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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE POWER COST)
ADJUSTMENT (PCA) ANNUAL RATE)
ADJUSTMENT FILING OF AVISTA)
CORPORATION)

CASE NO. AVU-E-09-07

DIRECT TESTIMONY OF
WILLIAM G. JOHNSON

FOR AVISTA CORPORATION

1 **I. INTRODUCTION**

2 **Q. Please state your name, business address, and present position with**
3 **Avista Corporation.**

4 A. My name is William G. Johnson. My business address is 1411 East
5 Mission Avenue, Spokane, Washington, and I am employed by the Company as a
6 Wholesale Marketing Manager in the Energy Resources Department.

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

8 A. I graduated from the University of Montana in 1981 with a Bachelor of
9 Arts Degree in Political Science/Economics. I obtained a Master of Arts Degree in
10 Economics from the University of Montana in 1985.

11 **Q. How long have you been employed by the Company and what are**
12 **your duties as a Wholesale Marketing Manager?**

13 A. I started working for Avista in April 1990 as a Demand Side Resource
14 Analyst. I joined the Energy Resources Department as a Power Contracts Analyst in June
15 1996. My primary responsibilities involve power contract origination and management
16 and power supply regulatory issues.

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

18 A. My testimony will provide a brief summary of the factors driving power
19 supply expenses during the review period, July 2008 through June 2009. I also describe
20 new long-term contracts the Company entered into during the deferral period and the
21 supporting documentation that is provided in electronic format.

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II. SUMMARY OF DEFERRALS

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Q. Would you please summarize power supply expenses during the July

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2008 through June 2009 review period?

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A. Yes. During the review period, Idaho's share of power supply expenses

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exceeded the authorized level by \$12,191,234 (not including Clearwater Paper generation

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and revenue variance of \$210,731¹ in the rebate direction). Of that total, the Company

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absorbed \$1,219,123 or 10 percent of the additional power costs subject to the 90%/10%

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sharing.² This resulted in a net deferral of \$10,972,112 in the surcharge direction.

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Adding the Clearwater Paper related deferral of \$210,731 in the rebate direction results in

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a net deferral for the period of \$10,761,381 in the surcharge direction.

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Q. What factors contributed to the higher power supply expense during

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the review period?

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A. Overall, high natural gas fuel costs drove the majority of the deferrals in

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the review period. Increased natural gas fuel expense at Coyote Springs 2 caused

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approximately \$12.7 million of the deferrals during the review period.

¹ The PCA tracks 100% of the variation in Clearwater Paper (formerly Potlatch) generation power purchase expense and Clearwater Paper retail revenue related to their generation level. Clearwater Paper's generation during the review period was less than the authorized level, which results in a PCA deferral in the rebate direction because the reduction in the power purchase expense exceeded the reduction in the retail revenue related to the generation level.

² The Clearwater Paper 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 \$1,219,123 during the review period.

1 Also contributing to higher costs was decreased generation and higher fuel costs
 2 at Colstrip and Kettle Falls and changes in retail loads. Offsetting some of the higher
 3 expense was greater than authorized hydro generation and increased wholesale sales. The
 4 table below shows a summary of the major factors driving the deferrals during the review
 5 period.

Factors Contributing to Increased Power Supply Expense Jul 08-Jun 09 - Idaho Allocation	
Change in Hydro Generation	-\$3,000,945
Change in CS2 Generation and Fuel Expense	\$12,677,268
Change in Colstrip Generation and Fuel Expense	\$811,808
Change in Kettle Falls Generation and Fuel Expense	\$2,039,602
Change in Retail Loads	\$4,127,328
Change in Market Prices, Contract Costs and Other Mics. Factors	-\$4,463,828
Total Expenses Above the Authorized Level	\$12,191,234
10% Absorbed by the Company	-\$1,219,123
Clearwater Paper Generation and Revenue Variance	-\$210,730
Total Power Cost Deferrals	\$10,761,381

7 Over the entire review period hydro generation was 10.2 aMW above the
 8 authorized level. All of the Company's major thermal units generated below the
 9 authorized level. Coyote Springs 2 generated 56.6 aMW below the authorized level due
 10 to economics. In addition to lower generation, the fuel expense at Coyote Springs 2 was
 11 well above the authorized level. The actual gas cost during the review period was
 12 \$7.90/dth (using a 7,100 Btu/kWh average heat rate) versus an authorized fuel expense of
 13 \$4.49/dth. Colstrip generation was 15.4 aMW below the authorized level due primarily
 14 to reduced generation in the second quarter of 2009 due to an extended outage of Unit 3.
 15 Kettle Falls generation was 18 aMW below the authorized level due to a combination of

