

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-090134

DOCKET NO. UG-090135

DOCKET NO. UG-060518

(consolidated)

REBUTTAL TESTIMONY OF

CLINT G. KALICH

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

1
2 **Q. Please state your name, the name of your employer, and your business**
3 **address.**

4 A. My name is Clint Kalich. I am employed by Avista Corporation at 1411 East
5 Mission Avenue, Spokane, Washington. I am the Manager of Resource Planning & Power
6 Supply Analyses, in the Energy Resources Department of Avista Utilities.

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

8 A. My rebuttal testimony responds to the Public Counsel Section of the Washington
9 State Attorney General’s Office (Public Counsel or PC) on the subject of Lancaster prudence.

10 **Q. Please summarize your rebuttal testimony on Lancaster.**

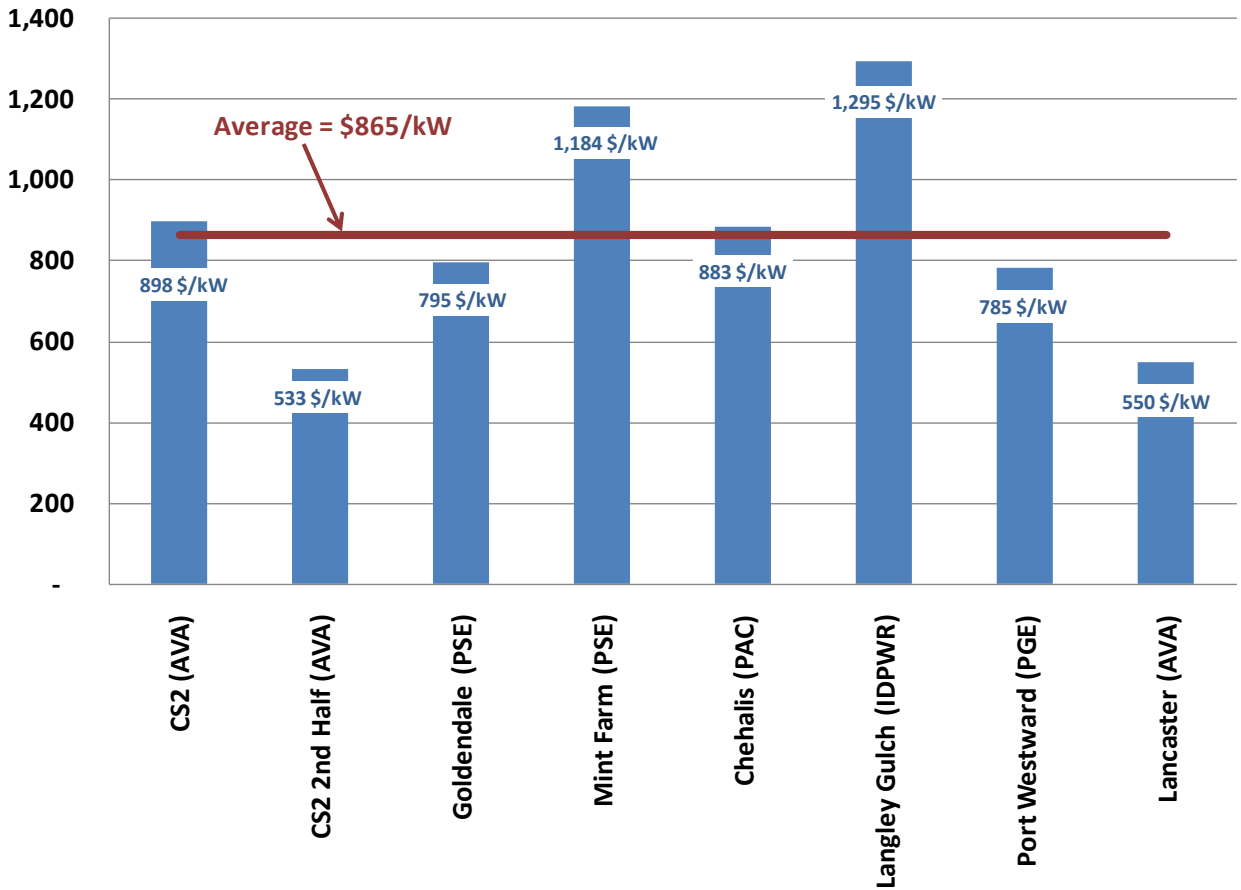
11 A. I will respond Public Counsel witness Woodruff’s recommendation that the
12 Commission disallow the Lancaster plant from customer rates. I will explain how the two
13 significant and detailed analyses completed by Avista and a leading industry consultant support
14 the Company’s decision to acquire Lancaster. I will show that the Company adequately
15 considered alternatives to the Lancaster plant before its selection, and I will revisit the reasons
16 why the Company did not conduct an RFP for Lancaster.

