BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-06-___

DIRECT TESTIMONY OF

RICHARD L. STORRO

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

Q. Please state your name, employer and business address.

A. My name is Richard L. Storro. My business address is 1411 East Mission Avenue, Spokane, Washington, and I am employed by the Company as the Director of Power Supply.

Q. What is your educational background?

A. I participated in a program with the College of Idaho and the University of Idaho, where upon completion I received a Bachelor of Science degree in physics from the College of Idaho and a Bachelor of Science degree in electrical engineering from the University of Idaho, both in 1973.

Q. How long have you been employed by the Company?

A. I started working for Avista in 1973 as a distribution engineer. I have worked in various engineering positions, and have held management positions in line and gas operations, system operations, hydro production and construction, and transmission. I joined the Energy Resources Department as a Power Marketer in 1997 and became Director of Power Supply in 2001. My primary responsibilities involve the oversight of both the short-term and long-term planning and acquisition of power supply resources for the Company.

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

A. My testimony will provide an overview of the history of the ERM and provide a summary of the factors contributing to the power cost deferrals during the 2005 calendar year review period. I provide an overview of the documentation the Company has provided in

workpapers, which the Company agreed to provide in the ERM Settlement Stipulation approved and adopted in Docket No. UE-030751.

Q. Are other witnesses sponsoring testimony on behalf of Avista?

A. Yes. Mr. William Johnson will provide testimony regarding the calculation of the monthly power cost deferrals. Mr. Ronald McKenzie will provide testimony concerning the monthly deferral entries and deferral balance.

II. OVERVIEW

Q. Would you please explain the history of the ERM and the annual filing requirement?

A. Yes. The ERM was approved by the Commission's Fifth Supplemental Order in Docket No. UE-011595, dated June 18, 2002, and was implemented on July 1, 2002. That Order approved a Settlement Stipulation (UE-011595 Stipulation) that explained the mechanism and reporting requirements. Pursuant to the UE-011595 Stipulation, the Company is required to make an annual filing on or before April 1st of each year. This filing provides an opportunity for the Commission Staff, and interested parties, to review the prudence of the ERM deferral entries for the prior calendar year. Interested parties are to be provided a 90-day review period, ending June 30th of each year, to review the deferral information.

Avista's first Annual ERM Filing covered the six-month period of July 1, 2002 through December 31, 2002. In its Order No. 5, issued February 3, 2004 in Docket No. UE-030751, the Commission approved and adopted a Settlement Stipulation (UE-030751 Stipulation) that resolved the issues related to the first review period.

Avista's Annual ERM Filing to review deferrals for calendar year 2003 was addressed by

the Commission's Order No. 1, dated August 11, 2004 in Docket No. UE-040611. In that order the Commission found the filing met the requirements of Docket No. UE-011595 and UE-030751, and the power cost deferrals for 2003 were prudent. Avista's Annual ERM Filing to review deferrals for calendar year 2004 was addressed by the Commission's Order No. 1, dated June 29, 2005 in Docket No. UE-050492. In that order the Commission found that the filing met the requirements of Docket No. UE-011595 and UE-030751, and the power cost deferrals for 2004 were prudent.

Q. What period is covered by this ERM filing?

A. This ERM filing covers the period January 1, 2005 through December 31, 2005.

Q. What were the changes in power costs, the amounts deferred, and the amounts absorbed by the Company during 2005?

A. During 2005, actual net power costs exceeded authorized net power costs for the Washington jurisdiction by $13,588,374. Of that amount $4,129,537 was deferred, and the remaining $9,458,837 was absorbed by the Company. Under the ERM, the first $9.0 million of net power supply costs above or below the authorized level is absorbed by the Company. Ninety percent of power costs beyond the $9.0 million band are deferred for the opportunity for later recovery. The remaining 10% is also absorbed by the Company. Interest on the deferred costs amounted to $9,081, resulting in a total amount deferred for the 2005 review period of $4,138,618 ($4,129,537 + $9,081).

III. SUMMARY OF DEFERRED POWER SUPPLY COSTS

Q. Would you please summarize the primary factors driving power supply expenses during the review period?

A. Yes. Power supply expenses were higher than authorized due primarily to lower hydro generation and higher market electricity and natural gas prices. A portion of the higher expenses was offset by the operating margin associated with the second half of Coyote Spring 2 (CS2), which the Company acquired on January 20, 2005. The second half of CS2 was not included in the authorized power supply expenses prior to January 1, 2006. Therefore, the operating margin (value of the electricity generated less the cost of fuel) associated with the second half of CS2 lowered the power cost deferrals during 2005.

Hydro generation was approximately 38 aMW below the authorized level, which increased power supply expenses by approximately $15 million (Washington allocation). This increased expense attributed to lower hydro generation is based on an average purchase and sale price for power during the review period of $55.07/MWh, which was above the authorized level of $32.17/MWh.

