

Exhibit No. ____ (JLB-2)
Dockets UE-140188/UG-140189
Witness: Jason L. Ball

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

AVISTA CORPORATION,

Respondent.

**DOCKET UE-140188 and
DOCKET UG-140189
(Consolidated)**

**EXHIBIT TO
TESTIMONY OF**

Jason L. Ball

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Testimony of Alan P. Buckley

July 22, 2012

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Confidential per Protective Order

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1 I. INTRODUCTION

2
3 Q. Please state your name and business address.

4 A. My name is Alan P. Buckley. My office address is The Richard Hemstad Building,
5 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia,
6 Washington 98504. My email address is abuckley@utc.wa.gov.

7
8 Q. By whom are you employed and in what capacity?

9 A. I am employed by the Washington Utilities and Transportation Commission
10 (“Commission”) as a Senior Policy Strategist. Among other duties, I am responsible
11 for analyzing rate and power supply issues as they pertain to the investor-owned
12 electric utilities under the jurisdiction of the Commission.

13
14 Q. How long have you been employed by the Commission?

15 A. I have been employed by the Commission since 1993.

16
17 Q. Would you please state your educational and professional background?

18 A. I received a Bachelor of Science degree in Petroleum Engineering with Honors from
19 the University of Texas at Austin in 1981. In 1987, I received a Masters of Business
20 Administration degree in Finance from the University of California at Berkeley.

21 From 1981 through 1986, I was employed by Standard Oil of Ohio (now
22 British Petroleum-America) as a Petroleum Engineer working on Alaskan North
23 Slope exploration drilling and development projects. From 1987 to 1988, I was

1 employed as a Rates Analyst at Pacific Gas and Electric Company. I was next
2 employed by R.W. Beck and Associates, an engineering and consulting firm in
3 Seattle, Washington, conducting cost-of-service and other rate studies, carrying out
4 power supply studies, analyzing mergers, and analyzing the rates of the Bonneville
5 Power Administration (“BPA”) and the Western Area Power Administration.

6 I came to the Commission in December 1993, where I have held a number of
7 positions including Utility Analyst, Electric Program Manager, and the position that I
8 now hold. I have been a witness in numerous proceedings before the Commission,
9 including several general rate cases in which I testified on power supply issues. I
10 also have testified before BPA and the Federal Energy Regulatory Commission.

11 12 II. SCOPE AND ORGANIZATION OF TESTIMONY

13
14 **Q. What is the purpose of your testimony?**

15 **A.** The purpose of my testimony is to present Staff’s recommendations in regards to pro
16 forma net power supply expense, including pro forma transmission expenses and
17 revenues. I will briefly address the effect of Staff’s recommendation regarding pro
18 forma transmission capital addition expenditures on pro forma net power supply
19 expense. I will also address Avista’s proposed modifications to the calculation of the
20 retail revenue credit within the Energy Recovery Mechanism (ERM). My
21 recommendations in this proceeding are based on my review and analysis of the
22 direct testimony and exhibits of Avista witnesses Kalich, Johnson, Lafferty, and
23 Kinney, as well as their associated workpapers and responses to data requests.

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Q. How is the remainder of your testimony organized?

A. The remainder of my testimony is divided into five additional sections. In Section III, I provide a summary of my recommendations related to the issues identified above. In Section IV, I present my proposed pro forma net power supply and transmission expense adjustment recommendations. In Section V, I discuss Staff's treatment of the generation and transmission related capital additions. In Section VI, I address changes to the retail revenue credit calculation within the Energy Recovery Mechanism as proposed by the Company.

III. SUMMARY OF STAFF'S RECOMMENDATIONS

Q. Please summarize your recommendations in Docket UE-140188.

Staff recommends the Commission approve pro forma net power supply expenses incorporating the results of an update to the generation and transmission expense and revenue components described later in my testimony, to be filed as part of the Company's Rebuttal Filing. Because of the limited scope of the update (meaning that the update consist primarily of traditional items that been allowed to be updated in past proceedings), I anticipate the update to be reviewable in a timely manner by the Parties prior to the beginning of evidentiary hearings.

In addition, I recommend the Commission approve the Company's proposed modification to the Energy Recovery Mechanism, as I describe in Section VI.

