

**Exhibit No. ___ -CT (JT-1CT)
Docket Nos. UE-070804 et al.
Witnesses: Alan P. Buckley
Donald W. Schoenbeck
REDACTED VERSION**

**BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Complainant,

vs.

AVISTA CORPORATION,

Respondent.

DOCKET NO. UE-070804

DOCKET NO. UG-070805

In the Matter of the Petition of

AVISTA CORPORATION d/b/a
AVISTA UTILITIES,

DOCKET NO. UE-070311

For an Accounting Order Regarding the
Appropriate Treatment of the Net Costs
Associated with the Purchase of Debt.

**JOINT TESTIMONY
OF
ALAN P. BUCKLEY
AND
DONALD W. SCHOENBECK**

Power Supply Issues

**ON BEHALF OF
COMMISSION STAFF AND
INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

October 17, 2007

REDACTED PER PROTECTIVE ORDER

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I. INTRODUCTION AND SUMMARY.

Q. Please state your name and business address.

A. My name is Alan P. Buckley. My business address is 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, Washington 98504. My qualifications are contained within Exhibit No. ____ -T (APB-1T).

My name is Donald W. Schoenbeck. My business address is 900 Washington Street, Suite 780, Vancouver, Washington 98660. My qualifications are contained within Exhibit No. ____ (DWS-2).

Q. Please state the purpose of and briefly summarize your testimony.

A. The purpose of this testimony is to provide support for the power supply adjustments contained and presented within the Partial Settlement Stipulation (“Stipulation”). As noted in the Stipulation, these adjustments relate to the availability of the Colstrip generating units, updating the natural gas price forecast for the rate period, excluding certain hydro conditions in determining the amount of available hydro generation for the rate period (“hydro filtering”) and incorporating “mark to market” adjustments for forward gas purchases and electric sales for the rate period that have already occurred. Taken together, these adjustments lower the revenue requirement by \$2.3 million.

1 **II. COLSTRIP AVAILABILITY.**

2
3 **Q. Please address the Colstrip availability reflected within the Stipulation.**

4 A. Avista has an approximately 190 MW share of the capacity of the Colstrip plant
5 from units #3 and #4. The Company's determination of the availability of the
6 Colstrip units was based upon the performance of these units over the most recent
7 five years (2002 through 2006). The following table shows the percent of time each
8 unit was unavailable due to a forced outage as reported by Avista for each of these
9 years.

| Colstrip Forced Outage Rate by Unit (Percent - %) | | |
|--|------------|------------|
| Year | #3 | #4 |
| 2002 | ██████████ | ██████████ |
| 2003 | ██████████ | ██████████ |
| 2004 | ██████████ | ██████████ |
| 2005 | ██████████ | ██████████ |
| 2006 | ██████████ | ██████████ |
| 5 Year Avg: | ██████████ | ██████████ |
| 2003-2006 Avg: | ██████████ | ██████████ |

10 Note for Colstrip #3, this historical period includes a forced outage rate of almost ██████
11 ██████ in 2002. This outage is far in excess of the other values achieved during
12 this historical period and, therefore, has a significant effect on the resulting average
13 outage rates. If the Colstrip #3 outage for 2002 was excluded, the average forced
14 outage rate would decrease by ██████ to a value of ██████. The Unit 3
15 outage in 2002 of almost ██████ places this unit as one of the poorest performing

1 units in the nation in the annual North American Electric Reliability Corporation
2 (“NERC”) Generator Availability Report (“GAR”).

