Exhibit No. __(SJK-1T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-06_____

DIRECT TESTIMONY OF

SCOTT J. KINNEY

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

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

Q. Please briefly describe your education background and professional experience.

A. I graduated from Gonzaga University in 1991 with a B.S. in Electrical Engineering. I joined the Company in 1999 after spending eight years with the Bonneville Power Administration. I have held several different positions in the Transmission Department. I started at Avista as a Senior Transmission Planning Engineer. In 2002, I moved to the System Operations Department as a supervisor and support engineer. In 2004, I was appointed to my current position of Chief Engineer, System Operations.

Q. What is the scope of your testimony?

A. My testimony describes Avista's transmission upgrade projects, and presents Avista's pro forma period transmission revenues and expenses, including the proposed addition to expense to allow the Company to recover its Grid West loan costs. Company witness Ms. Andrews discusses the Washington share of the transmission upgrades and net transmission expenses included in this case.

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exhibit Nos. ___(SJK-2) and ___(SJK-3), which were prepared under my direction. Exhibit No. ___(SJK-2) includes a map of the 230 kV Upgrade

Project at page 1, and the "Major Transmission Additions" table at page 2. Exhibit No. ___(SJK-3) provides the Transmission Pro Forma adjustment.

II. TRANSMISSION UPGRADES

Q. Please describe the Company's transmission upgrade project?

A. The Company is in its forth year of a multi-year transmission upgrade project that is estimated to exceed $100 million. This multi-year transmission upgrade plan will add over 100 circuit miles of new 230 kV transmission line to Avista's system, and will increase the capacity of an additional 50 miles of transmission line. Avista is also constructing two new 230 kV substations as well as reconstructing three existing transmission substations. Six 230 kV substations are being upgraded to meet capacity requirements, upgrade protective relaying systems, and meet regional and national reliability standards. In total, Avista will perform work on eleven of its thirteen 230 kV substations. Avista is also upgrading its telecommunication system by installing fiber and digital microwave systems. This will create redundant communication paths that will improve system monitoring, control, and protection. Exhibit No.__(SJK-2), page 1, includes a map showing the location of the 230 kV upgrade projects.

Q. What transmission project costs are included in this filing?

A. The Company has included the cost of four projects, with completion dates in 2006 and early 2007. As shown in the table below (see also Exhibit No.___(SJK-2), page 2), these projects include the Palouse Reinforcement Project, the Beacon-Bell #5 230 kV line upgrade, the West of Hatwai (WoH) Telecom Projects, and the Dry Creek 115 kV Substation Projects - at a total system investment of $17.8 million.

Transmission Projects	Cost: System / WA (000s)	In-Service Date
Palouse Reinforcement Project	$10,901 / $7,103	Dec-06
Beacon-Bell #5 230 kV line	$2,000 / $1,303	Mar-07
West of Hatwai (WoH) Telecom	$3,160 / $2,059	Nov-06
Dry Creek 115 kV Substation	$1,726 / $1,125	Aug-06
Total	$17,787 / $11,590	

- **Palouse Reinforcement Project:** This project involves the construction of 60 miles of 230 kV transmission line between the Benewah and Shawnee substations to relieve congestion on the existing Benewah-Moscow 230 kV line. The project will provide a second 230 kV transmission line between Avista's Northern and Southern load service areas, significantly improving system reliability. Several components of the Palouse Project will be energized and placed into service in 2006. This includes the double circuit Shawnee-Colfax 230 kV and 115 kV line section and the Benewah Substation rebuild. The total cost of these two projects is $10,901,000 (system).

- **Beacon-Bell #5 230 kV Line:** Avista is increasing the capacity of the second Beacon-Bell 230 kV line. The first Beacon-Bell 230 kV line was upgraded in December 2005. These parallel path transmission lines originate from Avista's Beacon Substation and interconnect with Bonneville Power Administration (BPA) at its Bell Substation. The project involves up-rating the line capacity, from 400 to 800 MVA, as well as increasing equipment ratings at both substations. The project will mitigate overloads between the largest Avista and BPA substations in Spokane and improve load service to the Spokane area. The transmission line is scheduled to be energized in March 2007 with a total investment of $2,000,000 (system).

