BEFORE THE

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IDAHO PUBLIC UTILITIES COMMISSION

IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR THE AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC AND NATURAL GAS SERVICE TO ELECTRIC AND NATURAL GAS CUSTOMERS IN THE STATE OF IDAHO.	)	CASE NO. AVU-E-09-1/ AVU-G-09-1

DIRECT TESTIMONY OF JOE LECKIE

IDAHO PUBLIC UTILITIES COMMISSION

MAY 29, 2009

Q. Please state your name and business address for the record.

A. My name is Joe Leckie. My business address is 472 West Washington Street, Boise, Idaho.

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

A. I am employed by the Idaho Public Utilities Commission (Commission) as a senior auditor in the Utilities Division.

Q. What is your educational and experience background?

A. I graduated from Brigham Young University with a Bachelors of Science degree in Accounting. I worked for the accounting firm Touche Ross in its Los Angeles office for approximately one year. I then attended law school and graduated from the J. Rueben Clark School of Law at Brigham Young University with a Juris Doctorate degree.

I am licensed to practice law in the State of Montana. I practiced law in the State of Montana for approximately 25 years.

I have been employed at the Commission as an auditor since March 2001. I have attended the annual regulatory studies program sponsored by the National Association of Regulatory Utilities Commissioners (NARUC) at Michigan State University in August of 2001. I have also attended several other training courses sponsored by NARUC on regulatory accounting and auditing.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to review the Company's capital additions to electric rate base in October, November and December (last quarter) of 2008 and the twelve (12) months of 2009. I will testify about the annual additions generally and will testify about three (3) specific additions. I recommend that Company witness Andrews' proposal to include the costs for the Spokane River relicensing be excluded from rate base at this time. These costs are currently being deferred and I recommend that they continue to be deferred. I also recommend adjustments to the accounting treatment for the Coeur d'Alene Tribe settlement; and finally, I will recommend that the unamortized balance of the deferred costs for the Montana settlement not be included in rate base.

All of the numbers that are presented in my testimony refer to the Idaho allocation of the total system numbers. If system numbers are referenced, they will be specifically identified as system numbers.

Q. What are your recommendations for the last quarter of 2008 capital additions to electric rate base?

A. Company witness Andrews included the net amount of $3,658,000 as an addition to rate base for capital expenditures in the last quarter of 2008. (See Company witness Andrews Exhibit No. 10, page 8). After reviewing these additions to rate base, it appears that these capital investments are reasonable. The 2008 rate case increased rate base through the end of 2008. (See the Stipulation adopted and approved by the Commission in Order No. 30647).

Q. What are your recommendations for Company witness Defelice's additions to rate base for the 2009 capital expenditures?

A. I have tested and reviewed part of the actual expenditures for those additions through March 31, 2009, and I have reviewed the budgeted amounts the Company has projected through the end of 2009. Company witness Defelice is requesting a net addition to rate base in the amount of $16.9 million. Although the last nine (9) months of these expenditures are projected, I have not recommended any adjustment to the Company's request. The Company's projections of capital expenditures have been very close to the end of the year actual expenditures. Also, in reviewing the projected expenditures, there were not any projections that appeared to be excessive or unreasonable.

Q. You also reviewed three other specific projects of a capital nature: the Spokane River Relicensing Costs, the Coeur d'Alene Tribe Settlement and the Montana Riverbed Lease. Are these costs included in your acceptance of the Company's rate base additions discussed above?

Q. No, I discuss my recommendations for each of these expenditures below, and separate from the rate base additions discussed above.

Spokane River Relicensing

Q. What are your recommendations for the costs expended to date on the Spokane River Relicensing?

A. I recommend that all costs expended by the Company for Spokane River hydro relicensing continue to be deferred as they were in the last rate case. The Company has still not obtained a FERC license for the project and therefore, final costs are not known and measureable nor is the new license used and useful. Staff witness Lobb also discusses this in his testimony. Once the license is obtained, Staff will be able to conduct a thorough review of all costs for prudency and include the prudent costs in rate base at that time.

