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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	CASE NO. AVU-E-16-03
OF AVISTA CORPORATION FOR THE)	
AUTHORITY TO INCREASE ITS RATES)	
AND CHARGES FOR ELECTRIC SERVICE)	DIRECT TESTIMONY
TO ELECTRIC CUSTOMERS IN THE)	OF
STATE OF IDAHO)	WILLIAM G. JOHNSON
)	

FOR AVISTA CORPORATION

(ELECTRIC)

1 I. INTRODUCTION

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

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

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

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

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

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

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

22 A. My testimony will 1) identify and explain the
23 proposed normalizing and pro forma adjustments to the 2015

1 test period power supply revenues and expenses, and 2)
2 describe the proposed level of expense and Load Change
3 Adjustment Rate (LCAR) for Power Cost Adjustment (PCA)
4 purposes, using the pro forma costs proposed by the Company
5 in this filing.

6 **Q. Are you sponsoring any exhibits to be introduced in**
7 **this proceeding?**

8 A. Yes. I am sponsoring Exhibit No. 6, Schedules 1
9 through 4, which were prepared by me. Exhibit No. 6,
10 Schedule 1 identifies the power supply expense and revenue
11 items that fall within the scope of my testimony. A brief
12 description of each adjustment is provided in Exhibit No. 6,
13 Schedule 2. Exhibit No. 6, Schedule 3 shows the pro forma
14 fuel costs for each thermal plant and short-term purchase and
15 sales by month. The proposed authorized PCA power supply
16 expense and revenue, transmission expense and revenue, retail
17 sales and LCAR are shown in Exhibit No. 6, Schedule 4.

18 **Q. Are there other Company witnesses providing**
19 **testimony regarding issues you are addressing?**

20 A. Yes. Company witness Mr. Kalich provides detailed
21 testimony on the AURORA model used by the Company to develop
22 short-term power purchase expense, fuel expense and short-
23 term power sales revenue included in my exhibits.

1 **II. OVERVIEW OF PRO FORMA POWER SUPPLY ADJUSTMENT**

2 **Q. Please provide an overview of the pro forma power**
3 **supply adjustment.**

4 A. The pro forma power supply adjustment involves the
5 determination of revenues and expenses based on the
6 generation and dispatch of Company resources and expected
7 wholesale market power prices as determined by the AURORA
8 model simulation for the pro forma rate period (calendar year
9 2017) under normal weather and hydro generation conditions.
10 In addition, adjustments are made to reflect contract changes
11 between the historical test period and the 2017 pro forma
12 period. Table No. 1 below shows total net power supply
13 expense during the test period and the pro forma period. For
14 information purposes only, the power supply expense¹ currently
15 in base retail rates, which is based on a calendar 2016 pro
16 forma period, is also shown.

¹ For the remainder of my testimony, for purposes of the power supply adjustment I will refer to the net of power supply revenues and expenses as power supply expense for ease of reference.

1 **Table No. 1:**

Power Supply Expense		
	<u>System</u>	<u>Idaho Allocation</u>
Power Supply Expense in Current Rates (2016 pro forma)	\$152,790,000	\$52,513,923
Actual 2015 Test Period Power Supply Expense	\$160,422,000	\$55,137,041
Proposed 2017 Pro forma Power Supply Expense	\$168,354,000	\$57,863,270
Proposed 2017 Expense vs 2015 Test Period	\$7,932,000	\$2,726,228
Proposed 2017 Expense vs Current Rates	\$15,564,000	\$5,349,347

8 The net effect of my adjustments to the test year power
9 supply expense is an increase in 2017 of \$7,932,000
10 (\$168,354,000 - \$160,422,000) on a system basis and
11 \$2,726,228 Idaho allocation. The increased expense in 2017
12 from the level in current base rates is \$5,349,347 (Idaho
13 share).

14

15 **III. PRO FORMA POWER SUPPLY ADJUSTMENTS**

16 **Q. Please identify the specific power supply cost**
17 **items that are covered by your testimony and the total**
18 **adjustment being proposed.**

19 A. Exhibit No. 6, Schedule 1 identifies the power
20 supply expense and revenue items that fall within the scope
21 of my testimony. These revenue and expense items are related
22 to power purchases and sales, fuel expenses, transmission

1 expense, and other miscellaneous power supply expenses and
2 revenues.

