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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR THE AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC AND NATURAL GAS SERVICE TO ELECTRIC AND NATURAL GAS CUSTOMERS IN THE STATE OF IDAHO	CASE NO. AVU-E-15-05 DIRECT TESTIMONY OF WILLIAM G. JOHNSON

FOR AVISTA CORPORATION

(ELECTRIC ONLY)

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 (2016 and

2017) to the January 2014 through December 2014 test period power supply revenues and expenses, and 2) describe the proposed level of expense and load change adjustment rate (LCAR) for Power Cost Adjustment (PCA) 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 6, Schedules 1 through 4, which were prepared under my supervision and direction. Schedule 1, pages 1-4, identifies the power supply expense and revenue items that fall within the scope of my testimony for both 2016 and 2017. A brief description of each adjustment is provided in Schedule 2, and Schedule 3 shows the pro forma fuel costs for each thermal plant and short-term purchases and sales by month for both 2016 and 2017. The proposed authorized PCA power supply expense and revenue, transmission expense and revenue, and retail sales are shown in Schedule 4 for both 2016 and 2017.

Q. Are there 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 POWER SUPPLY ADJUSTMENT

Q. Please provide an overview of the pro forma power supply adjustment.

A. The pro forma power supply adjustment 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 rate periods (calendar years 2016 and 2017) under normal weather and hydro generation conditions. In addition, adjustments are made to reflect contract changes between the historical test period and the pro forma periods. Table No. 1 below shows total net power supply expense during the test period and the pro forma periods. For information purposes only, the power supply expense[1] currently in base retail rates, which is based on a calendar 2013 pro forma period, is also shown.

[1] For the remainder of my testimony, for purposes of the power supply adjustment I will refer to the net of power supply revenues and expenses as power supply expense for ease of reference.

Table No. 1:

Power Supply Expense		
	System	Idaho Allocation
Power Supply Expense in Current Rates (2013 pro forma)	$170,175,000	$59,237,918
Actual 2014 Power Supply Expense	$178,351,000	$62,083,983
Proposed 2016 Pro forma Power Supply Expense	$162,648,000	$56,617,769
Proposed 2017 Pro forma Power Supply Expense	$187,516,000	$65,274,320
Proposed 2016 vs 2014 Test Period	-$15,703,000	-$5,466,214
Proposed 2017 vs 2014 Test Period	$9,165,000	$3,190,337
Proposed 2016 vs Current Rates	-$7,527,000	-$2,620,149
Proposed 2017 vs Current Rates	$17,341,000	$6,036,402
Proposed 2017 vs Proposed 2016	$24,868,000	$8,656,551

The net effect of my adjustments to the test year power supply expense for 2016 is a decrease of $15,703,000 ($162,648,000 - $178,351,000) on a system basis and $5,466,214 Idaho allocation. The proposed 2016 pro forma power supply expense is $2,620,149 (Idaho share) less than the amount currently in base rates.

The proposed level of power supply expense in 2017 is $8,656,551 (Idaho share) higher than the proposed 2016 level. Over half of this increase in 2017 is related to the expiration of a capacity sales agreement, which I will explain later in my testimony.

III. PRO FORMA POWER SUPPLY ADJUSTMENTS

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

A. Schedule 1 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. Are there any changes in how the pro forma in this case was developed versus the authorized power supply expense currently in base rates?

A. No. The process to develop the pro forma net power supply expense in this case is the same as the process used to develop authorized power supply expense in current base rates. This case is different in that two pro forma periods are included in my testimony, 2016 and 2017.

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 normal hydroelectric generation and to reflect

current forward natural gas prices and other known and measurable changes for the pro forma periods.

The AURORA Model, as explained by Mr. Kalich, dispatches Company resources using the current forward wholesale market prices 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 balance system requirements and resources.

A brief description of each adjustment is provided in Schedule 2. Detailed workpapers have been provided to the Commission with 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 2016 and 2017 pro forma revenues and expenses.