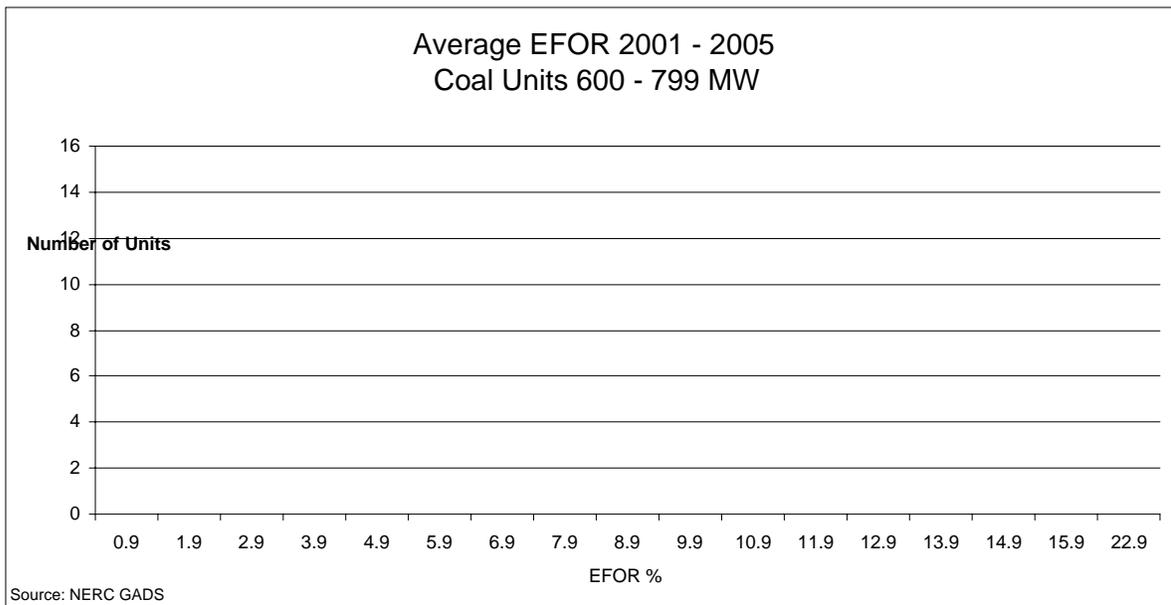
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4 **Q. How so?**

5 **A.** The NERC GAR categorizes generating units by fuel type and size. The report then
6 presents select availability statistics based upon unit performance for the past five
7 years. The most recent GAR documents show the statistics using unit performance
8 averages for 2001 through 2005. Within the Colstrip unit 3 and 4 peer group (coal
9 fuel 600 to 799 MW in size), the report indicates 92 units with an average equivalent
10 forced outage of 6.58 percent. For this time period, the Colstrip 3 average equivalent
11 forced outage rate (“EFOR”) is [REDACTED]

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1 The Stipulation specifies deriving an availability factor for the Colstrip units based
2 upon a four year average from 2003 through 2006. In other words, the very
3 abnormal availability year is eliminated from the historical period used to derive the
4 rate year forced outage rate. This produces lower and more realistic forced outage
5 rates for unit #3 while barely changing the value for Colstrip unit #4. Avista's share
6 of the Colstrip generation is increased by about 43,600 MWhs which in turn lessens
7 the need for more expensive market purchases.

8
9 **III. NATURAL GAS PRICE UPDATE.**

10
11 **Q. How did Avista derive the gas prices used in the AURORA modeling?**

12 A. Avista used forward price quotes for the rate year from the period of November 23,
13 2006, through February 23, 2007, for the major trading hubs. Gas costs have a
14 significant impact on the overall revenue requirement as each 10 cent per MMBTU
15 change causes the Avista Washington revenue requirement to change by roughly
16 .

17
18 **Q. How have the parties resolved this issue in the Stipulation?**

19 A. The signature parties to the Stipulation have agreed to update the gas prices to reflect
20 the forward prices quoted from the period of May 30, 2007, through August 29,
21 2007. The following table compares the average rate period value for two trading
22 hubs from incorporating this update with the "as filed" price used by Avista.

| Gas Price Comparison (\$ per MMBTU) | | | |
|--|-----------------------------|--------------------------|----------|
| Market Hub | As Filed (11/23 to 2/23) | Update (5/30 to 8/29) | Increase |
| Stanfield | █ | █ | █ |
| Sumas | █ | █ | █ |

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The result of this single update increases the Washington revenue requirement by about \$750,000. Taken together, changing both the Colstrip availability factor and the gas price forecast results in an overall revenue requirement reduction of about \$1.0 million.