3 **Q. What is the basis for the adjustments to the test**
4 **period power supply revenues and expenses?**

5 A. The purpose of the adjustments to the test period
6 is to normalize power supply expenses for normal weather and
7 normal hydroelectric generation and to reflect current
8 forward natural gas prices using the AURORA model and include
9 other known and measurable changes for the 2017 pro forma
10 period.

11 A brief description of each adjustment is provided in
12 Exhibit No. 6, Schedule 2. Detailed workpapers have been
13 provided to the Commission with this filing to support each
14 of the pro forma revenues and expenses. The detailed
15 workpapers for each adjustment show the actual revenue or
16 expense in the test period, and the pro forma revenue or
17 expense.

18 **Long-Term Contracts**

19 **Q. How are long-term power contracts included in the**
20 **pro forma?**

21 A. Long-term power contracts are included in the pro
22 forma by including the energy receipt or obligation
23 associated with the contract in the AURORA Model and

1 including the cost or revenue in the pro forma net power
2 supply expense.

3 **Q. Are there any new long-term power purchases or**
4 **sales in the pro forma that are not in current base rates?**

5 A. Yes. The 2017 pro forma developed for this case
6 includes the Palouse Wind power purchase. Currently, the
7 Palouse Wind purchase is recovered through the Power Cost
8 Adjustment (PCA) mechanism. For settlement purposes in the
9 prior two general rate cases, the Company agreed to recover
10 the Palouse Wind costs through the PCA. The Company is
11 proposing that Palouse Wind be included in base rates
12 beginning January 1, 2017.

13 **Q. Was Palouse Wind a prudent resource acquisition?**

14 A. Yes. At the time the contract was entered into,
15 the Palouse Wind purchase was one of, if not the lowest
16 priced, wind resource projects in the Northwest. The
17 purchase price also compared favorably to the Idaho avoided
18 cost rates at the time. The 20-year (2013-2032) levelized
19 cost of Palouse Wind was \$63.61/MWh. By comparison, Avista's
20 Idaho avoided cost rate (effective 8/30/2011), including the
21 wind integration deduction, for the same period was
22 \$67.41/MWh. At the time the Palouse Wind contract was

1 entered into, Palouse Wind was a cost-effective, prudent, and
2 long term firm resource acquisition.

3 **Q. How does the Palouse Wind site compare to other**
4 **wind facilities in the Pacific Northwest?**

5 A. Palouse Wind is a very good wind site. According
6 to the Energy Information Administration, the average
7 capacity factor for wind facilities in the Pacific Northwest
8 is 25.4%. The life to date (January 2013 through April 2016)
9 capacity factor at Palouse Wind is 33.5%. This capacity
10 factor advantage, plus the fact that the site sits only four
11 miles from an existing Avista 230 kV transmission line, makes
12 the Palouse Wind project a favorable generation facility for
13 Avista and its Idaho and Washington customers.

14 **Q. Do Idaho customers receive benefits other than an**
15 **energy resource from Palouse Wind and other Avista renewable**
16 **energy resources?**

17 A. Yes. Avista is actively involved in the Renewable
18 Energy Credit (REC) market and has received significant REC
19 sales revenue due to our mix of renewable resources. While
20 the state of Idaho may not have a renewable portfolio
21 standard (RPS), the presence of RPSs in other western states
22 and the national Green-e REC market has provided significant
23 benefits to Idaho customers. Avista's Idaho customers have

1 received \$17.58 million dollars of revenue from REC sales for
2 the period 2007 through 2015. This rate case includes \$1.18
3 million of REC sales revenue for Idaho customers.

4 **Q. Are there any long-term power purchases or sales**
5 **that are in current base rates but not in this pro forma?**

6 A. Yes. The Portland General Electric capacity sale
7 is in current base rates but not in the pro forma period. In
8 1998 Avista monetized the majority of the revenue from the
9 Portland General Electric capacity sale. The monetization
10 loan was paid off in January 2015 and the full revenue
11 (approximately \$19.2 million) from the contract returned to
12 the Company beginning January 2015. That contract ends on
13 December 31, 2016. The sale is a capacity exchange sale
14 where Portland General Electric can take 150 MW for 10 hours
15 of their choosing each day and return the energy on the hours
16 of their choosing. The contract also contains unique real-
17 time change provisions that are not standard in that type of
18 contract. Current market conditions do not support a capacity
19 sale at similar rates to the expiring contract, nor would
20 Avista desire to enter into a new capacity contract with
21 similar real-time change provisions.

