

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-17_____

DIRECT TESTIMONY OF

WILLIAM G. JOHNSON

REPRESENTING AVISTA CORPORATION

1 **I. INTRODUCTION**

2 **Q. Please state your name, business address, and present position with**
3 **Avista 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
6 Marketing 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
10 from the University of Montana in 1985.

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

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

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

18 A. My testimony will 1) identify and explain the proposed normalizing and pro
19 forma adjustments to the 2016 test period power supply revenues and expenses, and 2)
20 describe the proposed level of expense and Retail Revenue Adjustment for ERM purposes,
21 using the pro forma costs proposed by the Company in this filing. I will also briefly describe
22 both the Power Cost Rate Adjustment filed by the Company concurrently with this general

1 rate case, as well as the proposed Power Cost Updates that are proposed to be a part of the
2 Company's Three-Year Rate Plan.

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

4 A. Yes. I am sponsoring Exh. WGJ-2 through WGJ-5, which were prepared by
5 me. Exh. WGJ-2 identifies the power supply expense and revenue items that fall within the
6 scope of my testimony. A brief description of each adjustment is provided in Exh. WGJ-3.
7 Exh. WGJ-4 shows the pro forma fuel costs for each thermal plant and short-term purchase
8 and sales by month. The proposed authorized ERM power supply expense and revenue,
9 transmission expense and revenue, broker fees, retail sales and Retail Revenue Adjustment
10 rate are shown in Exh. WGJ-5.

11 A table of contents for my testimony is as follows:

12	<u>Description</u>	<u>Page</u>
13	I. Introduction	1
14	II. Overview of Pro Forma Power Supply Adjustment	3
15	III. Pro Forma Power Supply Adjustments	4
16	IV. ERM Authorized Values	9
17	V. Three-Year Rate Plan Power Supply Updates	10

18
19 **Q. Are there other Company witnesses providing testimony regarding**
20 **issues you are addressing?**

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

1 **II. OVERVIEW OF PRO FORMA POWER SUPPLY ADJUSTMENT**

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

3 A. The pro forma power supply adjustment involves the determination of
 4 revenues and expenses based on the generation and dispatch of Company resources and
 5 expected wholesale market power prices as determined by the AURORA_{XMP} model
 6 simulation for the May 2018 through April 2019 pro forma rate period under normal
 7 weather and hydro generation conditions. In addition, adjustments are made to reflect
 8 contract changes between the historical test period and the pro forma period. Table No. 1
 9 below shows total net power supply expense during the test period and the pro forma
 10 periods. For information purposes only, the power supply expense¹ currently in base retail
 11 rates, which are based on a calendar 2016 pro forma period, is also shown.

12 **Table No. 1:**

Power Supply Expense		
	<u>System</u>	<u>Washington Allocation</u>
Actual 2016 Power Supply Expense	\$134,524,000	\$88,423,000
Power Supply Expense in Current Rates (2016 pro forma)	\$153,451,000	\$98,768,000
Proposed May 2018 - Apr 2019 Pro forma Power Supply Expense	\$174,612,000	\$114,772,000
Proposed May 2018 - Apr 2019 Expense vs 2016 Test Period	\$40,088,000	\$26,349,000
Proposed May 2018 - Apr 2019 Expense vs Current Rates	\$21,161,000	\$16,004,000

19
 20 The net effect of my adjustments to the test year power supply expense is an increase
 21 of \$40,088,000 (\$174,612,000 - \$134,524,000) on a system basis, and \$26,349,000

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.

1 Washington allocation. The Washington allocated increased expense in the May 2018
2 through April 2019 pro forma period from the level in current base rates is \$16,004,000.

3
4 **III. PRO FORMA POWER SUPPLY ADJUSTMENTS**

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

7 A. Exh. WGJ-2 identifies the power supply expense and revenue items that fall
8 within the scope of my testimony. These revenue and expense items are related to power
9 purchases and sales, fuel expenses, transmission expense, and other miscellaneous power
10 supply expenses and revenues.

