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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION) CASE NO. AVU-G-12-07
OF AVISTA CORPORATION FOR THE)
AUTHORITY TO INCREASE ITS RATES)
AND CHARGES FOR ELECTRIC AND)
NATURAL GAS SERVICE TO ELECTRIC) DIRECT TESTIMONY
AND NATURAL GAS CUSTOMERS IN THE) OF
STATE OF IDAHO) STEPHEN A. HARPER
_____)

FOR AVISTA CORPORATION

(NATURAL GAS ONLY)

1 **Q. Please state your name, business address, and**
2 **present position with Avista Corp.**

3 A. My name is Stephen Harper and I am employed as
4 Director of Gas Supply for Avista Utilities (Avista or
5 Company). My business address is at 1411 East Mission
6 Avenue, Spokane, Washington.

7 **Q. Would you please describe your education and**
8 **business experience?**

9 A. Yes. I graduated from the University of
10 Washington with a Bachelor of Science Degree in Mathematics.
11 I joined the Company in 2008 as the Senior Manager of
12 Natural Gas Acquisition. In 2012, I was appointed the
13 Director of Gas Supply. Prior to joining Avista, I was a
14 Principle with Evergreen Energy Company, LLC, a Spokane
15 based commodity hedge fund, from 2006 to 2008. From 1999 to
16 2006 I was employed as Manager of Asset Optimization with
17 Avista Energy. From 1991 to 1999, I was Manager of Gas
18 Supply with Puget Sound Energy (formally Washington Natural
19 Gas Company). From 1990 to 1991 I was employed by Williams
20 Energy Company as a Regional Marketing Representative in
21 their Western Region. From 1981 to 1990 I held several
22 positions with Washington Natural Gas.

23 **Q. Mr. Harper, what is the purpose of your testimony**
24 **in this proceeding?**

1 A. The purpose of my testimony is to describe
2 Avista's natural gas resource planning process, and provide
3 an update on the Company's 2012 Natural Gas Integrated
4 Resource Plan.

5 **Q. Are you sponsoring exhibits in this proceeding?**

6 A. Yes. I am sponsoring Exhibit 7, Schedule 1 which
7 is a copy of the Company's 2012 Natural Gas Integrated
8 Resource Plan.

9 **Q. Is the Company proposing any changes to the cost
10 of natural gas for its retail natural gas customers in this
11 case?**

12 A. No, Avista is not proposing changes in this filing
13 related to the cost of natural gas included in current rates
14 for natural gas customers, as changes in natural gas costs
15 are addressed in the annual PGA filings. My testimony is
16 primarily for informational purposes, related to our natural
17 gas resource planning activity.

