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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-11-03

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
15 June 1996. My primary responsibilities involve power contract origination and
16 management 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 2010 through June 2011. 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.

22

23

II. SUMMARY OF DEFERRALS

1

2 **Q. Would you please summarize power supply expenses during the July**
3 **2010 through June 2011 review period?**

4 A. Yes. During the review period, Idaho's share of power supply expenses
5 were lower than the authorized level by \$1,262,205. Certain changes in revenues and
6 expenses are tracked at 100% in the PCA, per prior Commission orders, such as the
7 Clearwater Paper power purchase expense, the Clearwater Paper retail revenue related to
8 the level of Clearwater generation¹, and the Lancaster PPA fixed costs². The Company
9 absorbs \$126,222 with the 90%/10% sharing, leaving a balance of \$1,135,983 in the
10 rebate direction.

11 The \$1,135,983 rebate Company share, plus the Clearwater Paper adjustment of
12 \$47,881, plus the Lancaster fixed costs of \$3,152,470 results in a net deferral for the
13 period of \$2,064,368 in the surcharge direction. The Lancaster fixed costs were deferred
14 for the three-month period of July, August, and September of 2010, as described in
15 footnote 2, until the costs were included in base rates effective October 1, 2010, per
16 Order No. 32070 dated September 21, 2010.

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

19 A. Overall, reduced expense due to higher hydro generation was offset by
20 the Lancaster fixed cost, thermal fuel costs at Colstrip and Kettle Falls and the effect of

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.

1 declining power prices, which drove the expense related to the Gas-Fired Generation and
 2 Fuel Expense³ cost category. High hydro generation was the largest factor, decreasing
 3 costs by more than \$5 million below the authorized level and was the primary factor in
 4 the rebate direction. Lancaster's fixed costs of approximately \$3.1 million, thermal cost
 5 increase of approximately \$1.3, and the Gas-Fired Generation and Fuel Expense of
 6 approximately \$1.8 million were the primary factors in the surcharge direction.

7 The table below shows a summary of the major factors driving the deferrals
 8 during the review period.

| Factors Contributing to Increased (Decreased) Power Supply Expense July 2010 - June 2011 - Idaho Allocation | |
|--|---------------------|
| Change in Hydro Generation | -\$5,260,629 |
| Change in Gas-Fired Generation and Fuel Expense | \$1,758,425 |
| Change in Colstrip Generation and Fuel Expense | \$503,270 |
| Change in Kettle Falls Generation and Fuel Expense | \$795,274 |
| Change in Retail Loads | \$743,322 |
| Change in Other Mics. Factors | \$198,135 |
| Total Expenses Above (Below) the Authorized Level | -\$1,262,203 |
| 10% Absorbed by the Company | \$126,220 |
| Clearwater Paper Generation and Revenue Variance | \$47,881 |
| Lancaster Fixed Costs | \$3,152,470 |
| 9 Total Power Cost Deferrals | \$2,064,368 |

10 Over the review period hydro generation was 63.9 aMW above the authorized
 11 level. Close to normal hydro generation during the second half of 2010 was followed by
 12 very high hydro generation during the first half of 2011.

³ Gas-Fired Generation and Fuel Expense includes the fuel cost and generation value of natural gas-fired resources and also the PCA line item labeled Resource Optimization which includes the expense and revenues related to the purchase and sale of natural gas that was bought for generation but later sold due to the changing economics of gas-fired generation.

1 Colstrip generation was 21.3 aMW below the authorized level due primarily to
 2 reduced generation in the second quarter of 2011 due to a planned maintenance outage of
 3 Unit 3 and reduced generation due to lower market power prices. Gas-fired generation
 4 was 32 aMW below the authorized level due to economics resulting from low power
 5 prices. Kettle Falls generation was 0.7 aMW below the authorized level. Retail loads
 6 were 12.1 aMW below the authorized level. The table below shows the change in
 7 generation and retail loads from the authorized levels.

| Jul 10 - Jun 11 Generation and Load Differences from the Authorized Level | | |
|--|------------------------------------|----------------------------------|
| | <u>Change</u> aMW | <u>Change</u> % |
| Change in Hydro Generation | 63.9 | 12.2% |
| Change in Gas-Fired Generation | -32.0 | -12.8% |
| Change in Colstrip Generation | -21.3 | -11.3% |
| Change in Kettle Falls Generation | -0.7 | -2.1% |
| Change in Idaho Retail Load | -12.1 | -3.4% |

8

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

10 **PERIOD**

11 **Q. Please provide a brief description of new long-term contracts that the**
 12 **Company entered into during the review period.**

13 A. On September 23, 2010 Avista entered into an agreement with Chelan
 14 County PUD to purchase a 4.5% slice of the Rocky Reach hydro development for a
 15 period of July 2011 through June 2012, and a 3.0% slice of the Rocky Reach and Rock
 16 Island hydro developments for a period of July 2012 through December 2014. This
 17 purchase was made through a competitive auction. The purchase was made to maintain

1 an adequate level of Mid-Columbia generation to provide load regulation and ramping
2 capabilities at the Mid-Columbia, which allows the company to operate its own hydro
3 facilities in a more efficient manner. Avista's long-term purchase of 2.9% of the Rocky
4 Reach hydro development expires October 31, 2011. This purchase did not affect the
5 power supply expense during the July 2010 through June 2011 PCA review period since
6 the contract begins July 1, 2011.

7 **IV. SUPPORTING DOCUMENTATION**

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

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

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

1 Position Reports: These daily reports show the daily and term purchases each
2 business day and provide a summary of market power and natural gas prices over
3 a 36-month forward period.

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

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

9 A. Yes.