1 In the event that the Company does not carry out the update in its Rebuttal Case, the
2 Commission should order the Company to do so as part of any compliance filing
3 subsequent to the Commission's final order in this proceeding, and provide sufficient
4 time (at a minimum equal to the time between the rebuttal filing and the start of
5 evidentiary hearings) for the Parties to review the updated pro forma net power
6 supply expenses.

7
8 **Q. Is it possible that an update will result in a greater level of revenue**
9 **requirements related to pro forma net power supply expense?**

10 A. Yes. Given the more recent forward natural gas prices since Avista filed this case, ,
11 it would not be surprising to see an overall increase in pro forma net power supply
12 expenses. However, Staff believes that the effects of the observed forward natural
13 gas increases will be somewhat mitigated by the generally favorable position of
14 actual forward fixed-price financial electric and natural gas transactions.

15
16 **IV. PRO FORMA NET POWER SUPPLY AND TRANSMISSION EXPENSE**

17
18 **Q. Please provide an overview of the Company's proposed pro forma net power**
19 **supply and transmission expense levels in this proceeding.**

20 A. Overall, I would characterize the power supply expense component of this case is
21 being very "clean." Since the final order in the last general rate case, Docket UE-
22 120436, gas and electric market prices have been relatively stable and Avista has
23 added no new major generating resources. Customers are also benefiting from the

1 significant level of revenue to be received during remaining years of the Portland
2 General Electric Peaker Capacity contract (from February 1, 2015 through December
3 31, 2016); a significant reduction in transmission expense purchased for the
4 Lancaster generating plant; and, finally, the fact that forward fixed-price financial
5 electric and natural gas transactions are “in-the-money” compared to current market
6 prices, thus providing a benefit to customers.

7 The Company uses a rate period of January 1, 2015, through December 31,
8 2015, for purposes of determining normalized net power supply and transmission
9 expense levels in this general rate case proceeding. The Company has identified and
10 carried out pro forma adjustments related to those revenue and expense items related
11 to power purchases and sales, fuel expenses, transmission expense, and other
12 miscellaneous power supply expenses and revenues. These various costs and
13 revenues are based on the generation and dispatch of Company resources and
14 expected wholesale market power prices as determined by the AURORA model
15 simulation as well as other changes in power supply related factors between the
16 historical test year and the pro forma period. Avista is proposing a significant
17 decrease to its test year power supply expense in the amount of approximately \$21.6
18 million on a system basis. This equates to a decrease of approximately \$14.0 million
19 for Washington.

20 However, in reality, these numbers relate more closely to a decrease of
21 \$9,936,000 system-wide and a decrease of \$6,459,394 allocated to Washington, as
22 compared to the power supply expense levels currently authorized in the Company’s
23 base rates. The difference is due to the fact that current base rates are based on the

1 calendar year 2013 pro forma period power supply expense level authorized in the
2 last general rate case, rather than the test year period being proposed in this
3 proceeding. No matter, the proposed reduction in power supply expense is a
4 welcome factor in this proceeding.
5

6 **Q. Has Staff used the AURORA simulation model to develop its power supply**
7 **expense recommendations in this proceeding?**

8 A. Yes. Staff obtained a license to use the AURORA Dispatch Model developed by
9 EPIS, Inc. of Sandpoint, Idaho, and various Commission Staff persons have received
10 training for setting up and running the model. As a first step in evaluating the
11 Company's proposed power supply expenses in this proceeding, Staff has run the
12 model and benchmarked the Company's results. However, as previously
13 summarized and discussed further below, Staff's case is essentially recommending
14 that a number of production and transmission related items be "updated" in order to
15 better reflect the 2015 calendar year pro forma period. Typically, Staff does not
16 have direct access to the information necessary to do the update and relies on either
17 Company responses to data requests or additional updated filing made during the
18 proceeding, such as compliance filings.