17 Finally, I will touch briefly on the necessity of both the natural gas and electricity
18 contracts associated with Lancaster. As will be explained further by Avista rebuttal witness
19 Lafferty, the contracts afford Avista not only benefits to Lancaster, but also important delivery
20 capabilities for the Coyote Springs 2 facility.

21 **Q. Public Counsel, at various places in its pre-filed testimony, implies that the**
22 **Lancaster acquisition was imprudent, both for 2010 and overall. Does the Company have**
23 **any initial observations on Public Counsel’s assertions on prudence?**

1 A. Yes. The Lancaster acquisition was made after careful review and analysis by Avista,
 2 and its acquisition was made prudently in a manner that will benefit customers for many years to
 3 come relative to another resource alternative. The project is one of the least expensive CCCT
 4 acquisitions ever made in the Pacific Northwest. No other northwest utility has procured a
 5 CCCT plant for less money, prior to or after the Lancaster acquisition, as illustrated below in
 6 Chart 1 (data are derived from Table 2 later in this testimony):

7 **Chart 1**
 8 **Regional CCCT Projects Acquisitions**
 9 **2000 to Present (2010 \$/kW)**



10
 11 The plant's construction was contracted for prior to the energy crisis, meaning that costs were
 12 low by recent standards. The benefit of these low costs will be realized by customers when the
 13 contract is assigned to Avista Utilities at cost beginning on January 1, 2010.

1 Resources rarely come into service on a schedule that perfectly meets a Company's
2 needs. Avista discussed the "lumpiness" of resource acquisitions in its 2007 IRP on page 8-8.
3 Resource acquisitions must be evaluated over their lifetimes, not against a specific deficit year or
4 set of conditions, especially when an opportunity arises to procure a resource such as Lancaster
5 at a significant discount.

6 Procuring resources prior to the precise date on which they are needed is not
7 unprecedented and it often happens. The most recent example, from the all-party settlement
8 agreement in the PacifiCorp case currently before this Commission in Docket No. UE-090205,
9 includes recovery for the recently-acquired Chehalis CCCT. All parties, including Public
10 Counsel, supported PacifiCorp's acquisition of this resource nearly four years prior to its need.
11 The Chehalis CCCT plant cost PacifiCorp 50 percent more than Lancaster on an adjusted per-
12 kW basis (See Chart 1 above).

13 Lancaster should be viewed with the long-term nature of this resource in mind. It is a
14 very cost-competitive acquisition. Absent its purchase, Avista almost certainly would build a
15 new CCCT plant at significantly higher prices. Avista's 2007 Integrated Resource Plan
16 estimated new CCCT costs to be \$859 per kW in 2010; this estimate is in line with the average
17 northwest utility estimate of \$874 per kW (see Table 3 below).

