

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-06 \_\_\_\_\_

DIRECT TESTIMONY OF

KELLY O. NORWOOD

REPRESENTING AVISTA CORPORATION

**I. INTRODUCTION**

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

A. My name is Kelly O. Norwood. I am employed as the Vice-President of State and Federal Regulation for Avista Utilities at 1411 East Mission Avenue, Spokane, Washington.

**Q. Please briefly describe your educational background and professional experience.**

A. I am a graduate of Eastern Washington University with a Bachelor of Arts Degree in Business Administration, majoring in Accounting. I joined the Company in June of 1981. Over the past 25 years, I have spent approximately 14 years in the Rates Department with involvement in cost of service, rate design, revenue requirements and other aspects of ratemaking. I spent approximately 11 years in the Energy Resources Department (power supply and natural gas supply) in a variety of roles, with involvement in resource planning, system operations, resource analysis, negotiation of power contracts, and risk management. I was appointed Vice-President of State & Federal Regulation in March 2002.

**Q. What is the purpose of your testimony?**

A. My testimony provides an overview of Avista's request for an increase to base electric retail rates, and the primary factors driving the need for the proposed rate increase. I will also introduce the other witnesses providing testimony on behalf of Avista.

**II. AVISTA'S REQUEST**

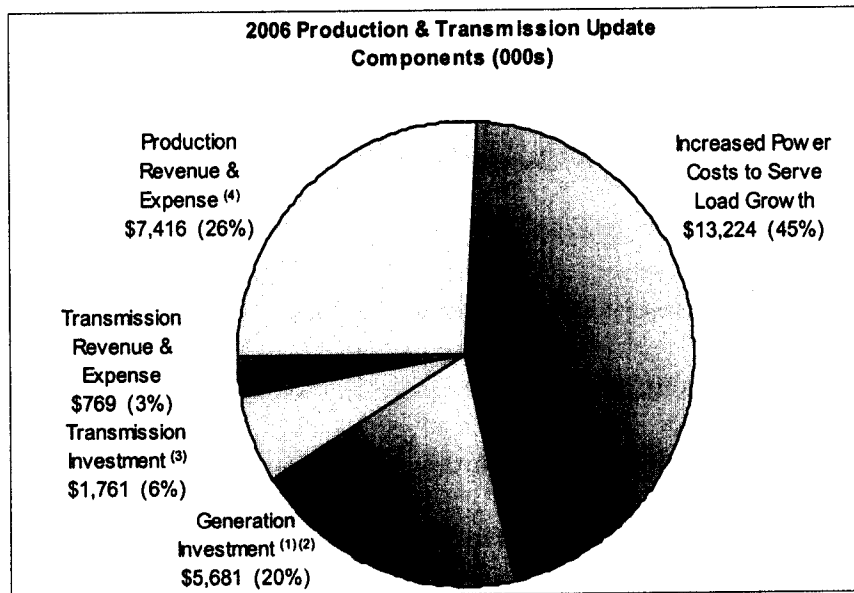
**Q. Please summarize the Company's request in this filing.**

A. Avista requests approval of an update to the Company's base power supply (production) and transmission costs. This update will be referred to in this filing as a

1 Production/Transmission Update or P/T Update. Avista's request is similar in form to Puget's  
 2 Power Cost Only Rate Case (PCORC) in that it requests an update to production and  
 3 transmission costs that are related to Avista's Energy Recovery Mechanism (ERM).

4 The updated production and transmission costs result in a proposed rate increase request  
 5 of \$28.9 million or 8.8%. The proposed increase is driven primarily by additional investments in  
 6 Avista's hydroelectric and thermal generating plants, and transmission system, together with the  
 7 continuing high power supply costs to serve growing retail load requirements. A breakdown of  
 8 the primary factors driving the proposed revenue increase is shown in Illustration 1 below:

9 **Illustration 1: Production & Transmission Update Components**



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- (1) Net of reduced interest costs from lower cost of debt.
  - (2) Reflects investment to upgrade Cabinet Gorge Unit 4, Noxon Unit 4, Colstrip Units 3 & 4, and the buyout of the Rathdrum CT lease.
  - (3) Reflects investment to upgrade transmission system.
  - (4) Primarily increased fuel costs (includes reduction due to Rathdrum lease).

