Exhibit No. ___ (WGJ-1T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-09_____

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 graduated from the University of Montana in 1981 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 1) identify and explain the proposed normalizing and pro forma adjustments to the October 2007 through September 2008 test period power supply revenues and expenses, and 2) describe the proposed level of authorized expense and retail revenue credit for ERM purposes, using the pro forma costs proposed by the Company in this filing.

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

A. Yes. I am sponsoring Exhibit Nos.___(WGJ-2) through ___(WGJ-5), which were prepared under my supervision and direction.

Q. Are other Company witnesses providing testimony regarding issues you are addressing?

A. Yes. Company witness Mr. Kalich provides detailed testimony on the AURORA model used by the Company to develop short-term power purchase expense, fuel expense and short-term power sales revenue included in my exhibits.

II. OVERVIEW OF PRO FORMA EXPENSE ADJUSTMENT

Q. Please provide an overview of the pro forma expense adjustment.

A. The pro forma adjustment to power supply expense involves the determination of revenues and expenses based on the generation and dispatch of Company resources and expected wholesale market power prices as determined by the AURORA model simulation for the pro forma period under normal weather and hydro generation conditions. In addition, adjustments are made to reflect contract changes between test period and the pro forma period. The table below shows total net power supply expense during the test period and the pro forma period. For information purposes only, the power supply expense currently in rates, which is based on a calendar 2009 pro forma period, is also shown.

Power Supply Expense
(Not Including Directly Assigned Potlatch Purchase)

	System	Washington Allocation
Power Supply Expense in Current Base Rates (2009 pro forma)	$199,906,000	
Actual Oct 07 - Sep 08 Power Supply Expense	$180,395,000	
Adjustment to Test Period	$57,240,000	$36,971,316
Proposed 2010 Pro forma Power Supply Expense	$237,635,000	
Increase from Expense in Current Rates	$37,729,000	$24,369,161

The net effect of my adjustments to the test year power supply expense is an increase of $57,240,000 ($237,635,000 - $180,395,000) on a system basis. The Washington allocation of this adjustment of $36,971,316 is incorporated into the revenue requirement calculation for the Washington jurisdiction by Company witness Ms. Andrews.

The increase in power supply expense compared to the pro forma level in current base rates is $37,729,000 (system) and $24,369,161 (Washington allocation).

Q. What are the major factors driving the increased power supply expense in the pro forma year over the level of power supply expense currently in base rates?

A. The level of power supply expense currently in base rates is $199,906,000 (system number). This expense level is based on a calendar 2009 pro forma period. This compares to the proposed pro forma power supply expense of $237,635,000, an increase of approximately $37.7 million on a system basis and a Washington allocation of approximately $24.4 million.

This increase in pro forma power supply expense over the expense currently in base rates is caused by numerous factors, primarily higher retail loads and the addition of the Lancaster plant Power Purchase Agreement (PPA).

Pro forma retail loads are 37.6 aMW higher than loads that current rates are based on. The increased loads are due to two factors. One is the natural increase in retail loads of approximately 29.2 aMW. The other 8.4 aMW of load increase is due to the reduction in Potlatch generation. Because Potlatch generation expense is directly assigned to Idaho, the Potlatch load equivalent to their generation is removed from system loads. The reduction in Potlatch generation has the effect of increasing system loads for ratemaking purposes.

The other primary expense increase is the addition of the Lancaster plant PPA, from which the Company begins receiving power on January 1, 2010. The Lancaster PPA has three cost components including a fixed capital payment, a fixed O&M payment and a variable O&M payment. All three of these expenses will be recorded in Account 555, Purchased Power Expense. The capital payment and the fixed O&M payment will be relatively constant month to month, and the variable O&M expense will be dependent on the amount of generation at the plant.

Other Lancaster plant costs include natural gas fuel expense and the natural gas pipeline transportation expense, both of which are included in Account 547, Fuel Expense, and the BPA transmission from the plant to Avista's system that is recorded in Account 565, Transmission Expense.

The expense related to the Lancaster plant included in the pro forma is approximately $34.7 million (system), excluding natural gas fuel expense. This includes the capacity payment (capital payment and fixed O&M payment), variable O&M payment, natural gas transportation and BPA point-to-point transmission.

In order to determine the operating margin of the Lancaster plant in the pro forma, the AURORA model was run with and without the Lancaster plant. The change in expense was approximately $18.1 million, which represents the operating margin of the plant (value of electricity less the natural gas fuel expense). Netting the operating margin of the Lancaster plant against the expenses included in the pro forma results in a net increase in pro forma expense from the Lancaster plant of approximately $16.6 million (system) or $10.7 million (Washington allocation).

The table below shows the primary factors driving the increase in power supply expense compared to the level in current base rates.

Power Supply Expense Change
2010 Pro forma vs. 2009 Pro forma

Factor	2009 to 2010 Pro forma Change $millions	Washington Allocation $millions
Lancaster	$16.6	$10.7
System Load	$20.2	$13.0
Colstrip Fuel	$1.6	$1.0
Hydro Filtering Out	$2.4	$1.6
Other Contract Costs	$3.6	$2.3
Coyote Operating Margin	-$6.7	-$4.3
Total 2009 to 2010 Pro forma Increase	$37.7	$24.4

III. PRO FORMA POWER SUPPLY ADJUSTMENTS

Overview

Q. Please identify the specific power supply cost items that are covered by your testimony and the total adjustment being proposed.

A. Exhibit No. ___(WGJ-2) identifies the power supply expense and revenue items that fall within the scope of my testimony. These revenue and expense items are related to power purchases and sales, fuel expenses, transmission expense, and other miscellaneous power supply expenses and revenues.