18 Avista performed a detailed analysis of the Lancaster project, comparing it to greenfield
19 (new) and brownfield (existing) plants. We considered the plant as part of our 2007 IRP and
20 found the facility was a least-cost acquisition that would reduce customer costs by approximately
21 2.3 percent as compared to a CCCT built in 2011, or \$43 million over the Lancaster contract

1 term.¹ Mr. Randy Lobb, Idaho Utilities Commission Division Administrator, testified in a 2009
2 regulatory proceeding before the Idaho Public Utilities Commission (Docket No. AVU-09-01)
3 that authorized recovery of Lancaster’s costs:

4 “...Avista had a demonstrated need and the Company's internal evaluation and that of an
5 independent third party consultant provided extensive economic analysis of the
6 transaction as compared to other alternatives...the price paid for Lancaster over the life
7 of the Agreement was lower than available CCCT alternatives. Moreover, when the price
8 is compared to other more recent combined cycle resource acquisitions in the region, the
9 purchase agreement appears even more valuable and beneficial to ratepayers.”

10
11 It should be remembered that Avista hired an independent consultant to review the
12 project’s economics relative to other options available to the Company and to review Avista’s
13 planning methodology. Though performed from a very different analytical perspective, the
14 conclusion was the same—Lancaster provides significant benefits to the Company relative to
15 other recent acquisitions and new CCCT plant costs. In addition, the consultant found Avista’s
16 planning methodologies were sound and that they surpassed many of Avista’s peers.

17 Finally, Exhibit No. ____ (RLS-6) of Company Witness Storro provides a
18 discussion of the key prudence tests outlined in Eleventh Supplemental Order and the Nineteenth
19 Supplemental Order, both in Docket No. UE-920433. The Exhibit explains that Lancaster meets
20 each test of prudence. It was a prudent decision when made and remains so today. It is needed
21 for utility service and is cost-effective, among other points.

22 **Q. Public Counsel, beginning at page 11 line 21 of Mr. Woodruff’s testimony,**
23 **argues that the Company must make a transaction based on the lower of cost or market.**
24 **Will the Lancaster plant be acquired at cost?**

¹ The 2007 IRP had a typographical error on page 8-27 stating that Lancaster would lower costs by 6 percent.

1 A. Yes. Avista will acquire Lancaster at cost. The contracts will be provided to
 2 Avista utility customers at cost without any markups.

3 **Q. Will the Lancaster acquisition come to utility customers at a price above**
 4 **market value?**

5 A. No. As clearly demonstrated in Company Witness Storro’s pre-filed direct
 6 testimony, and in further illustrations contained herein, the Lancaster plant was acquired at a
 7 price substantially below other market transactions from that period, and since that period. Table
 8 8, excerpted from Witness Storro’s pre-filed testimony Exhibit No. ____ (RLS-6), is worth
 9 revisiting here.

10 **Table 1**
 11 **Lancaster Levelized Cost vs. Other Regional CCCT Projects Plant**
 12 **Levelized Cost (2010-2026) \$/MWh**
 13

Coyote Springs 2	78.37
Goldendale	97.72
Port Westward	92.80
Lancaster	79.37

14
 15 Furthermore, market conditions since the acquisition prove out the value of the contract.
 16 Prices have only continued to increase, as explained below.

17 **Q. Are there other transactions that demonstrate the market value of**
 18 **Lancaster?**

19 A. Yes. The following table details recent acquisition prices for combined-cycle gas-
 20 fired plants in the Northwest with similar operating characteristics. As the table demonstrates,
 21 Lancaster is the least expensive save for Avista’s 2004 re-acquisition of the second half of
 22 Coyote Springs 2, and well below the \$865 per kW average cost.

Table 2
Regional CCCT Projects Acquisitions
2000 to Present (\$/kW)

Plant	Year	Cost	2010 Cost *	WA Gas Tax Adj. **	Net 2010 Cost
Coyote Springs 2	2000	668	898	-	898
Coyote Springs 2 (2nd Half)	2004	446	533	-	533
Goldendale	2006	480	540	255	795
Mint Farm	2008	876	929	255	1,184
Chehalis	2008	592	628	255	883
Langley Gulch	2010	1,295	1,295	-	1,295
Port Westward	2007	718	785	-	785
Lancaster	2010	550	550	-	550
Average					865

* escalated at 3% per year from year of estimate to 2010

** reflects present value cost of WA state gas tax cost attributable to Washington-located CCCT plants

Two adjustments were made to the data in Table 2. First, each transaction price was adjusted to 2010 dollars from the year of its acquisition to make a level comparison between the plants. Second, each Washington-based plant incurs a usage tax of nearly 4 percent that plants located in Idaho and Oregon do not. Accordingly, it is necessary to adjust the prices of Washington-based plants by \$255 per kW to reflect this cost.