20 Illustration 1 shows that the cost of power to serve load growth constitutes 45% of the  
 21 requested revenue increase. Other net increases in power supply expenses, primarily fuel costs,  
 22 represent 26% of the increase. The additional investment in generation plant represents 20%,

1 and the transmission component, composed of transmission revenue and expenses and  
2 transmission investment, constitutes the remaining 9% of the total.

3 The Company is continuing to work toward buying down debt, especially the higher-cost  
4 debt. This has resulted in a reduction in Avista's average cost of debt from 8.44% in the last rate  
5 case to 8.22%. Although this reduction in interest expense is not power supply or transmission  
6 related, the Company is proposing in this filing to pass on to customers this reduction in interest  
7 expense. The effect of this adjustment is a reduction to the Company's revenue request of  
8 approximately \$1.0 million. The average cost of debt of 8.22%, together with the previously  
9 approved common equity ratio of 40% and 10.4% return on equity, results in a reduction in the  
10 Company's overall rate of return from 9.11% to 8.99%.

11 **Q. How would the proposed increase be spread to each rate schedule?**

12 A. As further explained by Company witness Mr. Hirschhorn, Avista is proposing to  
13 spread the revenue increase in a manner similar to the rate spread approved by the Commission  
14 in the Company's last general rate case (Docket No. UE-050482) as shown in Illustration 2  
15 below. Avista is proposing no change in rate design within the schedules.

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17 **Illustration 2: Proposed Increase by Schedule**

18		Proposed
19	<u>Service Schedule</u>	<u>Increase</u>
20	Residential Service Schedule 1	9.7%
21	General Service Schedules 11 & 12	7.0%
22	Large General Service Schedules 21 & 22	7.8%
23	Extra Large General Service Schedule 25	9.6%
24	Pumping Service Schedules 31 & 32	8.8%
25	Street & Area Lighting Schedules 41-49	<u>8.8%</u>
26	Overall Increase	8.8%

27 The monthly bill for a residential customer using an average of 1,000 kWhs per month  
28 would increase from \$60.16 to \$65.96 per month, or an increase of \$5.80 or 9.6%.

1           **Q.     When does the Company propose to implement the new rates?**

2           A.     Avista requests that the Commission set a date for a prehearing conference at its  
3 earliest convenience, and establish a procedural schedule that would provide for a Commission  
4 decision and new rates to become effective on or before February 1, 2007. Such a procedural  
5 schedule would be comparable to that used in the review of PSE's PCORC filings.<sup>1</sup>

6           **Q.     Why has the Company chosen to limit its request to a**  
7 **Production/Transmission Update rather than filing a general rate case?**

8           A.     Avista's last general rate case (Docket Nos. UE-050482 and UG-050483)  
9 concluded with the Commission's Order issued December 21, 2005 with rates effective on  
10 January 1, 2006. Although four of the six parties to the case presented a settlement for the  
11 Commission's consideration, there was extensive discovery, prefiled testimony, cross-  
12 examination of witnesses, and opportunity for a thorough review of the Company's costs, in the  
13 context of a contested settlement.

14           In addition, as part of the order in that case the Commission directed the Company to  
15 make a filing by January 31, 2006 that would allow all interested parties the opportunity to  
16 further review the ERM. All Parties in that case, Docket No. UE-060181, reached a settlement  
17 that resulted in certain modifications to the ERM, which was approved by the Commission on  
18 June 16, 2006.

19           Furthermore, in the recent general rate case Avista agreed to increase the annual funding  
20 for low-income energy bill-paying assistance from approximately \$3.0 million per year to \$3.6

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<sup>1</sup> The review period for the PCORC is described as follows: "It is contemplated that this review would be completed within four months. Within 30 days following the four-month review, the Commission would issue an order determining the appropriateness of all power costs to be included in the Power Cost Rate and the prudence of any new resource (with a term greater than two years) acquisition." (Page 6, Paragraph 11 of Exhibit A to Settlement Stipulation, Docket Nos. UE-011570 and UG-011571)

1 million per year for a two-year period, and made modifications to the program rules to provide  
 2 more flexibility for community action agencies to better meet the needs of those requiring bill-  
 3 paying assistance. Avista also increased the funding for low-income demand-side management  
 4 (DSM) from approximately \$900,000 per year to \$1.1 million per year.

