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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION) CASE NO. AVU-E-08-01
OF AVISTA CORPORATION FOR THE)
AUTHORITY TO INCREASE ITS RATES)
AND CHARGES FOR ELECTRIC AND)
NATURAL GAS SERVICE TO ELECTRIC) DIRECT TESTIMONY
AND NATURAL GAS CUSTOMERS IN THE) OF
STATE OF IDAHO) SCOTT J. KINNEY
)

FOR AVISTA CORPORATION

(ELECTRIC ONLY)

1 I. INTRODUCTION

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

4 A. My name is Scott J. Kinney. I am employed by
5 Avista Corporation as the Chief Engineer, System
6 Operations. My business address is 1411 East Mission,
7 Spokane, Washington.

8 **Q. Please briefly describe your education background**
9 **and professional experience.**

10 A. I graduated from Gonzaga University in 1991 with
11 a B.S. in Electrical Engineering. I am a licensed
12 Professional Engineer in the State of Washington. I joined
13 the Company in 1999 after spending eight years with the
14 Bonneville Power Administration. I have held several
15 different positions in the Transmission Department. I
16 started at Avista as a Senior Transmission Planning
17 Engineer. In 2002, I moved to the System Operations
18 Department as a supervisor and support engineer. In 2004,
19 I was appointed to my current position of Chief Engineer,
20 System Operations.

21 **Q. What is the scope of your testimony?**

22 A. My testimony describes Avista's pro forma period
23 transmission revenues and expenses. I also discuss the
24 nearly completed 5-year Transmission Upgrade Project, and
25 the Transmission and Distribution expenditures that are

1 part of the capital additions testimony provided by Company
2 witness Mr. Dave DeFelice, as well as the Company's Asset
3 Management Program expenses. Company witness Ms. Andrews
4 incorporates the Idaho share of the net transmission
5 expenses, the transmission and distribution capital
6 additions, and the Asset Management Program O&M expenses
7 proposed in this case.

8 **Q. Are you sponsoring any exhibits?**

9 A. Yes. I am sponsoring Exhibit No. 10, Schedules
10 1-3, which were prepared under my direction. Schedule 1,
11 provides the transmission pro forma adjustments. Schedule
12 2, includes a map of the "230 kV Upgrade Project" at page
13 1, and the "Avista 5-Year Transmission Upgrade Project"
14 table at page 2. Schedule 3, includes the Asset Management
15 Program Model.

16

17 **II. PRO FORMA TRANSMISSION EXPENSES**

18 **Q. Please describe the pro forma transmission**
19 **expense revisions included in this filing.**

20 A. Adjustments were made in this filing to
21 incorporate updated information for any changes in
22 transmission expenses from the 2007 test year to the 2009
23 Pro forma period. Each expense item described below is at a
24 system level, with the exception of the \$71,000 Grid West

1 adjustment which is Idaho only, and is included in Exhibit
2 No. 10, Schedule 1.

3 Northwest Power Pool (NWPP) - Avista pays its share
4 of the NWPP operating costs. The NWPP serves the utilities
5 in the Northwest by providing regional transmission
6 planning, coordinated transmission operations, and Columbia
7 River water coordination. There is no anticipated change
8 in NWPP costs in the pro forma period compared to 2007
9 actual expense of \$31,000.

10 Colstrip Transmission - Avista is required to pay its
11 portion of the O&M costs associated with the Colstrip
12 transmission system pursuant to the joint Colstrip
13 contract. In accordance with Northwestern Energy's (NWE)
14 15 year Colstrip transmission plan provided to the Company,
15 NWE will bill Avista an annual total of \$631,000 (based on
16 2007 dollars with no inflation adders) for Avista's share
17 of the Colstrip O&M expense during 2009. This is an
18 increase of \$172,000 over 2007 actual expense of \$459,000.
19 NWE expects 2008 Colstrip O&M costs to be \$519,000. The
20 significant cost increase is a result of implementing
21 cathodic protection measures and the on going anchor bolt
22 replacement program.

23 ColumbiaGrid (RTO Development) - In 2006, Avista
24 elected to fund the ColumbiaGrid RTO development effort.
25 This is a regional organization whose purpose is to enhance

1 transmission system reliability and efficiency, provide
2 cost-effective regional transmission planning, develop and
3 facilitate the implementation of solutions relating to
4 improved use and expansion of the interconnected Northwest
5 transmission system, reduce transmission system congestion,
6 and support effective market monitoring within the
7 Northwest and the entire Western interconnection. Under
8 the amended ColumbiaGrid funding agreement signed September
9 1, 2006, Avista will pay a total of \$518,000, which
10 represents Avista's share of the ColumbiaGrid operating
11 costs from 2006 through Augusts 31, 2008. Prior to the
12 amended agreement, Avista paid \$104,000 of these costs.
13 The remaining balance (\$414,000) is being collected over
14 the remaining 20 months of the agreement. The monthly
15 amount is \$20,720. Avista anticipates that ColumbiaGrid
16 operating costs will continue beyond August 2008 with
17 monthly payments remaining at least \$20,720. Therefore, the
18 ColumbiaGrid cost for the pro forma period is anticipated
19 to be approximately \$249,000 annually based on a monthly
20 fee of \$20,720.