The FERC license for the Spokane River hydro-electric facilities has not yet been issued, and there is no indication from FERC when that license might be issued. Currently, the Company is operating the facilities on a temporary license. Past practice would indicate that the Company will be able to continue its operation under a temporary license for the future. Company witness Storro testified that the license should be issued by July 2009. (See Storro testimony, page 29). However, there is no evidence that the license will be issued at that time.

Q. Is deferral of these relicensing costs consistent with the Commission's Order in last year's rate case?

A. Yes. In the Company's last rate case (AVU-E-08-01), all the costs for the relicensing were deferred. In Order No. 30647, the Commission accepted the Stipulation of the parties to the case. The Stipulation stated:

9. Accounting Treatment for Certain Costs.

> (a.) Spokane River Relicensing - The Company included the processing costs associated with its Spokane River relicensing efforts, which expenditures included actual life-to-date costs from April 2001 through December 31, 2007, and 2008 pro forma expenditures though December 31, 2008. (See Andrews' Direct Testimony at page 32) **Although the Company anticipates receiving a final license from the Federal Energy Regulatory Commission ("FERC") in the near future, that has yet to occur.** The relicensing costs will remain in CWIP (Construction Work in Progress) and the Company will continue to accrue AFUDC until issuance of the license, at which time the relicensing costs will be transferred to plant in service and

> depreciation will begin to be recorded. The Parties have agreed to defer as a regulatory expense item (in Account 186 - Miscellaneous Deferred Debits) on the Company's balance sheet depreciation associated with Idaho's share of the aforementioned relicensing costs and related protection, mitigation, or enhancement expenditures, until the earlier of twelve (12) months from the date of the issuance of the license or the conclusion of Avista's next general rate case ("GRC"), together with a charge on the deferral, as well as a carrying charge on the amount of relicensing costs not yet included in rate base. The carrying charge for deferrals and rate base not yet included in establishing rates would be the customer deposit rate at that time (presently 5%). (Emphasis added).

The situation has not substantially changed between that case and this one. No evidence indicates the license is any nearer to issuance now than it was then. Consequently, it is reasonable to continue the provisions for deferral of the depreciation and the carrying charge as set out in the stipulation.

Coeur d'Alene Tribe Settlement

Q. Please explain the background surrounding the Coeur d'Alene Tribal Settlement.

A. This litigation extends back to 1973 but I will outline the recent history. Briefly, the Tribe asserted that it possessed an ownership interest in Coeur d'Alene Lake and its banks. In 1992, the federal government brought suit against the State of Idaho on behalf of the Tribe to quiet title to that lower portion of the Lake located within the Reservation boundaries. On appeal to the U.S. Supreme Court, the Court ruled that the United States held in trust for the Tribe, that portion of the Lake within the Reservation. *Idaho v. United States*, 533 U.S. 262, 121 S. Ct. 2135 (2001).

The Court's decision that the Tribe owned the lower part of the Lake opened the door to other claims against Avista. These claims included: Avista's "storage" of lake water for its hydro-electric facilities without authorization of the Tribe constituted a "trespass" on Tribal lands for the period from 1907 to 1981; this trespass would entitle the Tribe to compensation under § 10(e) of the Federal Power Act for the past use of its lands to store water; § 10(e) (storage) compensation for the period from 1981 to the present; and prejudgment interest. Based upon the Court's decision, Avista and the Tribe entered into settlement negotiations with a mediator. After years of negotiations, the parties reached a settlement last year but the terms of the settlement had not been approved prior to the Commission's Order in the prior rate cases.

Q. Why is the Company attempting to recover costs it expended in litigating and settling a legal action with the Coeur d'Alene Tribe?

A. In December 2008 the Company reached an agreement with the Tribe over its property right claims. The settlement provides for an annual payment to the Tribe for the present right to store water on the Tribe's land (§ 10(e) of the FPA) ($400,000/year for first 20 years and $700,000/year for the next 30 years); an annual payment of $32,000 for a transmission line easement across the lake; and a series of payments totaling $39 million for the past storage and the "trespass." As explained above, these claims relate to the Spokane River facilities and are the subject of a relicensing process with FERC. The resolution of this legal action clears one of the Company's hurdles to receive that new license.

