BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-12____

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 am a 1981 graduate of the University of Montana 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 provide an overview of the history of the ERM and provide a summary of the factors contributing to the power cost deferrals during the 2011 calendar year review period. I provide an overview of the documentation the Company has provided in workpapers, which the Company had agreed to provide in the ERM Settlement Stipulation approved and adopted in Docket No. UE-030751. My testimony will also briefly describe how the power cost deferrals are calculated.

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

A. Yes. Mr. Ron Mckenzie will provide testimony concerning the monthly deferral entries and the deferral balance.

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

A. Yes. I am sponsoring Exhibit No.___ (WGJ-2), which includes five pages from December 2011's Monthly Power Cost Deferral Report. These pages show the deferral calculations for the period January 2011 through December 2011. Page 1 of Exhibit No.___(WGJ-2) shows the calculation of the deferral, pages 2 through 4 show the actual expenses and revenues, and page 5 shows the retail revenue adjustment.

Detailed workpapers, which are described later in my testimony, have been provided in electronic format to the Commission, and other parties, coincident to this filing.

II. OVERVIEW AND HISTORY OF ERM

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 and adopted a Settlement Stipulation (UE-011595 Stipulation) that explained the mechanism and reporting requirements. Pursuant to the UE-011595 Stipulation, the Company is 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. The 90-day review period may be extended by agreement of the parties participating in the review, or by Commission order.

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 has made ERM annual review filings for each subsequent calendar year period. Avista's latest Annual ERM Filing to review deferrals for calendar year 2010 was filed February 17, 2011 in Docket No. UE-110313. As a result of the Settlement Stipulation approved in Docket Nos. UE-100467 and UG-100468 by Order 07 dated November 19, 2010, no ERM deferral entries were made in 2010.

III. SUMMARY OF DEFERRED POWER SUPPLY COSTS

Q. What were the changes in power costs, the amounts deferred, and the amounts absorbed by the Company during 2011?

A. During 2011 actual net power costs were lower than the authorized net power costs for the Washington jurisdiction by $19,208,401. Under the ERM, the first $4.0 million of net power supply costs above or below the authorized level is absorbed by the Company. When actual costs exceed authorized costs by more than $4 million (surcharge direction), 50% of the next $6 million of difference in costs is absorbed by the Company, and 50% is deferred for future recovery from customers. When actual costs are less than authorized costs (rebate direction), 25% of the next $6 million of difference above the $4 million deadband is absorbed by the Company, and 75% is deferred for rebate to customers. If the difference in costs exceeds $10 million, either in the surcharge or rebate direction, 10% of the amount above $10 million is absorbed by the Company, and 90% is deferred. The deferral for 2011 amounted to $12,787,561 in the rebate direction [$4,500,000 (75% of $6,000,000) plus $8,287,561 (90% of $9,208,401)].

Q. Please summarize why power supply expense was lower than the authorized level during the review period?

A. In summarizing 2011, decreased power supply expenses resulted primarily from very good hydro generation. For the year, hydro generation was 79.8 aMW above the authorized level. Wholesale power and natural gas prices were also low. The average flat Mid C power price was $24.18/MWh compared to a price of $41.32 built into the authorized expense level. The average cost of gas for Coyote Spring 2 was $3.72dth compared to the authorized rate of $4.98/dth. Actual retail loads came in 15.2 aMW above the authorized level on a system basis with Washington retail sales being 22 aMW above the authorized level.

The table below shows the change in generation and retail loads in 2011 from the authorized level included in base rates.

2011 Generation and Load Differences from the Authorized Level

	Change aMW	Change %
Change in Hydro Generation	79.8	18.2%
Change in Gas Fired Generation	-137.5	-45.4%
Change in Colstrip Generation	-28.1	-14.7%
Change in Kettle Falls Generation	-0.3	-0.9%
Change in Retail Loads	15.2	1.4%

Q. Please quantify the factors driving the change in power supply expense in 2011.

A. The table below shows the primary factors impacting power supply expense during 2011.

Factors Contributing to Decreased Power Supply Expense 2011 - Washington Allocation	
Change in Hydro Generation	-$10,268,150
Change in Natural Gas and Market Power Prices	-$1,830,770
Change in Colstrip Generation and Fuel Expense	-$698,599
Change in Kettle Falls Generation and Fuel Expense	$1,004,572
Change in Mid Columbia Contracts Expense	$245,996
Change in Retail Loads	-$7,661,450
Total Expenses Below the Authorized Level	-$19,208,401

IV. NEW LONG-TERM CONTRACTS ENTERED INTO IN 2011

Q. Please provide a brief description of new long-term contracts that the Company entered into in 2011.

A. The Company entered into six long-term contracts during the 2011 review period. In June the Company entered into a 30 year power purchase agreement for the Palouse Wind Project. In September the Company entered an agreement to purchase a small amount of power generated at the new Spokane County wastewater treatment plant. In December the Company entered into four PURPA agreements. These agreements included the City of Spokane's Waste-to-Energy plant and Upriver hydro facility, and two renewed agreements with Stimson in Plummer, Idaho and Hydro Technology (Meyers Falls) in Kettle Falls, Washington. The only new contracts were the Palouse Wind project and the Waste-to-Energy purchase. The output from the City of Spokane's Waste-to-Energy plant was purchased by Puget Energy for the past 20 years.

Q. Are any long-term contracts subject to the limitation for inclusion in the ERM that was part of the recent ERM settlement?