5 Because of the recent review of cost issues through the general rate case, the review of the  
 6 ERM mechanism, and the recent revisiting of the funding and operation of the Company's  
 7 customer assistance programs, we believe it would not be administratively efficient or necessary  
 8 to re-litigate many of the same issues that the Commission has so recently decided.

9 **Q. Have there been other similar filings before this Commission?**

10 A. Yes. Puget Sound Energy has filed a Power Cost Only Rate Case (PCORC),  
 11 which provides the opportunity to update the base costs related to its power cost tracking  
 12 mechanism, as well as include the costs of new resources. The PCORC was outlined in Exhibit  
 13 A to the Settlement Stipulation in Docket Nos. UE-011570 and UG-011571 as follows:

14 Power Cost Only Rate Review: In addition to the yearly adjustment for power cost  
 15 variances, there would be a periodic proceeding specific to power costs that would true up  
 16 the Power Cost Rate to *all power costs* identified in the Power Cost Rate. The Company  
 17 can also initiate a power cost only proceeding to add new resources to the Power Cost  
 18 Rate. In either case, the Company would submit a Power Cost Only Rate filing proposing  
 19 such change. This filing shall include testimony and exhibits that include the following:

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- 21 • Current or updated least cost plan
  - 22 • Description of the need for additional resources (as applicable)
  - 23 • Evaluation of alternatives under various scenarios
  - 24 • Adjustments to the Fixed Rate Component
  - 25 • Adjustments to the Variable Rate Component
  - 26 • A calculation of proforma production cost schedules that are consistent with this
  - 27 docket, including power supply and other adjustments impacting then current
  - 28 production costs.
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1 Further, the Commission, in its recent Order, at page 35 (para.91), dated April 17, 2006,  
 2 in Docket Nos. UE-050684 and UE-050412 (PacifiCorp's general rate case), noted that "[n]ew  
 3 resources must be considered in general rate cases or power cost only rate cases..." (emphasis  
 4 added)

5 **Q. What are the specific revenue and expense changes reflected in the proposed**  
 6 **Production/Transmission Update?**

7 A. The specific items that are included in the P/T Update are those fixed and variable  
 8 cost items that are related to the base revenues and expenses included in the ERM. These  
 9 revenue and expense items were modified slightly in the recent ERM Settlement Agreement  
 10 involving Avista, WUTC Staff, Public Counsel and the Industrial Customers of Northwest  
 11 Utilities (ICNU). In that Settlement Agreement, which was approved by the Commission on  
 12 June 16, 2006, the ERM was modified to include transmission revenue and expense categories,  
 13 and the Retail Revenue Credit was modified to include the fixed and variable costs associated  
 14 with transmission.

15 In general terms the ERM, and this P/T Update, include the following revenue and  
 16 expense items:

17 **Revenues:**  
 18 Wholesale Sales Revenues  
 19 Transmission Revenues  
 20 Revenues from the sale of thermal fuel (natural gas)<sup>2</sup>  
 21  
 22 **Expenses:**  
 23 Purchased Power Expenses<sup>3</sup>

<sup>2</sup> The decision to operate gas-fired thermal generation is based the least-cost option at the time that electric energy is needed. If natural gas was previously purchased to run the plant, but a purchase of electricity is less costly at the time energy is needed, the natural gas would be sold and electricity purchased. The revenue from the sale of the natural gas is included in the ERM to reduce total power supply costs.

<sup>3</sup> The recent ERM Settlement Agreement included the following provision related to long-term power supply contracts: "For any new power contact, or any power contract that has been renewed or extended, with a term longer

1 Transmission Expenses

2 Thermal Fuel Expenses

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In addition, the Retail Revenue Credit in the ERM is designed to capture changes in that portion of retail revenues, associated with increases or decreases in retail load, that are directly related to fixed and variable production and transmission costs. Company witnesses Mr. Kalich and Mr. Johnson provide further detail related to the specific revenue and expense items included in this filing.

**Q. Did the Company include in this filing an update to transmission revenues and expenses in addition to production or power supply costs?**

A. Yes. In Avista's last general rate case (Docket Nos. UE-050482 and UG-050483), Public Counsel and the Industrial Customers of Northwest Utilities (ICNU) recommended that transmission revenues and expenses be included in the ERM. In addition, in the recent docket to further review the ERM (Docket No. UE-060181), all Parties in the case agreed, in the Settlement Agreement, to include transmission revenues and expenses in the ERM, and to modify the Retail Revenue Credit to include the fixed and variable costs of transmission along with the fixed and variable production costs. Therefore, the ERM, as recently modified, focuses on both the production and transmission components. In this P/T Update, the Company is proposing to update these same production and transmission components.

