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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-10-03

DIRECT TESTIMONY OF
WILLIAM G. JOHNSON

FOR AVISTA CORPORATION

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I. INTRODUCTION

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

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

Q. What is your educational background?

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

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

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

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

A. My testimony will provide a brief summary of the factors driving power supply expenses during the review period, July 2009 through June 2010. I also describe new long-term contracts the Company entered into during the deferral period and 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 **2009 through June 2010 review period?**

4 A. Yes. During the review period, Idaho's share of power supply expenses
5 exceeded the authorized level by \$17,815,668. Certain changes in revenues and expenses
6 are tracked at 100% in the PCA, per prior Commission orders, such as the Clearwater
7 Paper power purchase expense, the Clearwater Paper retail revenue related to the level of
8 Clearwater generation¹, and the Lancaster PPA fixed costs². The \$17,815,668 less the
9 Lancaster fixed costs of \$5,990,323, results in a balance of \$11,825,345, of which the
10 Company absorbs \$1,182,535 with the 90%/10% sharing.

11 The \$17,815,668 less the \$1,182,535 Company share, less the Clearwater Paper
12 adjustment of \$19,229³, and less a refund to customers related to the prior sale of the
13 Centralia project of \$189,607, results in a net deferral for the period of \$16,424,297 in the
14 surcharge direction.

15 **Q. What factors contributed to the higher power supply expense during**
16 **the review period?**

17 A. Overall, low hydro generation and expenses related to the Lancaster PPA
18 drove the majority of the deferrals in the review period. Low hydro generation was the

¹ 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.

² Lancaster fixed costs including the power purchase agreement charges, gas transportation and BPA transmission charges are recovered at 100% of the actual expense in the PCA per IPUC Order No. 30856 dated July 17, 2009. Variable fuel and generation values are tracked at the normal 90%/10% PCA sharing.

³ The PCA tracks 100% of the variation in Clearwater Paper 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.

1 largest factor, increasing costs by more than \$12 million over the authorized level.
 2 Lancaster's fixed costs of approximately \$6 million (Idaho allocation) were offset by
 3 approximately \$1.6 million of operating margin, resulting in a total impact of Lancaster
 4 on the PCA of approximately \$4.4 million of increased expense.

5 Offsetting some of the higher expense was higher net operating margins at Coyote
 6 Springs 2 and changes in market prices that reduced the net power purchase expense.
 7 The table below shows a summary of the major factors driving the deferrals during the
 8 review period.

Factors Contributing to Increased Power Supply Expense Jul 09-Jun 10 - Idaho Allocation	
Change in Hydro Generation	\$12,098,228
Change in CS2 Generation and Fuel Expense	-\$1,657,526
Change in Colstrip Generation and Fuel Expense	\$982,630
Change in Kettle Falls Generation and Fuel Expense	\$188,186
Change in Retail Loads	\$2,910,762
Change in Market Prices on Net Power Purchase Expense	-\$1,795,124
Change in Contract Costs and Other Mics. Factors	-\$901,811
Total Expenses Above the Authorized Level	\$11,825,345
10% Absorbed by the Company	-\$1,182,535
Clearwater Paper Generation and Revenue Variance	-\$19,229
Lancaster Fixed Costs	\$5,990,323
Centralia Refund Adjustment	-\$189,607
9 Total Power Cost Deferrals	\$16,424,297

10 Over the review period hydro generation was 106 aMW below the authorized
 11 level. The lack of hydro generation was particularly acute during the December 2009
 12 through May 2010 period due to lack of normal winter precipitation. Heavy rains in May
 13 and June led to slightly above normal hydro generation in June.

1 Coyote Springs 2 generated 44.5 aMW above the authorized level due to
2 economics. The average fuel expense at Coyote Springs 2 was below the authorized
3 level. The actual gas cost during the review period was \$4.56/dth versus an authorized
4 fuel expense of \$4.66/dth.

5 Colstrip generation was 20.8 aMW below the authorized level due primarily to
6 reduced generation in the third quarter of 2009 due to an extended outage of Unit 3.
7 Kettle Falls generation was 6.5 aMW below the authorized level due to a combination of
8 economics (relatively higher wood fuel costs compared to market electricity prices) and a
9 lack of fuel supply. The Kettle Falls fuel supply is being affected by the reduced
10 construction activity, which has lowered the output at sawmills that produce the majority
11 of the hog fuel supply for Kettle Falls. Retail loads were 66.4 aMW below the
12 authorized level due primarily to winter temperatures that were significantly warmer than
13 normal. The table below shows the change in generation and retail loads from the
14 authorized levels.

Jul 09 - Jun 10 Generation and Load Differences from the Authorized Level		
	<u>Change</u> aMW	<u>Change</u> %
Change in Hydro Generation	-106.4	-19.2%
Change in CS2 Generation	44.5	26.1%
Change in Colstrip Generation	-20.8	-11.0%
Change in Kettle Falls Generation	-6.5	-18.9%
Change in Retail Loads - System	-66.4	-6.1%

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1 **III. NEW LONG-TERM CONTRACTS ENTERED INTO DURING DEFERRAL**
2 **PERIOD**

3 **Q. Please provide a brief description of new long-term contracts that the**
4 **Company entered into in review period.**

5 A. The Company entered into two long-term contracts during the review
6 period. Both contracts were updates to existing contracts. In September 2009, the
7 Company renewed a load following sale for a five year period, October 2009 through
8 September 2014. In January 2010, the Company renewed another load following sale for
9 a five year period, February 2010 through January 2015. Copies of these contracts have
10 been provided electronically with this filing.

11 **IV. SUPPORTING DOCUMENTATION**

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

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

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

1 transaction during the review period. Additional documentation will be provided
2 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 Forward Market Electric and Natural Gas Price Curves: This daily data shows
7 forward market prices for electricity and natural gas and is maintained in Nucleus,
8 the Company's electronic energy transaction database record system. Forward
9 market prices are included in the daily Position Reports.

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

11 **A. Yes.**