1 economics (relatively higher wood fuel costs compared to market electricity prices) and a
 2 lack of fuel supply. The Kettle Falls fuel supply is being affected by the reduced
 3 construction activity, which has lowered the output at sawmills that produce the majority
 4 of the hog fuel supply for Kettle Falls. This has forced the Company to run Kettle Falls
 5 only during times of higher market prices. Retail loads were 5.9 aMW above the
 6 authorized level primarily because the authorized loads during the first three months of
 7 the deferral period, July 2008 through September 2008, were based on 2002 test year
 8 loads. The table below shows the change in generation and retail loads from the
 9 authorized levels.

Jul 08-Jun 09 Generation and Load Differences from the Authorized Level		
	<u>Change</u> aMW	<u>Change</u> %
Change in Hydro Generation	10.2	1.9%
Change in CS2 Generation	-56.6	-25.5%
Change in Colstrip Generation	-15.4	-7.9%
Change in Kettle Falls Generation	-18.0	-47.7%
Change in Retail Loads	5.9	0.6%

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11 **III. NEW LONG-TERM CONTRACTS ENTERED INTO DURING DEFERRAL**

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PERIOD

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Q. Please provide a brief description of new long-term contracts that the

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Company entered into in review period.

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A. The Company entered into two long-term contracts during the review

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period. In November 2008, the Company renewed an exchange capacity agreement for

1 calendar year 2009. In August 2008, the Company entered into a two-year purchase of
2 the Colville Indian Tribe's allocation of the Well's dam output.

3 **Q. Can you please explain the purchase of the Colville Indian Tribe's**
4 **Wells allocation?**

5 A. Yes. Avista entered into a two-year agreement beginning October 2008
6 and ending September 2010 to purchase the Colville Indian Tribe's 4.5% share of the
7 output of Well's hydroelectric generation. Prior to this agreement, Avista purchased
8 3.34% of the Wells output at actual production cost. The additional 4.5% of Wells output
9 assigned to the Colville Indian Tribe was purchased through a competitive auction at the
10 market prices at the time.

11 **Q. Why is this purchase important to the Company?**

12 A. This purchase was important because of the capacity and ancillary
13 products that come with a Mid Columbia generation product. In addition to the energy,
14 Mid Columbia generation has dynamic capacity that the Company uses for frequency
15 regulation and load following. The generation also comes with "paper pond" that allows
16 the Company to shift generation from low load to high load hours.

17 The amount of generation the Company has at the Mid Columbia is being reduced
18 as the existing contracts with Grant PUD expire and the amount of generation at the
19 Priest Rapids dam (November 2005) and Wanapum (November 2009) are reduced by
20 roughly half. The Wells purchase makes up for a good portion of the loss of capacity at
21 Priest Rapids and Wanapum, and allows the Company to maintain regulation functions at
22 the Mid Columbia.

1 **IV. SUPPORTING DOCUMENTATION**

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

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

8 Electric/Gas Transaction Record: These documents record the key details of the
9 price, term and conditions of a transaction and include a discussion of market
10 conditions at the time of the transaction, the reason for the transaction, and
11 pertinent transmission or other delivery issues. The Company has provided
12 worksheets showing the important details of each electric and natural gas term
13 transaction during the review period. Additional documentation will be provided
14 on request.

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

18 Long-Term Physical Electric Load & Resource Tabulation: For transactions with
19 deliveries extending greater than the 18-month period covered by the Position
20 Report, the Company includes this document to show the net system position
21 during the extended period. This document also shows variability associated with

1 an 80% confidence interval around the combined variability of hydroelectric
2 generation and variability of load.

3 Forward Market Electric and Natural Gas Price Curves: This daily data shows
4 forward market prices for electricity and natural gas and is maintained in Nucleus,
5 the Company's electronic energy transaction database record system. Forward
6 market prices are included in the daily Position Reports.

7 New Long-Term Contracts: Electronic copies of the long-term contracts entered
8 into during the review period are provided.

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

10 **A. Yes.**