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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE POWER COST)	CASE NO. AVU-E-07- <u>07</u>
ADJUSTMENT (PCA) ANNUAL RATE)	
ADJUSTMENT FILING OF AVISTA)	DIRECT TESTIMONY OF
CORPORATION)	RICHARD L. STORRO

FOR AVISTA CORPORATION

1 **I. INTRODUCTION**

2 **Q. Please state your name, employer and business address.**

3 A. My name is Richard L. Storro. My business address is 1411 East Mission
4 Avenue, Spokane, Washington, and I am employed by the Company as the Director of
5 Power Supply.

6 **Q. What is your educational background?**

7 A. I participated in a program with the College of Idaho and the University of
8 Idaho, where upon completion I received a Bachelor of Science degree in physics from
9 the College of Idaho and a Bachelor of Science degree in electrical engineering from the
10 University of Idaho, both in 1973.

11 **Q. How long have you been employed by the Company?**

12 A. I started working for Avista in 1973 as a distribution engineer. I have
13 worked in various engineering positions, and have held management positions in line and
14 gas operations, system operations, hydro production and construction, and transmission. I
15 joined the Energy Resources Department as a Power Marketer in 1997 and became
16 Director of Power Supply in 2001. My primary responsibilities involve the oversight of
17 both the short-term and long-term planning and acquisition of power supply resources for
18 the Company.

19 **Q. What is the scope of your testimony in this proceeding?**

20 A. My testimony will provide a brief summary of the factors driving power
21 supply expenses during the review period, July 2006 through June 2007. I also describe
22 the supporting documentation that is provided in electronic format.

1 **II. SUMMARY OF DEFERRALS**

2 **Q. Would you please summarize power supply expenses during the July**
3 **2006 through June 2007 review period?**

4 A. Yes. During the review period, Idaho's share of power supply expenses
5 exceeded the authorized level by \$14,971,034 (not including Potlatch generation and
6 revenue variance of \$234,169 in the rebate direction). Of that total, the Company
7 absorbed \$1,497,103 or 10 percent of the additional power costs subject to the 90%/10%
8 sharing.¹ This resulted in a net deferral of \$13,473,932 in the surcharge direction.
9 Adding the Potlatch related deferral of \$234,169 in the rebate direction results in a net
10 deferral for the period of \$13,239,763 in the surcharge direction.

11 **Q. What factors contributed to the higher power supply expense during**
12 **the July 2006 through June 2007 review period?**

13 A. Overall, slightly reduced hydro generation and high natural gas fuel costs
14 drove the majority of the deferrals in the review period. Also, as has been the pattern in
15 recent years, the second half of the calendar year, July 2006 through December 2006,
16 (first half of the deferral year) experienced higher expenses relative to the authorized
17 level than the January 2007 through June 2007 period.

18 Deferrals during the third quarter of 2006 (July 2006 through September 2006)
19 alone totaled \$7,100,927, or more than half of the total review period deferrals. This was
20 largely caused by low hydro generation coupled with high power replacement costs.

¹ The Potlatch power purchase and revenue associated with the purchase is tracked at 100% in the PCA per Idaho Public Utilities Commission Order No. 29418 dated January 15, 2004. The 10% portion absorbed by Avista is based on the portion of the PCA deferrals that are shared 90%/10% which was \$1,497,103 during the review period.

1 Hydro generation was 117 aMW below the authorized level during the third quarter of
2 2006. The average weighted price to replace that lost hydro generation was
3 \$59.72/MWh.

4 Hydro generation during the last nine months of the review period (October 2006
5 through June 2007) was 28 aMW above the authorized level. Over the entire July 2006
6 through June 2007 review period hydro generation was 8 aMW below the authorized
7 level. This amount of reduced hydro generation caused approximately \$2.2 million of
8 the deferrals during the review period.

9 Natural gas fuel costs were significantly higher than the authorized level and were
10 responsible for a large share of the power cost deferrals during the review period. Natural
11 gas fuel expense for Coyote Springs 2 was approximately \$27 million more on a system
12 basis (\$9.3 million Idaho allocation) than the authorized level. This increased expense
13 occurred even though Coyote Springs 2 generated 37 aMW less than the generation in
14 authorized base expense. The average cost of gas for Coyote Springs 2 was \$8.10/dth
15 during the review period compared to a cost of \$4.81/dth included in authorized power
16 supply expense.

17 The average market power purchase price during the review period was
18 \$55.05/MWh. This compares to an average market purchase price of \$46.17/MWh
19 included in authorized power supply expense.

20 Overall, high natural gas fuel prices and slightly below normal hydro generation
21 were responsible for the bulk of the deferrals during the review period.

1 **Q. What new long-term contracts did the Company enter into during the**
2 **July 2006 through June 2007 review period?**

3 A. The Company entered into four new long-term contracts during the review
4 period. In August 2006, the Company entered into a one-year capacity exchange
5 agreement that allows the Company to receive power during on-peak hours and return
6 power during off-peak hours. In September 2006 the Company entered into an agreement
7 to purchase power for ten years from a small power qualifying facility. In November
8 2006, the Company renewed an exchange capacity agreement for 2007. Finally, in
9 December 2006 the Company entered into an eight-year agreement to sell energy and
10 associated renewable energy credits to a California utility. Copies of these contracts are
11 being provided with this filing.

12 **IV. SUPPORTING DOCUMENTATION**

13 **Q. Please provide a brief overview of the documentation provided by the**
14 **Company in this filing.**

15 A. The Company maintains a number of documents that record relevant
16 factors considered at the time of a transaction. The following is a list of current
17 documents that are maintained. Unless noted, these documents have been provided on a
18 compact disk as part of this filing. Other documents will be provided on request:

19 Gas/Electric Transaction Record: These documents record the key details of the
20 price, term, and conditions of a transaction and include a discussion of market
21 conditions at the time of the transaction, the reason for the transaction, and
22 pertinent transmission or other delivery issues. The Company has provided

1 worksheets showing the details of each electric and natural gas term transaction
2 during the review period. Additional documentation will be provided on request.

3 Position Reports: These daily reports show the daily and term purchases each
4 business day and provide a summary of market power and natural gas prices over
5 an 18-month forward period.

6 Long-Term Physical Electric Load & Resource Tabulation: For transactions with
7 deliveries extending greater than the 18-month period covered by the Position
8 Report, the Company includes this document to show the net system position
9 during the extended period. This document also shows variability associated with
10 an 80% confidence interval around the combined variability of hydroelectric
11 generation and variability of load.

12 Forward Market Electric and Natural Gas Price Curves: This daily data shows
13 forward market prices for electricity and natural gas and is maintained in Nucleus,
14 the Company's electronic energy transaction database record system.

15 Price Quote Worksheet: Provides a record of the natural gas purchase or sales
16 prices available from several parties in the market at the time of a particular gas
17 transaction. This record includes price information at specific points of delivery
18 (part of Gas/Electric Transaction Records that will be provided on request for
19 specific transactions).

1 Credit Report: Lists those counterparties with which the Company is allowed to
2 enter into either purchase or sales transactions as determined by credit criteria set
3 by the Company. This report may also provide information on other parties'
4 credit limits placed upon their own transactions with the Company (not provided,
5 but available on request).

6 **Q. Does that conclude your direct pre-filed testimony?**

7 A. Yes.