, haven't we? Mr. Falkenberg, when did you
7 receive training on the Aurora model?

8 A. I believe it was in July of this year.

9 Q. So approximately two to three months ago?

10 A. That's right.

11 Q. Okay. And approximately a month, month and a
12 half before you filed your testimony, your first round
13 of testimony?

14 A. That sounds right.

15 Q. And roughly, well, let me ask it this way,
16 would you agree that your training that was offered
17 through the vendor represented approximately three to
18 four hours worth of training?

19 A. That's right.

20 Q. Okay. And so it's fair to say that other
21 than in this case, you have had no prior working
22 experience with the Aurora model?

23 A. That's the case. However, I would point out
24 that I have worked with models of this sort and
25 developed models of this sort for many years. I

0666

1 developed a model that does many of the same sorts of
2 things some 20 years ago when I was working for Abasco
3 Services, and that model was used by a number of the
4 largest utilities in the United States.

5 Q. But not this model which you have
6 characterized as fairly sophisticated, correct?

7 A. That's correct.

8 Q. Let's turn now to your Exhibit 301, which is
9 your direct testimony.

10 A. I have it.

11 Q. I would like to direct your attention first
12 of all to page 22.

13 A. Okay.

14 Q. Now beginning at line 8 of page 22 of your
15 Exhibit 301, don't you state as follows:

16 Frankly, I am not terribly concerned
17 whether the 40 year period for 1939 to
18 1978 is used or the 40 year period from
19 1949 to 1988 is used, particularly if
20 filtering is applied.

21 Have I correctly read that testimony?

22 A. Yes.

23 Q. Now your recommendation in this proceeding is
24 to use the 1939 through 1978 period; is that correct?

25 A. That's correct.

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1 Q. Now let's stay on that very same page, page
2 22, and I will direct your attention to line 16 of the
3 testimony, and there don't you state as follows:

4 Because the 10 year period from 1929 to
5 1938 included the second worst multiyear
6 drought in the past 250 years, these
7 years should be excluded in any case.

8 Is that a correct reading of your testimony?

9 A. That's correct.

10 Q. Now you have also sponsored an exhibit,
11 Exhibit 304, would you turn to that, please.

12 A. I have it.

13 Q. Now this is your exhibit, correct?

14 A. Well, it's an article that was written by
15 others that I did put in as an exhibit, yes.

16 Q. Meant to support your testimony?

17 A. Yes.

18 Q. Now does this exhibit contain a report
19 entitled Columbia River Flows and Droughts since 1750?

20 A. Yes.

21 Q. And this report seeks to address streamflow
22 in the Columbia River for approximately the last 250
23 years; is that correct?

24 A. That's right.

25 Q. So let's turn first to page 2 of that

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1 exhibit, Exhibit 304.

2 A. I have it.

3 Q. And I would ask you then to look to the
4 language beginning at line 13. Would you agree that
5 there it states:

6 The period from 1950 to 1987 is
7 anomalous in the context of this record
8 for having no notable multiyear drought
9 events.

10 Have I quoted that accurately?

11 A. Yes.

12 Q. Now should the term anomalous be taken to
13 mean something that is irregular, abnormal, out of the
14 ordinary, that's the customary meaning, correct?

15 A. Well, I think in this particular case it's
16 anomalous because it lacked any abnormalities. In other
17 words, it didn't have the unusual circumstances of
18 droughts and that sort of thing.

19 Q. So but the common sense in common parlance
20 anomalous means something that is generally viewed as
21 abnormal or out of the ordinary, correct?

22 A. Well, it's viewed as something that's
23 unusual.

24 Q. Okay.

25 Now would you please turn to page 23 of that

0669

1 same Exhibit 304.

2 A. I have it.

3 Q. And I'm going to ask you to read aloud the
4 paragraph beginning on line 10 and extending through
5 line 15, if you would, please.

6 A. (Reading.)

7 Severe droughts have occurred in the
8 past, probably more severe than what has
9 been experienced in the 20th Century.
10 An interval of persistently lower flows
11 than has occurred during the gauge
12 period occurred around the 1840's.
13 However, the drought of the 1930's is
14 probably the second most severe in the
15 last 250 years. This drought should not
16 be regarded as an anomalous event but is
17 likely a typical fluctuation in the
18 Columbia River system.

19 Q. So when the reference is made in the last
20 sentence to this drought, that's referring back to the
21 drought of the 1930's, correct?

22 A. That's right.

23 Q. And so to paraphrase that, this drought,
24 namely the drought of the 1930's, should not be regarded
25 as an anomalous event but is likely a typical

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1 fluctuation of the Columbia River system. That is a
2 fair characterization of what this says, correct?

3 A. That's right, and I think when they're
4 talking about looking at a period of 250 years, they're
5 -- it's accepted that you're going to have periods when
6 there are droughts, there are going to be periods of
7 high flows, and that's just the way it is with this kind
8 of information.

9 Q. Mr. Falkenberg, isn't it true that your
10 recommendation related to the water year record to use
11 in this case, which is the period 1939 through 1978,
12 would exclude the low water years of the 1930's, which
13 should not be regarded as an anomaly according to your
14 own Exhibit 304 at page 23?

15 A. Well, certainly I would -- our recommendation
16 is to exclude it, but do understand that that's only
17 part of our recommendation. Because what I'm also
18 recommending is that the Commission define policies for
19 deferrals in cases of poor hydro conditions that would
20 be prespecified so that the company would know when a
21 bad water year comes or when you're in a multiyear
22 drought what the parameters are for obtaining a
23 deferral, and that would allow deferrals to be enacted
24 or implemented in situations where you do have unusual
25 water conditions such as this period.

0671

1 Q. But, Mr. Falkenberg, at this point we're
2 talking about the 1930's drought and the
3 characterization of it in your sponsored testimony as
4 not an anomalous event. But let me now turn to the flip
5 side or the other aspect of what we have already
6 discussed in this report. Would your period of 1939
7 through 1978 also include a substantial portion of the
8 water years 1950 through 1987 that your own sponsored
9 exhibit characterizes as an anomaly?

10 A. It would include the first 30 years I guess
11 of that period approximately.

12 Q. And that is an anomaly, namely the period
13 1950 through '87, according to your sponsored testimony
14 or exhibit because it has no notable drought years as we
15 discussed earlier at page 2 of that exhibit, correct?

16 A. It's considered an anomaly because it lacks
17 unusual and poor hydro conditions. However, as I
18 explained before, because we're proposing to allow the
19 company to have deferrals in situations of poor hydro, I
20 think it's really an equitable approach.

21 Q. Let's turn now to page 25 of that same
22 Exhibit 304.

23 A. I have it.

24 Q. Beginning at line 6 and continuing through
25 line 8, the report states:

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1 Additionally impending climate change
2 could cause the frequency of severe low
3 flow years in the Columbia River system
4 to at least double by 2045 and possibly
5 quadruple.

6 Have I read that accurately?

7 A. That's correct.

8 Q. Do you have a copy of Exhibit 175 in front of
9 you, and I know it was provided to ICNU in response to I
10 believe one of their data requests 1.8, but if you
11 don't, could you be provided a copy of that?

12 A. I do not have that.

13 MR. FFITCH: Your Honor, my records indicate
14 that 175 is a response to a Public Counsel Data Request
15 regarding Mr. Kalich's exhibit.

16 MR. MEYER: That is correct, but copies of
17 this had previously been provided as well to ICNU, so
18 I'm assuming, Mr. Van Cleve, you have a copy.

19 Thank you.

20 THE WITNESS: I have the exhibit.

21 MR. MEYER: Thank you.

22 BY MR. MEYER:

23 Q. Do you recognize this exhibit as we turn to
24 pages 2 through 4 as historical streamflow information
25 for The Dalles, for Priest Rapids, Spokane, and Clark

0673

1 Fork Rivers?

2 A. Yes.

3 Q. And you don't need to turn to this, but I
4 believe in your testimony, your direct testimony, you
5 did speak to this data.

6 A. Yes.

7 Q. Now would you please turn to page 4 of this
8 Exhibit 175. Are you there?

9 A. Yes.

10 Q. Now the second to the last column, I know
11 there's no column heading on this page, but is it
12 correct that the second to the last column from the
13 right includes streamflow records for the Clark Fork
14 River; is that correct?

15 A. Yes.

16 Q. And if we look down below in the same column
17 but look to the third line from the bottom, 3 lines up
18 from the bottom does that show a figure of 22,446
19 representing average flows for Clark Fork for the period
20 1929 through '78?

21 A. Yes.

22 Q. Would you accept subject to check that if you
23 were to use the 1929 through 1978 50-year average of the
24 22,446 that I have just read that 4 out of the last 5
25 years of streamflow, namely 2000 through 2004, were

0674

1 below average? And you can see that as you look just
2 upward in that column immediately above that for those 4
3 or 5 years.

4 A. Now you're talking about 2001 through 2004?

5 Q. No, I'm sorry, 2000 through 2004.

6 A. Yes.

7 Q. Those five years.

8 A. Yes, I see that.

9 Q. Okay. And similarly would you agree that 14
10 out of the last 20 years were below average as we
11 further look backwards up that column, accept that
12 subject to check?

13 A. 14 of the last 20?

14 Q. Mm-hm.

15 A. Yes, I accept that.

16 Q. All right, thank you.

17 Let's discuss for a moment the hydro period,
18 Mr. Falkenberg. Would you turn to page 26 of your
19 testimony marked as 301.

20 A. Yes, I have that.

21 Q. It might be helpful to also have before you
22 Mr. Kalich's testimony, and that is rebuttal testimony,
23 that's Exhibit 174.

24 A. I have that.

25 Q. And go to page 12, illustration 4, if you

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1 would.

2 A. Yes.

3 Q. All right. First, back to your Exhibit 301,
4 page 26, in the illustration you have there you charted
5 or graphed, if you will, a number of different years,
6 where do you show on that chart representations for the
7 energy values for 1973 and 1974?

8 A. Well, those are in the two outlier years, but
9 if I might, I can probably eliminate some of your
10 questions here, because I have reviewed Mr. Kalich's
11 testimony, and I have reviewed my workpapers, and I do
12 agree with his point on this matter.

13 Q. Very well. So as we then look to
14 Mr. Kalich's illustration number 4 at page 12 of his
15 testimony, he corrects for the error that you made in
16 switching the energy values for 1973 and 1974, doesn't
17 he?

18 A. That's correct. I believe the reason that
19 this was confused was that in the model it seems that
20 the data was reversed, and so when I lined it up with
21 the energy which I got from a different source, I
22 created this mismatch.

23 Q. Do you have before you a copy of the order by
24 this Commission in February of this year in the Puget
25 Sound rate case Docket Numbers UG-040640 and UE-040641?

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1 And if not, I can provide you a clean copy.

2 A. You know, actually I have it on my laptop,
3 but I don't have a paper copy.

4 MR. MEYER: All right, may I approach the
5 witness?

6 JUDGE CAILLE: Yes.

7 BY MR. MEYER:

8 Q. Now I know that you have already told us in
9 your testimony in one place or another that it is your
10 belief that this order is not the last word on the
11 subject, but I would direct your attention first of all
12 to page 49 of that order in Paragraph 124. Let me know
13 when you're there.

14 A. I'm there.

15 Q. Okay. And in the last sentence appearing in
16 that numbered paragraph, it states:

17 Dr. Mariam for Staff performed
18 statistical analyses similar to those of
19 Dr. Dubin and reached a similar result
20 finding that the data are normally
21 distributed and show no trend.

22 Is that a fair reading of that portion of the
23 order?

24 A. Yes.

25 Q. Would you the page to page 50, please.

0677

1 A. I have it.

2 Q. And I will direct your attention then to the
3 bottom of page 50, Paragraph 128, and I will read aloud
4 beginning with the second sentence:

5 There is no evidence that Staff analyzed
6 in those cases, referring to previous
7 cases, the statistical validity of the
8 underlying stream-flow data as it did in
9 this proceeding. We now have before us
10 detailed analyses performed by
11 Dr. Mariam that confirms not only that
12 the 50-year stream-flow data is
13 trendless and normally distributed but
14 also that there is a high degree of
15 correlation between streamflow and hydro
16 generation.

17 Then it continues:

18 Moreover, Dr. Dubin testified to the
19 well recognized statistical theorem that
20 use of rolling averages may produce
21 cycles that are not actually present.

22 Dr. Mariam agreed that this problem is
23 inherent to models that rely on rolling
24 averages and is one reason to move away
25 from the 40 year rolling average

0678

1 approach due to hydro normalization.

2 Is that a fair reading of that?

3 A. That's correct.

4 Q. And in that respect, do these represent
5 findings by this Commission in that docket?

6 A. I believe it's finding of fact.

7 Q. Thank you. And doesn't the Commission
8 conclude in that docket as follows at Paragraph 130:

9 We find on the basis of the current
10 record and the clear and convincing
11 argument by Staff and PSE that the
12 method presented by Dr. Mariam based on
13 50 years of data is a superior
14 alternative to the 40 years rolling
15 average.

16 Correct reading?

17 A. That's correct, however 50 years is also a
18 rolling average, so I think that the issues related to
19 the statistical theorem would probably still apply. But
20 at the end of the day, my proposal was not made on the
21 basis of a statistical analysis, but rather on the basis
22 of policy considerations, which I think suggest that
23 using the filtering approach is really the appropriate
24 way to go.

25 Q. In fact, as you just now acknowledged, you

0679

1 haven't based your recommendation on a statistical
2 analysis, rather a "policy recommendation"; is that your
3 testimony?

4 A. That's right, because from a statistical
5 point of view, there isn't a whole lot of difference
6 between the different periods that one might look at,
7 but from a policy point of view I think it makes a lot
8 more sense to follow the approach that I'm recommending.

9 Q. So you're bringing nothing new to this record
10 in this case with respect to statistical analysis,
11 correct?

12 A. You know, after I read the Puget Sound order,
13 I didn't feel that anybody could improve on the
14 statistics that were presented in that case.

15 MR. MEYER: Thank you, that completes my
16 cross.

17 JUDGE CAILLE: Redirect?
18

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

20 BY MR. VAN CLEVE:

21 Q. Mr. Falkenberg, you were asked about your
22 training and experience with the Aurora model; do you
23 recall that?

24 A. Yes, I do.

25 Q. And I'm just wondering whether you could talk

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1 about your use of the Monet models and Grid models and
2 how that might apply to your evaluation of the Aurora
3 model?

4 A. Well, I guess to begin, as I indicated
5 earlier, I actually wrote models of this sort and went
6 around the country training utility people in running
7 such models. I was working for Energy Management
8 Associates in the 1980's and training people in the use
9 of Promod and Proscreen and models like that that were
10 industry wide and industry standard models.