- **West of Hatwai (WoH) Telecom Projects:**
The ability to communicate with, monitor, and control transmission equipment is an important factor in providing reliable service. The WoH Telecom is comprised of several projects. The Noxon-Pine Creek fiber project completes a telecommunication ring from Spokane to Noxon Rapids Dam. The ring provides for redundant communication paths, where the loss of one side of the ring will not eliminate the ability to control equipment. The ring is also required to implement the Clark Fork Remedial Action System (RAS) that drops generation at Noxon Rapids and Cabinet Gorge Dams after critical transmission outages to ensure system reliability. Another component of the Clark Fork RAS includes the addition of fiber from the Cabinet generation units to the 230 kV Cabinet Substation. The Hatwai-North Lewiston fiber project completed a fiber ring around the Lewiston/Clarkston load service area. This project is also part of a RAS to improve reliability in the Lewiston area. All three of these projects will be completed in 2006 at a total investment of $3,160,000 (system).

- **Dry Creek 115 kV Substation:**
  To improve load service and system reliability in the Lewiston/Clarkston area, a 230/115 kV auto transformer was added to the Dry Creek Substation. The new transformer provides a back-up for the North Lewiston 230/115 kV auto transformer. This project also includes the construction of the 115 kV portion of the Dry Creek Substation and the loop-in of an area 115 kV transmission line. The project will be energized in the fall of 2006 at a total investment of $1,726,000 (system).

Q. Will the construction of these new facilities increase third party transmission revenue received by the Company from third party transmission users who move power across Avista's system?

A. No. These projects are being built to improve system reliability, improve area load service, and meet national reliability standards. In the WoH agreement signed with BPA, Avista preserved its existing transfer capability across the WoH cut-plane and BPA gained additional transfer capacity.

III. PRO FORMA TRANSMISSION EXPENSES

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

A. Several revisions were made to the transmission expenses in the pro forma period, to reflect the rate period January through December 2007, in comparison to the current authorized transmission expense levels per Docket No. UE-050482. Each expense item described below is at a system level and is included in Exhibit No.__ (SJK-3).

Colstrip Transmission - Avista is required to pay its portion of the O&M costs associated with the Colstrip transmission system pursuant to the joint Colstrip contract. In accordance with Northwestern Energy's forecasted 2007 Colstrip Transmission reports provided to the Company,

they will bill Avista during 2007 an annual total of $401,000 for our share of the Colstrip O & M expense. This amount is an increase of $91,000 higher than the $310,000 previously included in base rates.

ColumbiaGrid (RTO Development) - In 2006 Avista elected to fund the ColumbiaGrid RTO development effort. This is a regional organization whose purpose is to enhance transmission system reliability and efficiency, provide cost-effective regional transmission planning, develop and facilitate the implementation of solutions relating to improved use and expansion of the interconnected Northwest transmission system, reduce transmission system congestion, and support effective market monitoring within the Northwest and the entire Western interconnection. Under the ColumbiaGrid funding agreement, Avista will pay $283,000 per year for the first two years. Avista expects this level of expenditure will continue well beyond the two years of the current funding agreement.

Electric Scheduling and Accounting Services - The $28,000 increase to the previous authorized level of $199,000, for electric scheduling and accounting services, is based on the 2006 fixed monthly expenditure of $18,783 and two annual expenditures of $1,183. The 2006 total expenditures will be $2,000 less than the actual 2005 expenditures. Recent changes to national reliability standards, as well as the acquisition of additional Open Access Technology Incorporated (OATI) services for transmission scheduling and accounting functions, resulted in cost increases for these services above the authorized level. OATI is the electronic tag authority for the entire Western Electricity Coordinating Council (WECC) and also performs interchange accounting for all WECC members. The majority of WECC members also use OATI for their

Open Access Same-Time Information System (OASIS) functions. ColumbiaGrid is evaluating the use of OATI applications for shared service among its members.

