BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-06- _____

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 Senior Power Supply Analyst 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 Senior Power Supply Analyst?**

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 resource planning and regulatory issues.

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

A. My testimony will describe the Energy Recovery Mechanism (ERM) methodology, propose the inclusion of transmission revenue and expense in the ERM, and present the ERM authorized power supply expense with the adjustments to the net power supply expense included in the Settlement and the Compliance Filing. A table of contents for my testimony is as follows:

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

A. Yes. I am sponsoring Exhibit No. ____(WGJ-2), which I prepared. This exhibit shows the new authorized (base) level of power supply net expense and transmission revenues and expenses to be included in the ERM.

## II. SUMMARY OF THE ERM

**Q. Please provide a summary of the current ERM deferral methodology.**

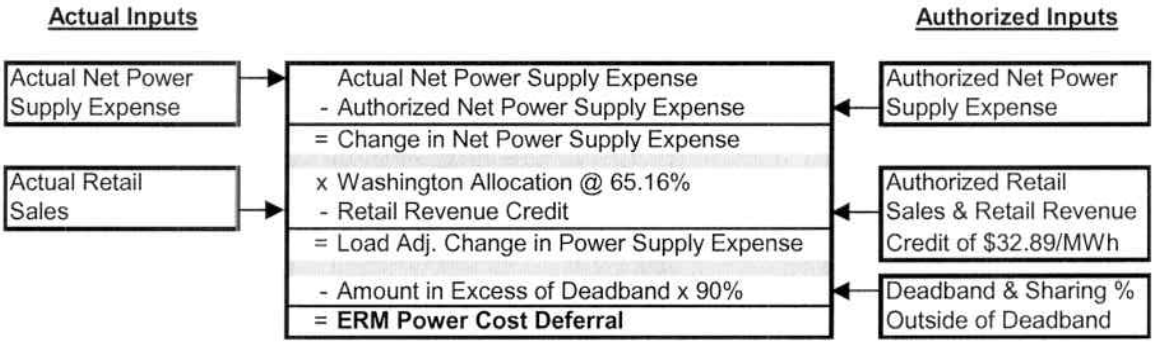
A. Energy cost deferrals under the ERM are calculated each month by subtracting authorized net power supply expense from actual net power supply expense to determine the change in net power supply expense. The authorized level of net power supply expense is the level of net power supply expense approved by the Commission in the most recent general rate case. The current authorized numbers are those approved by the WUTC in its Order No. 5 in Docket No. UE-050482 on December 21, 2005.

The methodology compares the authorized and the actual amounts in FERC accounts 555 (Purchased Power), 501 (Thermal Fuel), 547 (Natural Gas Fuel) and 447 (Sales for Resale) to compute the net change in power supply expense. These four FERC accounts comprise the Company's major power supply cost accounts. Actual net expenses in the methodology also include the revenues and expenses associated with purchases and sales of natural gas for thermal generation, as recorded in Accounts 557 and 456.

The total change in net expense is then multiplied by the Washington allocation of 65.16%[1]. The Washington retail revenue credit is then added to the change in net expense to determine the total power cost increase or decrease. The retail revenue credit is the product of the change in retail sales times the average production cost[2].

The difference between actual and authorized power cost expense accumulates until the deadband[3] is reached. Once the deadband is reached, the first 10 percent of power costs not recovered in rates is absorbed by the Company, and the remaining 90 percent of power cost increases or decreases in excess of the deadband are recorded as power cost deferrals and added to the power cost deferral-balancing account. The diagram below shows the basic components of the ERM methodology.

**ERM Overview**




The Company provides a monthly power cost deferral report, showing among other things, the actual power supply revenue and expense for the month, the retail revenue credit adjustment and the calculation of the monthly deferral. Also included with the monthly report are any new long-term contracts the Company entered into during a given month.

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[1] The Washington allocation is 65.16% beginning Jan. 1, 2006. The allocation in 2005 was 66.29%.
[2] The retail revenue credit is $.03289 per kWh beginning Jan. 1, 2006 as explained by Mr. McKenzie. The credit in 2005 was $.03208 per kWh.

## III. CHANGES TO THE ERM TO INCLUDE TRANSMISSION

**Q. Is the Company proposing any changes to the ERM methodology?**

A. Yes. Among the issues raised by Public Counsel in Docket No. UE-050482 was a recommendation by the Public Counsel to include certain transmission revenues and expenses. In response to Public Counsel's concerns, the Company is proposing to add transmission revenues and expenses to the ERM. Specifically, the Company proposes that the ERM would include transmission revenue contained in FERC Account 456.100, and transmission expense contained in FERC Account 565.

Transmission revenue in Account 456.100 consists of transmission revenue from third parties (such as other utilities) purchasing transmission on Avista's system and revenues from BPA related to BPA customers who are served off of Avista's transmission system. Changes in transmission revenue would be driven primarily by changes in Avista's wholesale transmission rates and volumes, and from changes in revenue that result from serving BPA's borderline customers off of Avista's transmission system.

Transmission expense in Account 565 consists primarily of transmission purchases made to wheel power from Colstrip and Coyote Springs 2 to Avista's system. It also includes transmission purchases for short-term system sales and purchases, small power purchases, and purchases to serve Avista customers who are physically interconnected through BPA or other transmission systems. Changes in transmission expense would be driven primarily by changes in BPA transmission rates and from the cost of purchasing short-term transmission.

[3] The proposed deadband is $0 beginning Jan. 1, 2006. The deadband in 2005 was $9 million.

**Q. How would transmission revenue and expense be included in the ERM methodology?**

A. The changes in transmission revenue and expense would be included in the ERM in the same manner that the power supply costs are currently included in the ERM. Actual transmission revenue and expense would be compared to authorized revenue and expense each month, and the differences in the revenues and expenses would be subject to the same allocation, deadband and sharing percentage as the existing revenues and expenses in the ERM.

**Q. What is the level of authorized transmission revenue and expense to be included in the ERM?**

A. The authorized annual Account 456.100 transmission revenue would be $10,269,000. This includes $8,476,000 of transmission revenue in the Company's originally filed rate case, plus $900,000 of additional OASIS revenue and $893,000 of additional Borderline revenue agreed upon in the Settlement

The authorized annual Account 565 transmission expense would be $13,307,000. This is the amount of Account 565 transmission expense in the Company's originally filed rate case. There were no Settlement adjustments to Account 565 transmission expenses.

## IV. AUTHORIZED ERM POWER SUPPLY AND TRANSMISSION NET EXPENSE

**Q. What is the authorized level of ERM power supply expense including the adjustments included in the Settlement and Compliance Filing?**

A. The level of ERM net power supply expense in the Company's originally filed rate case was $105,245,450. This is the sum of Accounts 555 (Purchased Power), 501 (Thermal

Fuel), and 547 (Natural Gas Fuel) less Account 447 (Sales for Resale). Adjustments made in the Settlement and the Compliance Filing reduced the ERM level of net power supply expense by $251,922 to $104,993,528. The authorized monthly power supply net expense and transmission revenue and expense for ERM calculation purposes, including the Settlement and Compliance Filing adjustments, is shown in Exhibit No. ____ (WGJ-2).

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

A. Yes.