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

13 A. The purpose of the adjustments to the test period is to normalize power
14 supply expenses for normal weather and normal hydroelectric generation and to reflect
15 current forward natural gas prices using the AURORA_{XMP} model and include other known
16 and measurable changes for the pro forma period.

17 A brief description of each adjustment is provided in Exh. WGJ-3. Detailed
18 workpapers have been provided to the Commission with this filing to support each of the pro
19 forma revenues and expenses. The detailed workpapers for each adjustment show the actual
20 revenue or expense in the test period, and the pro forma revenue or expense.

21 **Long-Term Contracts**

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

1 A. Long-term power contracts are included in the pro forma by including the
2 energy receipt or obligation associated with the contract in the AURORA_{XMP} Model and
3 including the cost or revenue in the pro forma net power supply expense.

4 **Q. Are there any new long-term power purchases or sales in the pro forma**
5 **that are not in the current base rates?**

6 A. Yes. The Company has entered into a new contract with Douglas County
7 PUD for a share of the output of the Wells hydroelectric project. The contract begins
8 September 2018, after the expiration of the existing Wells contract, and continues through
9 September 2028.

10 **Q. Are there any long-term power purchases or sales that are in current**
11 **base rates but not in this pro forma?**

12 A. Yes. A capacity sale contract with Portland General Electric is in current
13 base rates but not in the pro forma period. The contract ended December 31, 2016. This
14 contract, a capacity sale where Portland General Electric could take 150 MW for 10 hours
15 each day and return the energy on the hours of their choosing, expired on December 31,
16 2016. Avista was not able to replace this contract as current market conditions do not
17 support a capacity sale at rates similar to the expiring contract. Effective January 1, 2017,
18 the Company is no longer receiving \$8 million (Washington share) of net benefits (revenues
19 net of costs) related to this agreement from Portland General Electric. However, Avista is
20 still providing \$8 million in net benefits to its Washington customers through the existing
21 authorized net power supply costs. It is important that retail rates reflect the reality that

1 Avista is no longer receiving the net benefits from this expired contract. The loss of net
2 revenue from this contract is one of the primary factors increasing power supply expense.

3 Several contracts end or the volumes change during the pro forma period. The
4 Douglas Settlement contract ends August 31, 2018. The Nichols Pumping contract ends
5 October 31, 2018. The Energy America sale volumes are reduced by sixty percent
6 beginning January 1, 2019. Both the Pend Oreille and Sovereign/Kaiser dynamic energy
7 service contracts end before or during the pro forma period, but are expected to be renewed,
8 and are included in the pro forma.

9 **Short-Term Power Purchases and Sales**

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

11 A. After including the actual physical forward short-term transactions as
12 resources and obligations in the AURORA_{XMP} model, the balance of the short-term electric
13 power purchases and sales are an output of the AURORA_{XMP} model. The model calculates
14 both the volumes and price of short-term purchases and sales that balance the system's
15 generation and long-term purchases with retail load and other obligations. The price of the
16 short-term transactions represents the price of spot market power as determined by the
17 AURORA_{XMP} model. Short-term fixed-price financial electric and natural gas transactions
18 are included as a mark-to-model price line item in the pro forma.

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

21 A. The pro forma includes actual term transactions entered into for the pro
22 forma period. These transactions include fixed-price financial electric and natural gas

1 transactions. The AURORA_{XMP} model is used to mark-to-model the financial electric
2 transactions. A mark-to-modeled gas price calculation is performed outside the
3 AURORA_{XMP} model and details of these gas transactions are provided in workpapers.