Q. What were regional planning entities estimating the cost of CCCTs to be at the time of the Lancaster acquisition?

A. IRPs from other regional utilities, and the Northwest Power and Conservation Council data available at the time of the Lancaster acquisition, estimated the cost of new CCCT plants greatly above the price of the Lancaster contract. Table 3 describes these CCCT cost estimates.

Table 3
Regional CCCT Projects Cost Assumptions

Source	Year	Estimate	2010 Escalated *
Avista	2007	786	859
Idaho Power	2006	693	780
Portland General Electric	2006	710	799
PacifiCorp	2006	814	916
Puget Sound Energy	2006	1050	1,182
Power Council	2000	525	706
Average			874

* estimate escalated at 3% per year from year of estimate to 2010

As the table explains, Avista estimated in its 2007 IRP that gas-fired generation would cost \$786 per kW for a plant installed in 2007. In 2010 the escalated cost is \$859 per kW. The range of costs across that table is from a low of about \$700 per kW to nearly \$1,200 per kW, for an average of \$874 per kW. The Lancaster plant has an equivalent price of approximately \$550 per kW, meaning that a new CCCT plant was expected to cost approximately 50 percent more than Lancaster on a per-kW basis.

Q. What were the costs of recently-acquired CCCT plants at the time of the Lancaster acquisition?

A. As detailed in the Company's direct case, three CCCT plants were brought into utility service shortly before the Lancaster acquisition timeframe: Coyote Springs 2 (2004, Avista), Goldendale (2006, Puget Sound Energy), and Port Westward (2007, Portland General Electric). Each is detailed in Table 2 above. These plants, in 2010 dollars, were purchased for \$533, \$795, and \$785 per kW, respectively.

Q. Did the Company view these transactions as representative of the CCCT market at that time?

1 A. Yes. These transactions represented recent CCCT transactions, both for green-
2 field and brownfield projects.

3 **Q. At page 10, line 3, Mr. Woodruff states that “Avista made no credible effort**
4 **to assess ‘what other purchases are available’ in the market that could provide similar**
5 **value...” Does the Company agree?**

6 A. No. As explained in our direct and this rebuttal testimony, the Company made an
7 extensive effort to assess the marketplace and determine what other purchases might be
8 available, including long-term contracts and existing and new CCCT plants. Market surveys and
9 regional planning estimates were used to supplement the Company’s overall knowledge of the
10 resources available in the northwest marketplace.

11 **Q. Did Public Counsel assert that Avista violated Commission policies by not**
12 **issuing an RFP.**

13 A. Yes. Public Counsel Witness Woodruff argues at line 9 on page 12 that Avista
14 “appears to violate this [WAC 480-107] policy” by not issuing an RFP before agreeing to
15 acquire Lancaster.

16 **Q. Did Avista violate WAC 480-107 when acquiring Lancaster?**

17 A. No. WAC Chapter 480-107 requires the issuance of an RFP after the publication
18 of an Integrated Resource Plan (IRP) identifying a resource deficiency within three years of its
19 publication. At the time of the IRP filing, Avista’s resource need even absent Lancaster was
20 further into the future than three years. Therefore, Avista did not violate WAC 480-107.

21 **Q. Why did Avista not issue an RFP for Lancaster?**

22 A. The Company’s 2007 IRP identified the need for more than 300 MW of gas-fired
23 CCCT generation in the 2011 timeframe. The IRP work, and all information in the marketplace,

1 indicated the price of Lancaster was very attractive relative to other options. First, regional
2 planning documents showed the cost of new CCCT plants to be 50% more than Lancaster.
3 Second, there were a number of CCCT acquisitions made around the time of the decision, and
4 Lancaster was at the low end of the acquisition prices. Third, there were very few CCCT plants
5 not already owned by a utility company or under long-term contracts, and there were no such
6 plants available for acquisition.

