

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-07 \_\_\_\_\_

DIRECT TESTIMONY OF

WILLIAM G. JOHNSON

REPRESENTING AVISTA CORPORATION

**I. INTRODUCTION**

1  
2 **Q. Please state your name, business address, and present position with Avista**  
3 **Corporation.**

4 A. My name is William G. Johnson. My business address is 1411 East Mission  
5 Avenue, Spokane, Washington, and I am employed by the Company as a Wholesale Marketing  
6 Manager in the Energy Resources Department.

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

8 A. I graduated from the University of Montana in 1981 with a Bachelor of Arts  
9 Degree in Political Science/Economics. I obtained a Master of Arts Degree in Economics from  
10 the University of Montana in 1985.

11 **Q. How long have you been employed by the Company and what are your duties**  
12 **as a Wholesale Marketing Manager?**

13 A. I started working for Avista in April 1990 as a Demand Side Resource Analyst. I  
14 joined the Energy Resources Department as a Power Contracts Analyst in June 1996. My  
15 primary responsibilities involve long-term power contract management and regulatory issues.

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

17 A. My testimony will 1) identify and explain the proposed normalizing and pro forma  
18 adjustments to the 2006 test period power supply revenues and expenses, and 2) describe the new  
19 base level of power supply costs for Energy Recovery Mechanism (ERM) calculation purposes,  
20 using the pro forma costs proposed by the Company in this filing.

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

1           A.     Yes. I am sponsoring Exhibit Nos. \_\_\_\_ (WGJ-2) through \_\_\_\_ (WGJ-5), which  
2 were prepared under my supervision and direction.

3           **Q.     Are other company witnesses providing testimony regarding issues you are**  
4 **addressing?**

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

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**II.     SUMMARY**

10          **Q.     Please provide an overview of your direct testimony.**

11          A.     My testimony will identify and explain the proposed normalizing and pro forma  
12 adjustments to the 2006 test period power supply revenues and expenses, and describe the new  
13 base level of power supply costs for Energy Recovery Mechanism (ERM) calculation purposes,  
14 using the pro forma costs proposed by the Company in this filing. This involves the  
15 determination of revenues and expenses based on normal stream flow and expected wholesale  
16 market power prices. In addition, adjustments are made to reflect contract changes between the  
17 2006 test period and the 2008 pro forma period. The table below shows total net power supply  
18 expense during the 2006 test period and the proposed 2008 pro forma period. For information  
19 only purposes, the power supply expense currently in rates, which is based on a 2006 pro forma  
20 period using 2004 loads, is also shown.

21          The net effect of my adjustments to the 2006 test year power supply expense is an  
22 increase of \$48,591,000 (\$177,041,000 - \$128,450,000) on a system basis. The Washington

1 allocation of this adjustment of \$31,988,000 is incorporated into the revenue requirement  
2 calculation for the Washington jurisdiction by Company witness Ms. Andrews.

<b>Power Supply Expense</b> <b>(Not Including Directly Assigned Potlatch Purchase)</b>		
	<u>System</u>	<u>Washington Allocation</u>
Power Supply Expense in Current Base Rates	\$125,623,077	
Actual 2006 Power Supply Expense	\$128,450,000	
Adjustment to Test Period	\$48,591,000	\$31,988,000
2008 Proforma Power Supply Expense	\$177,041,000	

3  
4 **Q. What are the major factors driving the increased power supply expense?**

5 A. The primary factor increasing power supply expense is the cost of serving  
6 additional retail load. Pro forma system loads (2008) are 54 aMW higher than 2006 test year  
7 system loads and 105 aMW higher than the 2004 system loads that were used to develop current  
8 base rates. Other changes include increased purchased power contract costs, such as the  
9 Company's Mid Columbia purchases. The remaining change in power supply expense is  
10 comprised of changes in transmission costs, fuel costs and wholesale revenues.

11

### 12 **III. PRO FORMA POWER SUPPLY COSTS**

#### 13 **Overview**

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

16 A. Exhibit No. \_\_\_\_ (WGJ-2) identifies the power supply expense and revenue items  
17 that fall within the scope of my testimony. These revenue and expense items are related to power

1 purchases and sales, fuel expenses, transmission expense, and other miscellaneous power supply  
2 expenses and revenues.

