

Exhibit No. ____ -T (APB-1T)
Docket Nos. UE-070804 et al.
Witness: Alan P. Buckley

**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.

TESTIMONY OF ALAN P. BUCKLEY

October 17, 2007

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A. My name is Alan P. Buckley. My business address is 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, Washington 98504, and my e-mail address is abuckley@utc.wa.gov.

A. I am employed by the Washington Utilities and Transportation Commission (“Commission”) as a Senior Policy Strategist. Among other duties, I am responsible for analyzing rate and power supply issues as they pertain to the investor-owned utilities under the jurisdiction of the UTC. I received a B.S. degree in Petroleum Engineering with Honors from the University of Texas at Austin in 1981. In 1987, I received a Masters of Business Administration degree in Finance from the University of California at Berkeley.

From 1981 through 1986, I was employed by Standard Oil of Ohio (now British Petroleum-America) in San Francisco as a Petroleum Engineer working on Alaskan North Slope exploration drilling and development projects. From 1987 to 1988, I was employed as a Rates Analyst at Pacific Gas and Electric Company in San Francisco. Beginning late 1988 until late 1992, I was employed by R.W. Beck and Associates, an engineering and consulting firm in Seattle, Washington, conducting cost-of-service and other rate studies, carrying out power supply studies,

1 analyzing mergers, and analyzing the rates of Bonneville Power Administration and
2 the Western Area Power Administration.

3 I came to the Commission in December 1993, where I have held a number of
4 positions including Utility Analyst, Electric Program Manager, and the position that I
5 presently hold. I have been a witness in numerous proceedings before the
6 Commission. I also have been a witness in proceedings before the Bonneville Power
7 Administration and the Federal Energy Regulatory Commission.

8
9 **Q. What is the purpose of your testimony?**

10 A. The purpose of my testimony is to provide Staff's comments and recommendations
11 in regard to: 1) the rate base additions and net expenses associated with Avista's
12 transmission upgrade projects; 2) pro-forma adjustments to transmission-related
13 expenses and revenues, including those expenses associated with regional
14 transmission entity participation; 3) the Company's resource planning and power
15 operations, including hydro and thermal plant upgrades and Risk Management
16 Policy; and 4) Avista's proposed new base level of net power supply expense for
17 base rates and use in the Energy Recovery Mechanism ("ERM") calculations.

18
19 **II. SUMMARY.**

20
21 **Q. Please summarize Staff's recommendations related to the items you have**
22 **identified.**

23 A. Staff recommends the Commission:

- 1 • Accept the revenue requirements associated with the Company's
2 transmission system upgrade projects. The seven major projects included
3 in this filing amount to an increase of approximately \$66.9 million
4 (\$44,035,317 for Washington) in transmission investment;
- 5 • Accept the Company's proposed pro-forma adjustments to transmission-
6 related expenses and revenues, including costs associated with regional
7 transmission entity efforts. The pro-forma transmission expense increase
8 is \$590,000 on a system basis, while the transmission revenue adjustment
9 is a decrease of \$1,371,000 on a system basis for a combined net expense
10 increase of \$1,961,000 on a system basis. The ERM will capture any
11 wheeling revenues from subsequent third-party transmission wheeling
12 agreements that might replace those that ended during the pro-forma
13 period, causing the pro-forma adjustment to transmission revenues;
- 14 • Accept the revenue requirements associated with the Company's
15 completed upgrades to its Clark Fork River Projects and Colstrip Units 3
16 and 4. These upgrades result in an increase to generation investment of
17 approximately \$20.098 million on a system basis, or \$13.230 million for
18 Washington. The impact of the additional generation from these
19 upgrades is included in the determination of Base Net Power Supply
20 Expense levels;
- 21 • Accept the Partial Settlement Stipulation's reduction to the Company's
22 proposed Base Net Power Supply Expense level of \$3.35 million on a
23 system basis, or \$2.205 million for Washington. This results in a

1 reduction to Washington revenue requirement of \$2.305 million. This
2 reduction is related to adjustments to the Colstrip forced outage rate, a gas
3 price update, a hydro-filter adjustment, and an adjustment to account for
4 the difference between modeled energy market transactions and the actual
5 nature of transactions made. The support for these adjustments is
6 contained in the Joint Testimony of Alan P. Buckley and Don
7 Schoenbeck, representing Staff and the Industrial Customers of
8 Northwest Utilities, respectively.