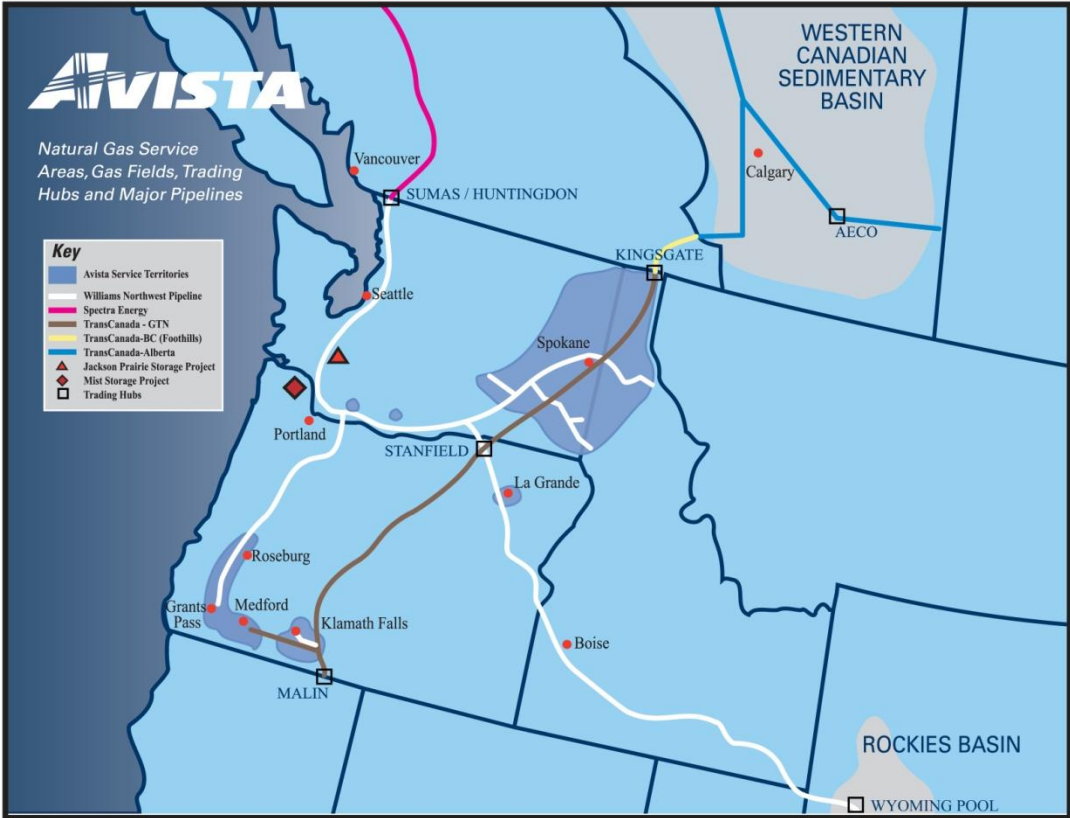
18 **Procurement Planning**

19 **Q. Please describe Avista's natural gas portfolio as
20 it relates to the procurement of natural gas for LDC
21 customers?**

22 A. Avista purchases natural gas for its distribution
23 customers in wholesale markets at multiple supply basins in
24 the western United States and western Canada. Purchased

1 natural gas can be transported through six connected
2 pipelines on which Avista holds firm contractual
3 transportation rights. These contracts provide access to
4 both US and Canadian sourced supply. The US-sourced gas
5 represents 20% of the contractual rights and provides
6 transportation from the Rocky Mountains. The remaining 80%
7 provides access to Alberta and British Columbia supply
8 basins. This diverse portfolio of natural gas resources
9 allows the Company to make natural gas procurement decisions
10 based on the reliability and economics that provide the most
11 benefit to our customers. As natural gas prices in the
12 Pacific Northwest can be affected by global energy markets,
13 as well as supply and demand factors in other regions of the
14 United States and Canada, future prices and delivery
15 constraints may cause the source mix to vary. Below is a
16 map showing our service territory, natural gas trading hubs,
17 interstate pipelines, and natural gas storage facilities:
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While Avista believes it cannot accurately predict future natural gas prices; market conditions, information, analysis, and experience shape our overall procurement approach. The Company's goal is to provide reliable supply at competitive prices in volatile commodity markets. To that end, the Company utilizes a Procurement Plan which includes hedging (on both a short term and long term basis), storage utilization, and index purchases. This approach is diversified by time, component, counterparty, and supply basin. The Procurement Plan is disciplined, yet flexible, and layers in fixed-price purchases to reduce price

1 volatility to customers. A copy of the Company's Natural
2 Gas Procurement Plan is included as an exhibit in Avista's
3 Energy Resources Risk Policy (see Exhibit No. 4,
4 Confidential Schedule 3C, sponsored by Company Witness Mr.
5 Lafferty).

6 The Procurement Plan provides a process that fixes
7 prices for a designated portion of the portfolio through the
8 use of hedge windows. The hedge windows are "open" for a
9 predetermined time period and have upper and lower pricing
10 levels which are set by the market at the time the window
11 becomes effective. In a rising market, this reduces
12 exposure to extreme price spikes. In a declining market, it
13 can facilitate locking in lower prices. These windows can
14 be executed, or "closed" if certain pricing levels are met,
15 or upon time expiration if no pricing events occur. The
16 Company always maintains some level of discretion and may
17 choose not to execute within a window or to change some
18 aspect of a window given market conditions.

