Q. Please state your name and business address?

A. My name is Kathleen L. Stockton. My business address is 472 West Washington Street, Boise, Idaho.

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

A. I am employed as an Auditor by the Idaho Public Utilities Commission.

Q. Please describe your educational background and professional experience.

A. I received my B.B.A. degree majoring in Accounting from Boise State University in December 1992. Following graduation I was employed by the Idaho State Tax Commission as a Tax Enforcement Technician. In my capacity as a Tax Enforcement Technician, I performed desk audits on individual state income tax returns. I was promoted to Tax Auditor, and after meeting the underfill requirements, was promoted to Senior Tax Auditor. In my capacity as an auditor, I performed audits on Special Fuel and Motor Fuel Tax returns, International Fuels Tax Agreement Returns and Special Fuel User tax returns. I accepted employment with the Idaho Public Utilities Commission (IPUC;

Staff) in July of 1995. I attended the National Association of Regulated Utilities Commissioners Annual Regulatory Studies program at Michigan State University in the summer of 1996.

Q. What is the purpose of your testimony?

A. I will be presenting the Staff's recommendation, as well as the Staff's calculation of the actual deferral balance as of June 30, 2001.

Q. Have you prepared an exhibit?

A. Yes, I have prepared Staff Exhibit No. 102, which is the Staff Calculation of the actual deferral balance as of June 30, 2001.

Q. Would you please summarize your testimony?

A. My testimony will present the Staff recommendations for this Application. I address the concerns of the financial community. I also discuss the Staff proposal for the calculation of interest on the deferral balance, with the Staff calculation shown on Staff Exhibit No. 102. Staff Exhibit No. 102 also calculates the deferral balance with the Centralia credit not being subject to the 90/10 sharing. I address Staff's recommendation in regard to the Company's Gross-Up Calculation for Equity Return and for Miscellaneous Revenue related expenses. I also address the prudency of the purchased power expenses. I address the accounting treatment of the PGE credit, Northeast CT Emissions Expense, and the buy-back expenses in the PCA mechanism.

Q. Please summarize Staff's recommendation in this case.

A. Staff recommends that the filing be accepted by the Commission with the following recommendations and modifications.

1. The percent to be recovered will be as proposed by the Company, i.e. 19.4% (approximately 14.7% plus continuation of the existing 4.8% surcharge).

2. The time period for recovery will be 27 months, with a review by the Commission Staff after 12 and 24 months of recovery. At that time, an adjustment to the surcharge percentage may be made to match the recovery to the actual deferral balance.

3. Remove the Company's Gross-Up Calculation for Equity Return and for Miscellaneous Revenue related expenses.

4. Apply simple interest to the deferral balance rather than compound interest, using an end of month balance rather than the average monthly balance

as the amount to calculate interest on.

Q. Did you perform an audit as part of your investigation of this filing?

A. I performed a limited audit of the filing. Specifically I audited the actual amounts in the deferral balance, as well as the known and measurable items in the projection. The audit revealed no irregularities or inconsistencies.

Q. Does Staff believe its recommendation will satisfy concerns of the financial community?

A. Yes. Moody's comments on the Company's filing stated, "Moody's believes that regulatory support for the surcharges requested would go a long way toward helping stabilize credit quality . . . Moody's also notes that regulatory support would improve Avista's ability to access both debt and equity capital at a reasonable cost." Staff believes its recommendation provides this regulatory support.

Interest

Q. What is the Staff recommendation regarding the interest calculation on the deferral balance?

A. Staff recommends that the Company calculate interest on the deferral balance using simple interest, computed on the balance at the end of the month. In its Application, the Company has calculated interest on the deferral balance using compound interest calculations – in other words they are calculating interest on the principal amount of the deferral balance, as well as interest that was accrued in the previous month(s). The Company is also using the average monthly balance for calculating interest. Staff recommends that the Company receive or pay (depending on whether the balancing account is in the surcharge or rebate direction) interest on only the deferred expenditures before interest. Staff further recommends that the Company use the end of the month balance to calculate the interest.

In the Commission’s recent Order No. 28775 modifying the Company’s PCA methodology, the Commission states: “As agreed to by the Company and Staff, monthly accumulation in the PCA deferral account (including unamortized balances of future rebates and surcharges) will accrue interest at the same rate as the Commission approved interest rate on deposits.”