10 **III. DISCUSSION.**

12 **A. Transmission Upgrade Projects.**

14 **Q. Please summarize the costs associated with the Company's Transmission**
15 **Upgrade Projects included in this filing.**

16 **A.** The background, justifications, and costs associated with these transmission projects
17 are addressed in the testimony and exhibits of Mr. Scott J. Kinney. The seven
18 projects amount to a total cost of \$66.893 million on a system basis, or \$44.035
19 million for Washington. These projects have completion dates in 2006 and 2007.
20 The revenue requirement effect on Avista's electric rates, due to increased rate base
21 and associated depreciation expense, is significant, warranting an explicit discussion
22 of these projects by the Company as part of this filing. The overall effect on the
23 Company's revenue requirement is approximately \$7.8 million using the Company's

1 proposed rate of return. The projects do not have explicit increases in third party
2 transmission revenue associated with them, as they have been built to improve
3 system reliability, improve area load service, and meet national reliability standards.
4 However, the upgrades do allow the Company to maintain transmission wheeling
5 agreements with other entities that ultimately benefit ratepayers through more
6 efficient use of the regional transmission system. Additionally, any increased
7 revenues from wheeling transactions made possible by the upgrades, as well as
8 decreased costs associated with more efficient and reliable utilization of the
9 Company's transmission system, will be captured in the ERM.

10
11 **Q. Has the Company provided sufficient justification for inclusion in rates for**
12 **electric customers of the transmission project upgrade costs?**

13 A. Yes. Although Staff has not analyzed the projects from an extensive operations and
14 engineering standpoint, I have reviewed the testimony and documents provided by
15 the Company in this docket, as well as having been a long-time participant in the
16 Company's Electric Integrated Resource Plan process. In addition, I am aware of
17 various levels of transmission system concern through interaction with customers
18 and through participation in regional transmission operations and planning efforts.

19
20 **Q. Did you have any concerns regarding these transmission upgrade projects?**

21 A. My only concern was in regard to the timing of the in-service dates of the various
22 projects. The largest of the projects, the \$52.4 million (system) Palouse
23 Reinforcement Project, and the less costly Lolo and Critchfield Substation projects

1 (approximately \$2.844 million combined) have projected in-service dates late in
2 2007 or beyond the timeframe of this analysis. In order to minimize issues that have
3 occurred in the past regarding the timing of generation availability and the recovery
4 of related costs resulting from a general rate case, I believe there should exist an
5 almost virtual certainty that these resources shall be available beginning the initial
6 rate year used in the Company's filing. Generation and transmission resources often
7 have long lead-times with projected in-service dates beyond the discovery period and
8 response testimony timeline. In Avista's filing in this docket, the proposed "rate
9 year" begins January 2008. To accurately match cost recovery with base rates, it is
10 imperative that these large, costly projects are available for service during the rate
11 year.

12
13 **Q. Has the Company provided assurances that these projects will be in-service by**
14 **the beginning of the rate year?**

15 A. Yes. As the result of follow-up discussions with the Company's transmission
16 witness, Mr. Scott Kinney, it was confirmed that these projects will be completed
17 and ready for service by the dates indicated. However, they will not be immediately
18 energized pending completion of the associated distribution facilities throughout the
19 rate year.

1 **B. Transmission Expenses and Revenues**

2

3 **Q. Please summarize the Company's pro forma Transmission Expense**
4 **adjustments included in this filing.**

5 A. The Company's pro forma revisions to test year transmission expenses are primarily
6 driven by Avista's participation in regional transmission entities. In 2007, Avista
7 elected to fund its participation in the ColumbiaGrid RTO efforts. The full
8 participation in these efforts results in an increase in annual related expense of
9 \$249,000 on a system basis as compared to the expense levels of earlier years. In
10 addition, Avista is participating in the ColumbiaGrid's regional planning and
11 expansion transmission planning efforts under a functional agreement that has been
12 approved by the Federal Energy Regulatory Commission. These efforts result in a
13 pro forma transmission expense increase of about \$233,000 annually on a system
14 basis. The other major pro forma transmission expense adjustment relates to an
15 increase in Avista's share of the Colstrip transmission system and increasing costs
16 related to Western Electricity Coordinating Council operations. In total, pro forma
17 transmission expenses are increased by approximately \$590,000 on a system basis
18 over test year amounts.