19 In addition, a portion of the portfolio that is
20 separate from the defined hedge windows is designated as
21 discretionary. This opportunistic portion of the portfolio
22 allows the Company to hedge additional volumes in gas years
23 beyond the prompt year at potentially favorable pricing
24 levels. In the event those pricing levels are not reached,

1 the unexecuted volumes designated as discretionary hedges
2 will become a part of the prompt year hedging program.

3 Gas Supply continuously monitors the results of the
4 Procurement Plan, evolving market conditions, variation in
5 demand profiles, new supply opportunities, and regulatory
6 conditions. Although various windows and targets are
7 established in the initial design phase of the portfolio,
8 the plan provides flexibility to exercise judgment to revise
9 and/or adjust the plan in response to changing conditions.
10 Material changes to the Procurement Plan are communicated to
11 Senior Management and Commission Staff.

12 **Q. What delivery period does the natural gas**
13 **Procurement Plan include?**

14 A. The natural gas Procurement Plan includes four
15 complete natural gas operating years (November through
16 October) and whole months remaining from the current month
17 until the next October 31 (the Current natural gas operating
18 year). The four complete upcoming natural gas operating
19 years are designated "Prompt", "Second", "Third", and
20 "Fourth" years.

21 **Q. Please describe the components of the natural gas**
22 **Procurement Plan.**

23 A. Each year a comprehensive review of the previous
24 year's plan is performed. The review includes analysis of

1 historical and forecasted market trends, fundamental market
2 analysis, demand forecasting, and transportation, storage
3 and other resource considerations. The plan includes the
4 following components:

- 5 1. **Previous Year(s) Hedges** - longer-term fixed-price
6 purchases executed as a part of a previous year's
7 Procurement Plan.
- 8 2. **Prompt Year Hedges** - the portion of the portfolio
9 addressed through the utilization of hedge
10 windows. In each window fixed price purchases are
11 made for various prompt year delivery periods.
12 Prior to the execution of each window, market
13 conditions, fundamental market knowledge, and
14 other information are considered to determine if
15 execution will occur.
- 16 3. **Storage Withdrawals** - utilizing the capacity and
17 deliverability from the Jackson Prairie storage
18 facility, Avista is able to inject natural gas
19 during the summer months and withdraw it to serve
20 customers during the higher demand winter months.
- 21 4. **Discretionary Long-term Hedges** - opportunistic
22 purchases based on a set of price levels, or
23 targets, that trigger possible execution. At the
24 time the triggers are reached, evaluation of

1 market conditions, fundamental market knowledge,
2 and other information are considered. These
3 hedges will generally be executed when they can be
4 done at or below the established targets.

5 5. **Index Purchases** - physical index-based natural gas
6 purchases are procured prior to or throughout the
7 delivery month. These purchases are usually
8 associated with daily pricing. The amount of
9 index purchases planned is the difference between
10 the forecasted demand less the sum of the previous
11 year hedges, prompt year hedges, and storage
12 withdrawals.

13 **Q. Please describe the long term components of the**
14 **natural gas Procurement Plan.**

15 A. As part of the development of the prompt year
16 Procurement Plan, future years are also considered (referred
17 to as "Second", "Third", and "Fourth" years). For a portion
18 of the forecasted demand of the three years following the
19 prompt year, a discretionary long term hedging program is
20 developed. This program has a series of pricing targets
21 that, when reached, trigger possible execution. At the time
22 the triggers are reached, evaluation of market conditions,
23 fundamental market knowledge, and other information are
24 considered in order to determine if execution will occur.

