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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION) CASE NO. AVU-E-17-01
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
IN THE STATE OF IDAHO) WILLIAM G. JOHNSON
)

FOR AVISTA CORPORATION

(ELECTRIC ONLY)

1 I. INTRODUCTION

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

4 A. My name is William G. Johnson. My business address
5 is 1411 East Mission Avenue, Spokane, Washington, and I am
6 employed by the Company as a Wholesale Marketing Manager in
7 the Energy Resources Department.

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

9 A. I graduated from the University of Montana in 1981
10 with a Bachelor of Arts Degree in Political
11 Science/Economics. I obtained a Master of Arts Degree in
12 Economics from the University of Montana in 1985.

13 **Q. How long have you been employed by the Company and**
14 **what are your duties as a Wholesale Marketing Manager?**

15 A. I started working for Avista in April 1990 as a
16 Demand Side Resource Analyst. I joined the Energy Resources
17 Department as a Power Contracts Analyst in June 1996. My
18 primary responsibilities involve power contract origination
19 and management, and power supply regulatory issues.

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

22 A. My testimony will 1) identify and explain the
23 proposed normalizing and pro forma adjustments to the 2016

1 test period power supply revenues and expenses, and 2)
2 describe the proposed level of expense and Load Change
3 Adjustment Rate (LCAR) for Power Cost Adjustment (PCA)
4 purposes, using the pro forma costs proposed by the Company
5 in this filing.

6 **Q. Are you sponsoring any exhibits to be introduced in**
7 **this proceeding?**

8 A. Yes. I am sponsoring Exhibit No. 6, Schedules 1
9 through 4, which were prepared by me. Exhibit No. 6,
10 Schedule 1 identifies the power supply expense and revenue
11 items that fall within the scope of my testimony. A brief
12 description of each adjustment is provided in Exhibit No. 6,
13 Schedule 2. Exhibit No. 6, Schedule 3 shows the pro forma
14 fuel costs for each thermal plant and short-term purchases
15 and sales by month. The proposed authorized PCA power supply
16 expense and revenue, transmission expense and revenue, retail
17 sales and LCAR are shown in Exhibit No. 6, Schedule 4.

18 **Q. Are there other Company witnesses providing**
19 **testimony regarding issues you are addressing?**

20 A. Yes. Company witness Mr. Kalich provides detailed
21 testimony on the AURORA model used by the Company to develop
22 short-term power purchase expense, fuel expense and short-
23 term power sales revenue included in my exhibits.

1 **II. OVERVIEW OF PRO FORMA POWER SUPPLY ADJUSTMENT**

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

4 A. The pro forma power supply adjustment involves the
5 determination of revenues and expenses based on the
6 generation and dispatch of Company resources and expected
7 wholesale market power prices as determined by the AURORA
8 model simulation for the pro forma rate period (calendar year
9 2018) under normal weather and hydro generation conditions.
10 In addition, adjustments are made to reflect contract changes
11 between the historical test period and the 2018 pro forma
12 period. Table No. 1 below shows total net power supply
13 expense during the test period and the pro forma period. For
14 information purposes only, the power supply expense¹ currently
15 in base retail rates, which is based on a calendar 2017 pro
16 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.

1 **Table No. 1:**

2

Power Supply Expense		
	<u>System</u>	<u>Idaho Allocation</u>
3 Power Supply Expense in Current Rates (2017 pro forma)	\$155,334,000	\$53,388,296
4 Actual 2016 Test Period Power Supply Expense	\$134,524,000	\$45,951,615
5 Proposed 2018 Pro forma Power Supply Expense	\$161,230,000	\$55,253,521
6 Proposed 2018 Expense vs 2016 Test Period	\$26,706,000	\$9,301,906
7 Proposed 2018 Expense vs Current Rates	\$5,896,000	\$1,865,225

8 The net effect of my adjustments to the test year power
9 supply expense is an increase in 2018 of \$26,706,000
10 (\$161,230,000 - \$134,524,000) on a system basis and
11 \$9,301,906 Idaho allocation.

12 The increased expense in 2018 from the level in current
13 base rates is \$1,865,225 (Idaho share). This increase in
14 power supply expense was higher primarily due to lower net
15 spot market sales resulting from less favorable economic
16 operating conditions for the Company's gas-fired resources.

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18 **III. PRO FORMA POWER SUPPLY ADJUSTMENTS**

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

1 A. Exhibit No. 6, Schedule 1 identifies the power
2 supply expense and revenue items that fall within the scope
3 of my testimony. These revenue and expense items are related
4 to power purchases and sales, fuel expenses, transmission
5 expense, and other miscellaneous power supply expenses and
6 revenues.

7 **Q. What is the basis for the adjustments to the test**
8 **period power supply revenues and expenses?**

9 A. The purpose of the adjustments to the test period
10 is to normalize power supply expenses for normal weather and
11 normal hydroelectric generation and to reflect current
12 forward natural gas prices using the AURORA model and include
13 other known and measurable changes for the 2018 pro forma
14 period.