OASIS Expenses - The $9,000 reduction in Open Access Same-Time Information System (OASIS) expenses is a result of eliminating BPA OASIS services and reducing the travel/training costs for transmission pre-scheduling and OASIS personnel.

WECC – Sys. Security Monitor & WECC Admin. and Net Oper. Comm. Sys. - The WECC System Security Monitor dues have been revised from the authorized amount of $71,000, to $115,000. Additionally, the WECC Administrative and Net Operating dues have been increased from the previously authorized $110,000, to $195,000. Both changes reflect significant increases in the WECC forecast to fund regional reliability initiatives approved by the WECC.

WECC - Loop Flow - WECC Loop Flow charges are dependent on transmission system usage across the entire Western Interconnection. The revised 2007 pro forma charge is $28,000 based on 2006 actual charges as invoiced by the WECC, providing a reduction in annual expense of $12,000.

IV. PRO FORMA TRANSMISSION REVENUES

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

A. Several revisions were made to the transmission revenues in the pro forma period, to reflect the January through December 2007 rate period, in comparison to the current authorized transmission revenue levels per Docket No. UE-050482. Each revenue item described below is at a system level and is included in Exhibit No. __(SJK-3).

Seattle, Tacoma, and Grand Coulee Project Revenues - The $641,000 increase for both Seattle and Tacoma (for a total of $1,282,000) are the result of both utilities purchasing long-term firm point-to-point transmission service under the Avista Open Access Transmission Tariff (OATT) to move their generation to load. In March of 2006, Seattle and Tacoma purchased transmission services from April 2006 through October 2007. The two-year contracts were signed to give Seattle and Tacoma time to build new facilities to bypass Avista and connect directly to BPA.

The $8,000 increase in Grand Coulee Project revenue is a result of a new contract signed in March 2006 with the project owner for a fixed dollar amount, replacing the previous contract which expired in October 2005.

Borderline Wheeling - The reduction in Borderline Wheeling from the authorized level of $7,332,000, to the 2007 pro forma level of $5,414,000 is the result of new contracts being signed with BPA. The 2007 pro forma level was calculated by annualizing the first six months of 2006 actual revenue known at the time of this filing under the new contract. Since the new Borderline Wheeling methodology is based on a Load Ratio Share[1], which should remain consistent throughout the entire year, this 12-month predicted revenue should be accurate.

The General Transfer Agreement (GTA) with BPA expired in 2005 and, under FERC requirements, was replaced with new contracts under the Avista OATT. Under the old GTA, Avista billed BPA using a distance-based "transfer charge" for each point of delivery. Under the new contracts, BPA, as the network customer, shall pay a monthly demand charge, which shall be determined by multiplying its Load Ratio Share times one twelfth (1/12) of the Transmission

[1] Load Ratio Share is the ratio of a Transmission Customer's Network Load to the Transmission Provider's total load calculated on a rolling twelve-month basis.

Provider's annual transmission revenue requirement (presently $28,566,969). The net result of the FERC-required change in rate methodology is an overall reduction in revenues associated with providing transfer service to BPA for service to BPA's borderline loads on Avista's system.

Dry Gulch Revenue - Dry Gulch revenue has been adjusted $35,000 over the current authorized level of $245,000 in Docket No. UE-050482. The adjustment to Dry Gulch revenue is a result of using a different methodology to forecast revenue, compared to what was authorized in Docket No. UE-050482. The new methodology increases the 2007 pro forma level by $35,000 to $280,000, using a five-year average of the actual revenue. The old methodology used a five-year average of the monthly peak demand multiplied by the monthly rate.

Vaagen Wheeling - The adjustment to Vaagen Wheeling revenue from $123,000 to $110,000 is a result of using 2005 actual revenue. During the previous case (Docket No. UE-050482), the Company's expected revenue was estimated at $123,000 and was expected to increase. The past five years of actual data has shown a consistent reduction of $1,000-$2,000 per year from a peak of $119,000 in 2001. The 2006 January through June actual revenue is $6,900 less than the same six months in 2005.