Q. What is the basis for the adjustments to the test period power supply revenues and expenses?

A. The purpose of the adjustments to the test period is to normalize power supply expenses for normal weather and hydroelectric generation and to reflect known and measurable changes for the pro forma period that rates will be in effect. Adjustments are also made to reflect contract changes from the test period to the pro forma period.

The AURORA Model dispatches Company resources on an hourly basis and calculates the level of generation from the Company's thermal resources, fuel costs for thermal resources, and the short-term purchases and sales necessary to serve system requirements.

Q. Are there any changes in how the pro forma in this case was developed versus last year's rate case?

A. No. The process to develop the pro forma net power supply expense in this case is the same as in the 2008 general rate case.

A brief description of each adjustment is provided in Exhibit No. ___(WGJ-3). Detailed workpapers have been provided to the Commission coincident to this filing to support each of the pro forma revenues and expenses. The detailed workpapers for each adjustment show the actual revenue or expense in the test period, and the pro forma revenue or expense.

Long-Term Contracts

Q. How are long-term power contracts included in the pro forma?

A. Long-term power contracts are included in the pro forma by including the energy receipt or obligation associated with the contract in the AURORA model and including the cost or revenue in the pro forma net power supply expense.

Q. Are there any new power purchases or sales in the pro forma?

A. Yes. This pro forma includes the Lancaster PPA, along with the natural gas transportation and transmission contracts for the plant, and a two-year purchase of the Colville Indian Tribe's allocation of the Well's project output. The pro forma eliminates the purchase from Thompson River Cogen, a cogeneration plant in Thompson Falls, Montana, that was included in the 2008 rate case, because of the delays in the start-up of the plant.

Q. Can you please explain the increase in cost for the Wells purchase expense?

A. Yes. Avista entered into a two-year agreement beginning October 2008 and ending September 2010 to purchase the Colville Indian Tribe's 4.5% share of the output of the Wells hydroelectric generation. Prior to this agreement, Avista purchased 3.34% of the Wells output at actual production cost. The additional 4.5% of Wells output assigned to the Colville Indian Tribe was purchased through a competitive auction at the market prices at the time. The

purchase of the Colville Indian Tribe's share of Wells output is the reason for the large increase in Well's cost in the pro forma.

Q. Why is this purchase important to the Company?

A. This purchase was important because of the capacity and ancillary products that come with a Mid-Columbia generation product. In addition to the energy, Mid-Columbia generation has dynamic capacity that the Company uses for frequency regulation and load following. The generation also comes with "paper pond" that allows the Company to shift generation from low load to high load hours.

The amount of generation the Company has at the Mid-Columbia is being reduced as the existing contracts with Grant PUD expire and the amount of generation at the Priest Rapids dam (November 2005) and Wanapum (November 2009) are reduced by roughly half. The Wells purchase makes up for a good portion of the loss of capacity at Priest Rapids and Wanapum, and allows the Company to maintain regulation functions at the Mid-Columbia.

Short-Term Power Purchases and Sales

Q. How are short-term transactions included in the pro forma?

A. After including the actual short-term transactions as resources and obligations in the AURORA model, the balance of the short-term electric power purchases and sales are an output of the AURORA model. The model calculates both the volumes and price of short-term purchases and sales that balance the system's generation and long-term purchases with retail load and long-term obligations. The price of the short-term transactions represents the price of spot market power as determined by the AURORA model.

Q. What actual short-term transactions are included in the pro forma?

A. The pro forma includes two first quarter 2010 financial electric purchases. The mark-to-model expense of $55,000 for these two contracts is included in the pro forma.

Thermal Fuel Expense

Q. How are thermal fuel expenses determined in the pro forma?

A. Thermal fuel expenses include Colstrip coal costs, Kettle Falls wood-waste costs and natural gas expense for the Company's gas-fired resources including Coyote Springs 2, Lancaster, Rathdrum, Northeast, Boulder Park, and the Kettle Falls combustion turbine. Unit coal costs at Colstrip are based on the long-term coal supply and transportation agreements. Unit wood fuel costs at Kettle Falls are based on multiple shorter-term contracts with fuel suppliers and inventory. Total fuel costs for each plant are based on the unit fuel cost and the plant's level of generation as determined by the AURORA model.

Fuel expense also includes a new expense of approximately $5.9 million for natural gas transmission for the Lancaster plant.

Exhibit No. ___(WGJ-4) shows the pro forma fuel costs by month for each plant. Mr. Kalich provides details and supporting workpapers regarding the fuel costs for the Company's thermal plants.

Transmission Expense

Q. What changes in transmission expense are in the pro forma compared to the test year or the 2008 rate case?

A. Beginning January 1, 2010 the Company will purchase 250 MW of BPA point-to-point transmission for the Lancaster plant. The annual cost of this transmission is approximately $4.5 million.

IV. ERM CALCULATIONS

New Authorized Power Supply and Transmission Expense

Q. What is the authorized power supply expense and revenue proposed by the Company for the ERM?

A. The proposed authorized level of annual system power supply expense is $218,166,822. This is the sum of Accounts 555 (Purchased Power), 501 (Thermal Fuel), 547 (Fuel), less Account 447 (Sale for Resale). The proposed level of Transmission Expense is $18,524,257. The proposed level of Transmission Revenue is $9,478,694.

The level of retail sales MWh and the retail revenue credit will also be updated. The proposed authorized level of retail sales to be used in the ERM is the January 2010 through December 2010 pro forma retail sales. The proposed retail revenue credit is $53.41/MWh, which is the average cost of production/transmission in this filing developed by Company witness Ms. Knox.

The proposed authorized ERM power supply expense and revenue, transmission expense and revenue, and retail sales is shown in Exhibit No.___(WGJ-5).

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

A. Yes.