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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-04-01 DIRECT TESTIMONY OF RICHARD L. STORRO

FOR AVISTA CORPORATION

(ELECTRIC ONLY)

I. INTRODUCTION

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

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

Q. What is your educational background?

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

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

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

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

A. My testimony will provide an overview of Avista's resource planning and power operations. I will provide an update on the Company's Cabinet Unit #2 upgrade, a status report on the Company's license commitments at the Clark Fork River hydroelectric projects, and also on the current re-licensing effort for the Spokane River hydroelectric projects.

Finally, my testimony will address the Company's Risk Management Policy and some general comments regarding power supply resource management in relation to the Commission's order in Case No. AVU-E-03-6.

A table of contents for my testimony is as follows:

I am sponsoring Exhibit No. 5 and the schedules listed in the following table for identification, which were prepared under my direction:

Exhibit No. 5

Schedule #	*Description*
1	Resource Planning & Operations
2	Photo – Cabinet Gorge Hydroelectric Project
3	Energy Resources Risk Policy *(Confidential)*

II. AVISTA'S RESOURCE PLANNING AND POWER OPERATIONS

Q. Would you please provide a brief overview of Avista's resource planning and power supply operations?

A. Yes. The Company uses a combination of owned, leased and contracted resources to serve its retail and wholesale load requirements. Dispatch decisions related to these resources are made within the Energy Resources Department of Avista Utilities. The Department conducts studies on a regular basis to determine the need for capacity and energy resources on a short-term, medium-term and long-term basis. The Company enters into

short-term and medium-term wholesale sales and purchases transactions to balance its resources with load requirements. Longer-term resource decisions related to building new resources, upgrades to existing resources, demand-side management (DSM) and long-term contract purchases are generally made in conjunction with the Company's Integrated Resource Plan (IRP) and RFP processes. The Company, however, also acquires resources outside of an RFP process. Schedule No. 1 of Exhibit No. 5 provides additional details related to Avista's resource planning and power operations, as well as a tabulation of its projected loads and resources for the next twenty years.

Q. Has the load forecast included in pages 8 and 9 of Schedule No. 1 been updated as compared to that recently filed in the Company's 2003 Integrated Resource Plan (IRP) in Case No. AVU-E-03-02?

A. Yes. Avista prepared a new load forecast in fall of 2003 for the years 2005-2014. In general, retail load projections have been reduced somewhat from those included in the 2003 IRP. However, the Potlatch Lewiston plant load has been separated from their generation sale amount. The Potlatch load had been included in the 2003 IRP load figures net of Potlatch's generation. The effect of this change is an increase in load above the level in the 2003 IRP.

Q. Has the Company's forecast of available resources been updated as compared to that recently filed in the 2003 IRP?

A. There has been no substantial change to the forecast of available resources. The purchase of Potlatch generation, however, is now included in the Company's list of resources.

Q. Please summarize the future net load and resource position for the Company.

A. The Company remains in a nearly balanced energy position for 2005 through 2007 on an average annual basis. However, there are monthly and quarterly deficits and surpluses within the years even though the annual averages are close to balanced. In general terms, the Company's annual net resource energy position becomes deficient in 2008 and beyond. The average energy resource deficiency is 22 aMW in 2008 and increases to 333 aMW in 2014. The Company's capacity position is either surplus or nearly balanced through 2007. The capacity deficiency is 33 MW in 2008 and increases to 481 MW in 2014.

Q. How will the Company plan to meet the future needs for resources beginning in 2008?

A. The Company plans to continue to pursue the preferred resource strategy laid out in its recent 2003 IRP. The Company would expect to evaluate a mix of options including medium-term market purchases in heavy load hour and light load hour time-blocks, generation ownership options, renewable resource options, demand-side resource options, and generation lease options or tolling[1] options. As stated earlier, longer-term resource decisions related to building new resources, upgrades to existing resources, demand-side management (DSM) and long-term contract purchases are generally made in conjunction with the Company's IRP and RFP processes. As determined in the 2003 IRP, the Company's

[1] "Tolling" is an energy conversion service whereby a provider takes customer supplied natural gas and converts it to an amount of electric energy which is delivered to the customer as determined by a defined conversion ratio. The conversion ratio can be tied to the heat rate and variable operating costs of a generating plant. The fixed cost of the plant can be covered in fixed fees charged by the tolling service provider. Tolling service may be contingent on the operation of a specific generation plant.

preferred resource strategy includes a mix of combined cycle combustion turbine, wind, coal-fired, and simple cycle natural gas combustion turbine generation. The Company, however, is not precluded from acquiring resources outside of an RFP process.