Staff interprets the “monthly accumulation in the PCA deferral account” to be the power costs that have been deferred, not including any interest previously calculated on the power cost expenditures.

The Company's newly modified PCA mechanism has been modeled largely after Idaho Power's PCA mechanism. In Idaho Power's PCA mechanism, simple interest is applied to power supply costs in the deferral account, using the end of month balance. Staff contends that this method is the correct approach for applying interest charges to the deferral balance.

Q. What is the financial impact of Staff's recommendation to the actual amount of the PCA deferral balance on June 30, 2001?

A. The impact of applying simple interest on the ending monthly balance is shown in Staff Exhibit No. 102. The difference between the Company's method and the Staff's method is $69,547 as shown on line 30.

Centralia Credit

Q. Have you made an adjustment to the ending balance due to the Centralia credit not being subject to the 90/10 sharing?

A. Yes. Staff and the Company have agreed that the Centralia credit will not be subject to the 90/10 sharing mechanism in the PCA. Staff Exhibit No. 102 is calculated so that the Centralia credit is not subject to sharing. The impact of this is $140,900 and is shown on Line 31.

Q. What is the difference between the Total Power Cost Deferral as calculated by Staff and the Company?

A. The difference is $210,447 as shown on line 33 of Staff Exhibit No. 102. The Company calculates the June 30, 2001 deferral balance to be $30,067,057; and Staff calculates the deferral balance on June 30, 2001 to be $29,796,610 (Staff Exhibit 102, lines 32 and 26).

Gross-Up Calculation

Q. Please explain the issue of Gross-Up Calculation for Equity Return and for Miscellaneous Revenue related expenses.

A. The Company makes an adjustment for “revenue sensitive expenses, such as Commission Fees and Uncollectible Expense”. They also make an income tax gross-up adjustment for “equity return deferrals associated with the Company’s small generation projects, plus the Coyote Springs II Project (Falkner Direct, page 4, lines 23 and 24; and page 5, lines 1 and 2).

The scope of the PCA is to address power supply expenses. The PCA is narrow in scope, and not designed to capture items other than power supply costs. Including a gross-up for the equity component of capital expenditures and miscellaneous revenue items is outside the scope of the PCA mechanism. These items are better handled in a separate proceeding such as a general rate case. Therefore, I recommend they not be considered in this PCA filing.

Prudency Review

Q. Have you performed a prudency review of the power supply expenses included in the actual amounts in the PCA filing?

A. Yes, I performed a limited prudency review. My review was limited in scope to the months of January through June 2001. Given the time constraints, I was not able to look at all transactions included in the Purchased Power account (FERC 555) and the Power Sales account (FERC 447). Specifically I looked at the price of the transaction when executed and compared that price to other relevant purchase/sale prices (Mid-Columbia index and COB futures) available at the time. If the transaction price was competitive with other alternatives based on information available at that time, then it was deemed reasonable to include it in the PCA. Based on my review of a sampling of purchase/sale transactions, I conclude that purchases and sales transactions appear reasonable at the time they were entered into. Staff witness Hessing addresses the prudency in reference to the need for the resources to meet load or expected load.

Q. Did you have any adjustments to the actual amounts in the Application?

A. No. The actual amounts included in the Application are correctly recorded in the PCA accounts and appear reasonable at the time of the transactions.

PGE Credit

Q. How is the PGE Credit being handled in the current PCA Application?

A. The PGE credit recognizes continued 18-year amortization from the monetization of a contract Avista had with Portland General Electric in the last rate case. A line item in the PCA mechanism recognizes this credit by reducing a surcharge or increasing a rebate. The Company has proposed to accelerate the amortization from 18 years to fifteen months in order to offset the current impact of low water and high market prices. Staff agrees with the Company. The accelerated amortization of the PGE credit directly benefits the customers as the amount of the surcharge is lessened and the length of the surcharge is shortened by its inclusion in this PCA filing. Staff recognizes that accelerating the PGE amortization will eliminate PGE revenue in later years. However, Staff believes that the tradeoff is reasonable given the magnitude of the current and projected power supply deferrals.

