Exhibit No. ___ (WGJ-1T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-10_____

DIRECT TESTIMONY OF

WILLIAM G. JOHNSON

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

Q. Please state your name, business address, and present position with Avista Corporation.

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

Q. What is your educational background?

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

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

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

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

A. My testimony will 1) identify and explain the proposed normalizing and pro forma adjustments to the January 2009 through December 2009 test period power supply revenues and expenses, and 2) describe the proposed level of authorized expense and retail revenue credit for Energy Recovery Mechanism (ERM) purposes, using the pro forma costs proposed by the Company in this filing.

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

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

Q. Are there other Company witnesses providing testimony regarding issues you are addressing?

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

II. OVERVIEW OF PRO FORMA POWER SUPPLY ADJUSTMENT

Q. Please provide an overview of the pro forma power supply adjustment.

A. The pro forma power supply adjustment involves the determination of revenues and expenses based on the generation and dispatch of Company resources and expected wholesale market power prices as determined by the AURORA model simulation for the pro forma period under normal weather and hydro generation conditions. In addition, adjustments are made to reflect contract changes between the test period and the pro forma period. The table below shows total net power supply expense during the test period and the pro forma period. For information purposes only, the power supply expense[1] currently in base retail rates, which is based on a calendar 2010 pro forma period, is also shown.

[1] For the remainder of my testimony, for purposes of the power supply adjustment I will refer to the net of power supply revenues and expenses as power supply expense for ease of reference.

Power Supply Expense (Not Including Directly Assigned Clearwater Paper Purchase)	System	Washington Allocation
Power Supply Expense in Current Base Rates (2010, No Lancaster)	$178,151,000	
Lancaster Expense Removed from Current Base Rates	$18,861,000	
Actual Jan 09 - Dec 09 Power Supply Expense	$189,811,000	
Adjustment to Test Period	$43,373,000	$28,136,065
Proposed 2011 Pro forma Power Supply Expense	$233,184,000	
Increase from Expense in Current Rates	$55,033,000	$35,699,907
Increase from Expense in Current Rates from factors other than Lancaster	$36,172,000	$23,464,776

The net effect of my adjustments to the test year power supply expense is an increase of $43,373,000 ($233,184,000 - $189,811,000) on a system basis. The Washington allocation of this adjustment of $28,136,065 is incorporated into the revenue requirement calculation for the Washington jurisdiction by Company witness Ms. Andrews.

The increase in power supply expense compared to the authorized level in current base rates is $55,033,000 (system) and $35,699,907 (Washington allocation).

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

A. The level of power supply expense currently in base rates is $178,151,000 (system number). This expense level is based on a calendar 2010 pro forma period that does not include costs related to the Lancaster PPA. This compares to the proposed pro forma power supply expense of $233,184,000, an increase of approximately $55.0 million on a system basis and a Washington allocation of approximately $35.7 million.

This increase in pro forma power supply expense over the expense currently in base rates is caused by numerous factors, primarily the addition of the Lancaster plant Power Purchase Agreement (PPA), the termination of some low cost power purchases, reduced hydro generation and increased fuel costs and higher retail loads.

As discussed in last year's general rate case, the Lancaster PPA increases power supply expense by approximately $18.9 million on a system basis or $12.3 million for the Washington allocation. The pro forma in this case includes all expenses and revenues associated with the Lancaster PPA based on 2011 expenses and dispatch revenues. The pro forma also includes reduced expenses from the optimization of the Lancaster gas transportation and redirecting Lancaster electric transmission. These additional expense reductions are included in the current Lancaster deferral calculations. The pro forma in this case includes the purchase of operating reserves from BPA for Lancaster. These expenses are included because BPA has recently informed the company that it may take up to two years to move Lancaster into Avista's balancing authority. In the meantime, the Company will incur the expense of purchasing reserves from BPA.

The other biggest driver of increased expense in the pro forma is the loss of four low cost 25 aMW power purchases that end December 31, 2010. Those four purchases have an average rate of $31.68/MWh, well below their replacement costs. The cost of replacement in the pro forma is $49.73/MWh. This leads to an increased expense of $15.8 million (system) and $10.2 million (Washington allocation).

Other expense increases are due to decreased hydro generation, increased retail loads and increased fuel prices coupled with decreased operating margins from combustion turbine plants, and higher net costs of power purchases and wholesale sales.

Hydro generation is lower by 43.2 aMW in the 2011 pro forma versus the 2010 pro forma. The loss of hydro generation is due to several factors. The first is a reduction in generation from Avista's plants on the Clark Fork river as explained in Mr. Kalich's testimony. The second is a reduction in Mid-Columbia purchased hydro generation. This is due to the expiration of the Rocky Reach contract on October 31, 2011, a reduced allocation of Grant County PUD's Priest Rapids Project, and the expiration of Avista's purchase of the Colville Indian Tribe's share of the Wells project on September 30, 2010. The net impact of reduced hydro generation is an increased expense of $5.1 million (Washington allocation).

Pro forma retail loads are 12.1 aMW higher than loads that current rates are based on. This increases power supply expense by $3.0 million (Washington allocation). Most of this increase is mitigated by the production property adjustment so the net impact of higher retail loads is small.

Increased fuel prices and changes in operating margins at Coyote Springs 2 and Lancaster increase power supply expense by $1.7 million (Washington allocation). This impact is the sum of Colstrip's net costs increasing by $2.4 million, Coyote Springs 2 and Lancaster net costs increasing by $1.1 million, and Kettle Fall's net costs decreasing by $1.8 million. Kettle Falls decrease in net cost is due to increased generation due to better fuel availability.

