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IDAHO PUBLIC  
UTILITIES COMMISSION

**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  
WILLIAM G. JOHNSON

FOR AVISTA CORPORATION

(ELECTRIC ONLY)

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  
5 address is 1411 East Mission Avenue, Spokane, Washington,  
6 and I am employed by the Company as a Wholesale Marketing  
7 Manager in the Energy Resources Department.

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

9 A. I graduated from the University of Montana in  
10 1981 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**  
14 **and 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  
17 Resources Department as a Power Contracts Analyst in June  
18 1996. My primary responsibilities involve power contract  
19 origination and management and power supply regulatory  
20 issues.

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

23 A. My testimony will 1) identify and explain the  
24 proposed normalizing and pro forma adjustments to the 2007  
25 test period power supply revenues and expenses, and 2)

1 describe the new base level of power supply costs for Power  
2 Cost Adjustment (PCA) calculation purposes, using the pro  
3 forma costs proposed by the Company in this filing.

4 **Q. Are you sponsoring any exhibits to be introduced**  
5 **in this proceeding?**

6 A. Yes. I am sponsoring Exhibit No. 6, Schedules 1  
7 through 4, which were prepared under my supervision and  
8 direction.

9 **Q. Are other company witnesses providing testimony**  
10 **regarding issues you are addressing?**

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

15

16 **II. SUMMARY**

17 **Q. Please provide an overview of your direct**  
18 **testimony.**

19 A. My testimony will identify and explain the  
20 proposed normalizing and pro forma adjustments to the 2007  
21 test period power supply revenues and expenses, and  
22 describe the new base level of power supply costs for Power  
23 Cost Adjustment (PCA) calculation purposes, using the pro  
24 forma costs proposed by the Company in this filing. This  
25 involves the determination of revenues and expenses based

1 on the generation and dispatch of Company resources and  
 2 expected wholesale market power prices as determined by the  
 3 AURORA model simulation. In addition, adjustments are made  
 4 to reflect contract changes between the 2007 test period  
 5 and the 2009 pro forma period. The table below shows total  
 6 net power supply expense during the 2007 test period and  
 7 the proposed 2009 pro forma period. For information only  
 8 purposes, the power supply expense currently in rates,  
 9 which is based on a September 2004 through August 2005 pro  
 10 forma period, is also shown.

| <b>Power Supply Expense</b><br>(Not Including Directly Assigned Potlatch Purchase) |               |                             |
|--|---------------|-----------------------------|
|  | <u>System</u> | <u>Idaho<br/>Allocation</u> |
| Power Supply Expense in Current Base Rates<br>(Sep 04 - Aug 05 pro forma)          | \$82,643,000  |                             |
| Actual 2007 Power Supply Expense   | \$175,939,000 |                             |
| Adjustment to Test Period  | \$971,000     | \$343,831                   |
| 2009 Pro forma Power Supply Expense  | \$176,910,000 |                             |

17 The net effect of my adjustments to the 2007 test year  
 18 power supply expense is an increase of \$971,000  
 19 (\$176,910,000 - \$175,939,000) on a system basis. The Idaho  
 20 allocation of this adjustment of \$343,831 is incorporated  
 21 into the revenue requirement calculation for the Washington  
 22 jurisdiction by Company witness Ms. Andrews.

23 **Q. What are the major factors driving the increased**  
 24 **power supply expense in the pro forma year over the level**  
 25 **of power supply expense currently in base rates?**

1           A.    The level of power supply expense currently in  
2 base rates is \$82,643,000 (system number). This expense  
3 level is based on a September 2004 through August 2005 pro  
4 forma period and 2002 retail loads. This compares to the  
5 proposed 2009 pro forma power supply expense of  
6 \$176,910,000, an increase of approximately \$94.3 million on  
7 a system basis and an Idaho allocation of approximately  
8 \$33.4 million.

9           This significant increase in pro forma power supply  
10 expense over the expense currently in base rates is based  
11 on numerous factors, including higher retail loads, reduced  
12 hydro generation, increased fuel costs and increased  
13 transmission expense.

