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IDAHO PUBLIC UTILITIES COMMISSION

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF AVISTA CORPORATION FOR THE)
AUTHORITY TO INCREASE ITS RATES)
AND CHARGES FOR ELECTRIC AND)
NATURAL GAS SERVICE TO ELECTRIC)
AND NATURAL GAS CUSTOMERS IN THE)
STATE OF IDAHO)
_____)

CASE NO. AVU-E-08-01

DIRECT TESTIMONY
OF
BRUCE F. HOWARD

FOR AVISTA CORPORATION

(ELECTRIC ONLY)

1 I. INTRODUCTION

2 Q. Please state your name, employer and business
3 address.

4 A. My name is Bruce F. Howard. I am employed as the
5 Director of Environmental Affairs by Avista Corporation
6 located at 1411 East Mission Avenue, Spokane, Washington.

7 Q. Would you briefly describe your educational and
8 professional background?

9 A. Yes. I received a Bachelor of Science degree in
10 Natural Resources from Cornell University in 1980 and a
11 Master of Arts from the University of Texas in Geography in
12 1986. I started working for Avista in 2000 as a Corporate
13 Environmental Auditor. Since 2001, I held the position of
14 the Spokane River License Manager until my recent promotion
15 to Director of Environmental Affairs. My primary
16 responsibilities involve leading the effort to obtain and
17 manage a new license from the Federal Energy Regulatory
18 Commission for the Spokane River Hydroelectric Project.

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

21 A. My testimony will provide an overview of Spokane
22 River Relicensing including the history, process and
23 issuance of a FERC license.

24 Q. Are you sponsoring any exhibits?

1 A. Yes. I am sponsoring Exhibit No. 7, Schedule 1
2 (Spokane River Project Map), and Exhibit No. 7, Schedule 2
3 (Timeline for the Spokane River Relicensing Process).

4 **Q. Could you please provide an overview of the**
5 **Spokane River Project?**

6 A. Yes. As shown in Exhibit No.7, Schedule 1, the
7 Spokane River Project, which is currently under a single
8 FERC license, includes the Long Lake, Nine Mile, Upper
9 Falls, Monroe Street, and Post Falls hydroelectric
10 developments. Little Falls, the Company's sixth project on
11 the Spokane River, is not under FERC jurisdiction, but
12 operates under separate Congressional authority. A
13 separate license application was made for the Post Falls
14 Project due to the unique circumstances that surround the
15 future operation of the facility, as it relates to Lake
16 Coeur d'Alene. A separate licensing track for the four
17 developments downstream of Post Falls was expected to
18 provide a more efficient and timely process for moving
19 ahead with a new FERC license for those developments.

20 The five FERC jurisdictional developments have a total
21 generating capacity of approximately 156 MW, and average
22 annual energy production of approximately 105 aMW. Our
23 current license for the Spokane River Project expired in
24 August 2007 and we have been operating under an annual
25 license while FERC processes the Company's relicensing

1 applications. The Company anticipates a final license
2 approved by FERC by December 2008.

3 **Q. Can you provide an overview of the history of the**
4 **Spokane River relicensing process?**

5 A. Yes. Exhibit No. 7, Schedule 2 is a simplified
6 timeline setting forth key milestones. The Spokane River
7 relicensing process began in April 2001 with preliminary
8 stakeholder and outreach meetings. The request for the use
9 of the Alternative Licensing Process was submitted to FERC
10 in April 2002. FERC approved the process in June 2002.
11 This was followed by the formation of a relicensing team
12 including hundreds of stakeholders from local, state,
13 federal and tribal governments, as well as public interest
14 groups. Stakeholders formed technical work groups, scoped
15 issues involved in relicensing and determined the
16 information that would be needed for the relicensing
17 process. The next several years included information
18 gathering, studies, the development of Protection,
19 Mitigation and Enhancement (PM&E) measures, and negotiating
20 agreements with stakeholders. The Company filed
21 applications with FERC in July 2005 to relicense the five
22 subject hydroelectric generation projects located on the
23 Spokane River.

