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IDAHO PUBLIC  
UTILITIES COMMISSION

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**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE SUBMISSION OF )  
THE POWER COST ADJUSTMENT (PCA) )  
STATUS REPORT OF AVISTA CORPORATION )  
AND REQUEST FOR RECOVERY OF POWER )  
COSTS DEFERRED THROUGH JUNE 30, 2006 )

CASE NO. AVU-E-06-05

DIRECT TESTIMONY  
RICHARD L. STORRO

FOR AVISTA CORPORATION

1 **I. INTRODUCTION**

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

3 A. My name is Richard L. Storro. My business address is 1411 East Mission  
4 Avenue, Spokane, Washington, and I am employed by the Company as the Director of  
5 Power Supply.

6 **Q. What is your educational background?**

7 A. I participated in a program with the College of Idaho and the University of  
8 Idaho, where upon completion I received a Bachelor of Science degree in physics from  
9 the College of Idaho and a Bachelor of Science degree in electrical engineering from the  
10 University of Idaho, both in 1973.

11 **Q. How long have you been employed by the Company?**

12 A. I started working for Avista in 1973 as a distribution engineer. I have  
13 worked in various engineering positions, and have held management positions in line and  
14 gas operations, system operations, hydro production and construction, and transmission. I  
15 joined the Energy Resources Department as a Power Marketer in 1997 and became  
16 Director of Power Supply in 2001. My primary responsibilities involve the oversight of  
17 both the short-term and long-term planning and acquisition of power supply resources for  
18 the Company.

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

20 A. My testimony will provide a brief summary of the factors driving power  
21 supply expenses during the review period, July 2005 through June 2006. I will discuss  
22 the outlook for power costs during the second half of 2006 and why the surcharge should

1 remain in place because of anticipated surcharge deferrals. I also describe the supporting  
2 documentation that is provided in electronic format.

## 3 **II. SUMMARY OF DEFERRALS**

4 **Q. Would you please summarize power supply expenses during the July**  
5 **2005 through June 2006 review period?**

6 A. Yes. Power supply expenses were remarkably close to the authorized  
7 level. During the review period, Idaho's share of power supply expenses exceeded the  
8 authorized level by only \$2,266 (not including Potlatch generation and revenue variance  
9 of \$100,355 in the rebate direction). This variance in expense is only .01% above the  
10 authorized level of \$22,627,747 (Idaho allocation of system power supply expense). Of  
11 that total, the Company absorbed \$226 or 10 percent of the additional power costs subject  
12 to the 90%/10% sharing.<sup>1</sup> This resulted in a net deferral of \$2,038 in the surcharge  
13 direction. Adding the Potlatch related deferral of \$100,355 in the rebate direction results  
14 in a net deferral for the period of \$98,317 in the rebate direction.

15 During the twelve month period ended June 30, 2006, on a net basis, there was  
16 virtually no variance from the authorized level. In general terms, the pattern of expense  
17 was higher than the authorized level in the second half of 2005, particularly December  
18 2005 when very cold weather increased loads at a time of high prices, and lower than the  
19 authorized level during the first half of 2006 when the Company experienced favorable  
20 hydro conditions.

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<sup>1</sup> The Potlatch power purchase and revenue associated with the purchase is tracked at 100% in the PCA per Idaho Public Utilities Commission Order No. 29418 dated January 15, 2004. The 10% portion absorbed by Avista is based on the portion of the PCA deferrals that are shared 90%/10% which was \$2,266 during the review period.

1 Over the entire July 2005 through June 2006 period hydro generation was  
2 approximately only 4 aMW above the authorized level. Another factor to note is the  
3 retail revenue credit of approximately \$9.3 million almost completely offsets the increase  
4 of power supply expense, i.e. the revenue included in the PCA from the growth in retail  
5 load offsets the majority of the increase in power costs.

6 **Q. What new long-term contracts did the Company enter into during the**  
7 **July 2005 through June 2006 review period?**

8 A. The Company entered into two new long-term contracts during the review  
9 period. In November 2005, the Company entered into a two-year load-following sale to  
10 Northwestern Energy. This contract provides dynamic capacity to Northwestern Energy  
11 for load following and regulation. Also in November 2005, the Company made an  
12 exchange capacity purchase for calendar year 2006. These contracts have confidential  
13 terms and have been previously provided to IPUC Staff.