22 The increase in power supply expense versus the amount
23 in current base rates is partially due to this contract

1 ending. This equates to approximately \$4 million (Idaho
2 share) of the \$5.3 million increased power supply net
3 expense.

4 **Short-Term Power Purchases and Sales**

5 **Q. How are short-term transactions included in the pro**
6 **forma?**

7 A. Short-term electric power purchases and sales are
8 an output of the AURORA model. The model calculates both the
9 volumes and price of short-term purchases and sales that
10 balance the system's generation and long-term purchases with
11 retail load and other obligations. The price of the short-
12 term transactions represents the price of spot market power
13 as determined by the AURORA model.

14 **Q. What actual forward short-term transactions are**
15 **included in the pro forma?**

16 A. Consistent with past general rate cases, the pro
17 forma does not include actual short-term fixed-price
18 transactions entered into for the 2017 pro forma period.

19 **Thermal Fuel Expense**

20 **Q. How are thermal fuel expenses determined in the pro**
21 **forma?**

22 A. Thermal fuel expenses include Colstrip coal costs,
23 Kettle Falls wood-waste costs, and natural gas expense for

1 the Company's gas-fired resources including Coyote Springs 2,
2 Lancaster, Rathdrum, Northeast, Boulder Park, and the Kettle
3 Falls combustion turbine. Unit coal costs at Colstrip are
4 based on the long-term coal supply and transportation
5 agreements. Unit wood fuel costs at Kettle Falls are based
6 on multiple shorter-term contracts with fuel suppliers and
7 inventory. Total fuel costs for each plant are based on the
8 unit fuel cost and the plant's level of generation as
9 determined by the AURORA model.

10 Exhibit No. 6, Schedule 3 shows the pro forma fuel costs
11 by month for each plant. Mr. Kalich provides details and
12 supporting workpapers regarding the level of generation for
13 the Company's thermal plants, and the fuel cost for thermal
14 and natural gas-fired plants.

15 **Transmission Expense**

16 **Q. What changes in transmission expense are in the pro**
17 **forma compared to the test-year and the expense in current**
18 **base rates?**

19 A. BPA's transmission rates increased October 1, 2015
20 and those increases are reflected in the 2017 pro forma
21 compared to the test-year. BPA transmission rates are
22 expected to increase again on October 1, 2017 and those
23 expected increases are included in the 2017 pro forma.

1 Summary

2 Q. Please summarize your proposed pro forma power
3 supply expense that is provided to Company witness Ms.
4 Andrews for the Company's electric Pro Forma study.

5 A. The net effect of my adjustments to the test year
6 power supply expense is an increase in 2017 of \$7,932,000
7 (\$168,354,000 - \$160,422,000) on a system basis and
8 \$2,726,228 Idaho allocation. The increased expense in 2017
9 from the level in current base rates is \$5,349,347 (Idaho
10 share).

11

12 IV. PCA AUTHORIZED VALUES

13 Q. What is Avista's proposed authorized power supply
14 expense and revenue for the PCA?

15 A. The proposed authorized level of annual system
16 power supply expense is \$150,187,954 for the 2017 pro forma.
17 This is the sum of Accounts 555 (Purchased Power), 501
18 (Thermal Fuel), 547 (Fuel), less Account 447 (Sale for
19 Resale). It also includes transmission expense and
20 transmission revenue. The proposed level of net Renewable
21 Energy Credits (REC) revenue is also included in the total
22 authorized net expense.

1 **Q. What is the level of retail sales and the proposed**
2 **Load Change Adjustment Rate for the PCA?**

3 A. The proposed authorized level of retail sales to be
4 used in the PCA is 2015 weather adjusted Idaho retail sales.
5 The proposed Load Change Adjustment Rate is \$24.96/MWh for
6 the 2017 pro forma period, which is the energy related
7 portion of the average production and transmission cost.

8 The proposed authorized PCA power supply expense and
9 revenue, transmission expense and revenue, REC revenues, Load
10 Change Adjustment Rate and retail sales are shown in Exhibit
11 No. 6, Schedule 4.

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

13 A. Yes.