19

20 **Q. Is Staff supporting the proposed increase in pro forma transmission expenses?**

21 A. Yes. Staff believes that the Company's participation in regional transmission
22 organizations, activities, and joint agreements provides benefits to customers of
23 Avista, as well as other users of the regional transmission grid.

1

2 **Q. Please summarize the Company's pro forma Transmission Revenue**
3 **adjustments included in this filing.**

4 A. Pro forma transmission revenues have been adjusted downward by almost \$1.4
5 million on a system basis, primarily due to the expiration of three significant
6 transmission contracts in late 2007. However, the pro forma period still includes
7 over \$9 million in transmission-related revenues; and in the event any additional
8 transmission service revenues are received by the Company, they will be included as
9 transmission-related revenues and passed through the Energy Recovery Mechanism.

10

11 **Q. Is Staff supporting the proposed decrease in pro forma transmission revenues?**

12 A. Yes.

13

14 **C. Resource Planning, Power Operations, and Upgrades.**

15

16 **Q. Please summarize the Company's current load and resource position.**

17 A. The Company is presently in a balanced-to-surplus annual energy position through
18 about 2010, and is generally surplus as far as capacity is concerned through 2010 as
19 well. However, deficits and surpluses may exist throughout the year on a monthly
20 basis. These positions are described in the testimony of Richard S. Storo (Exhibit
21 No. ____ T (RLS-1T)). The preferred resource strategy in the latest Integrated
22 Resource Plan points to a mix of conservation, upgrades to existing plants, thermal,
23 wind, and other renewable generation to meet future resource needs. In addition, the

1 Company has participated in proceedings concerning the implementation of the
2 Washington Clean Energy Initiative (I-937) and expects to compete for future
3 renewable projects with other state and regional utilities striving to meet this and
4 other state renewable portfolio standards.
5

6 **Q. Are there specific resource-related issues in this filing?**

7 A. Yes. The Company has completed the repairs and upgrades on a number of its
8 generation facilities. Upgrades that have increased both capacity and energy have
9 been made to several of the Cabinet Gorge Hydro Units, in addition to repairs and
10 upgrades being completed at the Noxon Rapids Hydro Project. The additional
11 energy and capacity from these upgrades have been included in the determination of
12 net power supply expenses. The investment costs of approximately \$13.4 million on
13 a system basis have been included as part of this proceeding as well. The Company
14 is planning additional upgrades to these facilities in the near future. There have also
15 been capital improvements related to Colstrip Units 3 and 4 which have resulted in
16 additional capacity and energy from those units. The investment costs related to
17 these improvements are approximately \$6.8 million on a system basis, and have been
18 included in this proceeding. The overall effect on the Company's revenue
19 requirement of these upgrades is approximately \$2.35 million using the Company's
20 proposed rate of return. The additional energy and capacity impact from the
21 improvements are reflected in the determination of net power supply expenses.
22

1 **Q. Have you evaluated the prudence of the Company’s investments in the hydro**
2 **and thermal plant upgrades included in this case?**

3 A. Yes. I reviewed the Company’s testimony, exhibits, and workpapers supporting the
4 capital investments related to the Clark Fork River Projects and Colstrip Units 3 and
5 4, as well as the upgrades effect on the determination of Base Power Supply
6 Expenses.

7
8 **Q. Does Staff conclude that the upgrades described above were prudent and,**
9 **therefore, recommend that the Company be allowed recovery of the investment**
10 **costs related to those repairs and upgrades?**

11 A. Yes.

12

13 **D. Base Net Power Supply Expense.**

14

15 **Q. Please describe the recommended adjustments to the Base Net Power Supply**
16 **Expense.**

17 A. The proposed adjustments to the Base Net Power Supply Expense are described in
18 the Joint Testimony of Alan P. Buckley and Don Schoenbeck, representing Staff and
19 the Industrial Customers of Northwest Utilities, respectively. In total, the
20 adjustments result in a decrease to Base Power Supply Expense of \$3.35 million on a
21 system basis, or \$2.204 million for Washington. This corresponds to a revenue
22 requirement level reduction of \$2.304 million for Washington in this proceeding.

23

1 **Q. Has the Company indicated that it will accept the adjustments to Base Power**
2 **Supply Expense as proposed by Staff and ICNU?**

3 A. Yes. The revenue requirement adjustment is reflected in the Partial Settlement
4 Stipulation filed with the Commission.

5
6 **Q. Does this complete your direct, stand-alone testimony?**

7 A. Yes.

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