7 **Q. Beginning on page 11, line 1, of Mr. Woodruff's pre-filed testimony, Public**
8 **Counsel states that the Lancaster acquisition was an affiliate transaction specifically**
9 **barred by settlement stipulation establishing the Company's Energy Recovery Mechanism**
10 **(Settlement Stipulation). Does the Company agree?**

11 A. No. The Lancaster acquisition does not run afoul of the Settlement Stipulation
12 reached in Docket No. UE-011595 which states in part:

13 The company agrees that it will not enter into electric or natural gas commodity
14 transactions with Avista Energy related to Avista Utilities' electric operations until the
15 Energy Cost Deferral Balance carries a net credit balance. This provision does not
16 preclude transactions between the two companies related to Avista Utilities' natural gas
17 distribution business.
18

19 This language addresses electric and natural gas *commodity transactions* with Avista
20 Energy, which were at issue in that proceeding. The Lancaster plant is not a commodity and it
21 clearly is not a purchase of natural gas or electricity. The gas plant allows the conversion of one
22 commodity (natural gas) into another (electricity). There were no electricity or natural gas
23 transactions associated with the purchase, with Avista Energy or any other entity. The
24 transaction therefore falls outside the limitations of the ERM Settlement Stipulation.

1 In summary, PC misinterprets the Settlement Stipulation establishing the Company's
2 Energy Recovery Mechanism (ERM). Specifically, it mistakenly uses language intended to
3 apply to *commodity transactions* to support its case to disallow a portion or all of Lancaster. The
4 plant is not a commodity transaction; it is a contract for the operation of a gas-fired generation
5 facility.

6 **Q. Have other parties to this proceeding that were signatories to the Settlement**
7 **Stipulation Mr. Woodruff is quoting from taken the position that it violated the Settlement**
8 **Stipulation?**

9 A. No. No other party in this proceeding, some whom were signatories to that
10 agreement, has submitted testimony asserting that either 1) the Lancaster acquisition is a
11 commodity transaction or 2) its acquisition violated the Settlement Stipulation.

12 **Q. At page 11, Public Counsel also implies that a 2007 data request in Docket**
13 **No. UE-070804 supports their contention that Avista at the time agreed that a transaction**
14 **like Lancaster would be prevented under the Settlement Stipulation. Did the Company's**
15 **response to Data Request 206 cited by PC state that a transaction like Lancaster would be**
16 **prevented by the Settlement Stipulation?**

17 A. No. The data response only reiterated the language preventing *commodity*
18 transactions. There was no language in the Settlement Stipulation that would prevent the
19 assignment of Lancaster to Avista Utilities.

20 **Q. At page 17, line 11, of Public Counsel Witness Woodruff's pre-filed**
21 **testimony he states that Avista's Lancaster analysis is flawed and doesn't provide a sound**
22 **basis for the Commission to make its decision. Does the Company concur?**

1 A. No. The analysis performed for the Lancaster acquisition was extensive and
2 showed clearly that Lancaster is needed and is the best choice for customers. Public Counsel
3 Witness Woodruff points to “two chief concerns” with the analysis beginning at line 10 of page
4 18 in his pre-filed direct testimony. The first is his belief that Avista does not require the
5 Lancaster facility to meet its load requirements. The second is that Avista relied on public data
6 and what Mr. Woodruff describes as “hypothetical” estimates of CCCT costs instead of issuing
7 an RFP.