11 I have used for the last several years
12 PacifiCorp's Grid model, Portland General Electric's
13 Monet model, which are quite similar in a lot of
14 respects to the Aurora model. Aurora is somewhat
15 different in that it's a fundamentals based model which
16 projects market prices, but nonetheless the model is
17 very similar to many models that I have seen, and it's
18 very similar to a model that I developed in the 1990's
19 that I used to project market prices for purposes of
20 stranded cost evaluations for example.

21 So there was really nothing new in the model
22 in terms of its approach that I had not encountered
23 before. And I went through a couple training sessions
24 with the people at EPIS and asked the training person
25 what the next step was, and she said, well, really I

0681

1 think at this point you understand the model and there's
2 really not a lot more you need to do, but if you have
3 any questions, go ahead and call me.

4 MR. VAN CLEVE: Thank you.

5 That's all the redirect I have, Your Honor.

6 JUDGE CAILLE: Any questions from the
7 Commissioners?

8 Chairman Sidran.

9

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

11 BY CHAIRMAN SIDRAN:

12 Q. Mr. Falkenberg, just a couple of questions.
13 One is how do you respond to Mr. Kalich's
14 characterization of your suggested hydro shaping
15 adjustment? I believe he said in his rebuttal that your
16 assumption is that the company would operate their hydro
17 resources at only a maximum or minimum level; is that a
18 fair characterization of your assessment?

19 A. That certainly characterizes the way that the
20 modeling was done in the analysis that I did. However,
21 I think Mr. Kalich is being a little bit unfair in his
22 criticism, because if you look at the hourly outputs of
23 the Aurora model, which I have done, you will see that
24 that same approach is used for all of the thermal units.
25 For example, if you look at the Coyote Springs 2 unit,

0682

1 you will see that it produces a pattern of output that
2 is almost identical to that which I have -- which he
3 showed in his illustration, I believe it was
4 illustration number 6 in his testimony. And I actually
5 do have with me a chart that shows that very point,
6 which we can provide, but this is the output of Coyote
7 Springs 2 for certain days in January of 2006. And what
8 it shows is that the unit oscillates between zero and
9 full loading, you know, sometimes from hour to hour but
10 certainly on a day-to-day basis. So I don't think that
11 his criticism is really fair, because what the model
12 does for Coyote Springs, which is it turns it on when
13 it's in the money and it turns it off when it's not, is
14 really the same thing I'm proposing should be done for
15 hydro.

16 CHAIRMAN SIDRAN: And, Mr. Van Cleve, can you
17 see that that's offered, that document that he was
18 holding up?

19 MR. VAN CLEVE: Yes.

20 CHAIRMAN SIDRAN: I don't know if that's an
21 exhibit already or not.

22 MR. VAN CLEVE: It is not, and I actually
23 have some copies of that.

24 CHAIRMAN SIDRAN: I would appreciate it if
25 you could offer that in as an exhibit so we can take a

0683

1 look at it.

2 MR. VAN CLEVE: Okay.

3 BY CHAIRMAN SIDRAN:

4 Q. The second question has to do with your
5 proposal or suggestion to eliminate the ERM in favor of
6 a deferral process for outlier years where there's low
7 hydro and extraordinary costs. Could you just explain
8 why you think a deferral process is a superior choice to
9 an ERM?

10 A. I think there's a couple of reasons. First
11 of all, the ERM encompasses much more than just hydro.
12 It encompasses any cause that -- anything that causes
13 power costs to deviate from what's built in to rates.
14 And so I believe that because of that, it lessens the
15 incentive that the utility has for management of its
16 costs.

17 Now with respect to hydro, we certainly agree
18 that hydro is a natural phenomenon over which the
19 company has no control, and so I believe it's
20 appropriate to set up a prespecified policy where the
21 utility knows that when hydro deviates from the amount
22 that's built in to rates that it can come forward and
23 get a deferral granted and that that way it will be very
24 clear what costs are eligible for recovery and what
25 aren't. This is the same proposal that Mr. Buckley made

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1 in the PacifiCorp case last year. So I think that
2 that's a fair way of doing it, I think it eliminates
3 some of the problems with ERM in that it encompasses
4 costs that aren't really outside the control of the
5 utility.

6 Q. Well, I understand your broader point about
7 the ERM, I'm just trying to clarify why a mechanism that
8 tries to lay out in advance the parameters for deferral
9 is superior to doing in effect the same thing with an
10 ERM for just the hydro costs?

11 A. Well, the problem is you just can't isolate
12 the hydro out of the ERM I guess.

13 CHAIRMAN SIDRAN: All right, thank you.

14 JUDGE CAILLE: Commissioner Jones.

15

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

17 BY COMMISSIONER JONES:

18 Q. I just have one question. In Exhibit 301,
19 your direct testimony, on page 5 you do state, and I
20 asked the same question of Mr. Kalich yesterday I think,
21 this question about extra scrutiny, I think your
22 recommendation was you say that Avista's use of the
23 Aurora model warrants extra scrutiny by the Commission
24 because this is the first time it's been used in a rate
25 case. Could you explain based on what you just said in

0685

1 your background in the industry with Abasco and Puget
2 Sound, I understand you worked for Puget Sound Energy
3 and Light in the 1970's; is that correct?

4 A. That's right, at that time it was called
5 Puget Sound Power and Light Company.

6 Q. And were you working on modeling at that
7 time?

8 A. I was not working on power cost modeling. I
9 was working on budgeting sales forecast revenue, that
10 sort of thing.

11 Q. I see. Well, could you just state generally
12 why you think the Aurora model warrants extra scrutiny.
13 Is it the model itself or the assumptions that feed into
14 the modeling or both?

15 A. Well, I think the short answer is both. Any
16 time there is a new model that a utility is using, you
17 certainly want to take an extra careful look at it. And
18 I'm not strictly going out at the Aurora model, I'm
19 pleased with the model in terms of my exposure to it, I
20 think it has a lot of capabilities. But all models lack
21 -- there's no perfect model I guess. And if you take a
22 look at the inputs to the model, the great majority of
23 the inputs to Aurora are prepared by EPIS, and they
24 obtain that data from national databases, and which is
25 something I have worked with a lot myself, and you can

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1 get certain problems with that kind of data. But on top
2 of that, what Avista did is they went and overrode many
3 of the data assumptions that were -- that came with the
4 model when it came to modeling their own facilities. So
5 certainly that created a lot of situations that you want
6 to take a look at.

7 And I think that, you know, one of the things
8 to keep in mind is that the model has been used in other
9 cases, but, for example, it was in the 2004 Puget case
10 that this Commission did accept an adjustment to the
11 model because it felt that the model didn't do a good
12 job of projecting the operation of oil fired units, and
13 so it made an adjustment to the model outside of the
14 model and imbued some additional costs. So there's no
15 model that's perfect, when you get a new model, you just
16 got to take an extra look at it I believe.

17 Q. In your analysis, did you look at the Power
18 Pool adjustments and the impact that that has on
19 streamflows, the Northwest Power Pool? I'm sure you're
20 familiar with that, aren't you?

21 A. Right, well, the data that goes into Aurora
22 already has those adjustments made to the data. If you
23 take a look at the data that lies outside of that range,
24 which is from '29 to '87, then you don't have data that
25 actually is adjusted for the Northwest Power Pool

0687

1 operation. However, what I did for example in my 126
2 year analysis, I used a regression to relate the
3 streamflows to generation that had been adjusted so that
4 we could impute what that adjustment would be, and what
5 you find is that the generation is very linear with the
6 streamflow. So yes, I did try to take that into
7 account.

8 COMMISSIONER JONES: Thank you.

9 JUDGE CAILLE: Anything further?

10 All right, thank you, you're excused.

11 And Mr. Falkner is next.

12 MR. FFITCH: While Mr. Falkner is taking the
13 stand, may I have a moment to confer with counsel for
14 the company?

15 JUDGE CAILLE: Yes.

16 All right, Mr. Falkner, if you would stand
17 and raise your right hand, I will swear you in.

18 (Witness Don M. Falkner was sworn.)

19 JUDGE CAILLE: Thank you.

20 Mr. Meyer.

21 MR. MEYER: Thank you.

22

23

24

25

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1 Whereupon,

2 DON M. FALKNER,

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. MEYER:

7 Q. Mr. Falkner, for the record, please state
8 your name and your employer.

9 A. My name is Don Falkner, I work for Avista
10 Corporation.

11 Q. And have you prefiled direct testimony,
12 supplemental direct, as well as rebuttal testimony?

13 A. Yes, I have.

14 Q. And those were marked as Exhibits 101, 104,
15 and 105 respectively?

16 A. Correct.

17 Q. Any changes to those?

18 A. No.

19 Q. Are you also sponsoring what has been marked
20 for identification as Exhibits 102, 103, and 106?

21 A. Yes, I am.

22 Q. Does that contain true and correct
23 information?

24 A. Yes, it does.

25 MR. MEYER: With that, Your Honor, I move the

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1 admission of Exhibits 101 through 106.

2 JUDGE CAILLE: Is there any objection to the
3 admission of Exhibits 101 through 106?

4 MR. FFITCH: No objection.

5 JUDGE CAILLE: Then Exhibits 101 through 106
6 are admitted into the record.

7 MR. MEYER: Thank you.

8 JUDGE CAILLE: And, Mr. ffitch and Mr. Van
9 Cleve, are you going first, Mr. ffitch?

10 MR. FFITCH: I'm prepared to proceed, Your
11 Honor.

12 JUDGE CAILLE: Thank you.

13

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

15 BY MR. FFITCH:

16 Q. Good morning, Mr. Falkner.

17 A. Good morning, Mr. ffitch.

18 Q. And I just want the record to reflect that I
19 have made a commitment to Mr. Falkner to not confuse his
20 name with Mr. Falkenberg's name, specifically requested
21 to do that, so I will give it a try here. It helps that
22 it's before lunch.

23 Mr. Falken -- Mr. Falkner, could you please
24 turn to --

25 A. So much for the commitment.

0690

1 Q. Don't think about an elephant, don't think
2 about an elephant.

3 Please turn to page 15 of your rebuttal
4 testimony, which is Exhibit 105.

5 A. I'm there.

6 Q. And could you look at line 20, please. There
7 you state, do you not, that Mr. Lott makes
8 unsubstantiated claims regarding the downward trend in
9 production rate base; is that true?

10 A. That's what it says, yes.

11 Q. And you refer to pages 17 and 68 of
12 Mr. Lott's testimony. And we can go to Mr. Lott's
13 testimony, but I will just ask you to accept a
14 paraphrase of those two different points. Do you have
15 his testimony up there with you?

16 A. I do. Would you like me to go there?

17 Q. Okay, let's do that, let's go to page --

18 COMMISSIONER JONES: Counsel, what page are
19 we on again?

20 MR. FFITCH: Well, right now, Commissioner
21 Jones, we're on page 15 of Exhibit 105, which is
22 Mr. Falkner's direct, rebuttal, pardon me, Mr. Falkner's
23 rebuttal, and now we're going to go to Mr. Lott's
24 direct, which is Exhibit 281.

25 BY MR. FFITCH:

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1 Q. If you could first go to page 17 of Exhibit
2 281.

3 A. I'm there.

4 Q. Okay. At line 9 of Mr. Lott's testimony, he
5 states, again this is the page reference drawn from your
6 testimony, Mr. Lott states:

7 Based on historical trends observed, the
8 company's pro forma net production rate
9 base is higher than it is anticipated to
10 be in 2005 due to the continued
11 accumulation of depreciation and the
12 continued growth in the accumulated
13 deferred income taxes.

14 Isn't that what he says?

15 A. Yes, that's what it says.

16 Q. Now could you please turn to page 68 of this
17 same exhibit, which was your second reference, and I
18 will give you a line reference, and that would be line
19 14. And there Mr. Lott states:

20 The problem is that these cost increases
21 are included in the ERM calculation
22 while at the same time the mechanism
23 holds production rate base at the
24 previous rate case level despite its
25 steady trend downward, thus passing on

0692

1 unfairly inflated cost increases to rate
2 payers.

3 Isn't that what it states?

4 A. Yes, that's what it says.

5 Q. And again in your rebuttal testimony you
6 refer to these as unsubstantiated claims, correct?

7 A. Correct. The actual point that I was trying
8 to make was that in Mr. Lott's analysis he basically
9 took out additions to plant and production, specifically
10 Coyote Springs 2 in this case, to show a trend. And my
11 point was that that may not have been a reasonable
12 assumption to show what the trend of Avista's plant is,
13 because our production plant comes in in lumps. At the
14 same time --

15 Q. All right.

16 A. -- he picked -- excuse me, I was just going
17 to say at the same time he picked a time period that the
18 company was capital constrained since basically 2001 up
19 to date, and that's not the position we're going to be
20 in going forward. The company's intending to continue
21 to build its infrastructure forward. We don't have
22 information that shows that going into 2005 or 2006 that
23 our production plant or transmission plant for that
24 matter will continue to decline. In fact, it's our
25 anticipation it will grow.

0693

1 Q. All right, well, let's follow up on that
2 point a bit. First of all, you have referred to the
3 Coyote Springs plant, is it correct that the first half
4 of Coyote Springs was added in 2003, and that investment
5 was over \$104 Million?

6 A. Correct, on a system basis.

7 Q. Okay. So I would like to ask you now to look
8 at Exhibit 147, which was actually originally identified
9 for Ms. Knox.

10 A. I have it.

11 Q. Exhibit 147 is a copy of an excerpt from the
12 response to Public Counsel Data Request 4, correct?

13 A. It says PC-4 Supplemental.

14 Q. All right. And in general here what we asked
15 for was monthly accounts or amounts for expenses,
16 investments since the inception of the ERM mechanism,
17 correct?

18 A. Yes.

19 Q. Okay, thank you. And then what we have
20 attached to this is an excerpt of the many, many pages
21 of responses of those records of expenses and
22 investments, correct?

23 A. Correct, these are the utility plant reports
24 that are part of our monthly results of operations
25 reports.

0694

1 Q. All right. Now I'm going to ask you to turn
2 to, go back one exhibit to 146, and 146 is an
3 illustrative exhibit prepared by Public Counsel, and
4 Avista has been provided with this in advance, we have
5 also showed this to you earlier, have we not?

6 A. Yes, I just received it.

7 Q. All right. And I'm just simply going to ask
8 you to just sort of walk with me through where these
9 numbers come from. The shaded lines are for June and
10 July 2003, and those are the months attached to the next
11 Exhibit 147 that we were just looking at, right?

12 A. I guess I will accept that subject to check.

13 Q. All right. Well, if you go to pages 2 and 4
14 of the exhibit, you can see the dates in the top
15 left-hand corner on Exhibit 147, and page, well, in fact
16 on every page of the data sheets you can see that there
17 are two for June 30th, 2003, and two for July 2003,
18 correct?