**Q. Would you please provide further explanation of the Retail Revenue Credit in the ERM?**

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than two years and of more than 50 megawatts (MW), costs in excess of the lower of the average embedded cost of power supply determined in the most recent rate case (currently \$32.89/MWh) or the average market rate during the contract (based on the average annual price of the Dow Jones Mid-Columbia Firm Index), shall be excluded from actual power supply costs until such time as the contract is incorporated in base rates pursuant to a general rate case." All contract changes included in this P/T Update are consistent with this ERM provision.



1           A.     Yes. Retail rates are set in a rate case based on a given set of retail loads (kWh  
2 sales), the retail revenue associated with those loads, and the costs to serve those loads. An  
3 increase in retail loads (from a cold weather event, growth in loads over time, or other reasons)  
4 will result in an increase in power supply costs and, in some cases, transmission costs to serve  
5 the increased loads. The ERM will capture the increased power supply and transmission costs to  
6 serve the higher loads. The Retail Revenue Credit in the ERM captures the increased production  
7 and transmission-related retail revenues associated with the higher loads, so that there is a proper  
8 matching of revenues and expenses associated with the change in retail loads.

9           **Q.     Is the Company proposing to change the capital structure, cost of equity, or**  
10 **changes in O&M and A&G expenses in this filing?**

11          A.     No. The Company's request in this filing is limited to updating those production  
12 and transmission related cost items that are related to the ERM—with one exception. As noted  
13 earlier, the Company is continuing to work toward buying down debt, especially the higher-cost  
14 debt. This has resulted in a reduction to Avista's average cost of debt. Although this reduction  
15 in interest expense is not power supply or transmission related, the Company is proposing in this  
16 filing to pass on to customers the reduction in interest expense of approximately \$1.0 million.

17          The Company is not proposing changes to the capital structure, the cost of equity, or  
18 O&M and A&G expenses. Although increases in O&M and A&G costs, such as labor costs,  
19 have occurred since the last rate case and are expected to continue to occur, the Company has  
20 chosen to limit the scope of the case to enable the opportunity to expeditiously process its  
21 request. Avista is also not proposing to update distribution-related investment or expenses, nor  
22 the retail revenues associated with these costs. It is up to the Company to manage these costs  
23 until the next general rate case.

1 In addition, with regard to hydroelectric generation and the determination of wholesale  
2 electric and natural gas prices in this filing, the Company has employed methodologies that were  
3 previously approved by the Commission in recent cases. Avista has used the 1929-78 50-year  
4 streamflow period for hydroelectric normalization, and a three-month average of forward natural  
5 gas prices in the determination of wholesale market prices, both of which were embodied in the  
6 recently-approved general rate case settlement for Avista (Docket No. UE-050482).

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8 **III. PROFORMA RETAIL LOADS**

9 **Q. How is the cost to serve retail load growth reflected in the P/T Update?**

10 A. This filing is based on a 2007 calendar-year pro forma period, which means that  
11 adjustments have been made to production and transmission related revenue, expense and rate  
12 base components from the last rate case to reflect known and measurable changes for the period  
13 beginning January 1, 2007.

14 This filing also includes pro forma period retail loads for the 2007 calendar year. This  
15 provides for a proper matching of revenues and expenses during the pro forma period, i.e.,  
16 production and transmission costs for the pro forma period are matched with the expected retail  
17 load and retail revenues for the same period.

18 **Q. Is the use of pro forma retail loads a change from prior cases?**

19 A. Yes. Prior cases have used historical test period loads. At the same time, these  
20 cases have included pro forma adjustments to reflect changes to expenses and rate base for the  
21 future pro forma rate period.

22 **Q. Have concerns been raised in prior cases related to the use of historical retail**  
23 **loads to establish base rates?**

1           A.       Yes. In Avista's most recent general rate case, Public Counsel witness Mr.  
2 Merton Lott raised concerns regarding the use of historical test period loads. Among Mr. Lott's  
3 concerns was a mismatch of retail revenue, based on historical test-period loads, and pro forma  
4 period expenses and rate base. This led to extensive testimony on what Mr. Lott referred to as a  
5 "production property adjustment."