Recovery of these costs was in the Company's last rate case (AVU-E-08-01) were not included in the agreed upon revenue requirement in that case because the settlement agreement had not been completed, but the Company was allowed to defer any annual payments made, that portion of the $39 million paid (for the past storage and trespass) and the costs of litigation plus a carrying charge of five percent (5%) until this rate case (deferred balance). The Company requested recovery of its deferred costs by amortizing those costs over a 45-year period. This time period was chosen to match the remaining life for any new Spokane River license. Any unamortized balance would be included in rate base and earn the overall rate of return.

Q. How is the Company requesting recovery of these costs in this case?

A. Company witness Andrews has included the annual payments and an amortization of the deferred balance of costs as an addition to the requested revenue requirement. This is a gross increase in annual expense of $401,000 and net increase in the revenue requirement of $257,000. See Company witness Andrews' Testimony, Exhibit No. 10, Schedule 1, page 9.

Q. Did Staff review various options for allowing the Company recovery of these costs other than including the unamortized balance in rate base?

A. Staff considered the following options for allowing the Company recovery of these costs: First, Staff considered allowing recovery of the costs but not allowing rate base treatment or allowing any return on the unamortized balance. This would have resulted in a reduction to the Staff's revenue requirement of $1,108,000.

Second, Staff then considered the reasonableness of allowing recovery but including a return on the unamortized balance at the average cost of debt. This would have been a reduction of $429,000 to the Staff's revenue requirement. Staff determined that these options were not reasonable under the circumstances because these costs are similar to other relicensing costs or expenses previously considered and accepted by the Commission for rate recovery.

Third, Staff also considered amortizing these costs over a life other than 45 years. I believe it is appropriate to link the amortization of these costs to approximately the same life as a new license for the Spokane River hydroelectric facilities. While the agreement and associated costs stand alone from the new hydropower license, the agreement is required before a new license can be obtained. Therefore, it seems reasonable to amortize the agreement costs over the expected useful life of the new hydropower license.

Q. Is Staff in agreement that the Company should be allowed to recover these costs?

A. Yes. Staff also reviewed the possibility of challenging the $39 million in payments and a related portion of the litigation costs under the theory of retroactive ratemaking. Some might argue that if these costs are attributable to a past period and, therefore, it would be inappropriate to have current ratepayers bear the burden of such costs. An alternative theory is that because the past actions where claimed to be for past trespass to property, an unlawful act, these costs should not be recoverable.

Staff determined that it would not challenge recovery of the costs on these theories. Staff places great weight on the fact that the legal obligation did not become known and measurable until the Supreme Court's 2001 decision and until the subsequent settlement was legally accepted by the appropriate authorities in 2008 makes this an argument of retroactive ratemaking tenuous at best. The legal obligations and monetary costs of these issues were not fully settled until the settlement approved in December 2008.

Q. Should the Company be allowed to recover the deferred balance of the payments and expenses?

A. It is clear that the annual payments for the ongoing use of the Tribe's property and the right to use the Tribe's property for water storage, as well as the transmission easement are reasonable and reoccurring costs of doing business. Therefore, the annual payments to the Tribe for the use of the property and the transmission easement should be recoverable by the Company in its revenue requirement.

Q. What about the recovery of that portion of the $39 million payments made through the test period plus the litigation costs amortized over 45 years with the unamortized deferred balance included in rate base as requested by the Company?

A. I have reviewed the Company's treatment of these costs and support the amortization of these costs over the 45-year period. I also support including the unamortized balance in rate base to earn the overall rate of return. If the deferred balance is amortized over a 45-year life, the Company should be entitled to receive some return on the unamortized balance. Allowing the unamortized balance to accrue a return at the average cost of debt does not recognize the full financing costs to the Company for these expenditures.

The history of this action is long and complicated. Ultimately, the matter found a forum in the U.S. District Court where the legal issues were presented by the interested parties. It was under the supervision of the federal district court that the settlement was finally achieved. During this entire process, the Company diligently pursued a clear definition of its legal rights, thereby clarifying its legal obligation. It appears the Company actively pressed its legal defenses to the claims by the Tribe. Ultimately, the Company agreed to pay the Tribe $39 million as compensation for 100 years of use of tribal property. Also the Company has expended litigation costs of $2.15

million to determine what its legal rights and obligations are respecting the Tribe and its property. Since the settlement was agreed to by all the interested parties, including review by the U.S. Department of Interior, it can be argued that the Company reached a fair and reasonable settlement for its costs in this matter.