19 That's in the upper left-hand corner of
20 the --

21 A. Right, I see there's two pages, one for July
22 and one for June.

23 Q. All right. Now let's stay on the first page
24 for June 2003.

25 A. Okay.

0695

1 Q. And if you look at the very bottom of the
2 column which says allocated under the system section of
3 the chart, we see a number of 744,013, excuse me,
4 744,013,968, correct?

5 A. Correct, and that carries over to Exhibit 146
6 for the June period.

7 Q. Under plant in service?

8 A. Under plant in service, correct.

9 Q. Thank you. Now if we go to the next page of
10 Exhibit 147, page 3 of that exhibit, if we look in the
11 accumulated depreciation section we see 3 lines,
12 108.6.1, excuse me, 108.X1., .X2, and .X3 representing
13 accumulated depreciation for steam, hydro, and other
14 production plant, right?

15 A. I see those.

16 Q. And would you accept subject to check that
17 those three figures shown in the column under allocated
18 add up to the accumulated depreciation numbers shown on
19 the illustrative exhibit?

20 A. Yes, it appears that they do come -- they are
21 basically the 260, \$270 Million number that's in Exhibit
22 Number 146, so they do follow the results of operations
23 reports that we provided Mr. Lott.

24 Q. All right, thank you. And then finally,
25 subject to check, the number in the right-hand column

0696

1 under net plant is simply the difference between the
2 first two columns, correct?

3 A. Correct, accumulated depreciation is
4 subtracted from plant in service to get net plant.

5 Q. All right.

6 A. I really don't have an issue with the math
7 and where the numbers come from.

8 Q. All right.

9 A. The point I only wanted to make was that we
10 do see growth in plant including the lumpy addition of
11 production plant, and we feel that our capital
12 expenditures going forward are going to be more, that
13 the current since 2001 up to now is not representative
14 of how plant is going to grow in the future.

15 Q. All right.

16 A. That was kind of the point I was making.

17 Q. Well, let's look at 146, Exhibit 146, and if
18 we can start at the top of the net plant column, we see,
19 do we not, that from July 2002 through May 2003 that net
20 plant has been declining, declines from 478 Million to
21 473 Million, correct?

22 A. Yes, it does.

23 Q. And then the June and July 2003 time frame is
24 the period when the Coyote Springs plant was added,
25 right?

0697

1 A. Yes.

2 Q. And so that's reflected in the jump in net
3 plant to 579,200,000, right?

4 A. Correct.

5 Q. And then if we follow that column down to
6 December of 2004, we see again a downward trend to
7 564,800,000, correct?

8 A. Correct, on a net basis.

9 Q. On a net basis.

10 A. If you go to the plant in service line column
11 though, I mean you can see we are continually adding
12 production plant in service. Where it goes from the
13 June time period July 851 up to approximately \$863
14 Million. So what this is showing is in this short time
15 period, depreciation has exceeded capital additions. If
16 you would have gone one month further, of course, you
17 pick up the second half of Coyote Springs 2 in January
18 of 2005, and we're not even taking into account what
19 capital additions we have planned going forward,
20 production upgrades to our hydro plants, et cetera.

21 Q. All right. Now let me know if you are able
22 to answer this question. With respect to deferred
23 taxes, the company responds to Public Counsel Data
24 Request 4, does not break down the total between
25 production and other items, it shows the total increase;

0698

1 is that right?

2 A. I'm sorry, what was the reference again?

3 Q. Well, it's to Exhibit 147.

4 A. Oh.

5 Q. The documents we were just looking at in
6 response to Data Request 4. These are the electric
7 utility plant documents.

8 A. Right, the deferred FIT spread is not in this
9 document.

10 Q. Now Exhibit 104 does have a page that shows
11 the deferred taxes, does it not? Not Exhibit 104, the
12 response to Public Counsel Data Request 104.

13 JUDGE CAILLE: Which is exhibit?

14 MR. FFITCH: It's not an exhibit. Let me
15 check, Your Honor, see if we have that exhibit.

16 Your Honor, that has not been identified as
17 an exhibit due to the size of the document, and I had
18 just asked Mr. Falkner this to see if he could accept
19 that that was contained in that document. We have a
20 copy of it available we could look at in a recess.

21 A. I'm sorry, could you just restate what I was
22 supposed to consider accepting, I forgot your original
23 statement.

24 BY MR. FFITCH:

25 Q. Well, you have indicated that Exhibit 147

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1 here does not break out the deferred taxes between
2 production and other items, and I have asked you whether
3 that breakout is shown in response to our Data Request
4 104?

5 A. I can accept that subject to check, but I'm
6 not aware that it is.

7 Q. All right.

8 MR. FFITCH: Your Honor, I think perhaps what
9 we can do is come back to this question. Perhaps we can
10 deal with it through an exhibit if we need to and have
11 Mr. Falkner look at this over the lunch hour.

12 JUDGE CAILLE: All right.

13 BY MR. FFITCH:

14 Q. Moving on to another area, Mr. Falkner, your
15 adjustment PF-7 is the adjustment to pro form the added
16 transmission project as supported by the testimony of
17 Mr. Kopczynski, correct?

18 A. Mr. Kopczynski, yes.

19 Q. Kopczynski, I apologize. Can I ask you to
20 look at Exhibit 114, please.

21 A. I have it.

22 Q. You're ahead of me, Mr. Falkner. Exhibit 114
23 is your workpaper supporting this adjustment PF-7,
24 correct?

25 A. Correct, this is a pro forma adjustment to

0700

1 bring in a portion of the transmission project that's
2 currently underway with the company.

3 Q. All right. And if we go to page 2 of the
4 exhibit and if we look in the box at the top of the
5 page, we see that the three specific projects that are
6 being pro formed in are Beacon Bell, Boulder Substation,
7 and Dry Creek Substation, correct?

8 A. Correct.

9 Q. Now if we go to page 8 of this exhibit, and
10 if we look at the top there, we see that the estimated
11 in service or estimated completion dates as it says here
12 for these three plants, Beacon, Boulder, and Dry Creek,
13 are December 2005, August 2005, and May 2005
14 respectively, correct?

15 A. That's correct. What I was attempting to do
16 in this adjustment was pick up part of this transmission
17 project, which is a multiyear project, it's going to go
18 from '02 to '07, relatively substantial project, just
19 pick up the pieces that were going to be basically
20 completed and used in useful plant service by the time
21 this case was litigated, was fully litigated, just pick
22 up the known and measurable items through the litigation
23 phase of the case.

24 Q. But during the test year, 2004, Avista was
25 able to provide service to its customers using its

0701

1 existing transmission, excuse me, existing transmission
2 property and short and long-term contracts, correct?

3 A. Correct, there were some, I didn't track all
4 the reliability issues, but we did provide service at a
5 fairly high level, yes.

6 Q. Without using these facilities?

7 A. Without using these facilities. But the
8 transmission group has noted for a long time that we
9 have had a transmission weakness, and Mr. Cloward
10 probably would have been a great witness to discuss all
11 the details, but we have had a transmission weakness in
12 this West Hatway area for a number of years and have put
13 it off for a period of time, a long period of time. We
14 have entered into the project to address some
15 transmission weaknesses. The lights didn't go out in
16 2004, but there were issues as far as keeping the
17 connection between Avista and basically the Idaho
18 jurisdiction with this line. So that's why we're
19 entering into this project.

20 Q. All right.

21 A. And the attempt was to pick up known and
22 measurable items or at least the project -- the portions
23 of this project that were begun in 2005 through the
24 litigation of this case.

25 Q. But these plants were not or these facilities

0702

1 were not in use during the test year, were they?

2 A. Not during the test year, but they are now.

3 Q. Well, not all of them?

4 A. Correct, the smallest piece, the Beacon Bell

5 230 KV line is still under construction. But the vast

6 majority to the two substations were system level

7 numbers 16 Million and 11 Million are completed and

8 basically used and useful.

9 Q. Okay. Can I get you to look at page 5 of the
10 exhibit, please.

11 A. This is PF-7, sub 5 basically?

12 Q. PF-7, sub 5.

13 A. Okay.

14 Q. Page 5 of the exhibit, and looking at the
15 center section, which the title is tax depreciation. Is
16 it correct that the tax depreciation rate shown of 7.29%
17 is the second year tax rate?

18 A. Correct.

19 Q. And it actually indicates that right under
20 the words tax depreciation, does it not?

21 A. Right, the idea being that a full year tax
22 depreciation would be more representative in this case
23 for the deferred income tax calculation.

24 Q. All right. And the second tax year for each
25 of these three projects is 2006, correct?

0703

1 A. Correct, going in service 2005, the second
2 year is 2006.

3 Q. All right.

4 A. But at the same time, what we were trying to
5 stay away from was pro forming into a rate year going
6 forward into were there any additions or retirements to
7 these particular substations or lines. We thought that
8 2005 would provide us the most known and measurable
9 amount and eliminate having to estimate what might
10 happen in 2006.

11 Q. All right.

12 Please turn to Exhibit 113. These are some
13 of your workpapers supporting your Coyote Springs
14 adjustment; is that correct?

15 A. Yes.

16 Q. And could you please turn to page T-3 which
17 is exhibit page 2.

18 A. Yes, I'm there.

19 Q. All right. And on this page you calculate
20 depreciation expense and deferred taxes for Coyote
21 Springs 2, correct?

22 A. Correct.

23 Q. And as shown here, you use two tax
24 depreciation rates of .51875 and then .03750, correct?

25 A. I'm sorry, say the numbers again.

0704

1 Q. They're shown in the bottom box.

2 A. Oh, correct, I see, you're right, labeled D
3 and E.

4 Q. Correct. Now if you could turn to pages T-21
5 on page 3 of the exhibit and then the next page 4 of the
6 exhibit, this is where these numbers are reflected in
7 this backup documentation, correct?

8 A. Correct.

9 Q. Next I would like to ask you to turn to
10 Exhibit 115, please.

11 Are you there?

12 A. 115?

13 Q. 115.

14 A. Yes, I'm there.

15 Q. Okay. And there are three sheets here, these
16 are workpapers that you provided in support of the pro
17 forma adjustment PF-1, correct?

18 A. Right, these are workpapers I adopted that
19 were basically the detail of the power supply
20 adjustment.

21 Q. All right.

22 A. Showing the numbers that went into the
23 revenue requirement calculation.

24 Q. Okay. And let's just take a look at page 1
25 of this exhibit. The final column here represents your

0705

1 pro forma power supply adjustment included in your pro
2 forma statement in your initial filing, correct?

3 A. Correct.

4 Q. And so am I correct then that that would mean
5 that the figure included in the pro forma would be minus
6 4.465 Million; is that right?

7 A. Correct, that should have carried forward to
8 the adjustment summary.

9 Q. Okay. Well, let's just sort of do a quick
10 review of the workpaper here. First column is entitled
11 power supply adjustment, and then the second column less
12 Idaho direct, Potlatch, and WPPI adjustments, those were
13 provided to you and then actually testified to by
14 Mr. Johnson, correct?

15 A. Correct.

16 Q. And then the next column is titled
17 transmission adjustment, and that decreases revenues,
18 you can see that. In the top section there's a total
19 revenue decrease of 5.4 Million, correct?

20 A. Correct.

21 Q. And then increases expenses by 277,000,
22 right?

23 A. That's what the exhibit shows, correct.

24 Q. All right. Now there was no supporting
25 testimony by any of Avista's witnesses for this

0706

1 adjustment in the initial filing, am I correct?

2 A. Correct, not in the initial filing.

3 Q. All right.

4 A. We provided Mr. Cloward in the rebuttal
5 phase.

6 Q. All right. The next column total, system
7 adjustment, is just the sum of the three columns before,
8 they go before, right?

9 A. Yes, it is.

10 Q. And then there's a Washington allocation in
11 the following column, and then you reach the final
12 column, remove, well, the penultimate column, remove
13 Washington mark to market, correct?

14 A. Correct.

15 Q. Now you have a workpaper for this adjustment
16 or this column which is page 3 of this exhibit, right?

17 A. Right, it's one of the detail sheets from our
18 results of operations.

19 Q. Okay. And at the time of your initial
20 filing, this was the only supporting documentation for
21 this adjustment, there was no testimony offered by the
22 company on this adjustment, correct?

23 A. The removal of the mark to market amount?

24 Q. Right.

25 A. Correct, there was no testimony. But it was

0707

1 -- it was -- it's obviously it's an appropriate
2 adjustment for our Washington jurisdiction from the --
3 it's an accounting entry that is basically a financial
4 accounting timing adjustment. We have an accounting
5 order in Washington that allows us to not have to fully
6 implement basically FAS 133, which is a complicated
7 financial accounting standard dealing with long-term
8 contracts and marking them to the current market
9 conditions when you close a financial accounting period.
10 Apparently there are still some contracts that or
11 transactions that the company is involved in that
12 require a mark to market or accounting entry. It's our
13 position that that's not appropriate for cash recovery
14 of power supply costs. So that's the rationale, that's
15 the reason behind the adjustment, but I think if your
16 point is did I clarify that in my testimony, the answer
17 is, no, I didn't.

18 Q. All right. Now let's look at page 2 of this
19 same Exhibit 115. It's entitled energy delivery at the
20 top. This is your only workpaper filed with the initial
21 case supporting the transmission adjustment, correct?

22 A. Correct. Through the settlement process and
23 additional discovery as well as Mr. Cloward's testimony,
24 however, a lot more information has been provided for
25 the record.

0708

1 Q. Mr. Cloward's testimony was filed after the
2 settlement, was it not?

3 A. Correct, his rebuttal testimony, but it is in
4 the record.

5 Q. Can you turn to Exhibit 116, please, the next
6 exhibit.

7 A. I'm there.

8 Q. All right. Now Exhibit 116 is a copy of a
9 fax that was sent to the Staff as additional support for
10 your transmission adjustment. You see the reference
11 there in the re section of the page; is that correct?

12 A. I'm sorry, say that again.

13 Q. This is a fax that was sent by the company?

14 A. Yes, it was.

15 Q. July 25th, 2005, providing --

16 A. Oh, re, I'm sorry, I was on the second page,
17 the first page, correct.

18 Q. Okay. And it's providing some support for
19 company adjustments including your transmission
20 adjustment and workpaper PF-15, right?

21 A. Correct.

22 Q. Okay. And workpaper PF-15 is what we just
23 looked at as the only page of support in your workpapers
24 for the transmission adjustment with the initial filing.

25 A. Right. I was just going to clarify where

0709

1 this actually came from.

2 Q. What would this be?

3 A. The PF-15. This is work that was done, this
4 actual adjustment page was prepared by our transmission
5 group under the direction of Mr. Cloward. So all this,
6 all the analysis and calculations in here were done by
7 our transmission group and provided to us in preparation
8 of the revenue requirement, and it was just included as
9 an addendum to the power supply adjustment.