8 **Q. Does Avista need Lancaster to meet customer loads?**

9 A. Yes. As explained in Company Witness Storro’s pre-filed testimony, the decision
10 to acquire Lancaster was based on Avista’s 2007 IRP showing that Avista enters a deficit period
11 in 2011 on an annual basis absent the Lancaster plant. The Company also would be deficit in all
12 quarters of 2010 except the second quarter, the traditional hydro runoff period when the entire
13 region experiences higher levels of hydro generation. Even if Avista agreed that it should ignore
14 its 2010 deficits as suggested by Witness Woodruff, it is well to remember that resource
15 acquisitions by Avista or other utilities rarely occur at the precise date they are needed. The
16 bottom line is that Avista will in fact use Lancaster to serve customer loads in early 2010, as well
17 as the subsequent years.

18 **Q. How does the Company respond to Mr. Woodruff’s concern, illustrated on**
19 **page 19, line 3 of his pre-filed direct testimony, that Lancaster was evaluated using actual**
20 **market transactions and regional planning estimates for CCCT plants and not RFP**
21 **results?**

22 A. The Company’s approach to evaluating the Lancaster facility followed standard
23 industry practices. It is reasonable to compare the costs of building new plants with the cost of

1 purchasing existing plants when evaluating a new resource option. The Company relied not only
2 on its estimates of the costs of new CCCT plants, but on the professional work of other northwest
3 utilities and the Northwest Power and Conservation Council, as well as an assessment of the
4 marketplace for other resource options, such as a long-term power purchase.

5 **Q. Have conditions since the time of the Lancaster acquisition decision borne**
6 **out the validity of the Company's analyses?**

7 A. Yes. Although the determination of prudence should be based on information
8 available at the time the decision was made, I will note that since the Lancaster acquisition the
9 validity of our analysis—that Lancaster was an inexpensive resource relative to greenfield and
10 brownfield options—has become even more evident. Averaging post-Lancaster project costs
11 from Table 2 above indicates an average cost of \$1,121 per kW—i.e., more than twice the cost of
12 Lancaster.

13 **Q. Has Witness Woodruff taken issue with the conclusions of the Company's**
14 **2007 Integrated Resource Plan?**

15 A. No. Mr. Woodruff has not challenged the conclusions of the 2007 IRP, and
16 specifically that the 2007 IRP found that a gas-fired CCCT is the best acquisition for the
17 Company to meet its load deficiencies.

18 **Q. Has Witness Woodruff provided any evidence showing that the Company**
19 **could have acquired a CCCT resource at a cost below Lancaster?**

20 A. No. He has in no instance provided any facts to back his speculation that the
21 Company could have made another purchase at lower cost, or obtained a better price through the
22 issuance of a competitive solicitation. To the contrary, all evidence in the marketplace, both up
23 to and since the Lancaster decision, shows that the plant is the least-cost acquisition for Avista.

1 **Q. Mr. Woodruff, at page 21, line 8 of his pre-filed direct testimony expresses**
2 **concern with a purported difference between the results of Avista’s Lancaster evaluation**
3 **and that of Thorndike Landing Consulting (Thorndike). Would you comment?**

4 A. Yes. He identifies three assumptions that differ between the Thorndike and
5 Avista analyses relating to capacity revenues, electricity transmission and gas transportation.
6 Mr. Woodruff, however, drew incorrect inferences from these assumptions.

7 **Q. What is the first assumption Mr. Woodruff makes, and how did he**
8 **misinterpret it?**

9 A. On line 12 of page 21 of his pre-filed direct testimony, Mr. Woodruff explains
10 that Avista’s filing does not reflect the capacity value estimated by Thorndike in its Lancaster
11 evaluation. But Thorndike explains on page 10 of its report (Exhibit RLS-5) that capacity values
12 are based on: (a) supply and demand dynamics, (b) new build economics, and (c) derived energy
13 margins. In the final analysis Avista has an obligation to meet the needs of its customers,
14 including the provision of adequate reserve margins.

15 **Q. Would you explain what you mean?**

16 A. Utilities have an obligation to serve their customers and are expected to construct
17 resources to meet demands during adverse conditions, including extreme weather and resource
18 operations. To ensure a reliable system under practically all conditions, utilities must procure
19 resources that have the capability to deliver dependable capacity when called upon, including
20 operating and planning reserves.