4 **Thermal Fuel Expense**

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

6 A. Thermal fuel expenses include Colstrip coal costs, Kettle Falls wood-waste
7 costs, and natural gas expense for the Company's gas-fired resources including Coyote
8 Springs 2, Lancaster, Rathdrum, Northeast, Boulder Park, and the Kettle Falls combustion
9 turbine. Unit coal costs at Colstrip are based on the long-term coal supply and
10 transportation agreements. Unit wood fuel costs at Kettle Falls are based on multiple
11 shorter-term contracts with fuel suppliers and inventory. Total fuel costs for each plant are
12 based on the unit fuel cost and the plant's level of generation as determined by the
13 AURORA_{XMP} model.

14 Exh. WGJ-4 shows the pro forma fuel costs by month for each plant. Mr. Kalich
15 provides details and supporting workpapers regarding the level of generation for the
16 Company's thermal plants, and the fuel cost for thermal and natural gas-fired plants.

17 **Transmission Expense**

18 **Q. What changes in transmission expense are in the pro forma compared to**
19 **the test-year and the expense in current base rates?**

20 A. The only change is an increase of 9 MW of BPA point-to-point transmission
21 purchased.

1 **Power Cost Rate Adjustment**

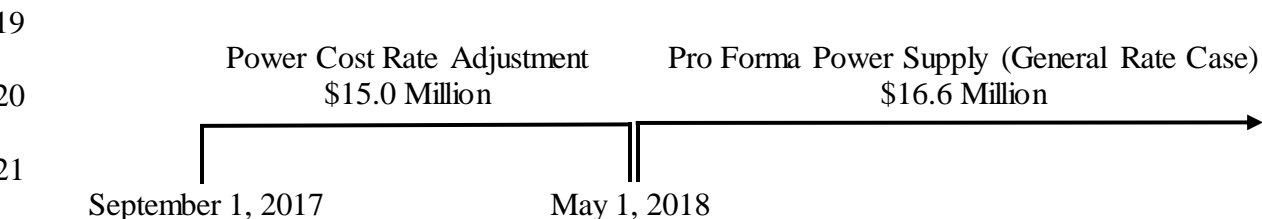
2 **Q. Would you please provide an overview of the Company’s proposed**
 3 **Power Cost Rate Adjustment which was concurrently-filed with this general rate case**
 4 **on May 26, 2017 with the Commission?**

5 A. Yes. On May 26, 2017, the Company filed a Power Cost Rate Adjustment
 6 through tariff Schedule 93 with a proposed effective date of September 1, 2017. This Power
 7 Cost Rate Adjustment would expire at the conclusion of Avista’s 2017 general rate case
 8 (this case). This filing would increase annual billed revenues by approximately \$15.0
 9 million, or 2.92 percent. Company witness Mr. Ehrbar provides more details regarding that
 10 filing.

11 **Q. How does the Power Cost Rate Adjustment interact with this general**
 12 **rate case?**

13 A. In this general rate case, the Company has filed a Pro Forma Power Supply
 14 Adjustment of \$16.6 million.² As depicted in Illustration No. 1 below, the final approved Pro
 15 Forma Power Supply Adjustment approved in this general rate case will serve as the new
 16 level of power supply costs in base rates effective May 1, 2018 (as well as the base for the
 17 ERM and electric decoupling).

18 **Illustration No. 1: Interaction of Power Cost Rate Adjustment and General Rate Case**



² The \$16.6 million figure represents the revenue requirement impact of the change in net power supply costs included in the ERM versus that currently authorized.

1 At the conclusion of the general rate case, assuming that a new level of power supply
2 expense is included in base rates, the rates under Schedule 93 through the Power Cost Rate
3 Adjustment would expire and be reset to \$0.00000/kWh in recognition that an updated level
4 of power supply costs would now be reflected in base rates. Accordingly, the Power Cost
5 Rate Adjustment of \$15.0 million and the proposed Pro Forma Power Supply adjustment in
6 the GRC are not additive.