The Company is currently in the process of concluding an RFP process for the addition of a long-term renewable wind resource to its resource mix. The Company has entered into a letter of intent agreement for 25-35 MW of wind generation capability. The average annual energy is estimated to be 8-10 aMW. The Company is hopeful that an agreement will be signed by March 31, 2004

III. HYDROELECTRIC PROJECTS UPDATE

Q. Could you provide an update on generation upgrades on the Clark Fork River hydroelectric generation projects?

A. Yes. The Company is in the process of upgrading the Cabinet Gorge Project Unit #2. This approximately $6.6 million capital project consists of removing the original 1952 propeller runner and replacing it with a modern design mixed-flow runner. Estimated increases in capacity of up to 17 MW and energy of approximately 3 aMW are expected due to the increased efficiencies and water flow from the new design. The Company expects the project to be completed in March 2004. Mr. Falkner has included the costs associated with the upgrade in his revenue requirement calculations, and Mr. Johnson has included the benefits from the upgrade in his power supply adjustments.

The Company completed a similar upgrade project in 2001 for the Cabinet Gorge Project Unit #3. The capacity of the unit was increased from 55 MW up to 72 MW and an

estimated 4.5 aMW of additional energy can be produced as a result of the increased efficiency.

The Company is continuing to look for opportunities for additional efficiency upgrades, in conjunction with other maintenance work, on unit #4 at Cabinet and units #1 and #3 at Noxon.

Q. Could you provide an update regarding work being done under the existing FERC operating license for the Company's Clark Fork River generation projects?

A. Yes. The Clark Fork Settlement Agreement, signed in February 1999, was subsequently incorporated into the 45-year FERC operating license for the Company's Cabinet and Noxon hydroelectric generating facilities issued on February 23, 2000. Although the new license became effective on March 1, 2001, implementation efforts under the Agreement were already well underway at that time. With just over five years of implementation efforts complete, the Clark Fork Project has made significant progress toward meeting the goals, terms, and conditions of the Protection, Mitigation and Enhancement (PM&E) measures. Specifically, the purchase of more than 1100 acres of important bull trout, wetland, and associated upland habitat, will ensure protection of these crucial resources. The fish passage program has reestablished bull trout connectivity between Lake Pend Oreille and the Clark Fork River tributaries above Cabinet Gorge Dam. Over the last four years, Avista has developed two experimental fish passage facilities, and has already radio tagged and safely transported a total of 105 adult bull trout above Cabinet Gorge Dam. Once the fish are transported, implementation staff monitor their movement and spawning

efforts. Juvenile bull trout on their downstream migration are collected in tributary streams and transported to the Clark Fork River downstream of Cabinet Gorge Dam. Recreation facility improvements have been made to 19 different sites along the reservoirs. These upgrades range from improved access, new signage and addition of interpretation and education material, to the total redesign and reconstruction of 9 sites. Finally, tribal members continue to monitor known cultural and historic resources located within the project boundary, to ensure that these sites are appropriately protected.

When the new Clark Fork license was received, the high levels of total dissolved gas occurring during spill periods at Cabinet Gorge Dam was an issue that remained unresolved. A plan to mitigate the high total gas levels has been developed with stakeholders including the Idaho Department of Environmental Quality. The plan calls for the modification of an existing diversion tunnel with engineering studies to commence in 2004. The tunnel modification would be completed by 2010 at an estimated cost of $37 million (including AFUDC and inflation). If needed, the modification of a second tunnel would occur within 10 years of completion of the first tunnel at an estimated cost of $23 million (including AFUDC and inflation). The second tunnel would be constructed only after an analysis of the performance of the first tunnel and an evaluation of the environmental benefits. A photograph of the Cabinet Gorge project and the existing tunnels is provided as Schedule No. 2.

