BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-07-____

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 Power 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 Power 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 long-term power contract management and regulatory issues.

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

A. My testimony will briefly describe how the power cost deferrals are calculated and will also briefly address how the sale of natural gas purchased for (but not used for) generation and the Potlatch power purchase agreement were included in the power cost deferral calculations during the review period.

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

A. Yes. I am sponsoring Exhibit No.___ (WGJ-2), which includes four pages from December 2006's Monthly Power Cost Deferral Reports. These pages show the deferral calculations for the period January 2006 through December 2006. One page shows the calculation of the deferral, two pages show the actual expenses and revenues, and one page shows the retail revenue adjustment.

II. 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 result from the power supply revenues and expenses approved by the Commission in Docket No. UE-050482. 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. Beginning January 1, 2006 the ERM also includes changes in Accounts 565 (transmission expense), 456.100 (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 load curtailment payments, bankruptcy write-offs, and revenue from the sale of surplus small generation equipment.

The total change in net expense is multiplied by the Washington allocation of 65.16%. The total power cost change is accumulated until the dead band of $4.0 million is reached. Fifty percent of power cost increases or decreases in 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 expenses 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 $.03903 per kilowatt-hour.

The monthly retail revenue adjustment in the ERM is computed by multiplying $.03903 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 2006 deferral report are included as Exhibit No.____ (WGJ-2). The December 2006 deferral report pages show all of the months, January through December of 2006.

Q. What were the total deferrals during calendar year 2006, and what were the primary causes of the increased costs?

A. As explained by Mr. Storro, power supply expenses were lower than authorized due primarily to higher hydro generation. Offsetting most of the higher hydro generation was the increased expense of securing resources for increased retail load. Because the marginal cost of new power resources exceeds the embedded cost of resources included in base rates, increased retail loads results in increased power supply expense which is only partially offset by the retail revenue credit (the revenue received from customers). Overall, power supply expenses were $2,601,664 (Washington allocation) below the authorized level for the period January through December 2006.

Power supply expenses in the review period include the amortization of the Enron contract settlement per the Settlement Stipulation in Docket No. UE-030751, approved by Order No. 05, dated January 30, 2004.

III. NATURAL GAS FUEL EXPENSE

Q. How are natural gas fuel expenses for thermal generation included in the power cost deferral calculations?

A. Natural gas fuel expense for thermal generation is included in two lines in the power cost deferrals. For gas consumed to generate electricity the gas expense is included in Account 547. For gas that is sold rather than consumed, the cost of the gas less the revenue

received from the sale of the gas is included in the power cost deferral in the line labeled "Resource Optimization."

Q. What other expenses are included in the line labeled "Resource Optimization?"

A. During 2006, the Resource Optimization line included, in addition to the net expense of natural gas sales, expenses related to payments to large customers for load curtailment during an extreme weather event, a write-off of revenues previously included in the ERM that Avista's never received due to bankruptcy, and revenue Avista received for the sale of some surplus small generation equipment. Details of the expenses and revenues included in the Resource Optimization line have been provided in Mr. Storro's workpapers.

IV. POTLATCH DIRECT ASSIGNMENT CREDIT

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

A. The credit on page 1 line 9 of Exhibit No. _____ (WGJ-2), labeled "Less Potlatch 62 aMW directly to ID" removes the 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 Potlatch where the Company purchases up to 62 average megawatts on an annual basis from Potlatch and sells the equivalent amount of power to Potlatch. 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 9 for the Washington

ERM deferral calculation. As a result, no expense related to the purchase of Potlatch generation is included in the Washington ERM deferrals.

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

A. Yes.