10 In previous years, we have before, as
11 Mr. Johnson noted we have now separation between our
12 transmission group and our merchant power resource
13 group, previous years when we filed cases we would have
14 the power supply witness would be able to respond to
15 both categories, the power resource merchant function
16 information as well as the transmission revenue and
17 expense function. Generally speaking, it had never been
18 a material change to the power supply numbers, and they
19 were just folded in to the power supply and
20 transmission. We have continued that process as far as
21 our filing goes, but we have never until now, until
22 Mr. Cloward was brought in, we never really sponsored a
23 witness just to go along with the transmission revenues,
24 because it was never a necessity until FERC required the
25 break between transmission and merchant.

0710

1 Q. All right. But the upshot of that is that
2 there's a \$5 Million transmission adjustment in your
3 initial case that was only supported by this one page,
4 PF-15, and not supported by any testimony at that time,
5 correct?

6 A. Not any testimony at that time.

7 MR. FFITCH: Can I just have one moment to
8 confer, Your Honor?

9 JUDGE CAILLE: Yes.

10 BY MR. FFITCH:

11 Q. So sticking with Exhibit 116, let's go to
12 page, that's the fax that was sent to Staff on July
13 25th, page 2 of that exhibit is just that same sheet,
14 your workpaper PF-15 on transmission, right?

15 A. Right, just to illustrate the starting point
16 I think.

17 Q. Right, and then we have page 2, or pardon me,
18 page 3 of the exhibit entitled Avista Corporation
19 Transmission Revisions to Pro Forma Period, and this is
20 the only page of this fax that relates to any -- relates
21 to this transmission adjustment, right, PF-1?

22 A. I'm sorry, say that again, this is the only
23 page that refers to the transmission adjustment?

24 Q. This is the only page of this exhibit and of
25 these materials that relates to your transmission

0711

1 adjustment explained in workpapers PF-15. The remainder
2 of this relates to the borderline wheeling pro forma
3 amount, correct?

4 You can take a minute to look at it.

5 A. The page we're talking about, which is page 3
6 of this Exhibit 116, is a narrative that attempts to
7 address the adjustments, some of the adjustments that
8 were contained on page 2, specifically OASIS, lease
9 expenses, borderline, wheeling revenue, a number of
10 different items.

11 Q. Right.

12 A. And then the remainder of the sheets all do
13 go to support, the idea was they go to support for the
14 transmission adjustment.

15 Q. Well, let's look at the cover sheet, pages 2
16 through 38 provide support for the borderline wheeling
17 pro forma amount, correct?

18 A. Okay, correct.

19 Q. So the only explanation for the other
20 adjustments, for example for OASIS is on that one
21 narrative page, right?

22 A. That's correct.

23 Q. And prior to this time, that was the only
24 support that was provided as we have just walked through
25 for the transmission adjustment?

0712

1 A. Correct, the company was responding to
2 questions posed to it regarding the detail.

3 Q. All right.

4 A. And this was the start of the process.

5 Q. All right.

6 A. And there obviously were supplemental data
7 requests after that as well as some extensive discussion
8 during the settlement period.

9 MR. FFITCH: Can I have another moment, Your
10 Honor, I'm getting down to the end here?

11 JUDGE CAILLE: Yes.

12 MR. FFITCH: Your Honor, I'm ready to
13 proceed, and what I'm going to do at this point is try
14 to go back to the questions that we were asking of
15 Mr. Johnson and that were deferred to Mr. Falkner, so
16 this may be a little clumsy, but I will -- I have to get
17 back to my Johnson exhibits for a moment.

18 JUDGE CAILLE: And if you will direct the
19 Bench there too, please.

20 MR. FFITCH: I will. First exhibit is
21 Exhibit 201.

22 THE WITNESS: I'm going to have to apologize,
23 do you have Exhibit 201?

24 JUDGE CAILLE: That may be Mr. Johnson's.

25 MR. FFITCH: These are cross exhibits for

0713

1 Mr. Johnson.

2 COMMISSIONER OSHIE: Mr. ffitch, have you
3 directed us to where in Mr. Johnson's testimony you
4 would like us to focus?

5 MR. FFITCH: I have not, I am waiting for the
6 witness to get -- we're looking at just some cross
7 exhibits that were for Mr. Johnson, and we're at Exhibit
8 201.

9 THE WITNESS: Oh, I have 201 now.

10 MR. FFITCH: All right.

11 BY MR. FFITCH:

12 Q. And so, well, first of all, this was a
13 request by Public Counsel for all analysis performed to
14 determine whether the termination of the lease was in
15 the best interests of Avista rate payers, correct?

16 A. That's what it states.

17 Q. All right.

18 A. Providing an analysis performed and presented
19 to an officer of Avista which identified the rate making
20 impacts of this action.

21 Q. And now I'm just going to direct you to the
22 last two sentences of the response indicates that:

23 This is due primarily to the lease
24 having a charge of 25 basis points for
25 administration and 60 basis points for

0714

1 the equity return component of the
2 lease, hence a cost savings exists and
3 rate payers benefit from the
4 discontinuance of the lease.

5 Isn't that right?

6 A. That's what it states, yes.

7 Q. All right. And were you here when

8 Mr. Johnson testified earlier?

9 A. To parts of it, yes.

10 Q. All right.

11 A. Yes, I was.

12 Q. Well, the record will reflect that he stated
13 that the rate of return that he used in calculating the
14 revenue requirement was 9.11%, correct?

15 A. Correct, that would be the settlement rate of
16 return.

17 Q. All right. Now can you look at page 7 of
18 this same response, this is Exhibit 201, this is one of
19 the non-confidential pages.

20 A. I'm there.

21 Q. All right. And if you look in the upper
22 left-hand corner, small print, we see an estimated debt
23 rate of 5.9% for the secured triple B minus debt,
24 correct?

25 A. Yes, I see that.

0715

1 Q. And two lines below that is the estimated
2 synthetic lease rate of 6.85%?

3 A. Yes, I see that.

4 Q. And that indicates in the language next to
5 this that that includes a figure of 0.85%, correct?

6 A. That's what it states.

7 Q. All right. And, in fact, that's the debt
8 rate plus the added 0.85 gross up to cover the taxes on
9 equity, correct?

10 A. It says converted to bond equity rate, yes.

11 Q. All right. Now if we go back to page 2 of
12 this same response, same exhibit, that would actually be
13 page 3 of the exhibit.

14 A. I'm there.

15 Q. This indicates in the second bullet point
16 from the bottom that for tax purposes the lease was
17 considered a capital lease, correct?

18 A. For tax purposes, yes.

19 Q. And thus for over the last ten years on tax
20 returns the original investment has been amortized;
21 wouldn't that be correct?

22 A. It's basically been depreciated as any plant
23 asset would be through tax depreciation.

24 Q. All right. And during the same time, the
25 interest expense has been deducted; is that correct?

0716

1 A. The interest expense deducted, any interest
2 expense of the company -- yes, correct, as part of the
3 tax calculations there would be an interest deduction.

4 Q. Right. Now if you could please turn the page
5 to page 4 of the exhibit, that indicates that the
6 purchase of this asset is not considered a taxable
7 event; do you see that?

8 A. Correct, there's no book gain or tax loss
9 associated with this calculation, it just transfers over
10 to Avista plant in service without any taxable event
11 from a gain or loss standpoint.

12 Q. All right. Can I get you to turn, please, to
13 I believe we need to go to page 7 of the exhibit. Just
14 one moment. If you are on page 7 of the exhibit, do you
15 see a section on the left-hand side, the heading is debt
16 transaction interest rate, that shows a debt transaction
17 interest rate of 5.9%, right?

18 A. I see that, and I think we are still talking
19 about an estimated debt rate.

20 Q. Right. And this is the revenue requirement
21 used for comparisons to the leasing option. That's the
22 interest rate that was used in that calculation,
23 correct?

24 A. To the best of my knowledge, yes. I did not
25 prepare this analysis, but I'm following your line of

0717

1 questioning so far.

2 MR. FFITCH: All right, that's fine.

3 I believe that's all my questions, Your
4 Honor, if I may just have one moment to check my notes.

5 JUDGE CAILLE: Yes.

6 MR. FFITCH: Yes, that's all we have for
7 Mr. Falkner, thank you, Your Honor.

8 JUDGE CAILLE: Thank you.

9 Mr. Van Cleve.

10 MR. VAN CLEVE: Your Honor, we have no cross
11 for this witness.

12 JUDGE CAILLE: All right.

13 Any redirect?

14 MR. MEYER: Just 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. Mr. Falkner, with respect to the Rathdrum
19 lease and the decision to lease or buy it out,
20 irrespective of whether the company would carry the
21 lease or cancel it, would the company still have to
22 carry equity?

23 A. Well, it's -- the Rathdrum lease transaction
24 is rather complicated when it gets to what it does to
25 our balance sheet. It's been complicated since the new

0718

1 accounting standard came out where we actually had to
2 put the off balance sheet financing associated with the
3 lease for operating -- for our purposes from a financial
4 accounting standpoint it was an operating lease, so we
5 never had the plant on our books, and we never had the
6 debt on our books, it was off balance sheet financing
7 that was considered positive for our capital structure
8 back when we entered into the transaction.

9 The new accounting rules have forced us to
10 put it on our balance sheet as well as represent the
11 debt on our balance sheet. What that has done is skew
12 our cap structure. And that was one of the
13 considerations I'm aware that the company took into
14 consideration when they chose to purchase the plant
15 versus continue with the lease, the true benefit of the
16 off balance sheet financing had gone away. And we were
17 going to be in the position of either increasing our
18 equity component somehow or another, whether it would be
19 an issuance of common stock or retention of retained
20 earnings, to get our cap structure back in balance. So
21 whether we had it as a continued with the lease, we
22 still had an equity need or put it on the balance sheet
23 as a plant, it was going to end up with some sort of
24 equity cost to it.

25 Q. The exhibit to which you were referred makes

0719

1 reference to a WP Funding, describe please the purpose
2 of that.

3 JUDGE CAILLE: Excuse me, do you have a
4 reference to that exhibit?

5 MR. MEYER: Oh, sure, it's 201.

6 JUDGE CAILLE: Thank you.

7 MR. MEYER: And I believe for example it
8 appears in several places, but the third page into it
9 refers to WP Funding for example in the third bullet.

10 JUDGE CAILLE: Thank you.

11 A. Well, I just have secondary knowledge of the
12 transaction, and from my understanding WP Funding was
13 some trust that was created to basically go between the
14 corporation to the third party financial institution
15 that actually provided the funds for purchase of the
16 Rathdrum plant. It's just basically a shell trust that
17 dollars transfer from the company to a third party
18 financial institution, and I don't know the name of the
19 institution.

20 BY MR. MEYER:

21 Q. All right. But the, you know, the dollars
22 that transfer, so to speak, those didn't come back to
23 the company?

24 A. No, no, it's just a -- it's a legal conduit
25 for dollars to move from the corporation to the funding

0720

1 organization.

2 MR. MEYER: All right, thank you, that's all
3 I have.

4 JUDGE CAILLE: Any questions, Commission
5 Jones or Commission Oshie?

6

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

8 BY COMMISSIONER OSHIE:

9 Q. Mr. Falkner, I want to refer back to your
10 rebuttal testimony in this proceeding, and I have to
11 look to see what the exhibit number is.

12 A. 105.

13 Q. There we go. Within Exhibit 105 in your
14 testimony, you rebut I believe Public Counsel's witness
15 Dittmer as to his, not just perhaps his assumptions but
16 perhaps his assertions as to how the customer deposits
17 are allocated to within the company's debt and equity
18 structure. I think his testimony was that it should be
19 customer deposits should be added and should be used to
20 offset the rate base of the company because that's an
21 asset that the company uses to provide or could be used
22 to provide financing short or long-term. The question I
23 have is whether or not based on your testimony, I don't
24 have a clear understanding as to whether or not the
25 settlement has incorporated, you know, the adjustments

0721

1 that would be made for, if any, for Mr. Dittmer's
2 assertions, Mr. Dittmer's testimony as to how customer
3 deposits will be used by the company.

4 A. I apologize if my testimony wasn't clear on
5 that point, but the customer deposit adjustment is
6 actually incorporated in the settlement. For settlement
7 purposes we have adopted it as a rate base adjustment,
8 so we have reduced our rate base by this amount. And it
9 was, to be honest, it was a recommendation from Staff as
10 well as Public Counsel that that is the regulatory
11 treatment, so we did incorporate it.

12 COMMISSIONER OSHIE: All right, thank you
13 very much.

14 THE WITNESS: Sure.

15 JUDGE CAILLE: Commissioner Jones.

16 COMMISSIONER JONES: No.

17 JUDGE CAILLE: Any other questions?

18 Anything further for Mr. Falkner?

19 MR. FFITCH: I just had one other question,
20 Your Honor, in response to some of the redirect.

21

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

23 BY MR. FFITCH:

24 Q. Mr. Falkner, so it's true that, is it not,
25 that the debt associated with Rathdrum was not included

0722

1 in Mr. Avera's capital structure for Avista Utilities
2 even though it's included in the corporate capital
3 structure?

4 A. I'm sorry, could you rephrase that, I didn't
5 follow the whole line, Mr. Avera's capital structure?

6 Q. Right.

7 A. The company basically presented its position
8 on capital structure in its initial filing, and we
9 actually did include all changes through December 2005
10 that we could estimate at February.

11 Q. But that didn't include an estimation of
12 the --

13 A. At that point in time, correct, at that point
14 in time it did not. As far as where things stand right
15 now, the settlement has changed the cap structure that
16 would be utilized if the settlement was to be accepted,
17 there has been some changes to both the debt component
18 and the common equity component.

19 MR. FFITCH: All right, thank you, no further
20 questions.

21 JUDGE CAILLE: Now anything further for
22 Mr. Falkner?

23 COMMISSIONER JONES: Just one question.

24 JUDGE CAILLE: Commissioner Jones.

25

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

2 BY COMMISSIONER JONES:

3 Q. On this Rathdrum termination of the lease and
4 the purchase of the, the acquisition and putting it in
5 rate base, this is something that I haven't been aware
6 of, so maybe these questions aren't for you,
7 Mr. Falkner, but for a finance person, but can you just
8 confirm that this was approved by the board on May 12,
9 2005, this acquisition?

10 A. That's my understanding, there was a time
11 period where we actually had to notify the lessor what
12 our plans were.

13 Q. And has the senior secured debt actually been
14 issued for this facility, the security I understand
15 would the facility, has the debt been issued?