Finally, costs for the Company's net wholesale power purchase expense increased by $3.4 million (Washington allocation). On the purchase side, the largest impact is the expiration of

the Grant PUD Displacement purchase on September 30, 2011, in which the Company purchases power at a rate equivalent to the BPA Priority Firm price. The other cost increases are due to contract rate increases for the WNP-3 contract, a PURPA purchase and the Stateline wind purchase. On the revenue side the Company's load following contract with Northwestern Energy ends January 9, 2011. This contract provided $3.3 million of revenue in the 2010 pro forma used to set current revenue requirements.

The table below shows the primary factors driving the increase in power supply expense compared to the level in current base rates.

Power Supply Expense Change
2011 Pro forma vs. 2010 Authorized

Factor	2010 to 2011 Pro forma Change $millions	Washington Allocation $millions
Including Lancaster	$18.9	$12.3
Low Cost 100 aMW Purchases End	$15.8	$10.2
Reduced Hydro Generation	$7.9	$5.1
Increased System Load	$4.7	$3.0
Fuel Prices and Operating Margins	$2.6	$1.7
Contract Changes	$5.2	$3.4
Total 2010 to 2011 Power Supply Increase	$55.1	$35.7

III. PRO FORMA POWER SUPPLY ADJUSTMENTS

Overview

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

A. Exhibit No. ___(WGJ-2) 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.

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

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

The AURORA Model, as explained by Mr. Kalich, dispatches Company resources on an hourly basis and calculates the level of generation from the Company's thermal resources, fuel costs for thermal resources, and the short-term purchases and sales necessary to serve system requirements.

Q. Are there any changes in how the pro forma in this case was developed versus last year's rate case?

A. No. The process to develop the pro forma net power supply expense in this case is the same as in the 2009 general rate case.

A brief description of each adjustment is provided in Exhibit No. ___(WGJ-3). Detailed workpapers have been provided to the Commission coincident to this filing to support each of the pro forma revenues and expenses. The detailed workpapers for each adjustment show the actual revenue or expense in the test period, and the pro forma revenue or expense.

Long-Term Contracts

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

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

Q. Are there any new power purchases or sales in the pro forma that are not in the current base rates?

A. Yes. This pro forma includes the expenses and revenues related to the Lancaster power purchase agreement. These expenses and revenues are not in the revenue requirement supporting current base rates and are being tracked and placed in a separate deferral account, per the Commission's Order No. 10 dated December 22, 2009 in Docket No. UE-090134.

Q. Are there any power purchases or sales that are in current base rates but not in this pro forma?

A. Yes. As stated earlier, one of the larger factors driving expenses higher is the expiration of four low cost 25 aMW purchases at the end of 2010. Also as discussed earlier, the Company's long-term purchase from Rock Reach dam ends October 31, 2011 and the purchase of the Colville Indian Tribe's share of Wells dam ends September 30, 2010. On the revenue side, the load following contract with Northwestern Energy ends January 9, 2011.

Short-Term Power Purchases and Sales

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

A. After including the actual forward short-term transactions as resources and obligations in the AURORA model, the balance of the short-term electric power purchases and sales are an output of the AURORA model. The model calculates both the volumes and price of short-term purchases and sales that balance the system's generation and long-term purchases with retail load and other obligations. The price of the short-term transactions represents the price of spot market power as determined by the AURORA model.

Q. What actual forward short-term transactions are included in the pro forma?

A. The pro forma includes transactions entered into through December 31, 2009 for the 2011 pro forma period. These transactions include one physical electric purchase, three financial electric purchases and one financial electric sale, and twelve physical natural gas purchases. The mark-to-model impact of these transactions is a reduction in pro forma expense of $1,676,240 (Washington allocation).

Thermal Fuel Expense

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

A. Thermal fuel expenses include Colstrip coal costs, Kettle Falls wood-waste costs and natural gas expense for the Company's gas-fired resources including Coyote Springs 2, Lancaster, Rathdrum, Northeast, Boulder Park, and the Kettle Falls combustion turbine. Unit coal costs at Colstrip are based on the long-term coal supply and transportation agreements. Unit wood fuel costs at Kettle Falls are based on multiple shorter-term contracts with fuel suppliers

and inventory. Total fuel costs for each plant are based on the unit fuel cost and the plant's level of generation as determined by the AURORA model.

Exhibit No. ___(WGJ-4) shows the pro forma fuel costs by month for each plant. Mr. Kalich provides details and supporting workpapers regarding the level of generation for the Company's thermal plants, and the fuel cost for thermal and natural gas-fired plants.

Transmission Expense

Q. What changes in transmission expense are in the pro forma compared to the expense in current base rates?

A. The pro forma in this case includes 250 MW of BPA point-to-point transmission for the Lancaster plant. The annual cost of this transmission is approximately $4.5 million.

IV. ERM CALCULATIONS

New Authorized Power Supply and Transmission Expense

Q. What is the authorized power supply expense and revenue proposed by the Company for the ERM?

A. The proposed authorized level of annual system power supply expense is $214,570,566. This is the sum of Accounts 555 (Purchased Power), 501 (Thermal Fuel), 547 (Fuel), less Account 447 (Sale for Resale). The proposed level of Transmission Expense is $17,647,661. The proposed level of Transmission Revenue is $12,346,484.

The level of retail sales MWh and the retail revenue credit will also be updated. The proposed authorized level of retail sales to be used in the ERM is the January 2011 through December 2011 pro forma retail sales. The proposed retail revenue credit is $52.80/MWh, which

is the average cost of production/transmission in this filing developed by Company witness Ms. Knox.

The proposed authorized ERM power supply expense and revenue, transmission expense and revenue, and retail sales is shown in Exhibit No.___(WGJ-5).

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

A. Yes.