

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-050482

REBUTTAL TESTIMONY OF

RANDALL O. CLOWARD

REPRESENTING AVISTA CORPORATION

**I. INTRODUCTION**

**Q. Please state your name, employer and business address.**

A. My name is Randall O. Cloward. I am employed by Avista Corporation as the Director of Engineering and System Operations. My business address is 1411 East Mission, Spokane, Washington.

**Q. Please briefly describe your education background and professional experience.**

A. I graduated from Washington State University in 1974 with a B.S. in Electrical Engineering. I joined the Company in 1974 and have held a variety of positions since then. I have been the District Manager of our Saint Maries Office, Manager of Construction in our Colville Office, and was Construction Manager of the Spokane Division. In 1998 I was appointed to the Director of Transmission Operations before my promotion to Director of Engineering and System Operations in 2003.

**Q. What is the scope of your testimony?**

A. I respond to the testimony of Public Counsel's Merton Lott related to his proposed adjustments to "OASIS Revenues" and other transmission expenses starting at pages 45 and 56 of his testimony.

**Q. What is Mr. Lott's OASIS Revenue adjustment?**

A. OASIS is an acronym for Open Access Same-time Information System. This is the system used by utility transmission departments for scheduling available transmission for other utilities and independent generators. OASIS revenues are revenues from the sale of transmission capacity to third parties, for transmission above and beyond that needed by Avista

1 to serve native load. These revenues are credited back to customers in a rate case, such as this  
2 one, to offset a portion of the overall cost of transmission.

3 Because these revenues vary year to year, the Company has in previous rate cases used  
4 the most recent five year average as being representative of future expectations unless there are  
5 known events or factors that occurred during the period that would cause the average to not be  
6 representative of future expectations. In this instance, there has been some known major changes  
7 to the regional transmission system that has caused Avista's OASIS revenues to be significantly  
8 different than what occurred in the past five years.

9 In Avista's original filing the Company proposed OASIS revenues of \$1.5 million. For  
10 Settlement purposes, Avista has agreed to OASIS revenues of \$2.4 million. Mr. Lott's proposal  
11 of \$3.2 million ignores the known changes that have occurred, that have a direct impact on  
12 Avista's OASIS revenues.

13 **Q. Please explain.**

14 A. Annual non-firm and short-term firm electric OASIS revenue is dependent on two  
15 key factors: 1) energy market conditions and 2) the available transmission capability (ATC) on  
16 adjacent utility systems at any given time. These factors have significantly impacted Avista's  
17 non-firm and short-term firm transmission revenue.

18 The impact of market conditions is evident when comparing revenue figures for 2001  
19 compared to other years. Avista's non-firm and short-term firm electric OASIS revenue in 2001  
20 was about twice that of a typical year due to the west coast energy crisis observed during 2001.  
21 Annual non-firm and short-term firm revenue in 2001 was \$6.901 million compared to 2002  
22 (\$3.589 million) and 2003 (\$3.572 million). Customers purchased almost all of Avista's

1 available transmission capacity even though they did not use it all of the time. Reserving the  
2 transmission allowed customers the flexibility to move energy from multiple locations based on  
3 the price and availability of energy. The Company believes that 2001 was an anomaly and  
4 should not be used for future revenue forecasts since the energy crisis observed was an  
5 extraordinary event.

6 **Q. Are there other specific factors that have impacted Avista's OASIS revenue?**

7 A. Yes. Revenues of \$5.4 million in 2004 were higher than 2003 (\$3.6 million) due  
8 primarily to a reduction of ATC on adjacent utilities' systems. In 2004 the Bonneville Power  
9 Administration (BPA) was constructing a new 500 kV line from Bell substation in Spokane to  
10 Grand Coulee Dam in central Washington, installing fiber optic cable on existing transmission  
11 lines, and installing new and upgrading existing series capacitor banks on four of its area 500 kV  
12 lines as part of the West of Hatwai reinforcement project. This construction resulted in multiple  
13 prolonged transmission outages that significantly reduced the BPA ATC on critical transmission  
14 paths from eastern Montana through central Washington. Following is a list of some of the BPA  
15 outages and dates the lines were out of service.

16 Taft-Garrison 500 kV line 3-29-04 through 4-09-04  
17 Taft-Dworshak 500 kV line 4-12-04 through 4-23-04  
18 Taft-Hot Springs 500 kV line 7-19-04 through 9-10-04  
19 Taft-Bell 500 kV line 9-11-04 through 10-01-04  
20

21 Avista and BPA jointly own the transmission capacity on the two critical paths that are  
22 impacted by these line outages. These paths are called Montana to the Northwest (MT-NW) and  
23 West of Hatwai (WoH). BPA owns rights of 1818 MW and Avista owns rights to 382 MW out  
24 of a total of 2200 MW of east to west transmission capacity on the MT-NW path. Prior to the  
25 construction of the new Bell-Coulee 500 kV line mentioned above, BPA owned transmission

1 rights of 2200 MW and Avista owned rights of 600 MW out of a total of 2800 MW of east to  
2 west capacity on the WoH path.

3 In the previous WoH contract between BPA and Avista, if one of the entities took a  
4 transmission line out of service for maintenance or the line was removed from service by a  
5 faulted condition, and the loss of the line impacted the ATC on either of these paths, then the  
6 entity that lost the line had to take all ATC reductions on the paths. When any of the 500 kV  
7 transmission lines listed above were removed from service, BPA had to reduce their ATC  
8 significantly.

9 The point in explaining all of this detail is that, since companies still needed to get energy  
10 from Montana to load centers along the west coast, they purchased ATC from Avista to make up  
11 for the lost ATC from BPA.

