Exhibit No. ___ (WGJ-1T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-16_____

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 October 2014 through September 2015 test period power supply revenues and expenses, and 2) describe the proposed level of expense and Retail Revenue Adjustment rate for 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 by me. Exhibit No. ___ (WGJ-2) identifies the power supply expense and revenue items that fall within the scope of my testimony. A brief description of each adjustment is provided in Exhibit No. ___(WGJ-3). Exhibit No. ___(WGJ-4) shows the pro forma fuel costs for each thermal plant and short-term purchase and sales by month. The proposed authorized ERM power supply expense and revenue, transmission expense and revenue, broker fees, and retail sales are shown in Exhibit No.___(WGJ-5).

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 rate periods (calendar years 2017 and 2018) under normal weather and hydro generation conditions. In addition, adjustments are made to reflect contract changes between the historical test period and the pro forma period. Table No. 1 below shows total

net power supply expense during the test period and the pro forma periods. For information purposes only, the power supply expense[1] currently in base retail rates, which are based on a calendar 2016 pro forma period, is also shown.

Table No. 1:

Power Supply Expense

	System	Washington Allocation
Power Supply Expense in Current Rates (2016 pro forma)	$155,559,000	$100,662,229
Actual Oct 2014 - Sep 2015 Power Supply Expense	$168,065,000	$108,754,862
Proposed 2017 Pro forma Power Supply Expense	$176,824,000	$114,422,810
Proposed July 2017-June 2018 Pro forma Power Supply Expense	$181,129,000	$117,208,576
Proposed 2017 Expense vs Oct 2014 - Sep 2015 Test Period	$8,759,000	$5,667,949
Proposed Jul 17 - Jun 18 Expense vs Oct 2014 - Sep 2015 Test Period	$13,064,000	$8,453,714
Proposed 2017 Expense vs Current Rates	$21,265,000	$13,760,582
Proposed Jul 2017 - June 2018 Expense vs Current Rates	$25,570,000	$16,546,347
Proposed July 2017 - June 2018 Expense vs Proposed 2017 Expense	$4,305,000	$2,785,766

The net effect of my adjustments to the test year power supply expense is an increase of $8,759,000 ($176,824,000 - $168,065,000) on a system basis and $5,667,949 Washington allocation. The increased expense in 2017 from the level in current base rates is $13,760,582 (Washington share). Moving out one-half year to a July 2017 through June 2018 pro forma period increases expense by $2,785,766 (Washington share) over a 2017 pro forma period.

[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.

III. PRO FORMA POWER SUPPLY ADJUSTMENTS

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 current forward natural gas prices using the AURORA model and include other known and measurable changes for the pro forma period. For this filing, both a calendar 2017 pro forma and a July 2017 through June 2018 pro forma were developed. This was accomplished by developing a 2017 and 2018 pro forma and then including the January 2018 through June 2018 values in the July 2017 through June 2018 pro forma. The July 2017 through December 2017 values are the same in both pro formas.

A brief description of each adjustment is provided in Exhibit No. ___(WGJ-3). Detailed workpapers have been provided to the Commission with 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 long-term power purchases or sales in the pro forma that are not in the current base rates?

A. No.

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

A. Yes. The Portland General Electric capacity sale is in current base rates but not in the pro forma period. In 1998 Avista monetized the majority of the revenue from the Portland General Electric capacity sale. The monetization loan was paid off in January 2015 and the full revenue (approximately $19.2 million) from the contract returned to the Company beginning January 2015. That contract ends on December 31, 2016. The sale is a capacity exchange sale where Portland General Electric can take 150 MW for 10 hours each day and return the energy on the hours of their choosing. The contract also contains unique real-time change provisions that are not standard in that type of contract. Current market conditions do not support a capacity sale at similar rates to the expiring contract, nor would Avista desire to enter into a new capacity contract with similar real-time change provisions.

The increase in power supply expense versus the amount in current base rates is partially due to this contract ending. This equates to approximately $8 million (Washington share) of the increased power supply net expense in the Company's 2017 request.

Short-Term Power Purchases and Sales

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

A. After including the actual physical 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. Short-term fixed price financial electric and natural gas transactions are included as a mark-to-model price line item in the pro forma.

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

A. The pro forma includes transactions entered into for the 2017 pro forma period. These transactions include fixed-price financial electric and natural gas transactions. The AURORA model is used to mark-to-model the financial electric transactions. A mark-to-modeled gas price calculation is performed outside the AURORA model and details of these gas transactions are provided in workpapers. There are currently no 2018 actual short-term transactions.

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 test-year and the expense in current base rates?

A. BPA's transmission rates increased October 1, 2015 and those increases are reflected in the 2017 pro forma compared to the test-year. BPA transmission rates are expected to increase again on October 1, 2017 and those expected increases are included in the 2017 pro forma and the July 2017 through June 2018 pro forma.

Summary

Q. Please summarize your proposed pro forma power supply expense that is provided to Company witness Ms. Andrews for the Company's electric attrition study.[2]

A. The proposed pro forma power supply expense as shown in Exhibit No. ___ (WGJ-2) is an increase of $8,759,000 ($176,824,000 - $168,065,000) on a system basis and $5,667,949 Washington allocation. The increased expense in 2017 from the level in current base rates is $13,760,582 (Washington share). Moving out one-half year to a July 2017 through June 2018 pro forma period increases expense $2,785,766 (Washington share) over the 2017 pro forma period.

IV. ERM AUTHORIZED VALUES

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

A. The proposed authorized level of annual system power supply expense is $159,881,830 for the 2017 pro forma period and 164,551,092 for the July 2017 through June 2018 pro forma period. This is the sum of Accounts 555 (Purchased Power), 501 (Thermal Fuel), 547 (Fuel), less Account 447 (Sale for Resale). It also includes transmission expense, transmission revenue and broker fee expense.

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

[2] The pro forma power supply expense was also provided to Company witness Ms. Smith for the electric pro forma and cross check studies.

A. The proposed authorized level of retail sales to be used in the ERM is the October 2014 through September 2015 weather adjusted Washington retail sales. The proposed Retail Revenue Adjustment rate is $18.19/MWh for the 2017 pro forma period and $18.72/MWh for the July 2017 through June 2018 pro forma period, which is the FERC account average cost in the power supply pro forma.

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

Q. Is the Company proposing to update power supply costs prior to the requested effective dates?

A. Yes. As stated by Company witness Mr. Morris, the Company proposes to update its power supply costs sixty (60) days prior to new rates going into effect in January 2017, as well as January 2018. As in prior cases, this update in power supply costs, just before new base retail rates go into effect, will reflect the most recent information available for power supply costs. The updated power supply cost data will not only be reflected in the base rate adjustment, but will also reset the base for the ERM calculations for the future rate period.

As in past proceedings, the purpose of this power supply update would be to: 1) update the three-month average of natural gas and electricity market prices; 2) include new short-term contracts for gas and electric; and 3) update or correct power and transmission service contracts for the 2017 and 2018 rate years. The Parties to this case would be able to seek discovery on, and examine the prudence of, the updated power supply items identified above.

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

A. Yes.