Northeast CT Emissions Expense

Q. What amounts are included the Company's application pertaining to the Northeast Combustion turbine Emissions expense?

A. The Company has incurred, as of June 31, 2001 at a total Company level, $1,335,365 in Northeast CT Emissions expenses. The amount allocated to the Idaho jurisdiction and included in the PCA deferral balance is $443,074, before the 90/10 sharing. Staff agrees with the Company that these expenses are properly included in the PCA. These expenses benefit the customers by reducing the net power costs. Staff recommends approval of these expenses in the PCA. They are included in the Company's Application, subject to the 90/10 sharing provision.

The Company has included a line item in the PCA worksheet for the expenses that make up the Northeast CT Emissions expense. These expenses break down into the following categories and corresponding amounts:

Mitigation Fee - $348,225
Offset Program - $778,350
Environmental Compliance Advice – $13,416
Turbine Lease and Maintenance - $195,374

Buy-Back Programs

Q. Please explain the accounting procedures for buy-back programs.

A. There are three buy-back programs approved by the Idaho Public Utilities Commission. There is one for industrial customers, Rule 26 – Buy-Back of Customer Power, approved in Case No. AVU-E-00-10, Order No. 28595; one for irrigation customers, Tariff 70-R, Buy-Back of Customer Power – Pumping Services, approved in Case No. AVU-E-01-4; and the All Customer Buy-Back program, Tariff Schedule 92 – All Customer Electric Energy Buy-Back program, approved in Case No. AVU-E-01-6, Order No. 28757. The individual Orders specify the accounting treatment for the costs of these three programs.

Q. What is the accounting treatment for Rule 26 – Buy-Back of Customer Power (Industrial Buy-Back program)?

A. The Industrial Buy-Back program is tracked in a separate sub-account in FERC Account 555 - Purchased Power. Account 555 is included in the PCA calculations. The actual amounts included in the PCA Application have been audited and were found to be correct as presented in the Application.

Q. What is the accounting treatment for Tariff 70-R, Buy-Back of Customer Power – Pumping Services (Irrigation Buy-Back program)?

A. Irrigation Buy-Back program costs and benefits are to be recorded in Account 555. Order No. 28698 states that "The Commission also finds that the Company shall record the costs and benefits of this Program in Account 555. Further, in order to monitor these costs and benefits the Company shall establish sub-accounts to specifically track the results of this Program. The PCA filing should also include a separate line to identify these costs."

The Order also states "Avista states that participating irrigation customers' reduced energy usage will be calculated by subtracting a customer's total energy usage from May through September 2001 from their annual average energy usage during these same months from the preceding five years. If a customer does not have five years of prior billing history Avista will use the billing history that is available. The Company states that verification of energy savings will occur after October 31, 2001."

These costs have yet to be calculated. Staff will revisit the accounting for this buy-back program in its proposed annual review. At that time, Staff proposes that the Company maintain separate sub-accounts and show a separate line item for this particular buy-back program. In Order No. 28698, Staff also stated, "that it would conduct a prudency review of the costs resulting from this program at its conclusion."

Since the payments to the customers in this program have not been made, they are not included in the actual amounts in this filing. They will be included by the time the proposed annual review takes place. At that time a determination of the appropriate amounts to be included in the PCA will take place.

Q. What is the accounting treatment for Tariff Schedule 92 – All Customer Electric Energy Buy-Back Program (All Customer Buy-Back)?

A. Order No. 28757, in the Commission Findings, states, "We find the reporting requirements recommended by Staff in its comments to be reasonable, i.e., separate subaccount for tracking costs associated with Tariff Schedule 92, monthly reporting and final accounting." With respect to lost revenue, the Order further states, "In our interlocutory order in this case, we made a preliminary finding that the Company's proposed accounting treatment (excepting lost revenue) and method for recovery of amounts paid/credited to customers and related program expense was reasonable. We continue in that belief. Regarding lost revenue, we note that the parties appear to be making progress in establishing an acceptable lost revenue recovery methodology. We encourage the parties to continue working in this regard and to present an acceptable lost revenue recovery methodology prior to any request for Schedule 92 program cost recovery."

The PCA methodology approved by the Commission incorporates a retail load growth adjustment. To the extent the buyback programs reduce load growth or cause negative growth overall, the adjustment is reduced. This is the only way that the Company in this filing addresses the issue of lost revenue. Staff finds the Company's treatment of lost revenue acceptable in this case. The appropriate amounts for the All Customer Buy-Back program have been included in the PCA Application as a separate line item and have been reviewed by Staff.

Q. Does this conclude your testimony?

A. Yes, it does.