21 ColumbiaGrid Planning - An additional service being
22 provided by ColumbiaGrid is regional planning and
23 expansion. A functional agreement was developed and filed
24 with the Federal Energy Regulatory Commission (FERC) on
25 February 2, 2007 and approved on April 3, 2007. The

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1 agreement does not have a termination date and funding is
2 on a two-year cycle with provisions to adjust for
3 inflation. Funding is based on a fixed amount, plus a
4 portion is based on Avista's load ratio compared to the
5 other members. Avista believes the planning agreement will
6 be extended beyond the initial 2 year period that ends
7 after December 2008. The Company anticipates that costs to
8 support the ColumbiaGrid planning effort will be equal to
9 at least the current monthly rate of \$10,251. This equates
10 to \$123,000 during the pro forma period, which is \$72,000
11 over 2007 actual costs. The increase is attributed to the
12 planning agreement being started in the middle of the 2007
13 operating year.

14 Grid West (ID Direct) - Included in transmission
15 expense is an annual amount of \$71,000 to recover costs
16 associated with Grid West (and its forerunner, RTO West).
17 Avista signed an initial funding agreement in 2000, as did
18 all other Pacific Northwest investor-owned electric
19 utilities, to provide funding for the start-up phase of
20 Grid West (then named "RTO West"). Grid West had planned
21 to repay the loans to Avista and other funding utilities
22 through surcharges to customers once it became operational.
23 With the dissolution of Grid West, this repayment did not
24 occur. As a result, Avista filed an application with the
25 Commission to defer these costs. The Commission approved,

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1 on October 24, 2006, in Order No. 30151, the Company's
2 request for an order authorizing deferred accounting
3 treatment for loan amounts made to Grid West. In its Order
4 the IPUC found these costs to be "prudent and in the public
5 interest" and required the Company to begin amortization of
6 the Idaho share of the loan principal (\$422,000) beginning
7 January 2007, for five years. During the pro forma period
8 Avista will amortize a total of \$71,000 associated with
9 Grid West development costs.

10 Electric Scheduling and Accounting Services - The
11 \$52,000 decrease in the pro forma period compared to actual
12 2007 expense for electric scheduling and accounting
13 services is a result of continued reductions in services
14 provided by third party vendors. These services are no
15 longer required because of the development of an internal
16 accounting program and the development of a regional
17 transmission interchange tool by the Western Electricity
18 Coordinating Council (WECC). These new applications replace
19 the services provided by third parties.

20 Grant County Agreement - This will be discussed later
21 in conjunction with the Seattle and Tacoma revenues and
22 expenses associated with the Main Canal and Summer Falls
23 Projects.

24 OASIS Expenses - The Open Access Same-Time
25 Information System (OASIS) expenses are associated with

1 travel and training costs for transmission pre-scheduling
2 and OASIS personnel. This travel is required to monitor
3 and adhere to the NERC reliability standards and FERC OASIS
4 requirements. The costs associated with OASIS expenses in
5 the pro forma period is \$4,000 more than the 2007 test
6 year.

7 WECC - System Security Monitor & WECC Administration
8 and Net Operating Committee Systems - The WECC fees have
9 and will continue to increase from year to year. WECC is
10 just beginning to develop its 2009 budget so 2008 actual
11 fees will be used for the pro forma period. WECC System
12 Security Monitor fees in 2008 are \$170,900 compared to 2007
13 test year fees of \$98,500. Additionally, the WECC
14 Administrative and Net Operating fees have been increased
15 from \$217,100 in 2007 to \$282,000 for 2008. Both changes
16 reflect significant increases in the WECC budget to fund
17 regional reliability initiatives required to meet FERC and
18 NERC mandatory reliability standards.

19 WECC - Loop Flow - Loop Flow charges are spread
20 across all transmission owners in the West to compensate
21 utilities that make system adjustments to eliminate
22 transmission system congestion throughout the operating
23 year. The 2009 pro forma charge is \$26,800 which is a
24 three year average of actual fees, since charges are
25 dependent on transmission system usage and congestion, and

1 can vary from year to year. This is \$2,000 higher than
2 actual 2007 charges.

