

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-08 _____

DIRECT TESTIMONY OF

WILLIAM G. JOHNSON

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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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 long-term power contract management and 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 2007 test period power supply revenues and expenses, and 2) describe the new base level of power supply costs for Energy Recovery Mechanism (ERM) calculation 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?

1 allocation of this adjustment of \$9,859,664 is incorporated into the revenue requirement
2 calculation for the Washington jurisdiction by Company Witness Ms. Andrews.

Power Supply Expense (Not Including Directly Assigned Potlatch Purchase)		
	<u>System</u>	<u>Washington Allocation</u>
Power Supply Expense in Current Base Rates (2008 pro forma)	\$176,705,000	
Actual 2007 Power Supply Expense	\$175,939,000	
Adjustment to Test Period	\$15,265,000	\$9,859,664
2009 Pro forma Power Supply Expense	\$191,204,000	

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4 **Q. What are the major factors driving the increased power supply expense?**

5 A. The primary factor increasing power supply expense is the cost of serving
6 additional retail load, thermal fuel costs and increased Mid Columbia purchased hydro generation
7 costs. Retail loads in the 2009 pro forma period are 27.3 aMW higher than 2007 weather
8 adjusted retail load. In addition to the cost of serving higher loads are increased purchased
9 power contract costs, particularly the Company's Mid Columbia purchases. The cost for the
10 Company's share of Wanapum and Priest Rapids is approximately \$3.1 million (Washington
11 allocation) higher in 2009 than in 2007. This is due to the very high load growth in Grant
12 County, which leaves less of the Priest Rapid's power value to the purchasers, and the expiration
13 of the Wanapum contract in November 2009. Thermal fuel expense for Colstrip and Kettle Falls
14 has also increased significantly, increasing by approximately \$4.1 million (Washington
15 allocation) from 2007 to 2009. The remaining change in power supply expense is comprised of
16 changes in transmission costs, natural gas fuel costs and wholesale revenues.

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1 **III. PRO FORMA POWER SUPPLY COSTS**

2 **Overview**

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

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

9 **Q. What is the basis for the adjustments to the 2007 test period power supply**
10 **revenues and expenses?**

11 A. The purpose of the adjustments to the 2007 test period is to normalize power
12 supply expenses for normal weather and hydroelectric generation and to reflect known and
13 measurable changes for the 2009 pro forma period that rates will be in effect. Power supply
14 expenses are based on 2009 pro forma period loads, which together with a Production Property
15 Adjustment (explained by Company witness Ms. Knox) results in a proper matching of pro forma
16 period revenues and expenses. Adjustments are also made to reflect contract changes from 2007
17 to 2009.

18 As in past rate cases, power supply expenses are based on normal weather and normal
19 stream flows. The AURORA_{XMP} Model dispatches Company resources on an hourly basis and
20 calculates the level of generation from the Company's thermal resources, fuel costs for thermal
21 resources, and the short-term purchases and sales necessary to serve system requirements under
22 normal weather and hydro generation levels.

1 **Q. Have any changes been made in the calculation of normal power supply costs**
2 **from the prior general rate case filed in 2007?**

3 A. No. The process to develop the pro forma net power supply expense in this case
4 is the same as in last year's general rate cases. Power supply adjustments have been prepared
5 using the same methods that have been used in last year's general rate cases.

6 A brief description of each adjustment is provided in Exhibit No.____ (WGJ-3).
7 Detailed workpapers have been provided to the Commission, and other parties, coincident to this
8 filing to support each of the pro forma revenues and expenses. The detailed workpapers for each
9 adjustment show the actual revenue or expense in 2007, and the pro forma revenue or expense
10 for 2009.

11 **Long-Term Contracts**

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

13 A. Long-term power contracts are included in the pro forma by including the energy
14 receipt or obligation associated with the contract in the AURORA_{xMP} model and including the
15 cost or revenue in the pro forma net power supply expense.