6           On page 15 of his direct testimony (Exhibit No. 281) he stated as follows:

7           The "matching principle" dictates that all cost of service components should be  
8 considered and evaluated to a similar point in time. (emphasis added) (Lott – Direct  
9 Testimony, page 15, line 8, Docket Nos. UE-050482 & UG-050483)  
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11          And on page 18 of his testimony Mr. Lott went on to observe that:

12          A second type of "mismatch" occurs because the load growth through the 2006 time  
13 period, the very growth that facilitated the decision to acquire additional Coyote Spring 2  
14 capacity and energy, has not been proformed or adjusted for in Avista's adjusted results of  
15 operations calculation. (emphasis added) (Id., at page 18, line 8)  
16

17          In its response testimony, Avista explained that the ERM includes an adjustment (Retail  
18 Revenue Credit) to account for the revenues associated with changes in retail load over time.  
19 Under cross-examination the Commission Staff agreed that the Retail Revenue Credit served  
20 such a purpose.

21          The use of pro forma retail loads, as proposed by Avista in this filing, would go even  
22 further to address Mr. Lott's concern regarding matching revenues and expenses at a "similar  
23 point in time." Avista has proposed that new rates become effective on or before February 1,  
24 2007. As in prior cases, pro forma adjustments have been made to reflect production and  
25 transmission revenues, expenses and rate base for the period that rates are expected to be in place  
26 (approximately the 2007 calendar year). The use of 2007 calendar-year retail loads in this filing,

1 and the additional production and transmission related retail revenue associated with those loads,  
2 results in a better matching of revenues and expenses for the period that retail rates would be in  
3 place.

4 **Q. Please explain how the P/T Update includes the increased retail revenues**  
5 **associated with the 2007 retail loads?**

6 A. The P/T Update includes not only the updated base costs associated with  
7 production and transmission, but also the increase in production and transmission-related retail  
8 revenues associated with the 2007 pro forma loads. This is accomplished through the use of the  
9 Retail Revenue Credit. As explained earlier, the Retail Revenue Credit accounts for that portion  
10 of existing retail rates associated with production and transmission costs. The current Retail  
11 Revenue Credit rate, as approved in the recent ERM Docket No. UE-060181, includes a rate for  
12 fixed and variable production of \$32.89 per MWh, and a rate for fixed and variable transmission  
13 of \$6.14 per MWh, for a total rate of \$39.03 per MWh.

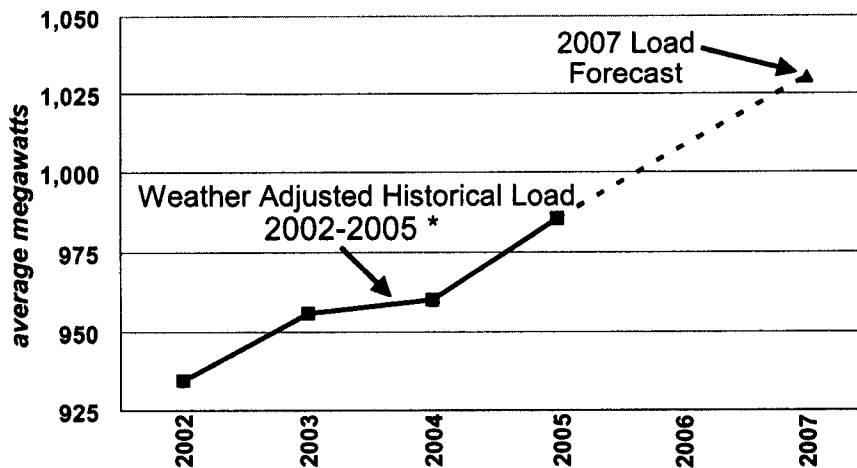
14 The increased retail revenue associated with the 2007 pro forma loads is included in this  
15 filing by multiplying the Retail Revenue Credit rate of \$39.03 per MWh by the increase in retail  
16 load since the last case (2007 pro forma loads versus retail loads in the last case). As provided  
17 by Company witness Ms. Andrews, this additional revenue of approximately \$13.6 million  
18 reduces the Washington share of the increased power costs of approximately \$26.2 million in the  
19 determination of revenue requirement. Furthermore, Mr. Hirschorn uses the pro forma loads to  
20 implement the proposed revenue increase.

