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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. GNR-E-02-01

REBUTTAL TESTIMONY OF ROBERT GRUBER

REPRESENTING AVISTA CORPORATION

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2 **I. INTRODUCTION**

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

5 A. My name is Robert Gruber. My business address is located at 1411 East Mission
6 Avenue in Spokane, Washington. The Company employs me as its Natural Gas Resource
7 Manager.

8 Q. Please state your educational background and professional experience.

9 A. I graduated with a Bachelor of Science in Business Administration from Southern
10 Oregon College in 1971. Professionally, I have been involved in the natural gas and electric
11 utility industry for 35 years. My responsibilities have included various positions in field
12 operations, administration, long term planning, regulatory and gas supply. I have testified in
13 various tariff and rate proceedings before the state regulatory commissions in Oregon, California,
14 Nevada, Utah and Arizona. I have made presentations on natural gas pricing and hedging
15 strategies to the Commissioners in Washington, Oregon and Idaho. I have also submitted
16 prepared direct testimony in cases before the FERC.

17 Q. Please state your qualifications with respect to knowledge of natural gas pricing and
18 transportation in the region.

19 A. My responsibilities for the last 14 years have been focused on gas supply and
20 pipeline issues in the Northwest. As Manager of Natural Gas Resources my responsibilities
21 include administration of the agency agreement for natural gas purchases under the Gas
22 Benchmark Mechanism for our core customers in Washington, Oregon and Idaho. I am

1 responsible for direct purchases of natural gas supply and fixed price hedging strategies for our
2 core customers in California. I help coordinate Avista's Strategic Oversight Group, which
3 provides gas purchase and fixed price hedging strategies for our Gas Benchmark Mechanism. I
4 represent Avista on the Management Committee for the Jackson Prairie Storage Project, of which
5 Avista is a one third owner. I am a member of Williams' Shipper Advisory Board for Northwest
6 Pipeline operations. I am a member of the Escrow Management Committee, which is a group of
7 shippers on Northwest Pipeline that are working to help find solutions to displacement problems
8 on Northwest's system. I am a member of the Western Energy Institute's Gas Management
9 Committee, which is an industry forum to address gas transportation, supply and market issues in
10 the Western United States. I have also been a participant on the Natural Gas Advisory
11 Committee in the development of the Northwest Power Planning Council's Fuel Price Forecasts
12 for the 5th Northwest Conservation and Electric Power Plan.

13 Q. Have you provided direct testimony in this proceeding?

14 A. No.

15 Q. What is the scope of your rebuttal testimony?

16 A. My rebuttal testimony will discuss how using a 100% Sumas index to represent
17 natural gas prices is not appropriate for calculating Fueled contract avoided cost rates, and that a
18 50% Sumas/50% AECO price better represents the cost of procuring natural gas in Idaho. I will
19 support the Company's original position that Non-Fueled avoided cost rates should be calculated
20 using the NWPPC's medium natural gas price forecast. I will also discuss the reasonableness of
21 moving to the Commission Staff method for establishing the starting year natural gas price for
22 Non-Fueled contracts.

1 Q. Should Sumas be used exclusively as a pricing point to determine gas prices as
2 proposed by some parties in this proceeding?

3 A. No. An exclusive Sumas index does not appropriately represent the cost of natural
4 gas delivered to Idaho. Prices should be based on a mix of supply basins that more accurately
5 reflect how the Company would purchase natural gas for a new generating facility. For example,
6 the Company's core natural gas business procures only about 25 percent of its natural gas
7 supplies based on a Sumas index. The remaining 75 percent comes from the lower-cost AECO
8 and Rockies basins. For its major thermal projects, including Rathdrum and Coyote Springs II,
9 the Company currently sources its natural gas supplies out of AECO in Alberta, Canada.

10 Avista sources fuel for its major thermal projects from Alberta simply because of their
11 proximity to the PG&E Gas Transmission Northwest pipeline. Because of their proximity to
12 Northwest Pipeline, new generation facilities in Southern Idaho likely wouldn't always source
13 exclusively out of the Alberta basin. Generating facilities built in Southern Idaho would most
14 likely be using blend of Sumas and AECO as a fuel source. Therefore, for a statewide surrogate
15 price, we believe that a Sumas/AECO mix is appropriate.