16 A. No, it has not. Basically it's being funded
17 through our short-term line of credit at this point in
18 time, and a long-term structure has not yet been put in
19 place.

20 Q. I see. And is the Commission Staff, in one
21 of these bullet points for the boards it says file with
22 the state commission, on page 4 of Exhibit 201, there's
23 a bullet point that says file with state commission to
24 issue up to 100 Million of FNB's, I assume that's first
25 mortgage bonds, so that -- I'm a little confused, is

0724

1 that statement correct or inaccurate?

2 A. It's my understanding we have made a filing,
3 and this would be subject to check, with the Commission
4 Staff for the authorization to issue some long-term
5 debt, but the financing hasn't been completed.

6 COMMISSIONER JONES: Okay, could you confirm
7 that for the record?

8 MR. MEYER: We will confirm it during the
9 lunch hour.

10 JUDGE CAILLE: All right, Mr. Falkner, you're
11 excused, thank you.

12 THE WITNESS: Thank you.

13 JUDGE CAILLE: I'm sorry, Mr. Ffitch, did you
14 have another question?

15 MR. FFITCH: No.

16 JUDGE CAILLE: Okay.

17 All right, we are at recess for our lunch,
18 and we will return at 1:30.

19 (Luncheon recess taken at 11:55 a.m.)

20

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

22 (1:30 p.m.)

23 JUDGE CAILLE: We are back from our luncheon
24 recess and, oh, Mr. Meyer, yes.

25 MR. MEYER: While we are on the record, I

0725

1 believe I owed a response back to Commissioner Jones
2 about the status of the filing we were going to make or
3 had made on the 100 Million. And we did over the noon
4 hour confirm that an application was made by Avista on
5 September 20th this year for an order with respect to
6 issuance of securities of up to 100 Million of secured
7 fixed or floating rate bonds, and that application did
8 make specific reference to the Rathdrum lease we
9 discussed earlier, and then an order did issue
10 ultimately from the Commission accepting compliance with
11 RCW 80.08.040, so hopefully that helps.

12 Thank you, Your Honor.

13 JUDGE CAILLE: You're welcome.

14 Mr. Lazar, will you please stand.

15 (Witness Jim Lazar was sworn.)

16 JUDGE CAILLE: Thank you.

17 Mr. ffitch.

18 MR. FFITCH: Thank you.

19

20 Whereupon,

21 JIM LAZAR,

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

24

25

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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. FFITCH:

3 Q. Good afternoon, Mr. Lazar.

4 A. Good afternoon, Mr. ffitch.

5 Q. Mr. Lazar, you were retained by Public
6 Counsel in this case to provide expert testimony on the
7 topic of rate design and rate spread, were you not?

8 A. Yes, I was.

9 Q. And did you prepare what has been marked as
10 Exhibits 241 through Exhibit 251 as your direct
11 testimony and accompanying exhibits?

12 A. Yes.

13 Q. And did you also prepare what has been marked
14 as Exhibits 252 through 258 as your revised rebuttal and
15 accompanying exhibits?

16 A. Yes.

17 Q. And just to go back to Exhibit 252 for a
18 moment, it is the case, is it not, that on October 6th,
19 2005, you filed revised rebuttal testimony in this
20 matter?

21 A. Yes, that's correct.

22 Q. And were there any changes to any of the
23 accompanying Exhibits 254 through 258 as a result of the
24 revision of your rebuttal testimony?

25 A. No, there were not.

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1 Q. Do you have any changes or corrections to
2 your testimony at this time?

3 A. No, I do not.

4 Q. And is the evidence and accompanying exhibits
5 contained in these documents true and correct to the
6 best of your knowledge?

7 A. Yes.

8 MR. FFITCH: Your Honor, I would offer the
9 Exhibits 241 through 258.

10 JUDGE CAILLE: Is there any objection?

11 MR. MEYER: No objection.

12 JUDGE CAILLE: Then Exhibits 241 through 258
13 are admitted into the record.

14 MR. FFITCH: Thank you, Your Honor.

15 Mr. Lazar is available for cross-examination.

16 JUDGE CAILLE: Mr. Meyer.

17 MR. MEYER: Thank you.

18

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

20 BY MR. MEYER:

21 Q. Good afternoon, Mr. Lazar.

22 A. Good afternoon, Mr. Meyer.

23 Q. I would like to begin by discussing the use
24 of what I will term Puget specific peak credit
25 assumptions. Do you recall that area of controversy in

0728

1 this case?

2 A. Yes.

3 Q. Is it your position, Mr. Lazar, that the
4 Puget method for classifying and allocating production
5 and transmission costs is the only acceptable way to
6 treat these costs?

7 A. It is the only acceptable way that the
8 Commission has heretofore approved for any of the
9 Washington companies. There might be other ways not yet
10 explored that would be appropriate.

11 Q. Well, let's examine that proposition. In the
12 company's, in Avista's previous rate filing, that's
13 Docket UE-991606, didn't Avista file a cost of service
14 study utilizing Avista specific peak credit assumptions
15 and definition of peak hours?

16 A. I believe the company did, I believe the
17 Commission rejected that study.

18 Q. Do you have a copy of that order issuing from
19 the Commission in that docket?

20 A. I do not, Ms. Knox read the sort of the
21 rejecting paragraph I believe into the record during her
22 cross-examination.

23 Q. Well, I would like to read and ask you to
24 accept subject to check that the order at page 107, and
25 this again is in Docket Number UE-991606 --

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1 MR. FFITCH: Excuse me, Your Honor, may the
2 witness be provided with a copy of this order?

3 MR. MEYER: Surely.

4 MR. MEYER: And if you don't mind, I'm just
5 going to read along with the witness here the excerpted
6 portion.

7 JUDGE CAILLE: That's fine. Could you give
8 me the reference one more time.

9 MR. MEYER: Surely, it's page 107 of Docket
10 Number UE-991606 and UG-991607, and the order number is
11 Third Supplemental Order.

12 JUDGE CAILLE: Thank you.

13 BY MR. MEYER:

14 Q. I'm going to direct your attention,
15 Mr. Lazar, to Paragraph 406, doesn't it state therein as
16 the Commission describes what the company did that:

17 Avista believes its approach is an
18 improvement over the 1992 Puget method
19 because of the functional direct
20 assignment of A&G costs and because the
21 definition of peak is tailored to the
22 operational characteristics of Avista
23 rather than using assumptions relevant
24 to Puget.

25 Is that a fair reading of that portion of the

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1 order?

2 A. That's what the -- that's how the order
3 describes Avista's belief, yes.

4 Q. All right. And let's turn to the same order
5 in a subsequent paragraph, this would be Paragraph 408
6 appearing at page 108, and didn't the Commission
7 conclude at the end of its discussion as part of its
8 decision as follows:

9 The Commission agrees that the peak
10 usage patterns of each unique company
11 are appropriately used in that company's
12 cost of service study.

13 A. Yes, I don't read that to have anything at
14 all to do with the peak credit methodology. I read that
15 to have to do with the peak demand of each of the
16 customer classes being measured on a company specific
17 basis. And based on my understanding, I agree, we
18 shouldn't use Puget's customer class characteristics for
19 Avista, we should use Avista's customers class
20 characteristics for Avista.

21 Q. Mr. Lazar, would you agree that Avista's use
22 of peaking units is based upon the economic dispatch of
23 the company's entire resource stack?

24 A. No.

25 Q. Have you examined the Aurora model and the

0731

1 testimony of Mr. Kalich in that regard?

2 A. I have not examined the Aurora model.

3 Q. Doesn't the Avista method incorporate all of
4 the company's production resources into the demanded
5 energy comparisons?

6 A. No, it does not.

7 Q. And again, that's without the benefit of your
8 analysis of Mr. Kalich's work or that of the Aurora
9 model, correct?

10 A. No, it's based upon Ms. Knox's workpaper in
11 which she calculates the peak credit methodology, and
12 she has used only company owned generating facilities.
13 She has not used purchase power or contract resources in
14 that calculation.

15 Q. But it does represent the entirety of company
16 owned resources?

17 A. Yes, I believe that's correct.

18 Q. Okay. Now, Mr. Lazar, is it your position
19 that using Puget's 200 peak hour definition of the
20 coincident peak allocation factor instead of the average
21 of 12 monthly peaks that the company has traditionally
22 used would somehow materially change the results of the
23 study?

24 A. I don't know the answer to that, because the
25 company wasn't able to provide those results. I mean

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1 the company has traditionally used 12 monthly peaks, but
2 basically every time they have, the study has been
3 rejected, so the Commission to my knowledge has never
4 accepted the 12 monthly peak method. But I don't know
5 how it would change the results. I tried to address
6 both factors, both the peak credit factor, what
7 percentage of costs is demand related, and the
8 definition of peak, the use of the coincident peak hours
9 rather than the average of monthly peaks and taken
10 together. As I say in my testimony, I asked the company
11 to run that study, and you didn't have the data to do
12 so.

13 Q. So you don't know based on your prior
14 response whether, in fact, the use of your recommended
15 200 hours, peak hours, for definition of coincident
16 peaks would have any material impact on the results of
17 the cost of service study; I believe that's your
18 testimony, correct?

19 A. I'm confident it would have an impact, I
20 don't know the extent to which it would be material
21 because the company doesn't have the data to allow me to
22 test the hypothesis.

23 Q. And it doesn't have the data because it
24 doesn't have the metering necessary to gather that?

25 A. I don't think that's correct. I think the

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1 company has all of the metering necessary to do that, I
2 think the company has chosen not to use its SCADAS
3 system, supervisory control and data acquisition system,
4 to collect that type of data.

5 Q. Do you know -- I'm sorry.

6 A. And I assume that this data system is capable
7 of collecting hourly data.

8 Q. But that's an assumption, you don't know that
9 to be true?

10 A. No. We asked the company for the data, you
11 said you didn't have it, I have worked with a lot of
12 utilities, I have never yet run into a big utility that
13 couldn't do it.

14 Q. Now let's stay with this notion of 200 peak
15 hours. Let's apply sort of a reality check and just
16 step back from the technicalities of the analysis and
17 simply ask ourselves this question, I mean are there
18 readily observable climate differences between Spokane,
19 our service area, and Puget in the Seattle service area?

20 A. Yes.

21 Q. Fair to say that Spokane and its surrounding
22 area experiences more extreme weather?

23 A. It experiences more -- it experiences colder
24 weather and hotter weather. We experience a lot more
25 extremes in Western Washington in other measures.

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1 Q. All right. Now were one to use a 200 hour
2 peak in Spokane in our service area, would this
3 essentially serve to focus all those 200 hours on what I
4 will loosely characterize as extreme weather events?

5 A. Yes, that is the conditions for which peaking
6 resources are typically acquired and to which peaking
7 costs should typically be assigned.

8 Q. But won't this tend to then increase the
9 demand allocation to highly weather sensitive customer
10 groups like the residential class?

11 A. It will -- let me divide your question in
12 half. It will tend to increase the assignment of costs
13 to classes that are highly weather sensitive during the
14 peak season. But because the company did not provide
15 the data that I requested, I can't confirm that it is in
16 fact the residential class that would be affected.
17 Other systems, some other systems it is the residential
18 class, on other systems it is the commercial and office
19 class, because they tend to peak between sort of 9:00
20 and 5:00, and it's really -- it can differ from system
21 to system which classes are most significantly affected.

22 Q. Well, let's try and make for an easier
23 comparison. Is the use of a 200 hour peak more apt to
24 increase the demand allocation to the residential class
25 as opposed to let's say a high load factor class, an

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1 industrial class, whose demand generally will remain
2 more constant irrespective of weather?

3 A. Probably, yes.

4 Q. All right. And that's intuitive?

5 A. That's pretty intuitive.

6 Q. Yeah. Now doesn't -- the flip side of this I
7 suppose is that the use of 12 monthly peaks as opposed
8 to 200 hours would serve to include customer
9 contribution to demand during not only extreme weather
10 events but also during more moderate times of the year,
11 correct?

12 A. Yes, it would assign peaking related costs to
13 months in which peaks really don't occur like October.

14 Q. All right. Again stepping back even further
15 and really examining the bigger picture, even if one
16 were to employ the Puget method, don't the results of
17 the cost of service study still demonstrate the same
18 relationship of all classes with respect to unity,
19 namely some classes are below and some classes are
20 above, and that won't change irrespective of whether our
21 book is used or the Puget method is employed, correct?

22 A. We don't know the answer to that, the company
23 didn't have the data to run the Puget methodology.

24 Q. Okay. But I believe that, and I won't
25 revisit the discussion we just had for example about the

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1 use of 200 hours on peak or the use of 12 monthly peaks,
2 but might that not suggest the possibility that the
3 result you're advocating for may be in fact just the
4 opposite, and we may be in fact by using a 200 hour peak
5 having to layer more costs onto the residential class;
6 it's a possibility, isn't it?

7 A. Well, many things are a possibility,
8 Mr. Meyer. There are two changes that we requested in
9 our request. The first was to use a smaller percentage
10 of costs treated as demand related consistent with the
11 Commission's very clear decision in Puget, basically
12 that combustion turbines have more than one function,
13 and also consistent with our position that the company's
14 Boulder Park and Kettle Falls combustion turbines are
15 not peaking units and not representative of peaking
16 units and their cost characteristics. So one part was
17 reducing the percentage that's treated as peak related,
18 that would tend to be beneficial to the low load factor
19 classes.

20 The other change that we proposed was to use
21 a coincident peak definition of 200 hours that the
22 Commission had approved for Puget. That would tend to
23 probably increase the cost assigned to a low load factor
24 class. We know the answer to one of those questions, we
25 don't know the answer to the other because the company

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1 didn't have the data, so we don't know what happens when
2 you apply the Puget methodology. I think they offset
3 one another, but we don't know.

4 MR. MEYER: Thank you, that's all I have.

5 JUDGE CAILLE: Any questions from the
6 Commissioners?

7 Redirect, I'm sorry.

8 MR. FFITCH: Just one question, Your Honor.

9

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

11 BY MR. FFITCH:

12 Q. Mr. Lazar, you were asked on
13 cross-examination the question about the company's
14 resource stack as a basis for making rate design
15 determinations, and my notes are incomplete in terms of
16 being able to repeat the question to you verbatim, but
17 you gave an answer of no to Mr. Meyer's question, do you
18 want to explain that answer?

19 A. As I recall the question, it was, did the
20 company use the entirety of its resource stack and
21 dispatch in developing its cost of service study, and my
22 answer was no, it did not. Because the company did not
23 use many of the resources that it relies on,
24 particularly purchase power resources. In Ms. Knox's
25 workpapers in creating the foundation for her cost of

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1 service study, it only used the company owned resources.