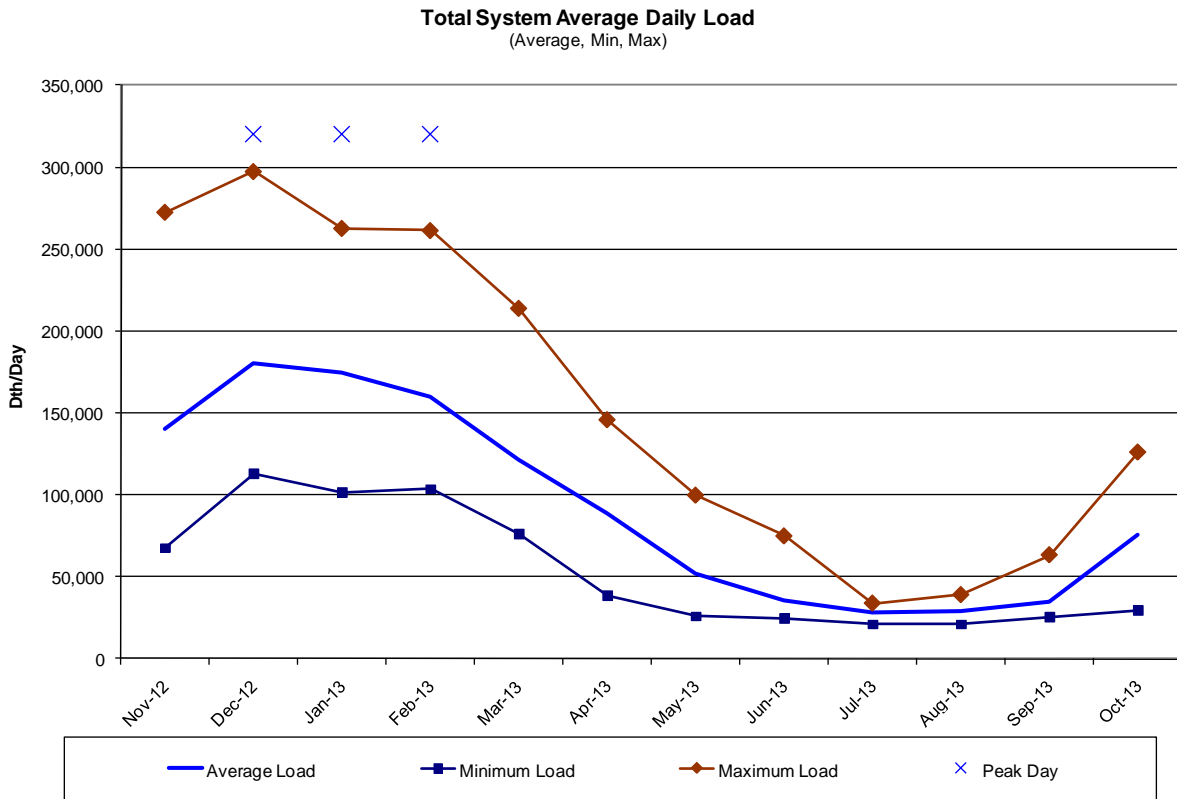
1 **Q. Please describe how the Procurement Plan manages**
2 **volatility.**

3 A. The Procurement Plan focuses on managing demand
4 and price volatility. Natural gas demand is volatile and
5 will vary day to day. For example, system-wide average
6 daily demand can fluctuate between 26,000 dekatherms (Dth)
7 per day during a summer month and 190,000 Dth/day during a
8 winter month. Further, December's system-wide daily demand
9 volatility has ranged from a low of 112,000 Dth/day to a
10 high of 300,000 Dth/Day. For 2011, the observed system-wide
11 peak demand was 212,050 Dth/Day. Finally, from Avista's
12 2012 IRP, system-wide peak day demand for 2012-2013 heating
13 season is forecasted to be approximately 320,000 Dth per
14 day.