16 Q. Why would you exclude domestic production out of the Rockies basins from the
17 mix for fueling new generation in Idaho?

18 A. Physical pipeline capacity on Williams' Northwest Pipeline is constrained for
19 transportation of natural gas from the Rockies into Southern Idaho. Williams has filed for a
20 certificate to construct additional facilities out of the Rockies but the project will offset a
21 displacement shortfall and satisfy a portion of Williams existing contract obligation. While we
22 do not have project cost estimates for additional facilities expansions out of the Rockies, it is our

1 understanding that the next Rockies expansion will be incrementally more expensive than the
2 cost of recent expansions on Northwest from Sumas and on PG&E Gas Transmission Northwest
3 and TransCanada pipelines from AECO. Therefore Sumas and AECO are more likely sources
4 for fueling new facilities in the region in the next few years.

5 Q. How does the AECO index compare to the Sumas index?

6 A. Over the past 5 years (1997-2001), AECO natural gas was approximately 78% of
7 the Sumas index. The average AECO price was \$2.15/Dth, while the average Sumas price was
8 \$2.80/dth.

9 Q. What mix of the Sumas and AECO indexes would best reflect natural gas prices
10 delivered to Idaho?

11 A. I recommend a 50%/50% Sumas/AECO mix adjusting AECO up by \$0.16/Dth.
12 The additional \$0.16/Dth represents an average transportation expense necessary to deliver
13 AECO gas to the U.S. border as Sumas gas is. The split should be applied to Fueled contracts on
14 a going-forward basis. If the Commission were to reject the Company's position to adopt the
15 NWPPC medium natural gas price forecast for Non-Fueled contracts, and instead adopt a starting
16 natural gas price based on historical indexes, the split should be applied to these contracts as
17 well.

18 Q. Why do you support the 50% Sumas 50% AECO mix?

19 A. For the reasons stated above, I believe that Rockies should be excluded. Combined
20 cycle turbines are generally designed as base load plants that require firm pipeline capacity for
21 fuel. Fueling a plant in Idaho will require either pipeline expansions or acquisition of existing
22 pipeline capacity. While I believe that AECO will weigh more heavily in the mix, the 50/50

1 proposal is presented as a reasonable alternative because some space may be available for
2 expansion or acquisition from Sumas.

3 Q. After reviewing the various proposals do you still believe that the NWPPC price
4 forecast is the most appropriate for setting avoided cost rates?

5 A. Yes, the Company still believes that the NWPPC medium natural gas price forecast,
6 in total including escalation rates, is the best forecast to use.

7 Q. In the interest of a range of reasonableness solution would the Company support a
8 five-year rolling average natural gas price as recommended by the Commission Staff?

9 A. Yes, the Commission Staff position seems like a reasonable means to remove much
10 of the volatility recently seen in the natural gas markets, and it would be simple to implement on
11 a forward-going basis provided, of course, that a 50% Sumas, 50% AECO split is utilized rather
12 than Sumas exclusively.

13 Q. Have you calculated the natural gas starting price using the five-year rolling average
14 proposed by Commission Staff and the 50%/50% mix of Sumas and AECO?

15 A. Yes, as shown below, the five-year average price of all historical price, including
16 \$0.16/Dth for AECO to the U.S. border and \$0.35/Dth for city gate delivery, is \$2.905/Dth.

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**Comparison of AECO to SUMAS Indexes
1997 to 2001**

<u>Period</u>	<u>AECO</u> (\$/Dth)	<u>SUMAS</u> (\$/Dth)	<u>Average</u> (\$/Dth)	<u>AECO %</u>
1997	1.169	1.510	1.340	77.5%
1998	1.250	1.747	1.499	71.5%
1999	1.770	2.000	1.885	88.5%
2000	3.349	5.035	4.192	66.5%
2001	3.194	3.721	3.458	85.9%
1997-2001	2.147	2.803	2.475	78.0%
Add x-port to U.S. Border	0.160	0.000	0.080	
Add NWPPC x-port to NW	0.350	0.350	0.350	
1997-2001	2.657	3.153	2.905	

Q. Does this conclude your rebuttal testimony?

A. Yes it does.