21 For example, Avista carries approximately a 15 percent planning reserve margin. This
22 means that under normal weather conditions it would have a surplus generating capability of 15

1 percent during its peak operating hours in the winter and summer. The surplus would be larger
2 during other periods of the year.

3 This surplus depresses wholesale prices below what they would otherwise be in a more
4 traditional market where supply and demand may be more in balance. If a non-utility owner of a
5 firm energy resource, such as a CCCT, were to sell firm energy into this surplus wholesale
6 market, the owner would not recover the total ownership and operating costs of the plant, but
7 would receive revenues more in line with its variable operating costs. In the Pacific Northwest,
8 natural gas generation is sold on the margin a major portion of the time, which means the
9 wholesale market price for power is set a majority of the time based on the variable costs of
10 operating a CCCT.

11 **Q. Are there other costs or values that fall under the definition of capacity**
12 **revenues?**

13 A. Yes. Generation assets with firm natural gas and electricity delivery capabilities
14 protect utility customers to varying degrees against market price volatility. In other words,
15 where large price run-ups occur, the generation asset cost becomes much less expensive than the
16 wholesale marketplace and reduces customers' exposure to the rising costs. As an example, gas
17 plants during the 2000-01 Energy Crisis provided large savings relative to purchasing electricity
18 in the wholesale marketplace.

19 **Q. At page 21, line 13, Mr. Woodruff in his pre-filed direct testimony references**
20 **a \$17 million capacity benefit calculated in the Thorndike study. Should this benefit be**
21 **built into utility rates?**

22 A. It essentially is. If the marketplace has adequate resources to meet peak demand
23 periods because it carries a planning margin, wholesale electricity prices will be relatively lower

1 on average and below the total cost to own and operate a firm resource. But if planning margins
2 are not maintained in the marketplace as a whole, prices in the wholesale marketplace skyrocket.
3 By building to a planning margin, more volatile markets and higher prices to customers are
4 avoided.

5 **Q. Do you have any comments on Mr. Woodruff's assumption on the BPA**
6 **transmission associated with Lancaster?**

7 A. Yes. At line 17 of page 21 of his pre-filed direct testimony, Mr. Woodruff
8 assumes that the Company will remarket the majority of the BPA transmission associated with
9 the Lancaster plant in 2010. He fails to acknowledge that the Lancaster plant will operate for
10 many years into the future, and that the Company will remarket transmission in varying
11 quantities during those years. Presently the Company is working to integrate the Lancaster plant
12 into its system. As explained by Company Rebuttal Witness Lafferty in his rebuttal testimony,
13 Avista is working with the Bonneville Power Administration to interconnect the plant directly to
14 Avista's system. Once this occurs the transmission agreements will no longer be necessary
15 during most operating conditions for the plant, and that transmission can then be remarketed or
16 used to optimize the operation of other utility assets. But until that time, BPA transmission will
17 be essential to deliver Lancaster output to Avista customers. The assumption that Avista can
18 remarket three-quarters of its transmission capacity was based on the long-term operation of the
19 plant over 17 years, not just for calendar year 2010.

20 **Q. Do you have any comments on Mr. Woodruff's assumption regarding**
21 **natural gas transportation for Lancaster?**

22 A. Yes. On page 32 at line 9 Mr. Woodruff states that the gas transportation contract
23 quantities exceed Lancaster's maximum gas demand by 20 percent. This is not correct.

1 Company Rebuttal Witness Lafferty will further detail the importance of this gas transportation
2 capacity, and how the plant needs the entire contracted capacity during critical peak demand
3 periods.

4 **Q. Are the BPA transmission and gas transportation contracts integral to the**
5 **operation of Lancaster?**

6 A. Yes, they are, as further explained by Company Witness Lafferty in his rebuttal
7 testimony. They are essential components of the overall Lancaster arrangement, and have been
8 included in Avista's assessment of the overall project economics which compare very favorably
9 to any other alternative. Were the Commission to disallow all or a portion of the costs associated
10 with these arrangements, as suggested by Public Counsel, the Company would need to examine
11 other alternatives for Lancaster, rather than dedicating it for the benefit of its ratepayers.