15 A brief description of each adjustment is provided in
16 Exhibit No. 6, Schedule 2. Detailed workpapers have been
17 provided to the Commission with this filing to support each
18 of the pro forma revenues and expenses. The detailed
19 workpapers for each adjustment show the actual revenue or
20 expense in the test period, and the pro forma revenue or
21 expense.

1 **Long-Term Contracts**

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

4 A. Long-term power contracts are included in the pro
5 forma by including the energy receipt or obligation
6 associated with the contract in the AURORA Model and
7 including the cost or revenue in the pro forma net power
8 supply expense.

9 **Q. Are there any new long-term power purchases or**
10 **sales in the pro forma that are not in current base rates?**

11 A. Yes. The Company has entered into a new contract
12 with Douglas County PUD for a share of the output of the
13 Wells hydroelectric project. The contract begins September
14 2018, after the expiration of the existing Wells contract,
15 and continues through September 2028.

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

18 A. Yes. Two contracts end before or during the pro
19 forma period. The Douglas Settlement contract ends August
20 31, 2018. The Nichols Pumping contract ends October 31,
21 2018.

1 **Short-Term Power Purchases and Sales**

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

4 A. Short-term electric power purchases and sales are
5 an output of the AURORA model. The model calculates both the
6 volumes and price of short-term purchases and sales that
7 balance the system's generation and long-term purchases with
8 retail load and other obligations. The price of the short-
9 term transactions represents the price of spot market power
10 as determined by the AURORA model.

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

13 A. Consistent with past general rate cases, the pro
14 forma does not include actual short-term fixed-price
15 transactions entered into for the 2018 pro forma period.

16 **Thermal Fuel Expense**

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

19 A. Thermal fuel expenses include Colstrip coal costs,
20 Kettle Falls wood-waste costs, and natural gas expense for
21 the Company's gas-fired resources including Coyote Springs 2,
22 Lancaster, Rathdrum, Northeast, Boulder Park, and the Kettle
23 Falls combustion turbine. Unit coal costs at Colstrip are

1 based on the long-term coal supply and transportation
2 agreements. Unit wood fuel costs at Kettle Falls are based
3 on multiple shorter-term contracts with fuel suppliers and
4 inventory. Total fuel costs for each plant are based on the
5 unit fuel cost and the plant's level of generation as
6 determined by the AURORA model.

7 Exhibit No. 6, Schedule 3 shows the pro forma fuel costs
8 by month for each plant. Mr. Kalich provides details and
9 supporting workpapers regarding the level of generation for
10 the Company's thermal plants, and the fuel cost for natural
11 gas-fired plants.

12 **Transmission Expense**

13 **Q. What changes in transmission expense are in the pro**
14 **forma compared to the test-year and the expense in current**
15 **base rates?**

16 A. The only change is an increase of 9 MW of BPA
17 point-to-point transmission purchased.

18 **Summary**

19 **Q. Please summarize your proposed pro forma power**
20 **supply expense that is provided to Company witness Ms.**
21 **Andrews for the Company's electric Pro Forma study.**

22 A. The net effect of my adjustments to the test year
23 power supply expense is an increase in 2018 of \$26,706,000

1 (\$161,230,000 - \$134,524,000) on a system basis and
2 \$9,301,906 Idaho allocation. The increased expense in 2018
3 from the level in current base rates is \$1,865,225 (Idaho
4 share).

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IV. PCA AUTHORIZED VALUES

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

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A. The proposed authorized level of annual system
power supply expense is \$145,045,600 for the 2018 pro forma.
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. The proposed level of net Renewable
Energy Credits (REC) revenue is also included in the total
authorized net expense.

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**Q. What is the level of retail sales and the proposed
Load Change Adjustment Rate for the PCA?**

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A. The proposed authorized level of retail sales to be
used in the PCA is 2016 weather adjusted Idaho retail sales.²
The proposed Load Change Adjustment Rate is \$24.89/MWh for

² The historical loads also include a pro forma adjustment as explained by
Company witnesses Mr. Kalich and Ms. Knox.

1 the 2018 pro forma period³, which is the energy related
2 portion of the average production and transmission cost.

3 The proposed authorized PCA power supply expense and
4 revenue, transmission expense and revenue, REC revenues, Load
5 Change Adjustment Rate and retail sales are shown in Exhibit
6 No. 6, Schedule 4.

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

8 A. Yes.

³Also shown on Exhibit No. 6, Schedule 4 is the proposed 2019 Load Change Adjustment Rate of \$25.34/MWh, which includes the impact of production and transmission costs for the 2019 Rate Year as pro formed by Ms. Andrews. The Company is not proposing to update power supply costs or the PCA base effective with the 2019 electric base rate change January 1, 2019.