3 **Q. What is the basis for the adjustments to the 2006 test period power supply**  
4 **revenues and expenses?**

5 A. The purpose of the adjustments to the 2006 test period is to normalize power  
6 supply expenses for normal weather and hydroelectric generation and to reflect known and  
7 measurable changes for the 2008 pro forma period that rates will be in effect. Power supply  
8 expenses are based on 2008 pro forma period loads, together with a Production Property  
9 Adjustment. Adjustments are also made to reflect contract changes from 2006 to 2008.

10 As in past rate cases, power supply expenses are based on normal weather and normal  
11 stream flows. The AURORA Model dispatches Company resources on an hourly basis and  
12 calculates the level of generation from the Company's thermal resources, fuel costs for thermal  
13 resources, and the short-term purchases and sales necessary to serve system requirements under  
14 normal weather and hydro generation levels.

15 **Q. What changes has the Company made in the calculation of normal power**  
16 **supply costs from prior general rate cases?**

17 A. The primary change is the use of loads that match the 2008 pro forma period. As  
18 Company witness Mr. Norwood explains in his testimony, the use of 2008 pro forma retail loads  
19 together with a "Production Property Adjustment," provides a better matching of revenues and  
20 expenses, and properly reflects the costs of providing services to retail customers during the 2008  
21 pro forma period that rates will be in effect.

1 Other than using pro forma period load, the process to develop the pro forma net power  
2 supply expense is the same as in past rate cases. Power supply adjustments have been prepared  
3 using the same methods that have been used in prior general rate cases.

4 A brief description of each adjustment is provided in Exhibit No. \_\_\_\_ (WGJ-3).  
5 Detailed workpapers have been provided to the Commission coincident to this filing to support  
6 each of the pro forma revenues and expenses. The detailed workpapers for each adjustment  
7 show the actual revenue or expense in 2006, and the pro forma revenue or expense for 2008.

8  
9 **Long-Term Contracts**

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

11 A. Long-term power contracts are included in the pro forma by including the energy  
12 receipt or obligation associated with the contract in the AURORA model and including the cost  
13 or revenue in the pro forma net power supply expense.

14 **Q. Are there any new power purchases or sales in the pro forma that were not**  
15 **in place during the 2006 test year?**

16 A. Yes, there is one new long-term purchase and one new long-term sale. In  
17 addition, four 25 MW purchases that had terms of 2004 through 2006 ended and have been  
18 replaced by four new contracts with terms of 2007 through 2010.

19 **Q. Please further describe these new power purchases and sales.**

20 A. On the purchase side, the Company has entered into a 10-year purchase agreement  
21 with Thompson River Cogen, a cogeneration plant in Thompson Falls, Montana. The plant is  
22 expected to be on-line sometime during 2007 and produce approximately 11 average megawatts.

1 The purchase price of \$58.50 per MWh is very close to the forward power market prices for the  
2 2008 pro forma period.

3 As mentioned above, the Company replaced four 25 MW purchases that ended in 2006  
4 with four 25 MW purchases with a term of 2007 through 2010. The average price of the four  
5 purchases that ended in 2006 was \$29.56 per MWh. The four contracts that began January 1,  
6 2007 (Contracts A through D) have an average purchase price of \$31.76 per MWh (individual  
7 contract prices are confidentially provided in workpapers). All of these purchases were made in  
8 late 2002 when power prices were low. These purchases provide over \$20 million per year of  
9 savings compared to forward market prices for the 2007 through 2010 time period.

10 The new sale contract (SMUD Sale) is comprised of two sales, an eight year 50 MW sale,  
11 and a six and one half year 25 MW sale. The sales are for energy and the associated  
12 environmental attributes that qualify for California Renewable Energy Credits (RECs), but do not  
13 qualify under the Washington renewable energy law. The energy sale price is indexed-based so  
14 Avista is not taking on any price risk with this sale, because Avista is purchasing replacement  
15 energy in the daily market at very close to the same price as the sales price. Avista is paid a  
16 renewable energy premium that varies depending on the contract year and how the energy is  
17 tagged out of Avista's control area. Both sales began in December 2006. The expected margin  
18 from this sale is approximately \$6 million per year (system) in 2008.