16 **Q. Are there any new power purchases or sales in the pro forma that were not**
17 **in place during the 2007 test year?**

18 A. Yes, there is one new long-term purchase.

19 **Q. Please describe this new power purchase.**

20 A. The Company has entered into a 10-year purchase agreement with Thompson
21 River Cogen, a cogeneration plant in Thompson Falls, Montana. The plant is expected to be on-
22 line sometime during early 2008 and produce approximately 11 average megawatts. The

1 purchase price of \$58.50 per MWh is very close to the forward power market prices for the 2009
2 pro forma period, so the contract has minimal impact on power supply expense.

3 **Short-Term Contracts**

4 **Q. Has the Company changed how short-term purchases and sales are**
5 **incorporated in the rate case?**

6 A. Yes. The Company is including actual short-term purchases and sales in the pro
7 forma. In past rate cases, the pro forma did not include any of the Company's actual short-term
8 transactions, as all short-term purchases and sales were based on the AURORA_{xMP} model.
9 However, in the Settlement of last year's rate case, Docket No. UE-070804, the Company agreed
10 to include, for settlement purposes, an adjustment based on the actual short-term electric and
11 natural gas fuel transactions the Company had entered into for the 2008 pro forma as of the time
12 of the Settlement. Including the actual short-term transactions in the pro forma in this case is
13 similar to what was included as part of the adjustments made in the Settlement of last year's
14 general rate case.

15 In last year's rate case the Settlement included an adjustment to power supply expense
16 based on a mark-to-model of the actual short-term electric and natural gas fuel transactions
17 entered into at the time of the Settlement. The mechanics of the adjustment was to compare the
18 cost of the actual transactions to the electric and natural gas prices in the AURORA_{xMP} model. If
19 the actual transactions lowered power supply expense (lower purchase costs or higher sales
20 revenue) as compared to the cost produced by the AURORA_{xMP} model, then the lower cost was
21 included in the pro forma expense. If the actual transactions increased power supply expense

1 (higher purchase costs or lower sales revenue) as compared to the cost produced by the
2 AURORA_{xMP} model, then the higher cost was included in the pro forma expense.

3 In last year's general rate case the mark-to-model adjustment increased natural gas fuel
4 expense because the actual gas purchases in the pro forma period (2008) were at a higher price
5 than the natural gas price included in the AURORA_{xMP} model. The adjustment for actual electric
6 transactions lowered power supply expense because the actual revenue from electric sales in the
7 pro forma period (2008) was greater than the revenue in the filed pro forma, which is based on
8 the electric prices in the AURORA_{xMP} model. Overall, the decreased expense from actual short-
9 term electric transactions was greater than the increased expense from actual short-term gas
10 transactions and power supply expense was decreased by \$458,953 as part of the Settlement.

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

12 A. Actual short-term electric transactions are included in the pro forma by including
13 them in the AURORA_{xMP} model in the same manner as long-term electronic transactions. Actual
14 short-term purchases are included in AURORA_{xMP} as a resource and the expense related to these
15 purchases are shown on line 2 of Exhibit No. ____ (WGJ-2). In order to show the expense and
16 revenues related to actual short-term transaction in the pro forma period, Exhibit No. ____
17 (WGJ-2) now includes two lines for short-term electric purchases, one for the modeled short-
18 term market purchases that occur at the prices produced by the AURORA_{xMP} model. The same is
19 true for electric sales. There is a line for modeled short-term market sales and another line for
20 actual short-term market sales.

21 Actual short-term natural gas transactions will not be included directly in the
22 AURORA_{xMP} model since gas price affects the dispatch of the Company's combustion turbines,

1 and actual gas purchases are a sunk cost that does not affect the dispatch of the plants. The
2 impact of actual natural gas purchases and sales will be done outside of the AURORA_{XM} model
3 and be included as an adjustment to total pro forma power supply expense.

4 **Q. What actual short-term contracts are included in the pro forma?**

5 A. The pro forma power supply expense includes two actual purchases made for
6 heavy load hours during Q1 of 2009 (January through March, 6 am through 10 pm, Monday
7 through Saturday, excluding NERC holidays). These two purchases are the only short-term
8 transactions the Company has entered into for the 2009 pro forma period as of December 31,
9 2007.