14 **III. SURCHARGE EXTENSION AT CURRENT LEVEL**

15 **Q. Please explain why the Company is requesting that the surcharge be**  
16 **continued at its current level.**

17 A. Actual power costs were below the authorized level in the first half of this  
18 year, but it is very unlikely that this will continue. The Company anticipates that power  
19 cost deferrals for the second half of 2006 will total approximately \$9.7 million in the  
20 surcharge direction. This is based on an actual July 2006 deferral of \$2,032,949 and  
21 projected deferrals of \$7,628,423 for the months of August through December 2006. In  
22 all likelihood, the deferral balance by the end of August (Augusts' projected deferral is

1 approximately \$2.5 million) will be higher than the annual surcharge revenue of  
2 approximately \$4.3 million.

3 Based on these projections, the deferral balance at the end of the year (not  
4 including interest) will be approximately \$8.7 million in the surcharge direction (\$1.5  
5 million as of June plus \$9.7 million deferrals July through December less \$2.5 million  
6 surcharge revenue). Because the deferral balance is expected to grow over the remainder  
7 of the year and exceed the annual level of surcharge revenue, the Company is requesting  
8 that the surcharge remain in place at the current level. Exhibit No. \_\_\_\_ (RSS-1) shows  
9 the projected power cost deferrals for the months of August through December 2006.

10 **Q. What is causing these surcharge power cost deferrals during the**  
11 **second half of 2006?**

12 A. There are a variety of reasons that anticipated power costs are higher than  
13 the authorized costs in the second half of this year. The first reason is a reduction in  
14 hydro generation. While the Company experienced favorable hydro conditions during the  
15 first half of 2006, the dry summer weather has reduced the hydro generation expectations  
16 for the remainder of the year. The Company projects that hydro generation will be 38  
17 aMW below the authorized level for the period July through December 2006. Also,  
18 natural gas prices are higher than the authorized level and the second half of the year is  
19 when Avista relies more on its gas-fired generation to serve retail loads. The anticipated  
20 natural gas cost to fuel Coyote Spring 2 for the second half of 2006 is \$7.90 per  
21 decatherm, compared to an authorized natural gas cost for Coyote Springs 2 of \$4.51 per  
22 decatherm.

1 **IV. SUPPORTING DOCUMENTATION**

2 **Q. Please provide a brief overview of the documentation provided by the**  
3 **Company in this filing.**

4 A. The Company maintains a number of documents that record relevant  
5 factors considered at the time of a transaction. The following is a list of current  
6 documents that are maintained. Unless noted these documents have been provided on a  
7 compact disk as part of this filing. Other documents will be provided on request:

8 Gas/Electric Transaction Record: These documents record the key details of the  
9 price, term and conditions of a transaction and include a discussion of market  
10 conditions at the time of the transaction, the reason for the transaction, and  
11 pertinent transmission or other delivery issues. The Company has provided  
12 worksheets summarizing electric and natural gas transactions during the period.  
13 Additional documentation will be provided on request.

14 Position Reports: These daily reports provide a summary of monthly loads and  
15 resources over an 18-month forward period. Also included are forward  
16 hydroelectric generation estimates as well as critical water generation variability.  
17 Fixed price natural gas quantities are also shown assigned to the most economic  
18 available generation plant.

19 Long-Term Physical Electric Load & Resource Tabulation: For transactions with  
20 deliveries extending greater than the 18-month period covered by the Position  
21 Report, the Company includes this document to show the net system position

1 during the extended period. This document also shows variability associated with  
2 an 80% confidence interval around the combined variability of hydroelectric  
3 generation and variability of load.

4 Forward Market Electric and Natural Gas Price Curves: This daily data is  
5 maintained in Nucleus, the Company's electronic energy transaction database  
6 record system.

7 Electric/Gas – Heat Rate Transaction Worksheet: For each natural gas transaction  
8 a worksheet is prepared which summarizes the economics of the transaction using  
9 the forward electric and natural gas prices available in the market at the time of  
10 the transaction, the most economic available generator, and the resultant cost to  
11 generate electric power (these worksheets will be provided on request for specific  
12 electric or gas transactions).

13 Price Quote Worksheet: Provides a record of the natural gas purchase or sales  
14 prices available from several parties in the market at the time of a particular gas  
15 transaction. This record includes price information at specific points of delivery  
16 (part of Gas/Electric Transaction Records that will be provided on request for  
17 specific transactions).