The Company has not proposed an increase in rates in this filing related to these expected costs. The Company plans to defer the costs and address recovery of them in a future rate filing.

Q. Would you please give an update on the status of your efforts to relicense the Spokane River Hydroelectric Project?

A. Yes. The Company is in the process of preparing to relicense five hydroelectric generation projects located on the Spokane River. These projects, which are all under one FERC license, include Long Lake, Nine Mile, Upper Falls, Monroe Street, and Post Falls. The projects have a total generating capacity of 156 MW, and average annual energy production of approximately 105 aMW. Our current license for these Spokane River projects expires in July 2007, creating a deadline in July 2005 for filing a new application. We are developing that application using FERC's alternative licensing procedures. Since 2001, we have been working with numerous stakeholders to understand and resolve issues related to the Spokane River Project. That consultation has occurred within five technical work groups and a lead, or plenary group. The first full season of field studies were completed in 2003, and we are currently reviewing those results. Stakeholders are also beginning to work on proposals for PM&E measures. Our goal is similar to what was accomplished on the Clark Fork Project: a comprehensive settlement agreement defining the terms and conditions of a new license based on a consensus of local, state and federal agencies, tribes, and local citizens. We plan to have a draft license application completed at the end of 2004.

The Company has not proposed an increase in rates in this filing related to these expected costs. The Company plans to defer the costs and address recovery of them in a future rate filing.

IV. RISK POLICY AND RESOURCE MANAGEMENT

Q. Could you please describe the purpose of the Company's Energy Resources Risk Policy?

A. Yes. Avista Utilities uses a variety of techniques to manage its business risks. The Risk Policy is one risk management tool. The overall purpose of the Risk Policy is to provide general guidance to the Energy Resources workgroup with regard to the management of the company's energy risk exposure, as it relates to electric power or natural gas resources.

The management of volumetric limits for the imbalance between projected loads and resources for an 18-month forward period is part of the Risk Policy guidance. The Risk Policy also provides structure for the appropriate management approvals for longer-term transactions depending on the term and time of delivery into the future. The Company's Risk Policy is included as Confidential Schedule No. 3 of Exhibit No. 5.

The purpose of the Risk Policy is not to develop a specific procurement strategy for buying or selling power or natural gas fuel for generation at any particular time. Rather, several factors, including the variability associated with loads, hydroelectric generation, and electric power and natural gas prices, are considered in the decision-making process with regard to procurement of electric power and natural gas fuel for generation, consistent with the Risk Policy. Those factors, and more specifically how they are taken into account with respect to certain natural gas price hedges deferred to this case in the Commission's order on the Company's PCA filing in Case No. AVU-E-03-6, are discussed in more detail in Witness Lafferty's direct testimony.

Q. The Commission, in the Company's recent PCA order, indicated that the Company should present an acceptable risk management protocol for long-term sales or purchases as part its PCA deferred case in its general rate case filing. Please describe how the Company has addressed this issue.

A. The Company believes that the questions posed by the Commission and Staff in the PCA case are more closely associated with resource procurement strategies rather than risk management, per se. The Company believes that the information provided as part of this general rate case, primarily in Mr. Lafferty's testimony, will serve to answer the questions associated with the Company's resource procurement strategies and more specifically those questions associated with medium-term natural gas hedges that were deferred from the PCA case. The Company and Staff expect to have follow-up discussions following this general rate case regarding resource procurement strategies and risk management, in general.

Q. What is the scope of testimony of other Energy Resources witnesses?

A. Mr. Robert Lafferty will provide testimony concerning the prudence of the Coyote Springs 2, Boulder Park and the Kettle Falls Combustion Turbine resource acquisitions. Mr. Lafferty will also provide testimony addressing the issues deferred from the Company's PCA case regarding the prudence of medium-term natural gas hedge transactions. Mr. William Johnson will provide testimony regarding power supply pro-forma adjustments. Mr. Clint Kalich will provide testimony regarding the Aurora power supply model, inputs and assumptions.

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

A. Yes it does.