10 **Thermal Fuel Expense**

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

12 A. Thermal fuel expenses include Colstrip coal costs, Kettle Falls wood waste costs
13 and natural gas expense for the Company's gas-fired resources including Coyote Springs 2,
14 Rathdrum, Northeast, Boulder Park, and the Kettle Falls combustion turbine. Unit coal costs at
15 Colstrip are based on the long-term coal supply and transportation agreements. Unit wood fuel
16 costs at Kettle Falls are based on multiple shorter-term contracts with fuel suppliers and
17 inventory. Total fuel costs for each plant are based on the unit fuel cost and the plant's level of
18 generation as determined by the AURORA_{XM} model. Exhibit No. ____ (WGJ-4) shows the pro
19 forma fuel costs by month for each plant.

20 **Transmission Expense**

21 **Q. What are the differences in transmission expense in the 2009 pro forma**
22 **compared to the actual 2007 transmission expense?**

1 A. Transmission expense in the 2009 pro forma is approximately \$.5 million
2 (system) higher than the 2007 actual expense. The primary reason for this increase is that
3 beginning August 1, 2007 the Company began purchasing an additional 50 MW of transmission
4 for Coyote Springs 2 (CS2).

5 **Q. What is the difference in transmission for CS2 between the 2007 test year**
6 **and the 2009 pro forma period?**

7 A. Until August 1, 2007 the Company purchased 222 MW of firm point-to-point
8 (PTP) transmission from BPA and had a 125 MW exchange agreement to meet the remaining
9 transmission requirements for CS2. The exchange agreement expired at the end of 2007. To
10 meet the transmission requirements of CS2 the Company purchased an additional 50 MW of firm
11 PTP transmission from BPA, for a total of 272 MW of firm transmission for CS2. This results
12 in total PTP purchases of 468 MW (196 MW for Colstrip and 272 MW for CS2).

13 **Q. Are there any new transmission contracts?**

14 A. Yes, there is a new transmission expense, labeled Sagle-Northern Lights, for the
15 purchase of transmission from Northern Lights Utility to serve Avista customers in northern
16 Idaho. This transmission purchase began May 1, 2007. Purchasing transmission from Northern
17 Lights was less expensive than building what would have been a duplicative transmission line.

18 **Q. How do the transmission adjustments you sponsor relate to the direct**
19 **testimony of Company Witness Mr. Kinney, the Company's transmission witness?**

20 A. My transmission adjustments are for transmission expenses related to moving
21 generation to and from our generation resources and our system to serve our retail load.

22 Company witness Mr. Kinney sponsors testimony involving issues associated with transmission

1 planning, and transmission revenues derived from third-party use of Avista's transmission system
2 (transmission revenues are included in the ERM and noted in my testimony).

3 **IV. ERM CALCULATIONS**

4 **Q. What effect will this case have on the ERM?**

5 A. The only effect this case will have on the ERM is to update the authorized
6 expenses and revenues and the retail revenue credit. ERM entries will continue to be calculated
7 in the same manner as current calculations. The final order in this case will determine the new
8 authorized level of power supply expenses, transmission expense and revenues, and retail
9 revenue credit and retail load used in the ERM calculation.

10 **Q. What are the new base numbers proposed by the Company for the ERM?**

11 A. The proposed authorized level of annual power supply and net transmission
12 expense is \$181,083,474. This is the sum of Accounts 555 (Purchased Power), 501 (Thermal
13 Fuel), 547 (Fuel), 565 (Transmission) and broker fees less Account 447 (Sale for Resale) and
14 transmission revenue (Account 456.710). The proposed level of transmission revenue is
15 provided by Company witness Mr. Kinney.

16 The level of retail sales and the retail revenue credit will also be updated. The Company
17 has included a Production Property Adjustment in its revenue requirement together with 2009 pro
18 forma rate year loads. The authorized level of retail sales to be used in the ERM will be the 2009
19 rate period forecasted sales. The proposed retail revenue credit is \$46.38/MWh, compared to the
20 currently existing rate of \$41.92/MWh. The proposed authorized monthly power supply
21 expense, and transmission expense and revenue, and retail sales for ERM calculation purposes is
22 shown in Exhibit No. _____ (WGJ-5).

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

2 **A. Yes.**