18 Credit Report: Lists those counterparties with which the Company is allowed to  
19 enter into either purchase or sales transactions as determined by credit criteria set  
20 by the Company. This report may also provide information on other parties'

1 credit limits placed upon their own transactions with the Company (not provided,  
2 but available on request).

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

4 A. Yes.



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17 **BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**  
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19 IN THE MATTER OF THE SUBMISSION OF THE ) CASE NO. AVU-E-06-05  
20 POWER COST ADJUSTMENT (PCA) STATUS )  
21 REPORT OF AVISTA CORPORATION AND ) EXHIBIT NO. \_\_\_\_ (RLS-1)  
22 REQUEST FOR RECOVERY OF POWER COSTS )  
23 DEFERRED THROUGH JUNE 30, 2006 ) RICHARD L. STORRO  
24

25 FOR AVISTA CORPORATION  
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**Avista Corp.  
Estimated Power Cost Adjustment Deferrals - Idaho**

Exhibit No. \_\_\_\_ (RLS-1)

IDAHO 2006 BUDGET	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06
555 Purchased Power	\$46,186,358											
501 Thermal Fuel	\$10,142,731											
547 CT Fuel	\$53,148,723											
447 Sale for Resale	\$14,372,665											
Budget Net Expense	\$95,105,147											
CREDIT CS2 1/2 Exchange	\$ (133,105)											
ADJUSTED BUDGET NET EXPENSE	\$94,972,042											
<b>AUTHORIZED NET EXPENSE - SYSTEM</b>												
555 Purchased Power	\$25,639,596											
Potlatch generation purchase	\$9,652,965											
501 Thermal Fuel	\$8,172,651											
547 CT Fuel	\$31,450,267											
447 Sale for Resale	\$21,860,655											
Authorized Net Expense	\$53,054,824											
Budget - Authorized Net Expense	\$41,917,218											
FIXED GAS 557/456	\$0											
Idaho Allocation @ 34.41%	\$14,423,715											
<b>ID Retail Revenue Adjustment</b>	<b>-\$5,947,691</b>											
Net Power Cost Increase (Decrease)	\$8,476,024											
90% of Net Power Cost Change	\$7,628,423											
Total Power Cost Deferral	\$7,628,423											

  

	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06
	\$10,044,655	\$7,283,227	\$10,896,509	\$8,321,508	\$9,640,459							
	\$2,167,180	\$2,084,182	\$2,022,647	\$1,923,135	\$1,945,587							
	\$9,697,585	\$9,538,859	\$10,425,394	\$10,875,612	\$12,611,273							
	\$1,842,502	\$1,882,809	\$2,369,503	\$5,378,355	\$2,899,496							
	\$20,066,918	\$17,023,459	\$20,975,047	\$15,741,900	\$21,297,823							
	\$ 48,479	\$ (45,396)	\$ (45,396)	\$ (45,396)	\$ (45,396)							
	\$20,115,397	\$16,978,063	\$20,929,651	\$15,696,504	\$21,252,427							
	\$4,365,333	\$4,024,804	\$4,869,590	\$6,155,525	\$6,224,344							
	\$1,796,588	\$1,888,265	\$2,084,152	\$1,874,188	\$2,009,772							
	\$1,732,277	\$1,611,812	\$1,645,784	\$1,557,673	\$1,625,105							
	\$6,190,000	\$6,169,897	\$6,313,858	\$6,146,188	\$6,630,324							
	\$4,648,264	\$2,738,254	\$2,760,330	\$5,124,923	\$6,588,884							
	\$9,435,934	\$10,956,524	\$12,153,054	\$10,608,651	\$9,900,661							
	\$10,679,463	\$6,021,539	\$8,776,597	\$5,087,853	\$11,351,766							
	\$0	\$0	\$0	\$0	\$0							
	\$3,674,803	\$2,072,012	\$3,020,027	\$1,750,730	\$3,906,143							
	-\$927,023	-\$904,790	-\$844,402	-\$1,498,137	-\$1,773,339							
	\$2,747,780	\$1,167,222	\$2,175,625	\$252,593	\$2,132,804							
	\$2,473,002	\$1,050,500	\$1,958,063	\$227,334	\$1,919,524							
	\$2,473,002	\$1,050,500	\$1,958,063	\$227,334	\$1,919,524							