A. No. The 2006 Settlement Agreement in Docket No. UE-060181 regarding the continuation of the Company's Energy Recovery Mechanism (ERM) included limitations on cost recovery for new or renewed contracts that are greater than 50 MW and have more than a two year term. No long-term contracts entered into in prior years that were in effect during the 2011 review period are subject to limitations on cost recovery.

V. THERMAL RESOURCE AVAILABILITY

Q. Please describe the availability factor requirement and actual availability factors for the Company's major thermal plants, specifically Kettle Falls, Colstrip and Coyote Spring 2.

A. The 2006 Settlement Agreement in Docket No. UE-060181 regarding the continuation of the Company's Energy Recovery Mechanism (ERM) included potential limitation of the recovery of fixed costs associated with Kettle Falls, Colstrip and Coyote Springs 2 generating plants when the plants fail to meet a 70% availability factor during the ERM review period. Availability factors for the Company's thermal plants during 2011 were all above 70% as shown below:

Colstrip – 84.2%

Kettle Falls – 89.4%

Coyote Springs 2 – 96.5%.

Lancaster – 99.6%.

VI. 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 documents that are maintained and that have been provided as part of this filing on a compact disk:

Gas/Electric Transaction Record: These documents record the key details of the price, terms and conditions of a transaction. As part of Avista's workpapers accompanying this filing the Company has provided two confidential worksheets showing each gas and electric term (one month or longer) transaction during 2011, including all key transaction details such as trade date, delivery period, price, volume and counter-party. Also provided is a Heat Rate Summary worksheet that lists the purchases and sales of natural gas and electricity related to fueling Avista's natural gas fired generation. Additional information can be provided, upon request, for any of these transactions.

Position Reports: These daily reports provide a summary of transactions and plant generation and the Company's net average system position in future periods. The Daily Position Reports also contain forward electric and natural gas prices.

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.

VII. OVERVIEW OF DEFERRAL CALCULATIONS

Q. Please provide an overview of the deferral calculation methodology.

A. Energy cost deferrals under the ERM are calculated each month by subtracting base net power supply expense from actual net power supply expense to determine the change in net power supply expense. The base levels for 2011 result from the power supply revenues and expenses approved by the Commission in Docket No. UE-100467. The methodology compares the actual and base amounts each month in FERC accounts 555 (Purchased Power), 501 (Thermal Fuel), 547 (Fuel) and 447 (Sales for Resale) to compute the change in power supply expense. These four FERC accounts comprise the Company's major power supply cost accounts. The ERM also includes changes in Accounts 565 (transmission expense), 456.100 (third-party transmission revenue), and broker fees.

In addition, actual expense for generating plant fuel not burned is included as the net of natural gas sale revenue under Account 456 (revenue) and purchase expense under Account 557.15 (expense) to incorporate the total net change in thermal fuel expense. Also included in Account 557.15 are other power supply expenses including the purchase and sales of renewable energy credits.

The total change in net expense is multiplied by the Washington allocation of 64.87%. The total power cost change is accumulated until the dead band of $4.0 million is reached. Fifty percent of power cost increases, or 75 percent of the decreases, between $4.0 million and $10.0 million, and ninety percent of the power cost increases or decreases in excess of $10.0 million are recorded as the power cost deferrals and added to the power cost deferral-balancing account.

Q. Please explain how the retail revenue adjustment is determined in the ERM.

A. The ERM includes a retail revenue adjustment to reflect the change in power production and transmission costs recovered through base retail revenues, related to changes in retail load. The retail revenue adjustment calculation is based on the average cost (fixed and variable) of production and transmission included in the Company's cost of service study filed in the general rate case for the weighted average of all rate schedules. These production costs divided by the annual base (normalized) retail kilowatt-hour sales results in a production related revenue figure of $0.05031 per kilowatt-hour.

The monthly retail revenue adjustment in the ERM is computed by multiplying $0.05031 per kilowatt-hour times the difference between actual and authorized monthly retail kilowatt-hour sales. If actual kilowatt-hour sales are greater than base, the retail revenue adjustment will result in a credit to the ERM deferral (reduces power supply costs). If actual kilowatt-hour sales are less than base, the retail revenue adjustment will result in a debit to the ERM deferral (increases power supply costs).

Q. What ERM calculations are provided to the Commission and other parties?

A. The Company provides to the parties a monthly power cost deferral report, showing among other things, the calculation of the monthly deferral amount, the actual power supply expenses and revenues for the month, and the retail revenue adjustment. These pages from the December 2011 deferral report are included as Exhibit No.____ (WGJ-2). The December 2011 deferral report pages show all of the months, January through December of 2011.

Q. Please explain the Clearwater Paper direct assignment credit in the monthly ERM deferral calculation.

A. The credit on page 1 line 8 of Exhibit No. _____ (WGJ-2), labeled "Less Clearwater directly assigned to ID" removes the Clearwater Paper (formerly Potlatch) power purchase expense that is included in 555 Purchased Power on page 1 line 1 of Exhibit No. _____ (WGJ-2). This credit, which began in July 2003, is a result of the Company entering into a power purchase and sale agreement with Clearwater Paper where the Company purchases up to 62 average megawatts on an annual basis from Clearwater Paper and sells the equivalent amount of power to Clearwater Paper. The expense of this purchase, as well as the revenue from the corresponding sale, is 100 percent allocated to the Idaho jurisdiction. The actual expense is included in Account 555, Purchase Power Expense on page 1 line 1 of the monthly deferral calculations and then removed on page 1 line 8 for the Washington ERM deferral calculation. As a result, no expense related to the purchase of Clearwater Paper generation is included in the Washington ERM deferrals.

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

A. Yes.