Northwestern Energy - The new revenue of $231,000 from Northwestern Energy is a result of a new load following contract that Avista signed in 2006 with Northwestern. Avista will provide up to 15 MW of energy to Northwestern to help them match hourly fluctuations in loads and resources. Firm transmission has been purchased for this contract at Avista's full tariff rate. This contract expires in November 2007.

V. GRID WEST LOAN

Q. Is the Company proposing to incorporate in this case costs related to loans made to Grid West and its predecessor, RTO West?

A. Yes. The Company is proposing to include in transmission expense an annual amount of $281,000 to recover loan costs to Grid West (and its forerunner, RTO West). Avista's total Grid West loan amount is approximately $1.2 million including interest through March 31, 2006 (or $782,000 Washington share, based on the current authorized allocation). This amount is proposed to be amortized on a five-year basis with no interest or carrying costs. None of the loan amount is presently included in Avista's rates. Other costs incurred by Avista to support Grid West, such as employee salaries, employee travel, and legal expenses, were expensed as incurred and are not included in this amount.

Q. Please provide background related to Avista's participation in establishing a regional transmission organization (RTO).

A. Avista has been actively involved in the development of a Pacific Northwest RTO. This activity has been aimed at meeting the policies of the Federal Energy Regulatory Commission (FERC) promoting competitive electric markets. More specifically, FERC Order 888 encouraged the development of independent system operators, and FERC Order 2000 required transmission owners to develop and submit a proposal to establish an RTO, or to explain why such an organization could not be developed. Therefore, the Company's effort and associated costs related to Grid West were essential in the ongoing ownership, development, and operation of Avista's transmission system.

Avista signed an initial funding agreement in 2000, as did all other Pacific Northwest investor-owned electric utilities, to provide funding for the start-up phase of Grid West (then named "RTO West"). These start-up costs included retaining experts and facilitators, as well as other expenses associated with transmission studies and stakeholder participation. The total balance of Avista's loan to Grid West is approximately $1,217,500, including interest of over $188,000. Grid West had planned to repay the loans to Avista and other funding utilities through surcharges to customers once it became operational. With the recent Plan of Dissolution for Grid West, this repayment will not occur. As a result, Avista filed a petition with the Commission to defer these costs, with the opportunity for later recovery in retail rates. The Commission approved, on July 26, 2006, in Docket No. UE-060665, the Company's request for an order authorizing deferred accounting treatment for loan amounts made to Grid West. The Order required the Company to begin amortization of the loan balance beginning July 1, 2006, for five years, and explain why any amortization of this loan balance should be borne by Washington ratepayers.

Q. Why is the Company proposing that these costs be included in the requested revenue requirement?

A. This activity was required by FERC and necessary for the continued planning and operation of the Company's transmission system. As stated earlier, the Company continues to work with other regional parties to explore ways in which the region's transmission providers can better operate and manage the region's transmission system. On April 10, 2006, Avista

joined ColumbiaGrid as one of its six founding members.[2] ColumbiaGrid intends to draw upon elements developed in both the Grid West and Transmission Improvements Group (TIG) processes to provide transmission-related coordination and administrative services as soon as possible. Because the ColumbiaGrid effort will be using many of the concepts and technical work that began under Grid West, the Company and the region will benefit from the prior work of Grid West.

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

A. Yes, it does.

[2] Incorporated as a non-profit organization, the founding members, in addition to Avista, include Puget Sound Energy, Seattle City Light, Grant County Public Utility District, Chelan County Public Utility District, and the Bonneville Power Administration.