19 For example, Staff does not subscribe to commercial services which provide
20 the forward natural gas prices necessary to input into the AURORA model. Staff is
21 also not privy to new fixed-price financial electric and natural gas transactions that
22 may have been entered into subsequent to the original rate case filing, which will
23 affect the net results of any gas price changes and AURORA dispatch results. In this

1 proceeding, Staff believes the most efficient use of the Company's and the Party's
2 resources and time is to recommend that Avista file updated power supply expenses
3 (including updated exhibits and workpapers) as part of its rebuttal testimony on
4 August 22, 2014. That leaves the Parties approximately 30 days to review the
5 updates prior to the beginning of evidentiary hearings on September 22, 2014. That
6 filing should be sufficient for Staff to carry out any necessary AURORA model runs
7 using the updated data.

8
9 **Q. Please describe Staff's proposed adjustments to the Company's filed pro forma**
10 **net power supply and transmission expense amounts.**

11 A. My proposed adjustments to net power supply and transmission expense amounts in
12 this proceeding primarily reflect the need for the Company to rerun its dispatch
13 model using the latest available information, including estimates of 2015 monthly
14 forward gas prices, additional gas and power market transactions that have been
15 entered into subsequent to the original filing in this case, and any updates to the
16 various Mid-C or transmission service contracts that are included in net power
17 supply expense. In addition, there are several adjustments related to relatively minor
18 errors in the Company's initial filing that require correction. Because Staff is
19 recommending that any upgrades be carried out as part of the Company's rebuttal
20 filing, Staff has prepared no exhibits reflecting adjusted pro forma net power supply
21 and transmission expense amounts. Avista's Exhibit No. ___ (WGJ-2) presents the
22 pro forma net power supply expense as filed. A Revised Exhibit No. ___ (WGJ-2)

1 and supporting workpapers will present the updated expense and revenue amounts
2 for a timely review by the Parties.

3 I believe that the impact of these adjustments can be reviewed by the Parties
4 in a timely manner subsequent to the Company's rebuttal case filing, including bench
5 marking the Company's updated AURORA model runs using Staff's AURORA
6 model resources.

7
8 **Q. Specifically, what power supply and transmission expense updates do you**
9 **recommend be carried out and allowed in the proceeding as part of the**
10 **Company's rebuttal filing?**

11 A. The items to be updated can be separated into two categories – the first being those
12 items that have been traditionally allowed to be updated by the Commission in
13 previous general rate case filings, and the second, several relatively minor
14 corrections to AURORA model inputs and a correction to financial gas transaction
15 mark-to-market calculations. Specifically, the first category includes:

- 16 • the “normally allowed” updates to the three-month average natural gas and
17 electric market prices used in the AURORA model,
- 18 • any new short-term physical and financial contracts (both gas and electric),
19 and
- 20 • available updates or corrections to power and transmission service contracts .

21 In regards to available contract updates, subsequent to the Company's initial filing in
22 this docket, the Bonneville Power Administration notified Avista that the wheeling
23 rates for WNP-3 power delivered into Avista's system were updated per a FERC

1 approved tariff. The Company's power supply and transmission expense update
2 should include these new rates. In addition, there are ongoing negotiations regarding
3 several power contracts, including: 1) the Rocky Reach and Rock Island power
4 purchase, 2) the Colville Tribe's Wells power purchase, and 3) the Spokane Waste-
5 to-Energy power purchase. If possible, Avista should update the terms and prices
6 related to these contracts.

7
8 **Q. What updates are to be included in the second category related to minor errors?**

9 A. The Company and Staff have identified two necessary corrections that require
10 changes to AURORA model inputs and therefor will affect the variable power
11 supply expense derived from the model and also one "out-of-model" item that
12 requires correction. The first AURORA model correction relates to WNP-3 energy.
13 The Company mistakenly used the 2012-2013 contract-year energy amount rather
14 than the 5-year average energy amount methodology used and approved in previous
15 rate cases. As a result of the correction, there is slightly more energy available from
16 WNP-3 will result in a slightly higher power supply expense level as WNP-3 is
17 priced higher (estimated around \$225,000 WA jurisdiction) than modeled market
18 price energy.

19 The second AURORA model input correction address a double counting of
20 \$5/MWh in the calculation of the Priest Rapid Project energy expense. Because this
21 calculation is based on modeled power prices, it will change when the Company
22 updates gas prices, which also updates market power prices. Finally, there is a
23 necessary out-of-model correction related to the mark-to-market calculation of fixed

1 price gas transactions. Certain financial gas transactions were priced to the wrong
2 basis point using the incorrect delivery hub. The actual out-of-model mark-to-
3 market calculation will change when the update is carried out after including any
4 additional fixed transactions and with updated gas prices.