7 **Summary**

8 **Q. Please summarize your proposed pro forma power supply expense that is**
9 **provided to Company witness Ms. Andrews.**

10 A. The net effect of my adjustments to the test year power supply expense is an
11 increase of \$40,088,000 (\$174,612,000 - \$134,524,000) on a system basis and \$26,349,000
12 Washington allocation. The Washington allocated increased expense in the May 2018
13 through April 2019 pro forma period from the level in current base rates is \$16,004,000.

14

15 **IV. ERM AUTHORIZED VALUES**

16 **Q. What is Avista's proposed authorized power supply expense and revenue**
17 **for the ERM?**

18 A. The proposed authorized level of annual system power supply expense is
19 \$158,898,266 for the May 2018 through April 2019 pro forma period. This is the sum of
20 Accounts 555 (Purchased Power), 501 (Thermal Fuel), 547 (Fuel), less Account 447 (Sale
21 for Resale). It also includes transmission expense, transmission revenue and broker fee
22 expense.

1 **Q. What is the level of retail sales and the proposed Retail Revenue**
2 **Adjustment for the ERM?**

3 A. The proposed authorized level of retail sales to be used in the ERM is the
4 2016 weather adjusted Washington retail sales. The proposed Retail Revenue Adjustment
5 rate is \$18.46/MWh for the pro forma period, which is the FERC account average cost in the
6 power supply pro forma.

7 The proposed authorized ERM power supply expense and revenue, transmission
8 expense and revenue, retail sales, and Retail Revenue Adjustment rate are shown in Exh.
9 WGJ-5.

10

11 **V. THREE-YEAR RATE PLAN POWER SUPPLY UPDATES**

12 **Q. Would you please provide an overview of the Company's proposed**
13 **Three-Year Rate Plan?**

14 A. Yes. As discussed by Ms. Andrews, as a part of the general rate case, not
15 only would the Company receive a base rate increase effective May 1, 2018, but would also
16 receive an increase in billed revenues on May 1, 2019 and May 1, 2020, (years 2 and 3 of
17 the Rate Plan). For electric operations, Avista is also proposing to adjust power supply costs
18 effective May 1, 2019 and May 1, 2020 through a Power Supply Update, as further
19 explained by Mr. Ehrbar.

20 **Q. Would you please provide a summary overview of the electric Power**
21 **Supply Update?**

22 A. Yes. In the Company's 2014 and 2015 general rate cases, as a part of

1 settlements, Avista agreed to file power supply updates 60 days before new rates were to go
2 into effect. The purpose of those power supply updates was to: 1) update the three-month
3 average of forward natural gas and electricity market prices for the pro forma period; 2)
4 include new short-term purchase and sale contracts for natural gas and electricity; and 3)
5 update or correct power and transmission service contracts for the rate year. This is the
6 same methodology that the Company used in its Power Cost Rate Adjustment filed
7 concurrently with this general rate case. Mr. Ehrbar provides further information regarding
8 the rate spread, rate design, and tariff implementation of the proposed Power Supply Update.

9 **Q. Why is an annual update to power supply costs necessary as a part of the**
10 **Rate Plan?**

11 A. The Company believes that it is important that the base level of power supply
12 costs should reflect in customer's rates the wholesale power and natural gas prices that are
13 closely related to the prices Avista is actually experiencing. The Company's power cost
14 updates would reflect changes similar to what Puget Sound Energy ("Puget") updates
15 through its PCORC mechanism, nor different from what the Company does on an annual
16 basis through the Purchased Gas Cost Adjustment (PGA) process. For example, in Docket
17 No. UE-161135, filed in September 2016, Puget filed to update certain power supply costs,
18 including updated power and natural gas prices, and the effects of updated purchases and
19 sales (i.e., contracts). In the annual PGA, Avista updates wholesale natural gas costs (based
20 on a 30-day average), as well as includes the effects of new, changed, or expired natural gas
21 supply and transportation contracts so that the rates in effect for customers more accurately
22 reflect the costs Avista is actually incurring to serve customers. This power cost updates

1 would serve the same objectives as Puget's PCORC and Avista's PGA.

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

3 A. Yes.