2 One could take the question another step
3 further, I did use the company's resource stack in
4 developing my rate design recommendation as it appears
5 on page 10 of my revised rebuttal testimony, in which I
6 assigned hydro to the first block, coal, nuclear, and
7 PURPA resources to the second block, and natural gas
8 resource to the third block, and that would be an
9 example of using the resource stack for designing rates.

10 MR. FFITCH: And I just have one final
11 question, Your Honor, that has occurred to me as
12 Mr. Lazar was speaking.

13 BY MR. FFITCH:

14 Q. The line of questions from Mr. Meyer
15 regarding the use of the 200 peak hour methodology out
16 of the Puget case I think suggested that Public Counsel
17 might be recommending a rate design here that was
18 disadvantageous to residential and small load users.
19 And taking the big picture perspective that Mr. Meyer
20 asked you to take here, do you have a concern that
21 Public Counsel's rate design recommendation in this case
22 is disadvantageous to the residential and small
23 commercial users?

24 A. I believe a cost of service study should be
25 done objectively, and the results of it should be based

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1 upon objective analysis. The decision how to use those
2 results is one that often involves judgment and where
3 the Commission has many times said, we're going to not
4 mechanically apply the results of the study. I took the
5 results of the study that I was able to run and said
6 these classes are within 90% to 110% of parity, and I
7 would give those classes a uniform rate adjustment.
8 That's an example of taking objective results of a study
9 and applying judgment to those results. I think the
10 analysis should be objective, and the decision of how to
11 use the analysis is the place where judgment is
12 necessary.

13 MR. FFITCH: Thank you, no further questions.

14 JUDGE CAILLE: Anything further, Mr. Meyer?

15 MR. MEYER: No.

16 JUDGE CAILLE: Commissioners?

17 COMMISSIONER OSHIE: I have a few questions
18 for Mr. Lazar.

19

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

21 BY COMMISSIONER OSHIE:

22 Q. I want to go back to the discussion you had
23 with Mr. Meyer and also with Mr. ffitch on the 200 hour
24 peaking data that you did not have to complete, at least
25 as I understand your testimony, Mr. Lazar, to complete

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1 your preferred analysis here. I was -- I'm a bit, I
2 guess maybe surprised is too strong a word, that you
3 don't have an opinion as to if you did have that
4 information where that would take your conclusions. You
5 did state in your testimony that you thought this was an
6 important element of the study, but you don't know where
7 it would take you, and I, at least your final analysis,
8 maybe just to clarify a bit with some questioning from
9 Mr. Meyer as to the impact it may have on residential
10 class because of the relative peakiness of that class
11 and that of the high load factor customers. And so
12 let's maybe perhaps use those two classes as the
13 bookends where if you had that information and based on
14 your experience with using the 200 hour peaking, using
15 that element in the cost of service study, where do you
16 think the small general service and large general
17 services customers, do you think there would be an
18 increase in their obligation under the cost of service
19 study or a decrease?

20 A. I have seen both results on other utilities.
21 I genuinely don't know where this would lead on Avista's
22 system. The office and retail classes, which on this
23 system are Schedules 11 and 21, small general service
24 and large general service classes, tend to have the
25 highest concentration of use during high load hours,

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1 during the peak hours. The residential class has night
2 time use and weekend use, that tends to give it a higher
3 load factor than the office and retail sector and a
4 better load shape than the office and retail sector.

5 What makes me most uncertain with respect to
6 the Avista system is that there's, as we,
7 cross-examination of both Mr. Hirschhorn and Ms. Knox
8 showed, the residential class has had essentially no
9 growth in the last 23 years, 22 years. The small
10 commercial class had essentially no growth in the last
11 22 years. The large general service class has had I
12 think on the energy side that we did with Mr. Hirschhorn
13 57% growth, and the extra large 120% growth. And that
14 tells me that there may be some real changes in the
15 composition of those customer classes, which makes me
16 hesitant to surmise from other experience.

17 That unbalanced growth on the Avista system
18 is outside of the range of my experience with other
19 utilities. I suspect there's something unusual going on
20 in the characteristic of those customers, but without
21 data on their contribution to the hours that one designs
22 the peaking resources and the transmission and
23 distribution capacity for, I'm hesitant to make a
24 judgment.

25 There's been growth in residential customer

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1 count but no growth in peak demand or energy sales.
2 That tells me that existing electric heat customers are
3 becoming more efficient. That improves their load
4 factor and load shape. That they're switching to gas
5 heat, that improves the electric load factor and load
6 shape for the residential class. It's clearly gotten
7 better from the data that we have seen, but without, I'm
8 an analyst, I like to see the numbers.

9 Q. Would it really make a difference in perhaps
10 correcting the problem that you're seeing which at least
11 -- that there are -- there's growth within some classes
12 and not within others that may not be reflected in the
13 cost of service study as it exists, does it really make
14 a difference in your analysis as to that point over
15 whether you have the 200 hour peaking data or not, or is
16 that just a general conclusion based on your
17 understanding?

18 A. If I can draw you to page 5 of my original
19 testimony, Exhibit 241, there I describe a methodology
20 called an incremental cost of service study. That looks
21 at what is the differential growth by customer class.
22 No, to do an incremental cost of service study, the 200
23 hour data isn't particularly important. We know that
24 substantially all of the growth on the Avista system has
25 been in the large and extra large general service

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1 classes. And if we were to use an incremental cost of
2 service study, substantially all of this revenue
3 increase would be assigned to those classes.

4 But this Commission in the past has relied on
5 the use of embedded cost of service studies, which
6 average everything together. And in order to do an
7 embedded cost of service study, you do need to have the
8 load shape data for the different customer classes, and
9 that's what this company is missing.

10 Q. I will move on to just one other area. Your
11 recommendation in your testimony was to increase the per
12 kilowatt hour charge in the second blocks to blocks 2
13 and 3 of the 3 rate blocks that Avista is proposing.
14 And my question really is how the impact that would have
15 on those high, those low income customers that are --
16 use, I don't want to say not necessarily high load
17 factors but basically use a lot of energy during the
18 month, let's say let's maybe put a label on it, the
19 electric heat low income customer in the service
20 territory?

21 A. Those low income customers fall into both
22 electric heat customers and non-electric heat customers.
23 My approach would apply the increase to the water heat
24 and electric heat components of the rate and not to the
25 lights and appliances block. And so for the low income

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1 electric heat customers, they would get a little bit
2 bigger share of the increase under my approach. On the
3 other hand, the company's approach puts half of the
4 increase on the customer charge in the first block,
5 which is what the gas heat customers and oil heat and
6 propane heat customers pay.

7 And as I testified, the gas heat customers
8 are facing monstrous increases. My approach kind of
9 balances the overall increase in energy bills between
10 the gas heat customers who are reeling from the runup in
11 gas prices and the electric heat customers. If you look
12 at my Exhibit 254, the company proposal at the bottom of
13 that page, this is part of my rebuttal testimony, the
14 company and Staff proposal would increase basically
15 everybody by about 9% on the electric side. But then
16 you've got the gas heat customers who are facing, you
17 know, up 20 some percent this year, up 90% compared to
18 three years ago, whereas my proposal with Public Counsel
19 revenue requirement is zero increase for the first 600.
20 So those gas heat customers still have 90% to deal with
21 on their gas bills, but they won't have anything to see
22 on their electric bills.

23 And then the electric heat customers that are
24 up in the 2000 and 3000 kilowatt hour per month category
25 would be looking at about a 4% increase on their

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1 electric bill, but those customers don't have a gas bill
2 that's up 90%. So my proposal and Public Counsel
3 revenue requirement is actually lower for every customer
4 at every level of usage than what the company and Staff
5 have proposed.

6 Q. And if you -- did you do a calculation as to
7 what the impact would be for your proposal if we used
8 the Avista/Staff rate increase?

9 A. I didn't, but it's quite easy to estimate it,
10 because I applied half of -- I applied all of the
11 increase to the 2 tab blocks and as it -- and right now
12 about half of the revenue is in the first block, so it
13 would be roughly double what we're seeing. If it was
14 zero up to 600, it would be on the order of 18% above
15 that, so you would still have a tiny fraction of what
16 the gas heat customers are seeing. Even just this
17 winter's increase is 20 some percent on gas.

18 COMMISSIONER OSHIE: All right, well, thank
19 you, Mr. Lazar.

20 THE WITNESS: Thank you.

21 JUDGE CAILLE: Any other questions?

22 Anything further for Mr. Lazar?

23 Thank you, you're excused.

24 Mr. Lott.

25 (Witness Merton R. Lott was sworn.)

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1 JUDGE CAILLE: Thank you.

2 Mr. ffitch.

3 MR. FFITCH: Thank you.

4

5 Whereupon,

6 MERTON R. LOTT,

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

8 herein and was examined and testified as follows:

9 DIRECT EXAMINATION

10 BY MR. FFITCH:

11 Q. Good afternoon, Mr. Lott.

12 A. Good afternoon.

13 Q. You were retained by Public Counsel to
14 provide expert testimony in this case on accounting
15 matters; isn't that correct?

16 A. Yes.

17 Q. And also on energy recovery mechanism issues,
18 correct?

19 A. Yes.

20 Q. And have you prepared what have been marked
21 as Exhibits 281 through 286 as your direct testimony and
22 exhibits?

23 A. Yes.

24 Q. And Exhibits 287 through 292 as your rebuttal
25 testimony and exhibits?

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1 A. Yes, those are my exhibits.

2 Q. And do you have any changes or corrections to
3 those exhibits and testimony?

4 A. Not that I know of.

5 Q. And are they true and correct to the best of
6 your knowledge?

7 A. Yes.

8 MR. FFITCH: Your Honor, I would like to
9 offer Exhibits 281 through 292 at this time.

10 JUDGE CAILLE: Is there any objection?

11 MR. MEYER: None.

12 JUDGE CAILLE: Then Exhibits 281 through 292
13 are admitted into the record.

14 MR. FFITCH: Thank you, Your Honor. Mr. Lott
15 is available for cross.

16 JUDGE CAILLE: Mr. Meyer.

17

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

19 BY MR. MEYER:

20 Q. Good afternoon, Mr. Lott.

21 A. Good afternoon.

22 Q. At the outset I would like to explore several
23 areas rather briefly but perhaps in the hopes of
24 developing a common theme, and let's begin with Coyote
25 Springs 2 gas transportation. Haven't you made an

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1 adjustment for the, I'm going to call it CS2, but Coyote
2 Springs 2 gas transportation expense?

3 A. Made the same adjustment that's included in
4 the settlement agreement.

5 Q. Right. And doesn't that cover the fixed gas
6 transportation charges that Avista pays to transport gas
7 from Canada to CS2?

8 A. Yes, or from any other place that they
9 receive their gas.

10 Q. Did the company in its testimony, I believe
11 that of Mr. Johnson, propose a pro forma expense level
12 of 6.24 Million?

13 A. You mean in the original testimony?

14 Q. No, it was his rebuttal.

15 A. I don't know what Mr. Johnson proposed in his
16 rebuttal, because the settlement is the company's case,
17 and therefore the number would be what's included in the
18 settlement. Mr. Johnson I do believe did propose
19 revising, I mean indicating that the number may be
20 slightly greater than originally proposed in the
21 settlement because of some changes that have happened
22 since the time of the settlement.

23 Q. Is the result that you would advocate with
24 reference to this adjustment such as would result in a
25 2006 pro forma level of expense of approximately \$6

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1 Million?

2 A. I'm just trying to verify the number, I'm not
3 -- yes, I would guess that it would be approximately \$6
4 Million.

5 Q. All right.

6 A. I don't know.

7 Q. Now would you accept subject to check that
8 the actual 2005 monthly expenses when annualized for
9 this particular item exceed the level of \$6 Million that
10 you have suggested as a 2006 pro forma level?

11 A. Yes, at the time I prepared my testimony and
12 I suppose at the same time the settlement was done, the
13 Canadian exchange rate and the Canadian exchange rate
14 during the time of the invoices that I had received from
15 the company from data requests were -- maybe money has
16 gone up in value since that time frame, and I would
17 suspect that the amount that the company has paid
18 subsequent to then has been greater than what's included
19 in my pro forma. My pro forma used the actual prices
20 that were being paid by Avista at the Canadian rate
21 exchange for the prices that the Canadian rate at in
22 July and what was included in the company's invoices
23 provided to me in response to data requests. So I have
24 not -- I did not revise that Canadian exchange rate when
25 the company included that in the settlement.

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1 Q. And correspondingly did not revise upward
2 your \$6 Million estimated expense, correct?

3 A. No.

4 Q. Let's turn now to the Kettle Falls fuel cost.

5 A. Kettle Falls fuel cost, okay.

6 Q. Have you also proposed an adjustment that
7 served to update the Kettle Falls fuel cost?

8 A. Yes, I used the same price that the company
9 used. In fact, I actually used a higher price for
10 Kettle Falls fuel than the company used in the
11 settlement.

12 Q. Doesn't your adjustment result in 2000 -- let
13 me strike that and ask it a little differently.

14 Does your adjustment result in 2006 pro forma
15 costs that are higher or lower than what the company is
16 actually experiencing thus far in 2005?

17 A. Oh, they're higher than what's been
18 experienced in 2005 so far.

19 Q. Don't you propose a unit fuel cost of \$17 and
20 roughly 9 cents?

21 A. That was the inventory value at the end of
22 July, which was the last invoice provided, and the
23 prices prior to July were all lower than that, and
24 therefore my averaging of a top of the line price with
25 prices that started down in the neighborhood of \$15 and

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1 \$14 indicates the average would be substantially below
2 my \$17.085.

3 Q. Would you agree subject to check that the
4 actual 2005 costs through August of this year are at a
5 level of \$17.84 per ton?

6 A. No, I would not accept that subject to check.
7 The invoices that I have do not support that. I have
8 looked at those invoices and do not support that -- do
9 not support that level. Talking about a price for the
10 month of August, that is possible, but not for the
11 average of the year so far in 2005.

12 Q. Has the company shared with you observations
13 or information suggesting that the company projects unit
14 fuels costs to be over \$19 per ton in 2006?

15 A. I have never heard the price of \$19 a ton. I
16 have talked to Mr. Kalich particularly about his
17 anticipation due to a couple of the contracts that are
18 included in one of the exhibits in this case that the
19 prices were going to be higher because the contracts
20 were tied to the price of natural gas and that the price
21 of natural gas skyrocketing in recent months, those
22 prices would be higher. But if the price of natural gas
23 went down, those prices would be lower, and I think it
24 would be totally inappropriate to pro forma prices based
25 on a national panic when in my opinion national panic

0752

1 about gas prices has pushed gas prices substantially
2 above any substantive analysis of what the real cost of
3 providing that gas is.

4 Q. But is it true that the reason gas prices do
5 matter for the calculation of this number of dollars per
6 ton is that a very substantial portion of this price is
7 dependent upon the costs of trucking fuel to the plant?