5
6 **Q. Has the Company accepted your recommended updates to net power supply
7 and transmission expense as part of its rebuttal case filing?**

8 A. Yes. I have had discussions with the Company in regards to an update filing and the
9 Company has indicated its support for Staff's proposal.

10
11 **Q. What is the result of your adjustments to net power supply and transmission
12 costs?**

13 A. As I stated earlier, Staff did not rerun the AURORA model or attempt to estimate the
14 ultimate results of ongoing contract negotiations. However, it appears that gas prices
15 have increased somewhat since the Company's initial filing which will put an
16 upward pressure on expense levels. The overall impact depends on the mitigating
17 effect of the currently "in the money" fixed price transactions and, to a smaller
18 degree, the effect of the other minor corrections I recommend.

19
20 **Q. Will Staff and other parties have sufficient time to review the recommended
21 updates should they take place?**

1 A. I believe so. For the most part, the updated items remain the same as those
2 traditionally acceptable to the Commission, Staff and other parties in Avista's
3 previous general rate cases.

4
5 **Q. Does this conclude your testimony on your proposed pro forma net power
6 supply and transmission expense adjustment?**

7 A. Yes. However, the Commission should recognize that additional testimony may be
8 warranted as a result of further potential updates that may be carried out by the
9 Company and/or ordered by the Commission.

10

11 **V. GENERATION AND TRANSMISSION CAPITAL ADDITIONS**

12

13 **Q. Do any of Staff's recommendations regarding generation and transmission
14 capital additions affect the proposed rate period normalized net power costs in
15 this proceeding?**

16 A. No.

17

18 **VI. MODIFICATIONS TO ENERGY RECOVERY MECHANISM**

19

20 **Q. Please summarize the Company's proposed modification to the Energy
21 Recovery Mechanism.**

22 A. The Company's proposal regarding modifications to the Energy Recovery
23 Mechanism ("ERM") in this case is limited to the manner for calculating the ERM's

1 retail revenue credit. The Company's proposed changes to the retail revenue credit
2 are discussed in Exhibit No. ____ (WGJ-1T), beginning on page 11. The Company is
3 proposing to continue the retail revenue credit calculation methodology accepted by
4 the Parties as part of the Multi-Party Settlement Agreement in its last general rate
5 case and adopted by the Commission Docket UE-120436, Final Order 09. Under the
6 proposal, only the energy classified portion of the fixed and variable production and
7 transmission revenue requirement from the general rate case would be used to
8 determine the credit amount.

9
10 **Q. How does the ERM's retail revenue credit operate?**

11 A. The retail revenue credit is designed to better match the actual production and
12 transmission related revenue requirement with actual changes in energy sales when
13 determining annual ERM balances. Within the ERM, power supply expense is
14 adjusted higher, or lower, based on the incremental changes in retail energy sales as
15 compared to the levels authorized in the preceding general rate case. Absent the
16 retail revenue credit adjustment, customers would be overcharged, or under charged,
17 for retail sales related differences in power supply expense, due to the inclusion of
18 the full fixed cost component of production and transmission revenue requirement.
19 The Company goes on to claim that by setting the retail revenue credit at an energy
20 classified only level, it will retain demand-related revenues to better meet the needs
21 of demand-related investment and costs.

22

1 Alternatively, the proposed method will eliminate demand-related costs from being
2 recovered through the ERM when retail sales are lower than general rate case
3 authorized levels, thus reducing any arguments that the retail revenue credit operates
4 as a partial decoupling mechanism.

5
6 **Q. Do you believe it is appropriate at this time to change the manner in which the**
7 **retail revenue credit is calculated within the ERM?**

8 A. Yes. I believe the Company's proposed change in methodology for calculating the
9 ERM's retail revenue credit, and its continued use subsequent to the Multi-Party
10 Agreement in Docket No.UE-120436, represents a reasonable improvement in
11 balancing the interests of the Company and ratepayers and better matches actual
12 power supply costs and related revenues, going forward.

13
14 **Q. Does this conclude your testimony?**

15 A. Yes.