

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-160228

REBUTTAL TESTIMONY OF

WILLIAM G. JOHNSON

REPRESENTING AVISTA CORPORATION

1 **Q. Please state your name, the name of your employer, and your business**
2 **address.**

3 A. My name is William Johnson. I am employed by Avista Corporation at 1411
4 East Mission Avenue, Spokane, Washington.

5 **Q. Have you previously provided direct testimony in this Case?**

6 A. Yes. My testimony identified and explained the proposed normalizing and pro
7 forma adjustments to the October 2014 through September 2015 test period power supply
8 revenues and expenses, and described the proposed level of expense and retail revenue
9 adjustment rate for Energy Recovery Mechanism (ERM) purposes, using the pro forma costs
10 proposed by the Company in this filing.¹

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

12 A. My testimony will address issues regarding the expense of several power
13 supply contracts raised by both Washington Utilities and Transportation Commission Staff
14 (“Staff”) witness Mr. Gomez, and Industrial Customers of Northwest Utilities (“ICNU”)
15 witness Mr. Mullins.

16 **Q. Are you sponsoring any exhibits in this proceeding?**

17 A. Yes. I am sponsoring Exhibit No. ____ (WGJ-7) which reflects the changes
18 made to pro forma power supply expense by the Company in response to the testimony of Mr.
19 Gomez and Mr. Mullins.

20 **Q. Please describe the issue raised by Mr. Gomez and Mr. Mullins?**

¹ The pro forma power supply adjustment referred to within my testimony is included in both Company witness Ms. Smith’s Modified Test Year Study and Cross Check Study, and Company witness Ms. Andrews electric Attrition Study.

1 A. Certain power supply expenses contractually escalate each year by an inflation
2 rate. The filed pro forma included an estimated inflation rate escalation. These contracts
3 include the WNP-3 power purchase, and the Lancaster capacity and energy contracts. These
4 power supply expenses contractually escalate each year by the GDP Price Deflator. The
5 Company used 3% as an estimate of what the GDP Price Deflator would be in its pro forma
6 power supply adjustment.

7 In addition to those two power purchase contracts there are four BPA transmission
8 contracts that are subject to a proposed rate change effective October 1, 2017. The pro forma
9 included a 5% increase for each of these transmission contracts that affected the last three
10 months of 2017 and the first six months of 2018.

11 Both Mr. Gomez and Mr. Mullins object to the inclusion of an estimated inflation rate
12 in the power purchase contracts and an estimated BPA transmission rate increase. Their
13 recommendation is to exclude all inflation and transmission rate increases.

14 **Q. What is your proposal for addressing these power supply costs in response**
15 **to the testimony Mr. Gomez and Mr. Mullins?**

16 A. My proposal is to use the latest best available information regarding inflation
17 and transmission rate changes to develop the pro forma expenses. This is accomplished by
18 using known rate changes that have become recently available, and using the latest actual
19 inflation rate for the prior year and applying that rate to the pro forma year. Exhibit
20 No.__(WGJ-7) provides the change in expense, and explains how the revised expense was
21 developed for the contracts in question.

1 **Q. What is the impact of your proposed changes as compared to the**
2 **elimination of any inflation or transmission rate increase as proposed by Mr. Gomez and**
3 **Mr. Mullins?**

4 A. The changes I've made to the two power purchase contracts and four
5 transmission contracts reduce Washington power supply expense by \$436,000. That
6 compares to a reduction of \$580,000 if all inflation and rate increases are eliminated as
7 proposed by Mr. Gomez and Mr. Mullins.

8 **Q. Please summarize the changes proposed by Avista on rebuttal for each of**
9 **these six contracts.**

10 A. Below is a summary of the proposed changes made to each contract.

- 11 • WNP-3 Power Purchase – Use actual contract rate for January through April 2017 and the
12 latest one-year inflation rate of 1.2% for November 2017 through April 2018.
- 13 • Lancaster Power Purchase – reduce inflation from 3% to the latest one-year rate of 1.2%.
- 14 • BPA PTP Transmission – Use BPA's proposed rate increase of .7%.
- 15 • BPA Townsend-Garrison Transmission – Use BPA's proposed no rate increase.
- 16 • BPA WNP-3 Transmission – Use BPA's proposed no rate increase.
- 17 • BPA Borderline NT Transmission – Use BPA's proposed no rate increase.

18 **Q. Will these revisions be reflected in the proposed November 1 power supply**
19 **update?**

20 A. Yes. The revisions to contract expenses shown in Exhibit No. ____ (WGJ-7) will
21 be included in the November 1, 2016 power supply update, along with other known contract
22 changes between now and the time of the filing.

1 As in prior cases, this update in power supply costs, which would occur just before
2 new base retail rates go into effect, will reflect the most recent information available for power
3 supply costs. The updated power supply cost data will not only be reflected in the base rate
4 adjustment, but will also reset the base for the ERM calculations for the future rate period.

5 As in past proceedings, the November 1, 2016 power supply update would: 1) update
6 the three-month average of natural gas and electricity market prices; 2) include new short-
7 term contracts for gas and electric; and 3) update or correct power and transmission service
8 contracts for the 2017 rate year. The Parties are free to seek discovery on, and examine the
9 prudence of, the updated power supply items.

10 **Q. Does the Company continue to propose that another power supply update**
11 **be filed on November 1, 2017 for the January 2018 through June 2018 pro forma period?**

12 A. Yes. The same reasons that a November 1, 2016 power supply update for the
13 2017 pro forma period is appropriate are even more important for the first half 2018 pro forma
14 period. This is because the level of 2018 expenses were developed in late 2015, over two
15 years in advance of when rates would go into effect.

16 **Q. Does this conclude your rebuttal testimony?**

17 A. Yes.