Prior to 1973, the Tribe asserted no ownership interest of the property used by the Company for water storage that would have caused the Company to be put on notice that their use of the property was improper. Prior to the settlement, the specific amount of an obligation, if any, owed by the Company was not known or measurable. Therefore, any speculation on these costs by the Company could not be included in any request for recovery from the Commission.

Q. Do you agree with Company witness Andrews' determination of the annual amount of amortization and the amount of the deferred balance that will be amortized in the test period?

A. No. I am in disagreement with the accounting methodology used by Company witness Andrews to determine the amount of the annual amortization and the amount of the unamortized balance to include in rate base. As I discuss the deferred balance amounts, I will only use Idaho's allocation of the total system costs. (The total system costs are included in Company witness Andrews' Exhibits and Workpapers, as well as the allocation to Idaho.)

The basic difference between Company witness Andrews' calculation and my calculation is the 12-month period of time used to determine the average of monthly balances. Company witness Andrews used the monthly balances for the months of July 2009 through June 2010; and I used the monthly balances for the months of January 2009 through December 2009. Exhibit No. 108, page 2 compares the Company's calculation of a $7,861,266 rate base addition to the Staff calculation of $6,796,290 for a net rate base difference of $1,064,976.

While I agree with the Company's determination of the beginning deferred balance of the CDA Tribe settlement costs, an adjustment must be made to the calculation of the unamortized deferred balance to be added to rate base in order to be consistent with Staff's recommended proforma period ending December 31, 2009. The period used by the Company to determine average monthly rate base balances ended June 30, 2010. Under the terms of the settlement with the CDA Tribe, a payment of $3,541,000 ($10,000,000 total system) must be made in December of 2009. This payment has been included by the

Company in the unamortized monthly deferred balance as part of the average through June 2010. Because Staff's proforma period ends in December 2009, this payment should only be included in the December 2009 deferred balance as the average of monthly deferred balances is calculated. See Staff Exhibit No. 108, page 2.

With the difference in monthly balances used by the Company and Staff, the annual amortization of the deferred balance as determined by Staff is $26,000 less than the determination by the Company and reduces the Company's revenue requirement by this $26,000. See Staff's Exhibit No. 108, page 1.

Montana Lease

Q. What recommendations do you have for Company witness Andrews' treatment of the Montana Lease Expense?

A. I recommend acceptance of the accounting treatment for the Montana Lease annual expense as appropriate for inclusion in the revenue requirement calculation.

The Company sought and obtained the right to defer the costs associated with lease payments to Montana under the terms of its settlement with the State of Montana on the issue of rental of state property in the stream beds of hydro-electric facilities owned by the Company in Montana. (See Order No. 30492). Company witness Andrews is asking to defer the Idaho costs to date of $2,885,489 over eight (8) years, or $360,686 per year. Idaho's share of the annual expense for the 2009 test year is $1,556,781. Total expense for the test year is $1,917,465, and a net increase to the revenue requirement of $1,231,000. (See Company witness Andrews Exhibit No. 10; Workpaper PF12-3)

Company witness Andrews' amortization of the deferral amount is the annual amount necessary to amortize the deferred balance over the 8-year period. The annual deferral expense remains constant over the 8-year period. The 8-year period is an appropriate period of time for the deferral because the agreement/settlement with the State of Montana has a provision for renegotiating the annual lease price beginning in 2016 or eight (8) years from the date of the agreement.

The annual lease payment is increased annually by a CPI index. I have reviewed the CPI index increases to determine the annual lease obligation for 2009, and the Company used the appropriate increases to determine the 2009 Idaho share of the annual payment of $1,556,781.

Q. What is the Company's proposal for the unamortized balance of the total costs?

A. The Company is asking that the unamortized balance of the lease settlement cost ($2,434,617) be included in rate base. I recommend that this balance not be included in rate base, but be amortized over the remaining seven years of the proposed 8-year amortization period. This adjustment would reduce net rate base by $1,582,501. (See Company witness Andrews' Workpaper PF12-4 and Staff witness Vaughn Exhibit No. 118, page 3, Column S).