8 A. No, that's not the major component in these
9 costs. The transportation is an extremely small portion
10 of the cost. You can review the exhibit that has been
11 provided in this case that shows the contracts and the
12 prices that are included in there. Some contracts have
13 substantial, I mean might have \$4, \$5, maybe even \$10
14 worth of transportation while other contracts have no
15 cost for transportation. Some contracts have no price
16 for the fuel, zero, and some contracts have \$23 or more.
17 My understanding from talking to Mr. Kalich is not that
18 the transportation is what is impacted in the fuel cost
19 would be relatively small in my estimation, but instead
20 it is the contracts themselves for the wood chips are
21 priced based on matching to the current gas prices. And
22 those gas prices, again, if those gas prices remain at
23 those very high prices, then some of the contracts, not
24 all of them, but some of the contracts would be priced
25 at those very high levels.

0753

1 Q. I bel --

2 A. But --

3 Q. I'm sorry, were you finished?

4 A. Basically, yes.

5 Q. I believe a question or two ago though you
6 did acknowledge that you had had discussions with
7 individuals at the company suggesting that at least in
8 their view the price per ton may well escalate beyond
9 where it is in August of this year, correct?

10 A. Mr. Kalich indicated that some of the
11 contracts were tied to gas, and because the gas prices
12 shot up at the beginning of September, some of the
13 contracts would be higher. I do not believe that
14 including those gas prices, those contracts that would
15 shoot up because of that, in the pro forma level of wood
16 or gas. I think would be totally inappropriate for
17 example to price gas at over 7.25 just because the
18 current price of gas is 9.50 or 10 or whatever the
19 current number might be today. I think that both of
20 those pro forma's would be inappropriate, because they
21 don't represent what the normalized level of these costs
22 would be in the long run.

23 If the Commission needs and feels it's
24 appropriate and the company needs to file for something,
25 I think the company needs to file for a temporary

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1 surcharge similar to what our transportation company --
2 the transportation companies that this Commission
3 regulates do when there are temporary blips or
4 extraordinary events that cause gas prices, fuel in that
5 case, to escalate.

6 Q. But of course one of the purposes of this
7 proceeding is to establish new base rates that best
8 reflect anticipated prices during the rate year,
9 correct?

10 A. Anticipated prices for the rate year, but not
11 just the rate year, because you don't know what the
12 prices during the rate year are going to be. The prices
13 in the rate year could -- two months ago we thought the
14 prices in the rate year were 7.25, seven months ago you
15 thought they were 6.50, a year and a half ago you would
16 have thought they were 5.25, and two months from now
17 they may well be 6.95. I don't know what they're going
18 to be in those years. My anticipation is that they will
19 come back down toward the 7.25. They may drop below the
20 7.25. But the price to create a long-term price that is
21 well above the long-term normalized level of those
22 prices will create a situation where the company's
23 retail rates are higher than what they should be in the
24 long run.

25 And if they're higher than what they are --

0755

1 should be in the long run, then the company won't be
2 required to come back in for rates, they will have
3 periods where they overcollect, and therefore I think
4 that it's more appropriate for the company to ask for
5 some type of, I don't want to use the word emergency,
6 but fuel surcharge, that would be more appropriate to
7 bill.

8 This is the type of situation that Mr. Elgin
9 and Mr. Norwood testified to during the adoption of the
10 ERM, they said that these type of abnormal events were
11 not what the ERM was intended to recover, that the ERM
12 was intended to recover normal fluctuations. Therefore,
13 this is an abnormal event, and the company needs to
14 request surcharge to deal with that problem.

15 Q. Mr. Lott, let's leave aside the debate for
16 the moment about whether in fact the company or whether
17 the settlement as it exists is conservative, if
18 anything, conservative in terms of its capturing of
19 costs, and let's move on to the question of the one
20 aspect of the production factor adjustment. Mr. Lott,
21 is your adjustment there based on an assumed rate, an
22 assumed rate of load growth based on projections
23 contained within Avista's integrated resource plan?

24 A. Yes, I utilized the growth rate the company
25 used in their integrated resource plan, the same plan

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1 that they used to determine which plants to build and
2 when to acquire them.

3 Q. Okay. But that was an assumption embedded in
4 that resource plan, correct, it was a forecast?

5 A. Yes.

6 Q. Okay. Now if actual, if actual load growth
7 is less than that projected rate, would this serve to
8 overstate your adjustment, all else being equal?

9 A. It doesn't overstate my adjustment. What it
10 does is indicates the company's projections of why they
11 built Coyote Springs 2, why they added other resources,
12 why they signed new contracts was overstated, and
13 therefore the company will have more resources than
14 necessary to serve those customers. If you just
15 calculate the number on the piece of paper, it would --
16 and I used a lower growth factor of 1.8 since it was
17 used in the other production adjustment in this case.

18 Q. It would have the effect of --

19 A. It would have a smaller number.

20 Q. Sure. Now the ERM revenue credit, however,
21 is based on actual load growth, not an assumed rate of
22 load growth; isn't that correct?

23 A. The ERM revenue credit adjustment, which is
24 not the production factor adjustment, has nothing to do
25 with general rates, is not the basis and not the

0757

1 foundation for calculation of general rates, utilizes
2 just like the Puget mechanism does actual fixed costs
3 and included in the company's general rate case.

4 Q. I'm sorry, Mr. Lott, I asked you a very
5 straightforward question, does the ERM revenue credit
6 find its basis in actual load growth as opposed to an
7 assumed rate of load growth; what is your answer to
8 that?

9 A. Ask the first part of that question again.

10 Q. The ERM revenue credit is based on actual
11 load growth, not assumed rates of load growth; isn't
12 that correct?

13 A. Yes.

14 Q. Okay, let's move on to the subject of OASIS
15 revenues. OASIS I think again in terms of acronyms
16 stands for open access same time information system; is
17 that correct?

18 A. I trust you.

19 Q. Okay. I had to look it up.

20 A. I just see the word OASIS.

21 Q. Okay. And is this system used by the utility
22 transmission department for scheduling of transmission
23 for other utilities and for independent generators?

24 A. That's my understanding.

25 Q. And are these revenues then derived from

0758

1 OASIS related transactions credited back to customers in
2 rate cases such as this one in order to offset a portion
3 of the overall costs of transmission?

4 A. Apparently not. In this case, the company
5 has not taken the five year average of OASIS revenues.

6 Q. Excuse me --

7 A. Sir, you asked a question, I'm sorry, I'm
8 answering that question. You asked whether these
9 dollars were credited back to the customers. They are
10 not credited back to the customers. In the last general
11 rate case they used a number probably in the \$1 Million
12 range. Those dollars have been over \$1 Million every
13 year since then, substantially over \$1 Million. The
14 rate payers have gotten no credits for that excess
15 revenue the company earned in that case. In this case
16 the company said, oh, the last five years is too high.
17 Every one of those years in fact is too high. The
18 lowest year 3.1, but we're going to put 2.4 in. I still
19 don't see where the rate payers are getting a credit for
20 the revenues that the company earns. My proposal in the
21 ERM, by the way, would result in the rate payers getting
22 this credit.

23 MR. MEYER: Your Honor, I haven't even gotten
24 to the numbers yet.

25 A. Well, I gave you some numbers.

0759

1 MR. MEYER: I simply had asked this witness a
2 straightforward question of what this adjustment was
3 designed to do.

4 BY MR. MEYER:

5 Q. Now we can have the debate about whether your
6 adjustment captures the numbers better than ours, but
7 I'm merely asking the witness to establish that revenues
8 are credited back, whether we agree on the amount, in a
9 rate case in order to offset a portion of the overall
10 costs of transmission?

11 A. My answer is no, they are not credited back,
12 because the actual OASIS revenues are not included in
13 your pro forma in this case, nor were the actual OASIS
14 revenues that have happened since the last general rate
15 case been included -- were included in that previous
16 general rate case. Therefore the actual OASIS revenues
17 do not result in what you said. The number that you
18 attempt to put into this case is credited against the
19 company's transmission property, but that number is not
20 the actual OASIS revenues, and the actual OASIS revenues
21 are not credited back to the customers as the company is
22 performing it in this case or in the previous case or
23 includes them in the ERM, because they don't include
24 them in the ERM.

25 Q. Mr. Lott, does the settlement agreement seek

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1 to capture approximately \$2.4 Million to reflect OASIS
2 revenues?

3 A. It puts a number of \$2.4 Million, which is
4 again less than any of the last five years of OASIS
5 revenues that the company has earned.

6 Q. Now you understand that the testimony of
7 Mr. Cloward sets forth reasons why some of the prior
8 history in his opinion may not be representative; do you
9 accept that that is what his testimony seeks to do?

10 A. I'm sure he did, and in fact I have accepted
11 some of those arguments that Mr. Cloward had. I did not
12 use the five year average, I used only the three low
13 year averages. In fact, in one of those years I used a
14 number \$700,000 less than what was reported in response
15 to 217. So I have actually used lower than the three
16 year average, the three lowest year average.

17 Q. Mr. Lott, would you agree subject to check
18 that the actual OASIS revenue through June of 2005 is
19 \$1.1 Million?

20 A. I can't, I have no way to check that, I saw
21 that number presented to me.

22 Q. And you understand that the company has
23 submitted testimony that, whether you agree with it or
24 not, would annualize that figure based on historical
25 experience to reconcile with the \$2.4 Million?

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1 A. They have used some technique that I disagree
2 with to annualize the first six months of the year and
3 -- I will accept the 1.1, I have no reason to believe
4 the company would be lying about it, but they have used
5 a technique to annualize that \$1.1 Million that the
6 ratio that they calculated was based on five years. If
7 you look at the first of those five years and divide it
8 by a percentage you would get a substantially higher
9 number. The point is is that these OASIS revenues that
10 the company reports don't come in a uniform fashion,
11 they're not always the same level in each month of every
12 year, and you can't just say that just because this year
13 is 1.1 that -- in every other case this company's
14 presentation on expenses they have used five year
15 averages, but when the, you know, and you can make the
16 same type of calculations in those items. But no,
17 because the five year average resulted in higher
18 expenses, the company has proposed to stick with the
19 five year average. But when the five year average of
20 revenues produces a higher number, the company says, hm,
21 maybe we can figure out some other way to reduce this.
22 That's what it looks like to me.

23 MR. MEYER: Thank you, that completes my
24 cross, thank you, Mr. Lott.

25 JUDGE CAILLE: Redirect?

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1 MR. FFITCH: I don't have any redirect, Your
2 Honor, thank you.

3 JUDGE CAILLE: All right.

4 Any questions from the Commissioners?

5 No questions, then the witness is excused,
6 thank you, Mr. Lott.

7 I believe you were going to recall
8 Mr. Norwood.

9 MR. MEYER: Yes, this morning Mr. Falkenberg
10 in response to a question from the Chair had made
11 reference to a page that depicted a dispatch of CS2 as a
12 thermal unit. I don't know that that's been introduced
13 in the record, but because that came after my
14 opportunity for cross and we feel the need to briefly
15 recall Mr. Norwood to speak to this exhibit if we might.

16 MR. VAN CLEVE: Your Honor, I would object.

17 JUDGE CAILLE: I thought we had admitted
18 this.

19 MR. MEYER: Had you, I did not have the
20 exhibit number.

21 JUDGE CAILLE: 323, but perhaps we haven't,
22 323, well --

23 MR. MEYER: I guess, Your Honor, the point
24 being that we would like the opportunity given the fact
25 that this has been discussed with the Chair, with the

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1 full Commission, to have some brief response from
2 Mr. Norwood. I think it would help clarify the record.

3 JUDGE CAILLE: It was admitted, Judge Moss
4 has better records than I do, so is there any objection?

5 CHAIRMAN SIDRAN: Counsel has an objection.

6 MR. VAN CLEVE: I object.

7 JUDGE CAILLE: You object?

8 MR. VAN CLEVE: Yes. First, I think that
9 Avista had the opportunity to conduct cross on that
10 exhibit after the Bench had completed its questioning
11 and chose not to do so. And second, the company is now
12 proposing to put on a surrebuttal witness responding to
13 our expert who is now on a plane to Atlanta, and it
14 would have been more appropriate to have raised the
15 issue at the time so that he could be here to listen to
16 what that testimony is. And third, the testimony was
17 directed to a chart in Mr. Kalich's testimony, and so
18 I'm not sure why Mr. Norwood would be put on the stand.

19 MR. MEYER: Your Honor.

20 JUDGE CAILLE: Response?

21 MR. MEYER: Thank you. As your scheduling
22 order, not an order, but your scheduling memo when we
23 first talked about how we would work our way through
24 this, we pointed out, you indicated of course we talked
25 about use of a panel and the order of witnesses, but you

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1 also explicitly mentioned that the parties, you know, in
2 a proper showing of course would have the opportunity to
3 recall certain witnesses. That's point number one.
4 We're making use of that opportunity on a limited basis
5 at this point.

6 The fact is that we now have in the record a
7 document that we saw for the first time after completion
8 of our cross upon certainly a fair question from the
9 Chairman, and we should have a chance as the proponents
10 of this settlement to speak to this testimony or this
11 exhibit. And it's not going to be prolonged, but I
12 think it will help edify the record and will be really
13 quite responsive to the Chairman's question that
14 prompted this.

15 (Discussion on the Bench.)

16 JUDGE CAILLE: Your objection is overruled,
17 and Mr. Norwood may take the stand.

18 MR. VAN CLEVE: Your Honor, could I request
19 that we take a short break before we put Mr. Norwood on.

20 JUDGE CAILLE: That's fine.

21 MR. VAN CLEVE: Thank you.

22 JUDGE CAILLE: How much time do you need,
23 Mr. Van Cleve?

24 MR. VAN CLEVE: Just 10 minutes.

25 MR. MEYER: And in fairness to Mr. Van Cleve,

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1 we would propose, and I will just pass it out now so you
2 have a chance to examine it, there is a simple one page
3 exhibit that I will distribute now. We would propose
4 that this be marked for identification as 324, taking a
5 guess here.

6 JUDGE CAILLE: 324 is available, we will use
7 that number.

8 MR. MEYER: Thank you, Your Honor.

9 JUDGE CAILLE: All right, 2:45.

10 (Recess taken.)

11 JUDGE CAILLE: We are ready to resume.

12 Mr. Norwood, you have been previously sworn.

13 THE WITNESS: Yes.

14 JUDGE CAILLE: You may proceed, Mr. Meyer.

15 MR. MEYER: Thank you.

16

17 Whereupon,

18 KELLY NORWOOD,

19 having been previously duly sworn, was called as a

20 witness herein and was examined and testified as

21 follows:

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

23 BY MR. MEYER:

24 Q. Mr. Norwood, you have before you what have
25 been marked for identification as Exhibits 323 and 324.

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1 The question to you is would you please distinguish
2 between the operational characteristics of a hydro plant
3 and a thermal plant?