21 The proposed revenue increase in this filing increases the Retail Revenue Credit from  
22 \$39.03 per MWh to \$44.27 per MWh to reflect the increased production and transmission fixed  
23 and variable costs included in this P/T Update.

1           **Q.     Please briefly summarize the pro forma loads reflected in this filing?**

2           A.     The 2007 pro forma loads are based on Avista's most recently forecasted retail  
3 loads for the calendar year 2007. Avista's actual weather adjusted electric retail loads for 2002 –  
4 2005 are shown in the graph below (Illustration 3), along with the pro forma load for 2007.

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6           **Illustration 3 – Historical and Pro Forma Load Comparison**



\* 2005 represents the last full calendar year where weather-adjusted retail load figures are available

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8           In recent years, retail loads have continued to grow as shown in the chart above, and as  
9 Mr. Kalich explains in his testimony, customer growth and load growth are expected to continue  
10 in the foreseeable future. The trend line in the chart above further suggests that the retail loads  
11 will be reasonably close to that forecasted for 2007.

12           Mr. Kalich includes the 2007 pro forma loads in the AURORA model so that the costs  
13 associated with serving those loads are reflected in the P/T Update.

14           **Q.     If actual retail loads during 2007 are different than the pro forma loads**  
15 **reflected in this filing, is there an adjustment mechanism to true up the difference?**

1           A.     Yes. The Retail Revenue Credit in the ERM is designed to capture or true up  
2 changes in production and transmission related retail revenues associated with increases or  
3 decreases in retail load from that reflected in the last rate case. The ERM also accounts for the  
4 changes in power supply and transmission costs associated with the change in loads, so that there  
5 continues to be a matching of revenues and expenses each month.

6           Perhaps even more important to note is the fact that the use of 2007 pro forma loads will  
7 result in pro forma revenues and expenses in this filing that are much closer to what is expected  
8 to occur, than if revenues and expenses were based on historical loads from one or two years ago.  
9 Therefore, future Retail Revenue Credit adjustments should be relatively small, since any true-  
10 ups would be based on actual loads for 2007 versus the pro forma load expected for 2007. By  
11 contrast, the use of historical loads to set base rates in this filing would result in a true-up  
12 between actual 2007 loads and historical 2005 loads. The use of 2007 pro forma loads provides  
13 for a much better matching of revenues and expenses for the period that rates would be in effect.

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#### IV. CUSTOMER ASSISTANCE

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**Q.     Are there mitigating factors that will help temper the proposed increase in  
total energy bills for some of the Company's customers?**

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A.     Yes. The Bonneville Power Administration's Residential Exchange Credit will be  
increased in November 2006. This increase in the Residential Exchange Credit is expected to  
reduce Avista's residential and small farm customer rates by approximately 1.7%. Although this  
upcoming decrease in retail rates is unrelated to the P/T Update, it is important to be mindful of  
near-term changes in rates, whether they be up or down.

1           **Q.     Is the Company continuing to offer energy efficiency and bill-paying**  
2 **assistance programs to help customers with their energy bills?**

3           A.     Yes. Avista Utilities continues to offer a number of programs for its Washington  
4 customers such as the Low Income Rate Assistance Program (LIRAP), Project Share for  
5 emergency assistance to customers, a Customer Assistance Referral and Evaluation Service  
6 (CARES) program, senior energy outreach, level pay plans, and energy efficiency programs. In  
7 fact, in the recent rate case the annual funding for energy bill-paying assistance was increased  
8 from \$3.0 million to \$3.6 million per year for 2006 and 2007, and modifications were made to  
9 the program rules to provide more flexibility for community action agencies to meet the needs of  
10 those requiring bill-paying assistance.

11           **Q.     Please briefly summarize Avista's energy efficiency programs and programs**  
12 **to assist customers with their energy bills.**

13           A.     The Company's DSM tariff rider has provided consistent funding for the delivery  
14 of energy efficiency services. Avista offers energy-efficiency programs to all retail electric and  
15 natural gas customers. The conservation programs are operationally divided into  
16 commercial/industrial, residential and limited income portfolios. Energy efficiency measures  
17 that are most commonly implemented include lighting, heating and ventilation equipment, air  
18 conditioning, variable frequency drives, insulation and premium efficiency motors. Many types  
19 of industrial process improvements that are unique to a customer's site (e.g. dry kiln fans), as  
20 well as compressed air, refrigeration, and controls, are also incorporated into the program mix.  
21 Avista's programs are designed to offer customized conservation services and technical  
22 assistance for any cost-effective energy efficiency measure.