Staff recommends the Company be allowed to recover its out of pocket costs. However, Staff recommends the unamortized balance not be included in rate base. The 8-year recovery period allows full recovery of the lease payments and is a short enough time period to not require a return.

Q. Does this conclude your direct testimony in this proceeding?

A. Yes, it does.

Coeur d'Alene Tribe Settlement
Idaho Allocation Only

(000'S OF DOLLARS)

Line No.	DESCRIPTION		Company	Staff Position	Difference
	REVENUES				
1	Total General Business		$0	$0	$0
2	Interdepartmental Sales				0
3	Sales For Resale				0
4	Total Sales of Electricity		0	0	0
5	Other Revenue				0
6	Total Electric Revenue		0	0	0
	EXPENSES				
	Production and Transmission				
7	Operating Expenses		0	0	0
8	Purchased Power				0
9	Depreciation and Amortization		401	361	(40)
10	Taxes				0
11	Total Production & Transmission		401	361	(40)
	Distribution				
12	Operating Expenses		0	0	0
13	Depreciation				0
14	Taxes		(5)	(4)	1
15	Total Distribution		(5)	(4)	1
16	Customer Accounting		0	0	0
17	Customer Service & Information		0	0	0
18	Marketing		0	0	0
	Administrative & General				
19	Operating Expenses		0	0	0
20	Depreciation				0
21	Taxes				0
22	Total Admin. & General		0	0	0
23	Total Electric Expenses		396	357	(39)
24	Operating Income before FIT		(396)	(357)	39
	Federal Income Taxes				
25	Current Accrual	35.0%	(138)	(125)	13
26	Deferred Income Taxes				0
					0
27	NET OPERATING INCOME		($258)	($232)	$26
	RATE BASE				
	PLANT IN SERVICE				
28	Intangible		$11,930	$10,168	$1,762
29	Production				
30	Transmission				
31	Distribution				
32	General				
33	Total Plant in Service		11,930	$10,168	$1,762
34	ACCUMULATED DEPRECIATION		(219)	($109)	($110)
35	ACCUM. PROVISION FOR AMORTIZATION				
36	Total Accum. Depreciation & Amort.		(219)	(109)	($110)
37	GAIN ON SALE OF BUILDING				
38	DEFERRED TAXES		(3,850)	(3,263)	($587)
39	TOTAL RATE BASE		$7,861	$6,796	$1,065

Exhibit 108,

Exhibit No. 108
Case No. AVU-E-09-1/
AVU-G-09-1
J. Leckie, Staff
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Avista Utilites
Couer d' Alene Tribe Settlement
Company's Rate Base Adjustment

PERIOD		Company Book Cost	Company Book A/D	Company Tax Basis	Company Deferred Tax Bal
June	2009	9,755,433	(99,361)	735,916	(3,122,054)
June	2010	13,564,371	(358,312)	685,163	(4,382,314)
TOTAL		23,319,804	(457,673)	1,421,080	(7,504,368)
Divide by 2		÷2	÷2	÷2	÷2
Beg/End Mo Avg		11,659,902	(228,836)	710,540	(3,752,184)
July	2009	10,023,371	(117,427)	731,687	(3,210,990)
Aug	2009	10,023,371	(135,743)	727,457	(3,206,060)
Sept	2009	10,023,371	(154,312)	723,228	(3,201,041)
Oct	2009	10,023,371	(172,880)	718,999	(3,196,022)
Nov	2009	10,023,371	(191,448)	714,769	(3,191,004)
Dec	2009	13,564,371	(210,017)	710,540	(4,425,335)
Jan	2010	13,564,371	(231,938)	706,310	(4,419,143)
Feb	2010	13,564,371	(257,213)	702,081	(4,411,777)
Mar	2010	13,564,371	(282,488)	697,852	(4,404,411)
Apr	2010	13,564,371	(307,763)	693,622	(4,397,045)
May	2010	13,564,371	(333,037)	689,393	(4,389,679)
TOTAL		143,162,987	(2,623,102)	8,526,478	(46,204,692)
Divide by 12		÷12	÷12	÷12	÷12
Ave Monthly Average		11,930,249	(218,592)	710,540	(3,850,391)