4 A. Yes. I think it's very important in this
5 case that there is a clear understanding of the
6 operation and dispatch of thermal resources and
7 hydroelectric resources. In my 24 years with the
8 company, I spent over 10 years in power supply, many of
9 those years in the modeling and dispatch of Avista's
10 electric resources, both hydro and thermal.

11 When you look at the Exhibit 323 which was
12 distributed, the Aurora dispatch of CS2, that is what
13 you would expect to see of a thermal plant where it's
14 going to be on or off, and there are reasons why it
15 would be shaped that way. As an example with a resource
16 like CS2, if that resource is needed to serve load or
17 the market is such that it makes sense to run the
18 project and sell in the market, you will run it. If you
19 don't need it for load or to sell into the market, you
20 will shut it down, and if you have already prepurchased
21 gas, you will sell the gas off instead of running the
22 project. So it's either going to be on or off. There
23 will be some conditions where you may run it at minimum
24 load during off peak hours and ramp it up.

25 A couple other examples. Kettle Falls as an

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1 example has burns wood waste. That project is basically
2 going to be on or off. If the market is such that it
3 makes sense it run it or you need it to serve load,
4 you're going to run it. If it doesn't, you're going to
5 shut the plant down, you're going to leave the fuel in
6 the fuel pile, and you're saving your fuel until the
7 time you need it. The same is the case with Colstrip,
8 another thermal plant.

9 For hydro it's a very different situation.
10 If you look at Exhibit 324, what this exhibit shows is
11 actual loads. The top line is native load for three
12 days, January 1st, 2nd, and 3rd of this year, 2005. The
13 bottom line shows how Avista actually ran its hydro
14 electric generation. What you see in that bottom line
15 is the first two humps represents Avista ramping up its
16 hydro resources during the morning peak, backing them
17 off during the middle part of the day, and then ramping
18 them back up to meet the evening peak, and then going
19 down again during the offpeak hours, middle of the
20 night, back up again in the morning, and afternoon, and
21 you can see the third day that's there also.

22 What you do not see, if you go to Exhibit
23 174, which is Mr. Kalich's rebuttal testimony, on page
24 18.

25 JUDGE CAILLE: Can you wait just a moment for

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1 us to get that.

2 THE WITNESS: Yes.

3 JUDGE CAILLE: That was 174?

4 THE WITNESS: Yes.

5 A. Page 18 of 174. In this exhibit, what's
6 illustrated is what Mr. Falkenberg did in terms of
7 running the hydro resources where they are basically on
8 or substantially off. There's a very small amount of
9 generation you see at the bottom of the line. Which is
10 comparable to Exhibit 323, which is a thermal plant, but
11 it's very different than the hydro resources on Exhibit
12 324.

13 And there are a number of reasons why the
14 hydro is run the way it is. Number one, we use it to
15 meet our peak loads. As you can see on 324, our peak
16 loads go up in the morning, back down, up in the
17 evening, and then back down off peak hours, so we use
18 the resources to cover those peak loads. Also
19 Mr. Kalich in his testimony Exhibit 174 again listed at
20 least ten reasons why or factors that affect the
21 operation of hydro. On our Clark Fork system for
22 example, we have the Curve project upstream, we have the
23 Hungry Horse project upstream. Water runs downhill.
24 You can't shut the plant down. If you do, you may in
25 some circumstances spill water over the top of the dam,

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1

2 RE CROSS BY VAN CLEVE)

3 and that's zero cost energy. So the fact that you have

4 water coming down at you upstream causes you to have to

5 run your resources and make the best use of that water.

6 There are fish issues, there are minimum flow

7 requirements on the off peak hours that we have to

8 comply with, there are reserve requirements and a number

9 of other issues that Mr. Kalich has outlined.

10 So the operation of hydro and thermal

11 therefore is very different and it's important to

12 recognize that.

13 BY MR. MEYER:

14 Q. Do those complete your comments?

15 A. Yes.

16 JUDGE CAILLE: Any cross, Mr. Van Cleve?

17 MR. VAN CLEVE: Yes, Your Honor.

18

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

20 BY MR. VAN CLEVE:

21 Q. Mr. Norwood, do you have any dispute with

22 what's depicted in Exhibit 323 for the dispatch of

23 Coyote Springs 2?

24 A. I will accept the dispatch or the chart

25 reflecting that it came out of the Aurora model.

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1 Q. And would you agree that the Aurora model
2 turns the dispatch of resources on and off in response
3 to market prices?

4 A. For the CS2 project, that's my understanding,
5 yes.

6 Q. And do you know whether the Aurora model
7 considers the ramp rate of dispatching CS2 when it
8 decides to turn it on and off?

9 A. I don't know the answer to that.

10 Q. Do you know what the ramp rate is?

11 A. I do not.

12 Q. Do you know what the term means?

13 A. Yes, I do.

14 Q. And what is that?

15 A. It takes a period of time when you're ramping
16 up a thermal unit to get it to full load.

17 Q. And isn't it true that hydro resources can be
18 ramped up more quickly than thermal resources?

19 A. Yes.

20 Q. And isn't it true that the company uses hydro
21 resources to instantaneously follow load?

22 A. Absolutely.

23 Q. Referring to your Exhibit 324, is this an
24 Aurora output?

25 A. No, this is actual loads on an hourly basis

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1 and actual hydro generation for Avista on an hourly
2 basis for three days.

3 Q. And what the company is proposing in this
4 case for the dispatch of its hydro plants is rather than
5 using Aurora to dispatch the plants, it is using a five
6 year average, a historical average; is that right?

7 A. It's using the hourly operation of Avista's
8 hydro projects over the past five years.

9 Q. And each of those five years was a year in
10 which hydro conditions were either below normal or near
11 normal?

12 A. I think as we discussed earlier today, four
13 out of the last five were below normal.

14 Q. So --

15 A. But as Mr. Kalich also mentioned today, the
16 actual operation of the Aurora model actually puts more
17 energy during on peak hours with more value than what we
18 have seen in the last five years.

19 Q. But the data that you provided here doesn't
20 describe how those hydro resources would be dispatched
21 in good water years, does it?

22 A. They would be dispatched in much the same way
23 where we would ramp up the hydro during the morning
24 hours to meet the peaks, and they would be backed off
25 generally during the middle part of the day and back up.

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1 I have watched this curve for probably the last 15
2 years, and it's very similar under both favorable hydro
3 conditions and unfavorable, especially in the month of
4 January.

5 Q. Now the bottom curve, that's the hydro
6 dispatch?

7 A. Yes.

8 Q. And it's all Avista hydro, is that what it
9 says?

10 A. Yes, this is Clark Fork, Spokane River, and
11 Avista's share of the Mid-Columbia projects.

12 Q. Now you're aware, aren't you, that in his
13 testimony Mr. Falkenberg said that:

14 My review of logs for the Spokane
15 resources indicates that their operation
16 is typically much flatter than the Clark
17 resources. Further, the Mid-Columbia
18 resources provide much less energy. For
19 these reasons, I limited my hydro
20 dispatch optimization to the Clark Fork
21 resources.

22 A. Yes, I read his testimony, and I understand
23 that. That doesn't change the fact that you can not run
24 and we do not run our hydro resources, even the Clark
25 Fork resources, the way that he has suggested in his

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1 testimony, and we certainly do not run them the way we
2 run a thermal plant like Coyote Springs. Even on the
3 Clark Fork because we have upstream reservoirs that
4 provide water, we have minimum flow requirements in the
5 off peak hours, and for other reasons.

6 Q. But you would agree that the Clark Fork has
7 more discretionary energy than the Spokane River?

8 A. What do you mean by discretionary energy?

9 Q. That it is ramped up and down more than the
10 Spokane River.

11 A. I would say that's probably true.

12 Q. And you also understand that the depiction in
13 illustration number 6 in Mr. Kalich's rebuttal
14 testimony, which is Exhibit 174.

15 JUDGE CAILLE: And that's at page 18?

16 MR. VAN CLEVE: That's at page 18, correct.

17 BY MR. VAN CLEVE:

18 Q. That what Mr. Falkenberg did was take the
19 five year average of maximum loadings and the five year
20 average of minimum loadings on the Clark Fork for
21 purposes of his dispatch?

22 A. I will accept that subject to check.

23 Q. And he allowed that so-called discretionary
24 part of those resources to be dispatched by Aurora; do
25 you understand that?

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1 A. I don't know that I do.

2 Q. Well, you would agree that he allowed Aurora
3 to dispatch those resources rather than using the five
4 year average?

5 A. Yes.

6 Q. And that it is a feature of Aurora that it
7 turns resources on and off in response to market without
8 consideration of ramp rates?

9 A. I think that I'm not going to try to testify
10 as to what Mr. Falkenberg may have done.

11 Q. Referring back to Exhibit 323, is it your
12 testimony that this is actually how the Coyote Springs 2
13 plant is run during the course of the day?

14 A. It will be run in a number of ways depending
15 on need for the resource on that particular day and what
16 the market price of gas and electricity is. In some
17 cases it will be run full out 24 hours a day. In other
18 cases it may be run full out during the day, the on peak
19 hours, and then run to minimum load during the off peak
20 hours.

21 Q. But what this Aurora output shows is that it
22 turns fully on and off 13 times in one day; would that
23 ever occur?

24 A. Typically would not.

25 Q. So you would agree that the actual operation

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1 of Avista's resources doesn't necessarily match how
2 Aurora models their dispatch?

3 A. In this particular instance with Coyote
4 Springs 2, if you were to run this down to minimum load
5 instead of down to zero, it would actually increase the
6 cost of that resource, because you would be running it
7 when the market wouldn't -- in other words, you would be
8 running it when the cost of gas is higher than the
9 market, and it would actually increase our revenue
10 requirement. So this actually, the way this is
11 dispatched results in a lower revenue requirement than
12 if you were to run it down to minimum load during these
13 periods.

14 Q. But what I'm trying to establish is that the
15 Aurora dispatch of resources doesn't match how they're
16 actually operated?

17 A. This is close but not precise, I would agree.

18 MR. VAN CLEVE: Thank you, that's all I have.

19 JUDGE CAILLE: Any redirect?

20 MR. MEYER: No redirect.

21 JUDGE CAILLE: Any questions from the
22 Commissioners?

23 COMMISSIONER JONES: Just one.

24

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

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1 BY COMMISSIONER JONES:

2 Q. Mr. Norwood, in Mr. Kalich's, isn't this
3 graph, this Exhibit 324, the exhibit roughly equivalent
4 to what Mr. Kalich submitted in his rebuttal testimony
5 in Exhibit 174 on page 27?

6 A. That's correct.

7 Q. Illustration 10?

8 A. Yes, that is correct.

9 Q. Are the two basically similar?

10 A. They are. The reason I didn't use the graph
11 on page 27 is I thought it was a little more complicated
12 in that it showed the load and the hydro, and the hydro
13 is the shaded portion, and then it showed the balance of
14 the load that would be covered by other resources.

15 Q. And both graphs are based on actual operating
16 data of the Avista hydro system?

17 A. No, in fact that's a good point. Exhibit 324
18 is based on actual loads and resources. The Exhibit
19 174, page 27, is actually based on what Aurora does
20 model. Those are three days out of Aurora. And if you
21 look at the two, you will see essentially the same shape
22 and the same method of operation on an actual basis as
23 in Aurora.

24 Q. But the overall point is both graphs are the
25 same, that the hydro system is built, designed, operated

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1 primarily to meet peaking, the peaking needs of your
2 system?

3 A. Yes, that's correct.

4 COMMISSIONER JONES: Thank you.

5 JUDGE CAILLE: Anything further?

6 Thank you, Mr. Norwood, you're excused.

7 MR. MEYER: And I would move the admission of
8 324, please.

9 JUDGE CAILLE: Any objection to the admission
10 of Exhibit 324?

11 Hearing none, it is admitted.

12 I believe that concludes the witnesses for
13 today. We do have two witnesses tomorrow morning, they
14 are --

15 MR. FFITCH: Mr. Hill and Mr. Dittmer for
16 Public Counsel, Your Honor.

17 JUDGE CAILLE: Thank you.

18 MR. FFITCH: I understand they are in route,
19 so as far as we know they will be available in the
20 morning. What time will you be convening, Your Honor?

21 JUDGE CAILLE: 9:00.

22 MR. FFITCH: Thank you, Your Honor.

23 JUDGE CAILLE: And Mr. Van Cleve approached
24 me earlier today about a briefing schedule, and we have
25 that for you if I can find it.

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1 How about if we go off the record for now.

2 (Discussion off the record.)

3 JUDGE CAILLE: Briefs will be due
4 electronically by noon on November the 14th, and we're
5 just doing one round of briefs, and then the hard copy
6 will be due on November the 15th.

7 MR. MEYER: Very well, noon November 14th.

8 JUDGE CAILLE: 14th for the electronic.

9 MR. MEYER: Okay. And then the following day
10 for the hard copy.

11 JUDGE CAILLE: Yes.

12 MR. MEYER: Thank you, Your Honor.

13 JUDGE CAILLE: Thank you, and we're off the
14 record.

15 MR. FFITCH: Your Honor, I had understood
16 that we had a hearing, a briefing schedule adopted for
17 this case from previous orders, and perhaps I was in
18 error there. We do have dates in the original
19 prehearing order.

20 MR. VAN CLEVE: And what were those dates?

21 MR. FFITCH: The dates were simultaneous
22 initial briefs on November 23rd and short answer briefs
23 on December 9th. The only reason I mention this is
24 that, Your Honor, I have briefs due in another matter,
25 and I just simply don't have my -- in the same time

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1 frame of November and December in the Verizon merger
2 case, which is going to hearing in the week after next.
3 So I'm just raising this because I don't have my
4 calendar with me, and I'm not sure when those briefing
5 dates fall, I might have to ask the Bench for a brief
6 adjustment if there's some unworkable overlap there.

7 JUDGE CAILLE: Mr. ffitch, the last order
8 that I have here, Order Number 4, did I believe some
9 rescheduling, and it said that the simultaneous briefs
10 were to be determined.

11 MR. FFITCH: All right, I stand corrected,
12 I'm just misremembering my computerized schedule I
13 believe.

14 JUDGE CAILLE: We also have the Commissioners
15 are involved in another case, so we have taken all that
16 into consideration in setting this, so.

17 MR. FFITCH: All right, well, I will simply
18 trust that it's fine, and if I have an issue, I will
19 raise it with the parties and the Bench, thank you.

20 JUDGE CAILLE: All right, thank you.

21 And now we're off the record.

22 (Hearing adjourned at 3:10 p.m.)

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