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1 The Company provides the following bill-paying assistance programs:

2 **Low Income Rate Assistance Program, or LIRAP:**

3 The low-income rate assistance program, approved by the Washington Commission in  
4 2001, collects approximately \$3 million (gas and electric combined) per year through  
5 electric and natural gas tariff surcharges on Schedules 91 and 191. These funds are  
6 distributed by community action agencies in a manner similar to the Federal and State-  
7 sponsored Low Income Heating Energy Assistance Program (LIHEAP). Avista Utilities'  
8 LIRAP supplements the reach of the LIHEAP funds. The Company, with the assistance of  
9 community action agencies, directs the funding from this program toward customers least  
10 able to pay for electric and natural gas service.  
11

12 **Project Share:**

13 Project Share is a voluntary contribution option allowing customers to contribute  
14 donations that are distributed through local community action agencies to customers in  
15 need. Avista Utilities has consistently had relatively high per-customer contributions  
16 when compared to other utilities with Project Share programs. Avista Utilities' customers  
17 donated over \$368,480 on a system basis in 2005 of which over \$223,400 was directed to  
18 Washington Community Action Agencies. In addition, the Company contributed  
19 \$215,000 to Washington in 2005.  
20  
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22 **Comfort Level Billing:**

23 Comfort Level Billing is the Company's option for customers to pay the same bill amount  
24 each month of the year. This allows customers to more easily budget for energy bills and  
25 it also avoids higher winter bills. This program has been well-received by participating  
26 customers. Over 38,798, or 15.63%, of Washington electric and natural gas customers  
27 are on Comfort Level Billing.  
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30 **CARES Program:**

31 In Washington, Avista is currently working with over 3,837 special needs customers in  
32 the CARES program. Specially trained representatives provide referrals to area agencies  
33 and churches for customers with special needs for help with housing, utilities, medical  
34 assistance, etc.  
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37 In 2005, 19,559 Washington customers received over \$6,982,000 in various forms of  
38 energy assistance (Avista LIRAP, Federal LIHEAP program, Project Share, and local community  
39 funds). These programs and the partnerships we have formed have been invaluable to customers  
40 that need assistance with their energy bills.



**V. OTHER COMPANY WITNESSES**

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**Q. Please introduce the other Avista witnesses, and briefly explain what their testimony will cover.**

A. The following additional witnesses are presenting testimony on behalf of Avista.

Mr. Ron Peterson, Vice President of Energy Resources, will provide an overview of Avista’s resource planning and power operations. He will provide an update on the Company’s hydro and thermal plant upgrades. He will also discuss the status of the Company’s FERC license commitments at the Clark Fork River hydroelectric projects, and the current relicensing efforts for the Spokane River hydroelectric projects.

Mr. Clint Kalich, Manager of Resource Planning & Power Supply Analyses, describes the Company’s AURORA model (Dispatch Model) inputs, assumptions, and results related to the economic dispatch of Avista’s resources to serve load requirements.

Mr. William Johnson, Senior Power Supply Analyst, will describe the adjustments to the level of power supply revenues and expenses from the amount currently in base rates. Mr. Johnson also describes the new base level of power supply costs for the Energy Recovery Mechanism (ERM) calculation using the pro forma costs proposed in this filing.

Mr. Scott Kinney, Chief Engineer-System Operations, will describe Avista’s major transmission upgrade projects currently in progress. Mr. Kinney explains the new transmission infrastructure investment that is reflected in this filing. He also presents Avista’s pro forma period transmission revenues and expenses.

Ms. Elizabeth Andrews, Senior Regulatory Analyst, will discuss the Company’s overall revenue requirement proposal. In addition, her testimony generally provides accounting and financial data in support of the Company’s need for the proposed increase in rates.

1           Mr. Brian Hirschorn, Manager of Pricing, discusses the spread of the proposed annual  
2 revenue increase among the Company's general service schedules. He explains that the proposed  
3 rate spread is very similar to that approved by the Commission in Avista's recent general case and  
4 would move the rates closer to the cost of providing service. The proposed increase to each  
5 schedule is applied as an equal cents per kWh increase within the schedule.

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

7           **A.     Yes.**