14           Higher retail loads are the most significant factor  
15 contributing to higher power supply expense. Pro forma  
16 retail loads are 128.6 aMW higher than 2002 loads that  
17 current rates are based on. Hydro generation is also lower  
18 than the level in current base rates. Pro forma hydro  
19 generation is 546.3 aMW compared to 553.1 aMW in current  
20 base rates, a reduction of 6.8 aMW. The pro forma hydro  
21 generation includes the "hydro rate mitigation adjustment"  
22 of 26.5 aMW. Without the "rate mitigation adjustment"  
23 (described later in my testimony), the reduction in hydro  
24 generation would be 33.3 aMW. This reduction in hydro  
25 generation is due to the reduction in Mid Columbia

1 purchased hydro generation resulting from the expiration of  
2 the Priest Rapids contract in 2005 and the Wanapum contract  
3 in 2009.

4 Fuel expense is significantly higher in the 2009 pro  
5 forma compared to the fuel expense in current base rates.  
6 Total thermal fuel expense for coal, wood fuel and natural  
7 gas is approximately 50 percent higher on a dollars per MWh  
8 basis in the 2009 pro forma, increasing from \$20.26 per MWh  
9 in current base rates to \$30.33 per MWh in the 2009 pro  
10 forma.

11 Finally, transmission expense has increased by  
12 approximately \$2.9 million on a system basis, approximately  
13 \$1.0 million Idaho allocation. This is primarily due to  
14 the purchase of an additional 125 MW of BPA point-to-point  
15 transmission for Coyote Springs 2.

16 **Q. What are the major factors driving the increased**  
17 **power supply expense in the pro forma year over the 2007**  
18 **test year?**

19 A. The primary factors increasing power supply  
20 expense from the 2007 test year to the 2009 pro forma year  
21 are the cost of serving additional retail load, fuel costs  
22 and increased purchased power costs.

23 Retail loads in the 2009 pro forma period are  
24 approximately 27 aMW higher than 2007 weather adjusted  
25 retail load. Increased retail load creates higher power

1 supply expense and also puts upward pressure on retail  
2 rates because the marginal cost of power exceeds the  
3 embedded cost of power. The increase in power supply  
4 expense due to increased retail loads is approximately \$4.8  
5 million (Idaho allocation).

6 In addition to higher loads, some of the Company's  
7 purchased power contract costs have increased, particularly  
8 the Company's Mid-Columbia purchases from the Priest Rapids  
9 and Wanapum hydro generation developments. The cost for  
10 the Company's share of Wanapum and Priest Rapids is  
11 approximately \$1.7 million (Idaho allocation) higher in  
12 2009 than in 2007. The Company's contract for Priest  
13 Rapid's power expired October 31, 2005. While the Company  
14 still gets power from Priest Rapids, the majority of the  
15 power is now priced at market prices rather than the low  
16 project cost. The Wanapum contract expires October 31,  
17 2009. Beginning November 1, 2009 the Company will receive  
18 approximately half of much energy from these two plants as  
19 before the expiration of the contracts, and only a small  
20 portion of the power will be priced at project cost. Under  
21 the new contract for these plants, the plant's owner, Grant  
22 County PUD, gets more of the physical output of the plants  
23 and also keeps more of the financial value of the  
24 purchaser's share of the plants. Effectively, as Grant's  
25 loads grow they keep some of the financial value of the

1 purchasers' share of the plants in order to serve their  
2 loads with project cost power. Due to the very high load  
3 growth in Grant County, less of the value of Priest Rapid's  
4 power is going to the purchasers, and with the expiration  
5 of the Wanapum contract in October 2009, less of the value  
6 of that plant will go to the purchasers.

7 Finally, thermal fuel expense for Colstrip and Kettle  
8 Falls has also increased significantly, increasing by  
9 approximately \$2.2 million (Idaho allocation) from 2007 to  
10 2009. This is based primarily on increasing unit costs for  
11 coal and wood fuel.

12 **Q. Given the increased costs describe above, please**  
13 **explain why there is almost no increase in the overall**  
14 **power supply expense between the 2009 pro forma year and**  
15 **the 2007 test year.**

16 A. The reason that the overall increase in power  
17 supply expense from the 2007 year to the 2009 pro forma  
18 year is very small is because the hydro generation "rate  
19 mitigation adjustment" offsets almost all of the increased  
20 power supply expense. The hydro generation "rate  
21 mitigation adjustment", explained by Mr. Kalich, decreases  
22 system power supply expense by approximately \$12.8  
23 (system), \$4.5 million (Idaho allocation).