19 The Company has provided the Commission, Public Counsel and ICNU copies of all new  
20 contracts as part of its monthly ERM Deferral Reports.

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22

1           **Thermal Fuel Expense**

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

3           A.     Thermal fuel expenses include Colstrip coal costs, Kettle Falls wood waste costs  
4     and natural gas expense for the Company's gas-fired resources including Coyote Springs 2,  
5     Rathdrum, Northeast, Boulder Park, and the Kettle Falls combustion turbine. Unit coal costs at  
6     Colstrip are based on the long-term coal supply and transportation agreements. Unit wood fuel  
7     costs at Kettle Falls are based on multiple shorter-term contracts with fuel suppliers and  
8     inventory. Total fuel costs for each plant are based on the unit fuel cost and the plant's level of  
9     generation as determined by the AURORA model. Exhibit No. \_\_\_\_ (WGJ-4) shows the pro  
10    forma fuel costs by month for each plant.

11  
12           **Transmission Expense**

13           **Q.     What are the differences in transmission expense in the 2008 pro forma**  
14    **compared to the actual 2006 transmission expense?**

15           A.     Transmission expense in the 2008 pro forma is approximately \$1.9 million  
16    (system) higher than the 2006 actual expense. The primary reason for this increase is additional  
17    transmission for Coyote Springs 2 (CS2).

18           **Q.     What is the difference in the transmission purchased for CS2?**

19           A.     The Company currently purchases 222 MW of firm point-to-point (PTP)  
20    transmission from BPA and has a 125 MW exchange agreement to meet the remaining  
21    transmission requirements for CS2. The exchange agreement expires at the end of 2007. To  
22    meet the transmission requirements of CS2 the Company plans to purchase an additional 50 MW



1 of firm PTP transmission from BPA. This results in total PTP purchases of 468 MW (196 MW  
2 for Colstrip and 272 MW for CS2).

3 **Q. Are there any new transmission contracts?**

4 A. Yes, there is a new transmission expense, labeled Sagle-Northern Lights, for the  
5 purchase of transmission from Northern Lights Utility to serve Avista customers in northern  
6 Idaho. Purchasing transmission from Northern Lights was less expensive than building what  
7 would have been a duplicative transmission line.

8 **Q. How do the transmission adjustments you sponsor relate to the direct  
9 testimony of Mr. Kinney, the Company's transmission witness?**

10 A. My transmission adjustments are for transmission expenses related to moving  
11 generation to and from our generation resources and our system to serve our retail load.  
12 Company witness Mr. Kinney sponsors testimony involving issues associated with transmission  
13 planning, and transmission revenues derived from third-party use of Avista's transmission system  
14 (transmission revenues are included in the ERM and noted in my testimony).

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16 **IV. ERM CALCULATIONS**

17 **Q. What affect will this case have on the ERM?**

18 A. The only affect this case will have on the ERM is to update the authorized  
19 expenses and revenues and the retail revenue credit. ERM entries will continue to be calculated  
20 in the same manner as current calculations. The final order in this case will determine the new  
21 authorized level of power supply expenses, transmission expense and revenues, and retail  
22 revenue credit and retail load used in the ERM calculation.

1           **Q. What are the new base numbers proposed by the Company for the ERM?**

2           A. The proposed authorized level of annual power supply and net transmission  
3 expense is \$166,927,084. This is the sum of Accounts 555 (Purchased Power), 501 (Thermal  
4 Fuel), 547 (Fuel), 565 (Transmission) and broker fees less Account 447 (Sale for Resale) and  
5 transmission revenue (Account 456.710). The proposed level of transmission revenue is  
6 provided by Mr. Kinney.

7           The level of retail sales and the retail revenue credit will also be updated. The Company  
8 has included a Production Property Adjustment in its revenue requirement together with 2008 pro  
9 forma rate year loads. The authorized level of retail sales to be used in the ERM will be the 2008  
10 rate period sales. The proposed retail revenue credit is \$44.15/MWh, compared to the currently  
11 existing rate of \$39.03/MWh. The proposed authorized monthly power supply expense, and  
12 transmission expense and revenue, and retail sales for ERM calculation purposes is shown in  
13 Exhibit No. \_\_\_\_\_ (WGJ-5).

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

15           A. Yes.