24 Since the filing of the applications, we have been
25 meeting FERC's procedural requirements as they process the

1 applications. In July 2006, government agencies and Native
2 American tribes submitted proposed terms and conditions for
3 the relicensing applications. These submittals included
4 mandatory conditions submitted by the Department of
5 Interior, Bureau of Indian Affairs, for the Post Falls
6 Project. In August 2006, Avista requested a trial-type
7 hearing in front of an Administrative Law Judge (ALJ) at
8 the U.S. Department of the Interior concerning the factual
9 bases for the proposed conditions. The ALJ held a hearing
10 in December 2006 and issued a finding of facts on January
11 8, 2007. The ALJ's findings were the basis for the
12 Department of the Interior's (DOI) revised mandatory
13 conditions, which were issued on May 7, 2007. The revised
14 conditions did change, reflecting the findings of the ALJ.
15 Most significantly, the DOI dropped an earlier proposed
16 fishery condition and increased obligations in other areas
17 such as wetlands restoration.

18 FERC issued a Draft Environmental Impact Statement
19 (DEIS) in December 2006, held public hearings in February
20 2007, and received formal comments through March 6, 2007.
21 The DEIS analyzed Avista's applications, as well as
22 proposed recommended and mandatory conditions. Many
23 parties filed comments on the DEIS. FERC issued a final
24 EIS in July 2007.

1 To meet additional relicensing requirements, Avista
2 filed applications for Clean Water Act Section 401
3 Certification in July 2006 with the Washington Department
4 of Ecology and the Idaho Department of Environmental
5 Quality. According to statutory timeframes, these
6 certifications were expected by July 2007. However, both
7 states requested that Avista withdraw its applications and
8 reapply. Avista did so in June 2007, creating a new
9 statutory deadline of June 2008 for issuance of the 401
10 certifications. Avista also prepared a draft Biological
11 Assessment as the designated non-federal representative for
12 consultation under the Endangered Species Act (ESA). In
13 early 2007, FERC issued a Biological Assessment and
14 requested concurrence from the U.S. Fish and Wildlife
15 Service ("the Service") that the Post Falls and Spokane
16 River Projects would be "not likely to adversely affect"
17 any listed species. The Service concurred with the
18 determination with respect to bald eagles, and stated that
19 more information would be needed before a concurrence
20 decision could be reached regarding bull trout. Avista has
21 continued to consult with the USFWS as the designated non-
22 federal representative. Resolution on this issue is
23 required prior to FERC issuing the license. The timing for
24 this resolution is currently unknown as the USFWS may
25 concur with FERC's "not likely to adversely affect"

1 determination, or may initiate formal consultation and
2 develop a Biological Opinion. Avista anticipates that the
3 USFWS may concur with FERC's determination. In either
4 case, resolution of this issue to allow FERC to render a
5 final license decision should occur in 2008.

6 **Q. Please explain the use of the Alternative**
7 **Licensing Process and why it was used.**

8 A. At the time Avista was required to begin the
9 relicensing process, FERC provided two types of relicensing
10 processes, the Alternative Licensing Process (ALP) and the
11 Traditional Process. (FERC has since added a third,
12 preferred, process: the Integrated Licensing Process.) The
13 licensee may determine which process they would prefer to
14 use, but it is up to FERC to approve a request to use the
15 ALP. In 2001, two stakeholder meetings were held to form
16 the relicensing team, which developed a draft
17 Communications Protocol and Guiding Principles for the
18 relicensing effort. These early efforts resulted in broad
19 agreement to use the ALP for a variety of reasons. The ALP
20 was determined to be a preferred process because it
21 promotes reaching agreement and resolution of issues,
22 provides local stakeholders with more control of decisions,
23 and streamlines the licensing process by initiating the
24 required National Environmental Policy Act (NEPA) review
25 sooner in the process. It also facilitates the timely

1 review and license issuance by FERC, builds working
2 relationships between resource managers to benefit the
3 larger community. This helps explain the success of the
4 Clark Fork relicensing process, which helped pioneer the
5 ALP. A request to use the ALP was made to FERC in April
6 2002 and the request was approved in June 2002. The
7 Company has used the ALP for the development of the Spokane
8 River License.

9 **Q. What were the risks involved with the relicensing**
10 **process?**

11 A. The risks of the relicensing process included the
12 potential liabilities associated with a range of mandatory
13 conditioning authorities. Most notably, the use of Lake
14 Coeur d'Alene for water storage triggers the application of
15 Section 4(e) authority under the Federal Power Act, since
16 the United States Supreme Court found in 2001 that the
17 southern portion of the Lake was held in trust for the
18 Coeur d' Alene Tribe by the United States. Additional
19 mandatory authorities are expressed in Clean Water Act
20 Section 401 certification requirements. Compliance with
21 Endangered Species Act requirements is another risk in this
22 process. Additional risks include the range of recommended
23 PM&E measures by third-parties, as well as FERC's own
24 deliberations. Many proposed measures do not currently
25 have specific dollar amounts attached at this time due to

1 the uncertain outcome or because studies need to be done in
2 order to determine the feasibility of certain projects.