12 **Q. Would you please provide a specific example?**

13 A. Yes. This scenario is evident when comparing 2004 Avista non-firm and short-  
14 term firm revenue to 2003 for two key customers, Idaho Power Company (IPC) and PPL  
15 Montana (PPLMT). In 2004 the revenue from these two companies more than doubled that of  
16 2003. Revenue from IPC in 2003 was \$1.020 million and in 2004 it was \$2.067 M. Revenue  
17 from PPLMT was \$0.515 million in 2003 and \$1.210 million in 2004. The 2004 revenue  
18 increase from both of these customers was a direct result of the reduced BPA ATC caused by the  
19 outages listed above. In order for these companies to get energy typically delivered on the BPA  
20 transmission system to their customers they had to purchase transmission from Avista.

21 With the recent completion of the BPA transmission upgrades, it has resulted in a  
22 substantial increase in BPA's ATC, which will substantially reduce Avista's opportunity to sell

1 transmission to third parties going forward. Therefore 2004 is not a good non-firm and short-  
2 term firm transmission revenue test year because of the outages taken by BPA for construction  
3 purposes.

4 **Q. Please explain how the BPA upgrades have further affected Avista's third-**  
5 **party transmission sales.**

6 A. The significant increase of BPA ATC has led to a significant decline in Avista's  
7 transmission revenue. This impact is the result of two compounding factors. First, during 2004,  
8 BPA had portions of its transmission system out of service, which reduced its ATC. Second,  
9 with the completion of the BPA upgrades, it not only restored the prior ATC, but significantly  
10 expanded BPA's ATC. As an example, the new Bell-Coulee line can support additional transfers  
11 and customers do not need to purchase as much transmission from Avista as in the past. In  
12 addition, because BPA owns approximately 80% of the high-voltage transmission in the  
13 Northwest, customers that use BPA's system can transfer power to many delivery points while  
14 paying only one transmission rate. In contrast, customers that purchase ATC from Avista to get  
15 to BPA or IPC, must pay rates across multiple systems for energy transactions from Montana to  
16 the mid-Columbia trading hub or to Idaho.

17 **Q. What has been the resulting impact on Avista's OASIS revenue for 2005?**

18 A. Actual revenue through June of 2005 is \$1.1 million. The percent of non-firm and  
19 short-term firm transmission revenue received during the first 6 months of the year compared to  
20 the entire year for the past several years (2001-2004) is 45.75%. Using this percentage and the  
21 current revenue through June shows that 2005 non-firm and short-term firm transmission revenue

1 would be \$2.4 million. Avista has agreed to this \$2.4 million figure for Settlement purposes.  
2 Mr. Lott's \$3.2 million is based on conditions prior to the BPA upgrades and should be rejected.

3 **Q. Are there other adjustments proposed by Mr. Lott that you would like to**  
4 **address?**

5 A. Yes. At page 56 of his testimony, Mr. Lott removes \$164,000 of system costs  
6 relating to two items, Colstrip O&M and Electric Scheduling and Accounting services. The  
7 Electric Scheduling and Accounting services adjustment of \$116,000 is related to line items  
8 labeled CASSO and OATI (Open Access Technology International). CASSO is a computer tool  
9 used for control area accounting and interchange checkout with adjacent utilities. Control area  
10 accounting includes keeping track of interchange flow, system load, system losses, and system  
11 generation. CASSO also provides an hourly checkout function to make sure Avista's  
12 transmission schedules match all of our interconnected control areas schedules on all  
13 interchanges. These accounting and checkout functions are required by national reliability  
14 standards.

15 OATI is used for OASIS, transmission scheduling, and transmission billing. All  
16 transmission companies are required by FERC to have an OASIS. FERC also requires all  
17 transmission companies to perform transmission pre-scheduling and scheduling via an electronic  
18 tagging system. OATI provides the electronic tagging function. The increased cost associated  
19 with CASSO and OATI are a result of purchasing these services as well as additional services  
20 that were not previously provided by Avista's prior contractor. A portion of the increase has been  
21 offset by the reduction of \$42,000 in OASIS Lease resulting from the elimination of the BPA

1 OASIS service. Mr. Lott's \$116,000 adjustment related to Electric Scheduling and Accounting  
2 services should not be accepted.

3 **Q. What is the Company's response to the Colstrip O&M adjustment proposed**  
4 **by Public Counsel?**

5 A. Avista is required to pay its portion of the O&M costs associated with the Colstrip  
6 transmission system pursuant the joint Colstrip contract. The Colstrip O&M adjustment of  
7 \$48,000 is required for the 2006 Pro Forma level of \$310,000 to match the indicated charges as  
8 stated by Northwestern who provides the service. Mr. Lott's adjustment should not be accepted.

9 **Q. Mr. Lott mentions other line items but does not make adjustments to fees**  
10 **related to the Western Electricity Coordinating Council (WECC).**  
11 **Would you please explain the purpose of Avista's participation in the WECC?**

12 A. Yes. The Western Electricity Coordinating Council is the West's regional  
13 reliability council under the direction of the North American Electric Reliability Council  
14 (NERC). The recent passage of the 2005 Energy Bill requires the development of an Electric  
15 Reliability Organization (ERO) under the direction of the Federal Energy Regulatory  
16 Commission. It is anticipated that the NERC will be selected as the ERO. The Energy Bill also  
17 allows for certain ERO responsibilities and authorities to be delegated to Regional Entities (RE)  
18 including the development of regional variances to national reliability standards. We understand  
19 that the WECC intends to submit an application to become an RE. Participation in WECC gives  
20 Avista a voting right on all regional reliability issues and regional standard variances.

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

22 A. Yes, it does.