12 **Q. At line 14 of page 22 of Mr. Woodruff's pre-filed direct testimony he shows a**
13 **table summarizing his three concerns, and how they add up to the "bulk of the \$22.4**
14 **million difference between Avista and TL [Thorndike Landing] estimates of Contracts-**
15 **related cash flows." Does the Company wish to comment on this?**

16 A. Yes. The fact that Mr. Woodruff's adjustments add up substantially to the
17 difference between Avista and Thorndike's cash flow difference in 2010 is simply coincidence.
18 The Avista analysis was a comparison of what it would cost to procure a CCCT plant. It ignored
19 the market value of the plant entirely since the Company's 2007 IRP concluded that a CCCT was
20 the right resource choice. Avista's result showed that Lancaster was a good choice relative to a
21 new or existing gas-fired CCCT. Thorndike's analysis took a completely different approach,
22 explicitly modeling the market value of Lancaster in the wholesale marketplace, including
23 capacity value.

1 **Q. Public Counsel witness Woodruff takes issue with Thorndike’s use of high**
2 **and low gas price cases. Does the Company wish to comment on this testimony?**

3 A. Yes. Beginning on page 23 of his testimony, Mr. Woodruff expresses his
4 concerns with the independent analysis prepared by Thorndike, specifically in reference to the
5 consulting firm’s low and high gas price cases. He surmises that both Thorndike and Avista fail
6 to recognize the significance of varying natural gas prices, when in fact we both do. The real
7 question, however, is the one that Public Counsel fails to address: whether or not varying natural
8 gas prices would change the resource acquisition decision. It would not. Avista based its
9 opinions on a robust planning process, culminating with its IRP documents. The IRP, through an
10 evaluation of 250 Monte Carlo scenarios, found gas CCCT plants as the preferred next resource
11 for Avista. A year or multiple years of varying natural gas prices would not affect this decision
12 because the 250 Monte Carlo scenarios in Avista’s 2007 IRP include a range of high and low gas
13 prices.

14 **Q. On page 27 of his pre-filed direct testimony Mr. Woodruff, at line 22 states**
15 **that Lancaster “...may not have positive value to Avista Utilities if current ‘low’ gas prices**
16 **persist into the future.” Is Mr. Woodruff correct in this assessment?**

17 A. No. Mr. Woodruff’s concern over today’s low natural gas price is entirely
18 misplaced. Low natural gas prices are a benefit to customers, providing generation from a
19 CCCT at a cost well below that anticipated in regional planning documents, including Avista’s.
20 It is as if Mr. Woodruff believes that lower-cost sources of electricity will somehow appear to
21 serve growing customer loads in the event of low natural gas prices, and yet he identifies none.
22 To the contrary, gas-fired generation plants will continue to be built at costs much higher than
23 Lancaster. Avista will need to build a new CCCT to ensure its customer’s needs are met in a

1 cost-effective and reliable manner consistent with its IRP. The only impact low gas prices will
2 have on Lancaster and, by extension Avista customers, is to lower utility bills below what they
3 would otherwise be.

4 **Q. Based on Avista's review of the pre-filed testimony of Public Counsel related**
5 **to Lancaster, should this Commission adopt the recommended disallowances proposed by**
6 **Mr. Woodruff?**

7 A. No. As detailed in this testimony, and that of Company Witness Lafferty, the
8 Lancaster acquisition was made at a very favorable price. The Company relied on robust
9 analyses, including the 2007 Integrated Resource Plan and an independent evaluation of
10 Lancaster relative to other feasible options. The third party independent evaluation confirmed
11 the validity of Avista's decision. Absent Lancaster, Avista would still need to build another
12 CCCT plant to serve its needs, almost certainly at a cost premium of 50 percent or more. This
13 would not be in the long-term interests of customers.

14 **Q. Does this conclude your rebuttal testimony?**

15 A. Yes, it does.