3 **Q. What are the main areas of contention in the**
4 **Spokane River Project relicensing process?**

5 A. The main areas of contention in the relicensing
6 process revolve around potential impacts of hydro
7 operations on a variety of cultural and natural resources
8 in the Project area. These issues vary by each
9 hydroelectric facility. The main issues at Post Falls
10 derive from the fact that the development stores up to 7.5
11 feet of water on top of Coeur d'Alene Lake each summer. In
12 the relicensing context, this may impact recreation site
13 demand, use and access, cultural resources and their
14 protection, shoreline erosion and riparian habitat,
15 fisheries habitats and resources, water quality (in
16 particular, temperature and dissolved oxygen), aquatic weed
17 distribution, protection of bald eagles, and wetland types
18 and distribution. In addition, the issue of balancing
19 Coeur d'Alene Lake summer lake levels and Spokane River
20 flows downstream has been a major contention between
21 stakeholders and between the States of Idaho and
22 Washington.

23 The main issues concerning the Spokane River dams in
24 Washington other than Post Falls, include total dissolved
25 gases, dissolved oxygen levels, lake temperature, sediment

1 transport and deposition, fish habitat and fishing
2 opportunities, wetland type and distribution, aesthetic
3 flows, recreational access and demand, riparian habitat and
4 shoreline protection and the control of noxious and exotic
5 aquatic weeds. In addition, given the setting of Coeur
6 d'Alene Lake and Lake Spokane within minutes of a
7 population of over 400,000 people, the stewardship of these
8 lakes, and the Spokane River, has been a major relicensing
9 issue.

10 **Q. Can you provide an overview of the costs incurred**
11 **in the relicensing process?**

12 A. Yes. The relicensing costs included in this case
13 are \$25.0 million which is expected to be accrued through
14 December 2008. Of this \$25.0 million, \$20.6 million has
15 been spent on relicensing process costs through the end of
16 2007. The breakdown of these costs include \$13.7 million
17 for non-labor costs, \$3.8 million for labor costs, and \$3.1
18 million of charges for allowance for funds used during
19 construction (AFUDC). Details associated with these costs
20 have been provided in accompanying work papers with this
21 case. Company witness Ms. Andrews includes these actual
22 and pro forma costs in this rate case.

23 **Q. Are there additional relicensing-related costs**
24 **included in this case?**

1 These certifications will define additional mandatory
2 requirements.

3 Some costs associated with relicensing are not known
4 at this time because of the need to complete various
5 environmental and engineering studies to determine the
6 feasibility of several projects. Accordingly, additional
7 PM&E costs that are determined after the completion of
8 studies will be included in future rate proceedings.

9 **Q. Do you have any sense for the range of total**
10 **costs related to relicensing Spokane River Project?**

11 A. The Company's estimates of the proposed licensing
12 requirements were estimated to be between \$400 and \$500
13 million for the Post Falls Project and between \$175 and
14 \$225 million for the downstream Spokane River Project, over
15 a 50-year licensing period, based on Avista's review of the
16 initial proposed mandatory and recommended conditions.
17 However, several key portions of the process have not yet
18 been resolved; these include the Clean Water Act Section
19 401 certifications and Endangered Species Act compliance.
20 In addition, Avista is still in negotiations with some
21 parties. As such, the final costs for relicensing the
22 Spokane River Projects will be unknown until the final
23 terms and conditions are resolved and reflected in a FERC
24 order. Even at that time, Avista expects that some

1 requirements will include further study and consultation
2 with certain parties.