24 After incorporating the "rate mitigation adjustment",  
25 the total power supply adjustment from 2007 actual to 2009

1 pro forma power supply expense is only \$343,831 (Idaho  
2 allocation), as shown in the previous table.

3

4

### III. PRO FORMA POWER SUPPLY COSTS

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#### Overview

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

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

15

16

**Q. What is the basis for the adjustments to the 2007 test period power supply revenues and expenses?**

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A. The purpose of the adjustments to the 2007 test period is to normalize power supply expenses for normal weather and hydroelectric generation and to reflect known and measurable changes for the 2009 pro forma period that rates will be in effect. Adjustments are also made to reflect contract changes from 2007 to 2009.

23

24

25

The AURORA Model dispatches Company resources on an hourly basis and calculates the level of generation from the Company's thermal resources, fuel costs for thermal

1 resources, and the short-term purchases and sales necessary  
2 to serve system requirements.

3 **Q. Have any changes been made in the calculation of**  
4 **power supply costs from the prior general rate case?**

5 A. Yes. The primary change made in this general  
6 rate case is the use of loads that match the pro forma  
7 period. The use of pro forma retail loads together with a  
8 production property adjustment, provides a better matching  
9 of revenues and expenses, and properly reflects the costs  
10 of providing services to retail customers during the pro  
11 forma period that rates will be in effect. Mr. Kalich  
12 describes the pro forma retail loads used in this case, and  
13 Company witness Ms. Knox explains the production property  
14 adjustment.

15 The power supply pro forma in this case also includes  
16 a "rate mitigation adjustment" to hydroelectric generation  
17 to decrease pro forma power supply expense. This  
18 adjustment increased hydro generation above normal  
19 generation levels, which decreased power supply expense by  
20 \$12.8 million (system number). This adjustment was made in  
21 the AURORA model and is explained in Mr. Kalich's  
22 testimony.

23 Other than the use of pro forma retail loads and the  
24 hydro rate mitigation adjustment, the process to develop

1 the pro forma net power supply expense in this case is the  
2 same as in the 2004 general rate case.

3 A brief description of each adjustment is provided in  
4 Exhibit No. 6, Schedule 2. Detailed workpapers have been  
5 provided to the Commission coincident to this filing to  
6 support each of the pro forma revenues and expenses. The  
7 detailed workpapers for each adjustment show the actual  
8 revenue or expense in 2007, and the pro forma revenue or  
9 expense for 2009.

10

11 **Long-Term Contracts**

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

14 A. Long-term power contracts are included in the pro  
15 forma by including the energy receipt or obligation  
16 associated with the contract in the AURORA model and  
17 including the cost or revenue in the pro forma net power  
18 supply expense.

19 **Q. Are there any new power purchases or sales in the**  
20 **pro forma that were not in place during the 2007 test year?**

21 A. Yes, there is one new long-term purchase. The  
22 Company has entered into a 10-year purchase agreement with  
23 Thompson River Cogen, a cogeneration plant in Thompson  
24 Falls, Montana. The plant is expected to be on-line  
25 sometime during early 2008 and produce approximately 11

1 average megawatts. The purchase price of \$58.50 per MWh is  
2 very close to the forward power market prices in the AURORA  
3 model for the 2009 pro forma period, so the contract has  
4 minimal impact on power supply expense.

5

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

7 **Q. How are short-term transactions included in the**  
8 **pro forma?**

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

16

17 **Thermal Fuel Expense**

18 **Q. How are thermal fuel expenses determined in the**  
19 **pro forma?**

20 A. Thermal fuel expenses include Colstrip coal  
21 costs, Kettle Falls wood waste costs and natural gas  
22 expense for the Company's gas-fired resources including  
23 Coyote Springs 2, Rathdrum, Northeast, Boulder Park, and  
24 the Kettle Falls combustion turbine. Unit coal costs at  
25 Colstrip are based on the long-term coal supply and