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 long-term power purchases or sales in the pro forma that are not in the current base rates?

A. Yes. The pro formas in this case include the Palouse Wind purchase. Currently, the Palouse Wind purchase is recovered through the PCA. The Rocky Reach/Rock Island purchase is included in the pro formas as a 5 percent share. Current base rates include a 3 percent share of Rocky Reach/Rock Island.

On the revenue side, the 2016 pro forma includes the full revenue from the Portland General Electric capacity sale. Current bases rates only include approximately 10 percent of the revenue. In 1998 Avista monetized the majority of the revenue from the Portland General Electric capacity sale. The monetization loan was paid off in January 2015 and the full revenue from the contract returned to the Company beginning January 2015. The revenue from the sale increased by $17,527,000 from the amount in current base rates on a system basis. This is the largest driver decreasing power supply expense from the 2014 test-year to the 2016 pro forma.

The Portland General Electric capacity sale ends December 31, 2016 so there is no revenue from this contract in 2017. This is the largest driver increasing

power supply expense from 2016 to 2017, by approximately $14.5 million system ($5.1 million ID share).

Q. Are there any long-term power purchases or sales that are in current base rates but not in this pro forma?

A. Yes. The SMUD energy/REC sale ended December 31, 2014. The Company has a new energy/REC sale into California that partially replaces the lost SMUD REC revenue.

Short-Term Power Purchases and Sales

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

A. After including the actual physical forward long-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 prices of short-term purchases and sales that balance the system's generation and long-term purchases with retail load and other obligations. The price of the short-term transactions represents the price of spot market power as determined by the AURORA model. Actual short-term transactions are not included in the pro formas.

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.

Schedule 3 shows the pro forma fuel costs by month for each plant. Mr. Kalich provides details and supporting workpapers regarding the level of generation for the Company's thermal plants, and the fuel cost for thermal and natural gas-fired plants.

Transmission Expense

Q. What changes in transmission expense are in the pro formas compared to the test-year and the expense in current base rates?

A. The biggest change from the test-year is the reduction in transmission purchased for the Lancaster plant. Through August 2014 the Company purchased 250 MW of BPA point-to-point transmission to move Lancaster Generation to the Company's system. On December 13, 2013, the Lancaster substation became a point of interconnection to Avista's transmission system, eliminating the need for BPA transmission for Lancaster. Avista's Lancaster transmission contracts with BPA allowed for the termination of 150 MW of the 250 MW of transmission with a two-year notice. The termination notice was given to BPA on August 31, 2012, and the contract ended August 31, 2014.

Summary

Q. Please summarize your proposed pro forma power supply expense that is provided to Company witness Ms. Andrews for the Company's electric revenue requirement.

A. The proposed pro forma power supply expense for 2016 is a $15,703,000 decrease in expense on a system basis and $5,466,214 for the Idaho allocation from the 2014 test-year expense.

The proposed level of power supply expense in 2017 is $8,656,551 higher than the proposed 2016 level for the Idaho allocation.

IV. PCA AUTHORIZED VALUES

Q. What is Avista's proposed authorized power supply expense and revenue for the PCA?

A. The proposed authorized level of annual system power supply expense is $147,385,486 for 2016. This is the sum of Accounts 555 (Purchased Power), 501 (Thermal Fuel), 547 (Fuel), less Account 447 (Sale for Resale). It also includes transmission expense and transmission revenue. For 2017 the proposed authorized level is $172,253,413 on a system basis.

Q. What is the level of retail sales and the proposed LCAR for the PCA?

A. The proposed authorized level of retail sales to be used in the PCA is the 2014 weather adjusted Idaho retail sales. The proposed LCAR is $23.99/MWh for 2016 and $25.99/MWh for 2017, which is the energy classified portion of the production/transmission costs.

The proposed authorized PCA power supply expense and revenue, transmission expense and revenue, and retail sales are shown in Schedule 4.

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

A. Yes.