Exhibit No. ___(SJK-2)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-06_____

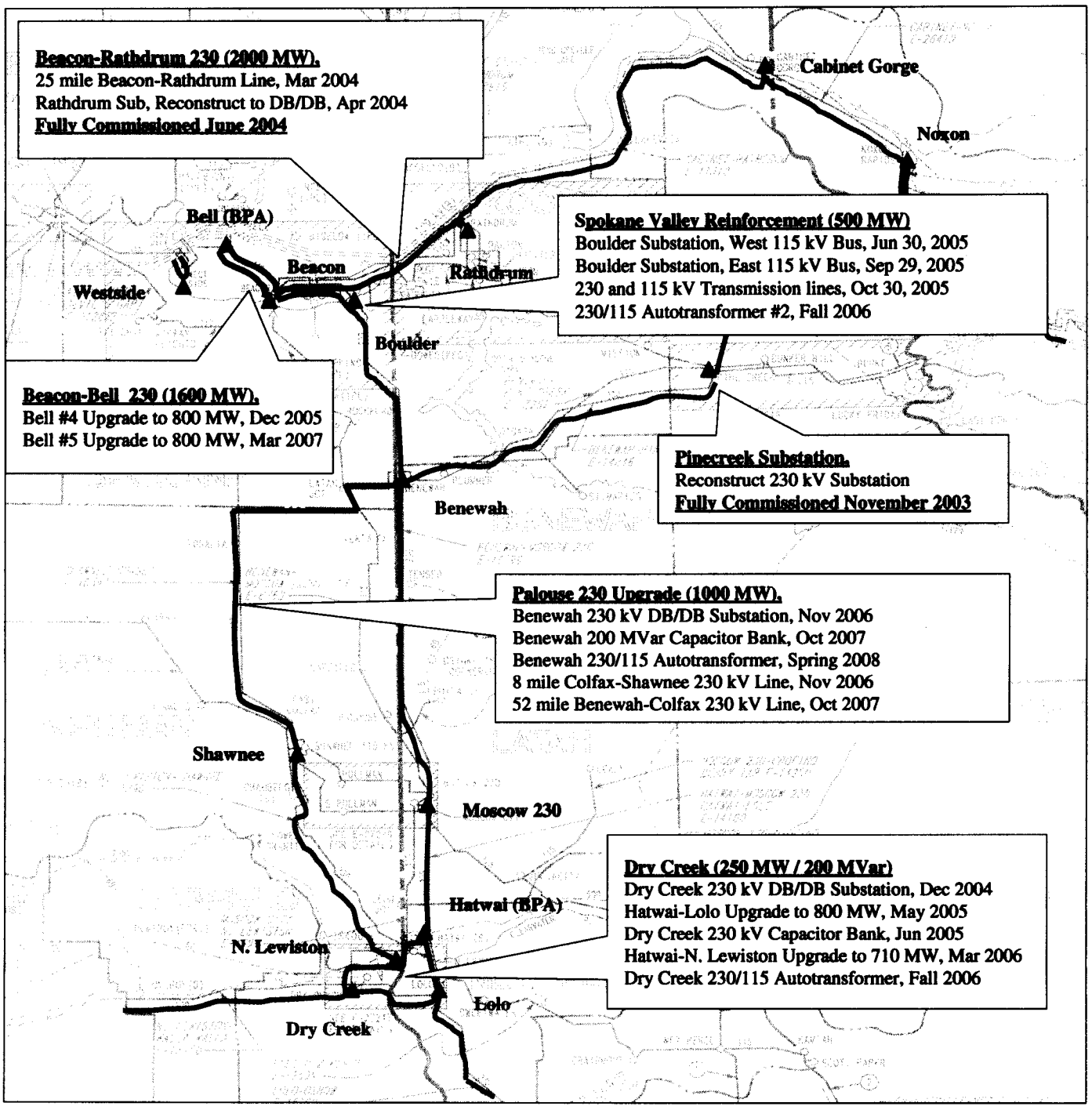
EXHIBIT NO. _____ (SJK-2)

SCOTT J. KINNEY

REPRESENTING AVISTA CORPORATION

230 kV Upgrade Project
Project Milestones

July 2006



Transmission Line
New or Upgraded

Other 230 kV Upgrade Projects
Clark Fork Remedial Action Scheme (RAS)
West of Hatwai Telecom
Power Circuit Breaker Replacements
Associated Equipment Upgrades