3

4

III. PRO FORMA TRANSMISSION REVENUES

5 **Q. Please describe the pro forma transmission**
6 **revenue revisions included in this filing.**

7 A. Adjustments were made in this filing to
8 incorporate updated information for any changes in
9 transmission revenue from the 2007 test year to the 2009
10 Pro forma period. Each revenue item described below is at
11 a system level and is included in Exhibit No. 10, Schedule
12 1.

13 Borderline Wheeling - The Borderline Wheeling revenue
14 in the pro forma period is set at \$5,218,000, which is an
15 average of the 2006 and 2007 actual revenue levels. Actual
16 2007 test year revenue was \$5,203,000. Avista typically
17 uses a five year average of actual annual revenue to
18 estimate future Borderline Wheeling revenue. This helps
19 levelize the revenue requirement since it is based on load
20 demand that is sensitive to temperature variation from year
21 to year. For this case Avista is only using a two year
22 average since 2006 and 2007 are the only years operating
23 under new contracts signed with BPA. The new Borderline
24 Wheeling revenue methodology is based on a Load Ratio

1 Share¹, which is quite different than the previous revenue
2 calculation under the old contracts. Under the new
3 contracts, BPA, as the network customer, will pay a monthly
4 demand charge, which will be determined by multiplying its
5 Load Ratio Share times one twelfth (1/12) of the
6 Transmission Provider's annual transmission revenue
7 requirement.

8 Seattle and Tacoma Revenues and Expenses Associated
9 with the Main Canal and Summer Falls Projects - In March
10 of 2006, Seattle and Tacoma purchased interim long-term
11 firm point-to-point transmission service from Avista under
12 the OATT to move their Main Canal and Summer Falls
13 generation to load. These interim point-to-point
14 transmission contracts replaced expired long-term
15 contracts. The transmission was purchased from April 2006
16 through October 2007. Avista collected \$1,281,000 in 2007
17 under these contracts and in turn paid \$512,400 (plus
18 \$275,900 in losses) to Grant County PUD for use of its
19 system to transfer the entire output of the Main Canal and
20 Summer Falls projects. The interim contracts were meant to
21 give Seattle and Tacoma time to build new transmission
22 facilities to bypass Avista and connect directly to BPA.
23 Pursuant to negotiations among Seattle, Tacoma, Grant
24 County PUD, Grand Coulee Project Hydroelectric Authority

¹ Load Ratio Share is the ratio of a Transmission Customer's Network Load to the Transmission

1 and Avista, Seattle and Tacoma have decided not to bypass
2 Avista's transmission system. The parties have agreed
3 instead, to a series of long term agreements with service
4 to commence March 1, 2008. Seattle and Tacoma have signed
5 similar contracts with Grant County PUD so Avista will not
6 incur any of the transmission expenses with Grant County
7 PUD that it did in the 2007 test year. Under the new Main
8 Canal agreement Avista charges Seattle and Tacoma during
9 the eight months the Main Canal project runs (March-
10 October) and only for that output not used for local load
11 service. Under the new Summer Falls agreement, Seattle and
12 Tacoma only use a portion of Avista's Stratford Switching
13 Station and are charged a use-of-facilities fee based upon
14 this limited use. The estimated revenue from Seattle and
15 Tacoma for Main Canal and Summer Falls during the pro forma
16 period is \$120,000.

17 Grand Coulee Project Revenue - The Grand Coulee
18 Project revenue is a result of a new contract signed in
19 March 2006 with the project owner for a fixed dollar
20 amount, replacing the previous contract which expired in
21 October 2005. The new contract results in monthly revenue
22 of \$673 or annual revenue of \$8,100 during the pro forma
23 period, which is the same as the test year.

Provider's total load calculated on a rolling twelve-month basis.

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1 OASIS Non-firm and Short-term firm Wheeling Revenue -
2 OASIS is an acronym for Open Access Same-time Information
3 System. This is the system used by utility transmission
4 departments for purchasing and scheduling available
5 transmission for other utilities and independent
6 generators. OASIS revenues are revenues received from the
7 sale of transmission capacity to third parties, for
8 transmission above and beyond that needed by Avista to
9 serve native load. These revenues are credited back to
10 customers in a rate case, such as this one, to offset a
11 portion of the overall cost of transmission.

12 Because these revenues vary year to year depending on
13 electric energy market conditions and available
14 transmission capacity (ATC) on adjacent utility systems,
15 Avista has, in previous rate cases, used the most recent
16 five-year average as being representative of future
17 expectations unless there are known events or factors that
18 occurred during the period that would cause the average to
19 not be representative of future expectations. In 2004,
20 there were some unusual events that caused Avista's OASIS
21 revenues (\$5,475,000) to be significantly higher than the
22 other test years.

23 The Bonneville Power Administration (BPA) had several
24 500 kV lines out of service for rebuild projects, which
25 resulted in a significant increase in Avista's transmission