3 Q. Does this conclude your pre-filed direct
4 testimony?

5 A. Yes it does.

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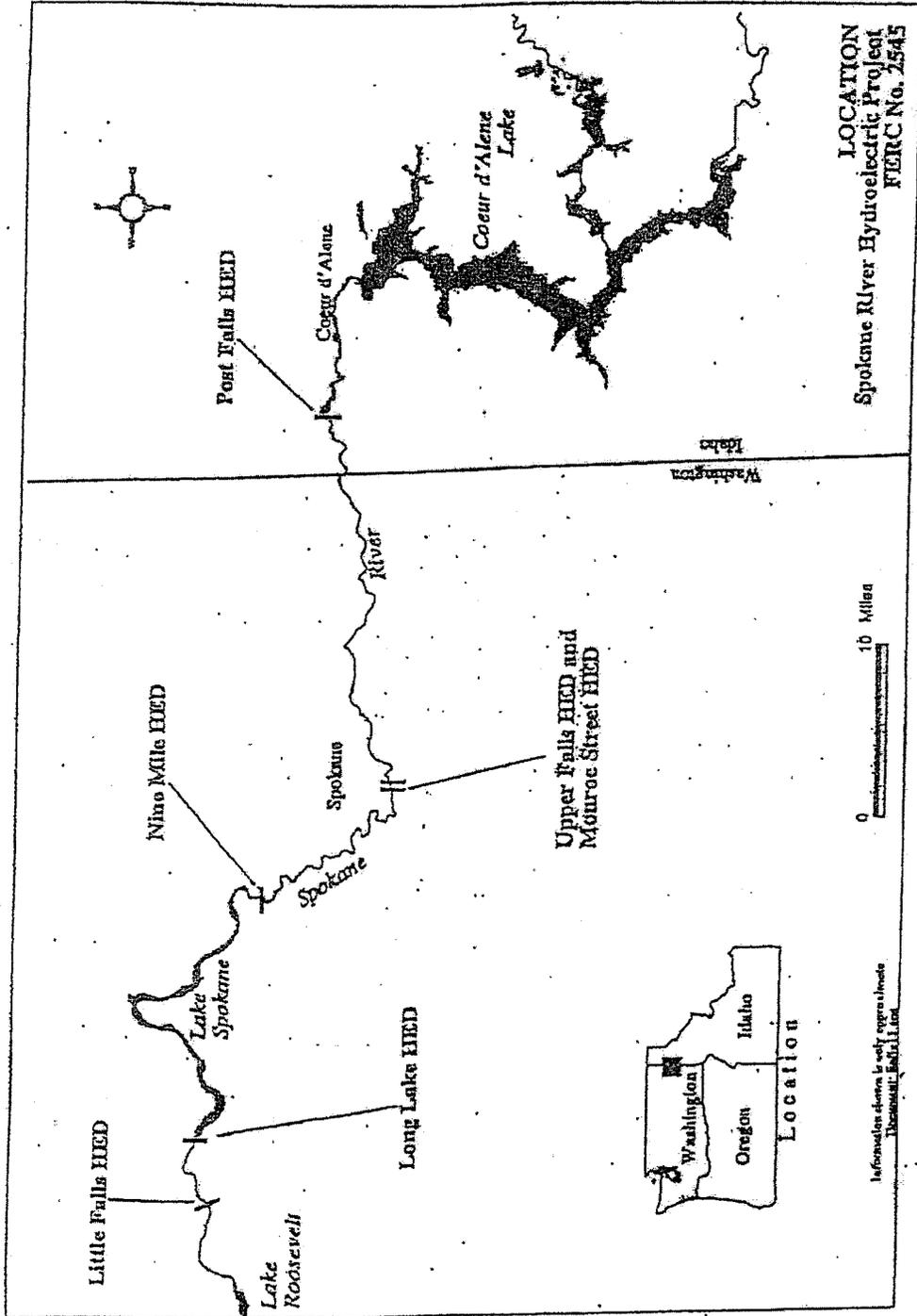
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)	

FOR AVISTA CORPORATION

(ELECTRIC ONLY)



LOCATION
 Spokane River Hydroelectric Project
 FERC No. 2545

Spokane River Hydroelectric Projects

Spokane River Relicensing Timeline

Formed Relicensing Team
Start formal process
Identify Work Groups
Scope issues
Determine Information needs

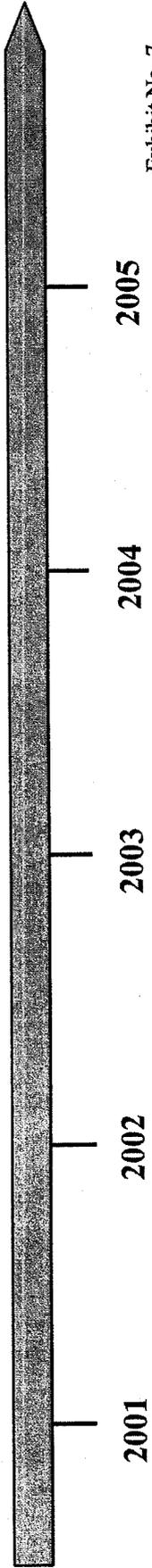
Information gathering, studies, develop PM&Es and Environmental Assessment

ALP request submitted

Notice of Intent

Stakeholder outreach and meetings

License Applications filed



Spokane River Relicensing Timeline