Another factor contributing to higher than authorized net power supply expense in 2005 was the higher market electricity and natural gas prices, as well as the need to purchase power at higher prices to serve retail load above the authorized level. Total system load in 2005 was higher than the authorized load (2004 weather adjusted) by approximately 28 aMW. Because the cost of securing energy to serve that additional load, either through purchasing market electricity or natural gas for generation, was higher than the average cost of production included in base rates, the additional load leads to higher power supply expenses. Based on monthly load increases and monthly market power prices, the additional load increased net power supply expenses by approximately $6.6 million (Washington allocation) in 2005.

Q. What impact did the acquisition of the second half of Coyote Springs 2 have on power supply expenses during the 2005 review period?

A. Avista acquired the second half of CS2 on January 20, 2005. The operating margins from the second half of the plant flowed through the ERM and lowered power supply expenses during the 2005 review period. Based on the additional generation from CS2, primarily due to the acquisition of the second half of the plant, and the average market value of the additional electricity generated being greater than the additional natural gas fuel purchase expense, the additional generation at CS2 reduced power supply expenses by $9.2 million (Washington allocation) during the 2005 review period.

This benefit of the second half of CS2 accrued to Washington customers during a period when customers were not paying for either the capital costs or the operation and maintenance costs of the second half of the plant in base rates. The second half of CS2 was included in the authorized level of power supply expenses beginning January 1, 2006.

Q. Please summarize the primary factors driving the change in power supply expenses included in the ERM during the 2005 review period.

A. In summary, securing power to make up for lower hydro generation and to meet higher loads increased power supply expenses by approximately $21.6 million. These increased expenses were partially offset by the operating margin from the additional generation at Coyote Springs 2, due primarily to the acquisition of the second half of the plant on January 20, 2005, which reduced power supply expenses by approximately $9.2 million. Overall, these three factors accounted for approximately $12.4 million of the total $13.6 million of actual power supply expenses that exceeded the authorized level during the 2005 review period. Other factors

such as the performance of the Colstrip and Kettle Falls plants, fuel costs and contract cost changes accounted for the remaining net $1.2 million increase in power supply expenses above the authorized level. The following table summarizes the factors contributing to higher than authorized power supply expenses during the 2005 review period.

Factors Contributing to Increased Power Supply Expenses 2005 - Washington Allocation	
Increased Expense Due to Lower Hydro Generation	$14,986,861
Increased Expense Due to Higher Prices and Loads	$6,593,303
Decreased Expense Due to Second Half of CS2	-$9,169,173
Increased Expense Due to Other Factors	$1,177,383
Total Expenses Above Authorized Level	$13,588,374

IV. NEW LONG-TERM CONTRACTS ENTERED INTO IN 2005

Q. Please provide a brief description of new long-term contracts that the Company entered into in 2005.

A. The Company entered into three new long-term contracts during the 2005 review period. In March 2005, the Company entered into a two-year power exchange agreement to move power from Coyote Spring 2 to the Mid-Columbia. In November 2005, the Company renewed an agreement to purchase exchange capacity during 2006 and also made a two-year sale of dynamic capacity (load following) to an adjacent Northwest utility. These contracts were provided as confidential attachments to the monthly deferral reports.

V. SUPPORTING DOCUMENTATION

Q. Please provide a brief overview of the documentation provided by the Company in this filing.

A. The Company maintains a number of documents that record relevant factors considered at the time of a transaction. The following is a list of current documents that are available for review in connection to this filing:

Gas/Electric Transaction Record: These documents record the key details of the price, terms and conditions of a transaction. These documents include a discussion of market conditions at the time of the transaction, the reason for the transaction, as well as pertinent transmission or other delivery issues. As part of this filing the Company provided two confidential worksheets showing each gas and electric term transactions (one month or longer) during 2005, These worksheets include all key transaction details such as trade date, delivery period, price, volume and counter-party. Additional information can be provided, upon request, for any of these transactions.

Daily Position Reports: The daily reports provide a summary of monthly loads and resources over an 18-month forward period. Included in the position reports are forward hydroelectric generation estimates, as well as critical water generation variability. Additionally, fixed price natural gas quantities are shown assigned to the most economic available generation plant.

Long-Term Physical Electric Load & Resource Tabulation: For transactions with deliveries extending greater than the 18-month period covered by the Position Report, the Company includes documents showing the net average system position during the extended period. This document also shows variability associated with an 80% confidence interval around the combined variability of hydroelectric generation and variability of load.

Forward Market Electric and Natural Gas Price Curves: This daily data is maintained in Nucleus, the Company's electronic energy transaction database record system.

Price Quote Worksheet: Provides a record of the natural gas purchase or sales prices available from several parties in the market at the time of a particular gas transaction. This record includes price information at specific points of delivery. Price quotes can be provided upon request for any of the electricity or natural gas transactions listed in the worksheets.

Credit Report: Lists those counter-parties with which the Company may enter into either purchase or sales transactions as determined by credit criteria set by the Company.

These documents are in addition to the detailed monthly reports, which are filed with the Commission and provided to interested parties, as discussed by Mr. McKenzie.

Q. Should the Commission conclude that these ERM-related expenses are appropriate for recovery?

A. Yes. These expenses are well supported and were prudently incurred.

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

A. Yes.