IV. HYDRO FILTERING.

- Q. Please describe the proposed water normalization or Hydro Filtering Adjustment.**
- A.** The Water or Hydro Filtering Adjustment is being proposed by Avista, Staff and ICNU in this proceeding as a method to recognize the manner in which normalization is used to set base power costs while incorporating a Power Cost Adjustment (“PCA”) mechanism (or Energy Recovery Mechanism or “ERM,” which is what Avista calls its mechanism). The concept of a water or hydro filter recognizes that when a PCA is in place, the customers will share the costs and benefits of unusual power cost extremes and there is, therefore, no need to include those extreme circumstances in the calculation of normalized power cost. In its Order 08 in Dockets UE-061546 and UE-060817 (consolidated), the Commission agreed with this concept of using a narrower range of hydroelectric conditions for

1 purposes of normalizing power costs (see Order 08 at ¶¶ 88, 89). There are several
2 approaches to how water, or hydro, filtering may be implemented. For example,
3 using readily available data already incorporated into power supply modeling efforts,
4 filtering may be based on total cumulative annual water, or hydro conditions, or as
5 proposed in this proceeding, monthly hydro data.

6
7 **Q. Please explain your proposed use of monthly water, or hydro data for purposes**
8 **of filtering in this proceeding.**

9 A. While implementing filtering using annual water or hydro data is the simplest
10 method, it does not reflect possible month-to-month variations in water conditions
11 which may occur over long periods. For example, different years with the same
12 amount of annual water flow, and thus hydro generation, may have completely
13 different month-to-month variations. This can be important because in the Pacific
14 Northwest power costs can vary significantly by month, particularly due to the
15 timing and extent of the annual snow melt and rainfall patterns. As a response to the
16 possible monthly variations experienced even during years with similar annual water
17 conditions, Staff, Avista and ICNU propose that water filtering be carried out on a
18 monthly basis for this proceeding.

19
20 **Q. How is this methodology implemented?**

21 A. Only those months of each of the water years that are within one-standard deviation
22 of the monthly means for all years, are included for the determination of hydro

1 generation and normalized, or base power supply costs. This methodology was
2 implemented using the power supply model results that include the Colstrip forced
3 outage rate adjustment and the gas price update. This methodology results in a
4 \$1.192 million reduction in Base Level Net Power Supply Expense on a system basis
5 or \$0.785 million reduction for Washington. This converts to a revenue requirement
6 decrease of \$820,000 for the Washington revenue requirement due to this filtering
7 technique.

8

9 **V. MARK TO MARKET ADJUSTMENTS.**

10

11 **Q. Has Avista already executed forward purchases or sales for deliveries during**
12 **the rate period?**

13 A. Yes. [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]

18

1 **Q. Were these transactions included in the filed revenue requirement in this**
2 **proceeding?**

3 A. No. However, Avista, Staff and ICNU have agreed to reflect these transactions in
4 the Stipulation as a post processing “mark to market” adjustment as has been done so
5 many times in Puget Sound Energy’s rate proceedings for the last six years.

6

7 **Q. How are the adjustments done?**

8 A. The calculation can be illustrated using a hypothetical forward gas purchase.
9 Assume Avista bought a block of gas for delivery to the Stanfield trading hub for the
10 month of June 2008 at a price of \$7.00 per MMBTU. However, based upon the
11 Commission approved gas methodology (which averages forward prices over a 60-
12 day period) and movement in the forward market prices, the filed gas price used by
13 Avista for this month and trading hub was only \$6.50 per MMBTU. This substantial
14 difference of \$0.50 per MMBTU would not be reflected in the revenue requirement.
15 The post processing mark to market adjustment is needed and necessary in order to
16 incorporate the actual cost of the gas Avista will burn in its generating facilities (for
17 the associated known purchase volume) as opposed to the price which had been used
18 by AURORA for these volumes for the rate period.

19

1 **Q. What impact do these mark to market adjustments have on the Washington**
2 **revenue requirement in this proceeding?**

3 A. With regard to the forward gas purchases, the mark to market adjustment increases
4 the Washington revenue requirement by about \$105,000. With regard to the forward
5 electricity sales, the mark to market adjustment decreases the Washington revenue
6 requirement by about \$584,000. Taken together, the net mark to market adjustment
7 reflected in the Stipulation is a revenue requirement decrease of \$480,000.

8

9 **Q. Does this conclude your testimony?**

10 A. Yes, at this time.