Avista Utilities
Major Transmission Additions
Placed in Service by 3/31/2007

ER	TITLE	TRANSFER DATE	TRANSFER AMOUNT	DESCRIPTION
	WoH Telecomm Projects			
2102	Hatwai-N. Lewiston Fiber	Mar-06	$890,000	Install fiber on Hatwai-N. Lewiston 230 kV line including replacement of poles.
2103	Noxon-Pine Creek Fiber	Nov-06	$1,965,000	Install fiber on Noxon-Pine Creek 230 kV line including replacement of poles.
2113	Cabinet Fiber	Sep-06	$305,000	Install fiber from Cabinet generators to substation
	Subtotal Fiber Costs		**$3,160,000**	
2108	**Beacon-Bell #5 230 kV Line**	Mar-07	**$2,000,000**	Reconductor Beacon-Bell #5 230 kV line and upgrade substation equipment
2105	**Palouse 230 kV Upgrade**			
	Benewah 230 kV Substation	Nov-06	$5,141,000	Reconstruct Benewah 230 kV substation to increase capacity
	Shawnee-Colfax (7.5 miles)	Dec-06	$5,760,000	Construct double circuit 230/115 kV transmission line
	Subtotal Palouse 230 kV Costs		**$10,901,000**	
2346	**Dry Creek 115 kV Substation**			
	115 kV Substation	Aug-06	$1,126,000	Construct 115 kV substation and install 230/115 kV transformer
	115 kV Transmission Line	Aug-06	$600,000	Loop in 115 kV line into substation
	Subtotal Dry Creek Costs		**$1,726,000**	
	TOTAL		**$17,787,000**	

Exhibit No. ___(SJK-3)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-06_____

EXHIBIT NO. _____ (SJK-3)

SCOTT J. KINNEY

REPRESENTING AVISTA CORPORATION

Avista Corporation
Transmission Adjustment
- Energy Delivery -
Current Authorized vs 2007 Pro Forma
($000s)

Line No.			Authorized[1]	2007 Pro Forma Period	Adjusted
		556 OTHER POWER SUPPLY EXPENSES			
1		NWPP	31	32	1
		560-71.4, 935.3-.4 TRANSMISSION O&M EXPENSE			
2		Colstrip O&M - 500kV Line	310	401	91
3		ColumbiaGrid RTO Development	0	283	283
4		Grid West	0	244	244
		Total Account 560-71.4, 935.3-.4	310	928	618
		561 TRANSMISSION EXP-LOAD DISPATCHING			
5		Elect Sched & Acctg Srv (CASSO/OATI)	199	227	28
		566 TRANSMISSION EXP-OPRN-MISCELLANEOUS			
6		OASIS Expenses	14	5	-9
7		WECC - Sys. Security Monitor	71	115	44
8		WECC Admin & Net Oper Comm Sys	110	195	85
9		WECC - Loop Flow	40	28	-12
10		Total Account 556	235	343	108
11		**TOTAL EXPENSE**	775	1,530	755
		456 OTHER ELECTRIC REVENUE			
12		Borderline Wheeling	7,332	5,414	-1,918
13		Columbia Basin Project (Seattle/Tacoma)	0	0	0
14	*	Seattle	0	641	641
15	*	Tacoma	0	641	641
16		Grand Coulee Project	0	8	8
17		OASIS nf & stf Whl (Other Whl)	2,400	2,400	0
18		PP&L - Dry Gulch	245	280	35
19		PP&L Series Cap -1978	9	9	0
20		Spokane Waste to Energy Plant	160	160	0
21		Vaagen Wheeling	123	110	-13
22	**	Northwestern Energy	0	231	231
23		Total Account 456	10,269	9,894	-375
24		**TOTAL REVENUE**	10,269	9,894	-375
25		**TOTAL NET EXPENSE**	-9,494	-8,364	1,130

* Seattle and Tacoma - contracts end 10/31/07
** Northwestern Energy - contracts end 11/30/07
(1) Authorized Per Docket No. UE-050482