15 In order to manage these seasonal, monthly and daily
16 volume swings, Avista shapes the components of the
17 Procurement Plan by month (i.e. more natural gas is hedged
18 for the winter months than for the summer). Below is a
19 chart that shows the demand volatility:

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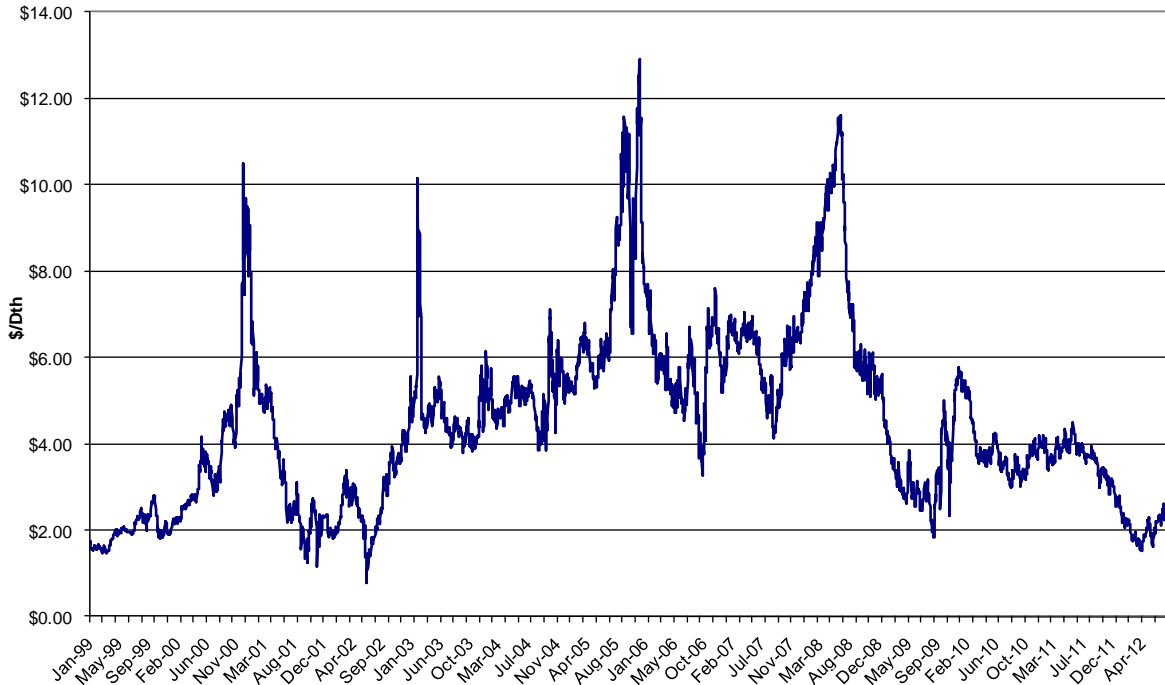
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Price volatility can also vary widely by season, month and day. Below is a chart depicting the natural gas price volatility over time. Avista cannot predict with accuracy where natural gas prices may go, however, our experience and market intelligence guide our procurement decisions. By layering in purchases over time (both hedges and index), setting upper and lower pricing levels on the hedge windows, opportunistically hedging at favorable pricing levels through the discretionary hedge program, and actively managing storage resources, Avista is able to meet our goal

1 of providing a meaningful measure of price stability,
2 together with competitive prices, for our customers.

3 **Historic AECO Cash Prices**
4 **1999 through Current**



15 **2012 Natural Gas Integrated Resource Plan**

16 **Q. Can you please provide an overview of the**
17 **Company's development of its 2012 Natural Gas Integrated**
18 **Resource Plan?**

19 A. Yes I can. On August 31, 2012, Avista filed with
20 the Commission its Natural Gas Integrated Resource Plan.
21 The IRP forecasts natural gas demand and any supply-side and
22 demand-side resources projected for the coming 20 years,
23 which will help Avista continue to reliably provide natural
24 gas to our customers. A copy of the Company's 2012 Natural

1 Gas Integrated Resource Plan is included as Exhibit 7,
2 Schedule No. 1.

3 Q. Does this conclude your pre-filed, direct
4 testimony?

5 A. Yes it does.

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)

FOR AVISTA CORPORATION

(NATURAL GAS ONLY)

2012 Natural Gas Integrated Resource Plan (IRP)

Compact Disc Exhibit

Also Available At

<http://www.avistautilities.com/inside/resources/irp/Pages/default.aspx>