Summary

Cost	11,930,249
A/D	(218,592)
Deferred Taxes	(3,850,391)
Net Rate Base Adjustment	**7,861,266**

Avista Utilites
Couer d' Alene Tribe Settlement
Staff's Rate Base Adjustment

PERIOD		Staff Book Cost	Staff Book A/D	Staff Tax Basis	Staff Deferred Tax Bal
Jan	2008	9,755,433	0	761,293	(3,147,949)
Dec	2009	13,573,404	(219,126)	710,540	(4,425,308)
TOTAL		23,328,837	(219,126)	1,471,833	(7,573,257)
Divide by 2		÷2	÷2	÷2	÷2
Beg/End Mo Avg		11,664,419	(109,563)	735,917	(3,786,629)
Jan	2009	10,032,404	(18,066)	757,063	(3,240,046)
Feb	2009	10,032,404	(36,131)	752,834	(3,235,204)
March	2009	10,032,404	(54,197)	748,604	(3,230,361)
Apr	2009	10,032,404	(72,262)	744,375	(3,225,519)
May	2009	10,032,404	(90,328)	740,146	(3,220,676)
Jun	2009	10,032,404	(108,394)	735,916	(3,215,833)
July	2009	10,032,404	(126,459)	731,687	(3,210,990)
Aug	2009	10,032,404	(144,785)	727,457	(3,206,057)
Sept	2009	10,032,404	(163,370)	723,228	(3,201,032)
Oct	2009	10,032,404	(181,955)	718,999	(3,196,008)
Nov	2009	10,032,404	(200,541)	714,769	(3,190,983)
TOTAL		122,020,865	(1,306,051)	8,830,995	(39,159,337)
Divide by 12		÷12	÷12	÷12	÷12
Ave Monthly Average		10,168,405	(108,838)	735,916	(3,263,278)

Summary

Cost	10,168,405
A/D	(108,838)
Deferred Taxes	(3,263,278)
Net Rate Base Adjustment	**6,796,290**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 29TH DAY OF MAY 2009, SERVED THE FOREGOING **DIRECT TESTIMONY OF JOE LECKIE**, IN CASE NOS. AVU-E-09-1 & AVU-G-09-1, BY ELECTRONIC MAIL TO THE FOLLOWING:

DAVID J. MEYER
VICE PRESIDENT AND CHIEF COUNSEL
AVISTA CORPORATION
PO BOX 3727
SPOKANE WA 99220
E-MAIL: david.meyer@avistacorp.com

KELLY NORWOOD
VICE PRESIDENT – STATE & FED. REG.
AVISTA UTILITIES
PO BOX 3727
SPOKANE WA 99220
E-MAIL: kelly.norwood@avistacorp.com

DEAN J MILLER
McDEVITT & MILLER LLP
PO BOX 2564
BOISE ID 83701
E-MAIL: joe@mcdevitt-miller.com

SCOTT ATKINSON
PRESIDENT
IDAHO FOREST GROUP LLC
171 HIGHWAY 95 N
GRANGEVILLE ID 83530
E-MAIL: scotta@idahoforestgroup.com

CONLEY E WARD
MICHAEL C CREAMER
GIVENS PURSLEY LLP
PO BOX 2720
BOISE ID 83701-2720
E-MAIL: cew@givenspursley.com
mcc@givenspursley.com

DENNIS E PESEAU, Ph.D.
UTILITY RESOURCES INC
SUITE 250
1500 LIBERTY STREET SE
SALEM OR 97302
E-MAIL: dpeseau@excite.com

BETSY BRIDGE
ID CONSERVATION LEAGUE
710 N SIXTH STREET
PO BOX 844
BOISE ID 83701
E-MAIL: bbridge@wildidaho.org

ROWENA PINEDA
ID COMMUNITY ACTION NETWORK
3450 HILL RD
BOISE ID 83702-4715
E-MAIL: Rowena@idahocan.org

CARRIE TRACY
1265 S MAIN ST, #305
SEATTLE WA 98144
E-MAIL: carrie@nwfco.org

BRAD M PURDY
ATTORNEY AT LAW
2019 N 17TH ST
BOISE ID 83702
E-MAIL: bmpurdy@hotmail.com

Glenda D. Koch
SECRETARY