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DAVID J. MEYER  
VICE PRESIDENT AND CHIEF COUNSEL FOR  
REGULATORY & GOVERNMENTAL AFFAIRS  
AVISTA CORPORATION  
P.O. BOX 3727  
1411 EAST MISSION AVENUE  
SPOKANE, WASHINGTON 99220-3727  
TELEPHONE: (509) 495-4316  
FACSIMILE: (509) 495-8851  
DAVID.MEYER@AVISTACORP.COM

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IDAHO PUBLIC  
UTILITIES COMMISSION

**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-G-11-01

DIRECT TESTIMONY  
OF  
KEVIN J. CHRISTIE

FOR AVISTA CORPORATION

(NATURAL GAS ONLY)

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

3           A.    My name is Kevin Christie 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 Avenue,  
6 Spokane, Washington.

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

9           A.    Yes. I graduated from Washington State University  
10 with a Bachelors Degree in Business Administration with an  
11 accounting emphasis. I have also attended the University of  
12 Idaho Utility Executive Course.

13           I joined the Company in 2005 as the Manager of Natural Gas  
14 Planning. In 2007, I was appointed the Director of Gas Supply.  
15 Prior to joining Avista, I was employed by Gas Transmission  
16 Northwest (GTN). I was employed by GTN from 2001 to 2005 and  
17 was the Director of Pipeline Marketing and Development from  
18 2003 to 2005 and the Director of Pricing and Business Analysis  
19 from 2001 to 2003. From 2000 to 2001, I was employed by PG&E  
20 Corporation (PG&E) as the Manager of Finance and Assistant to  
21 the SVP, Treasurer and CFO. Before joining PG&E, I was employed  
22 by Pacific Gas Transmission Company (PGT) from 1994 to 2000.  
23 While at PGT, I held several positions including Manager,  
24 Pricing and Business Analysis, Senior Business Analyst, Senior

1 Pricing Planner, Director of Regulatory Affairs, Project  
2 Manager - Rates and Regulatory Affairs, Senior Regulatory  
3 Analyst, Regulatory Analyst, and Revenue Accountant. From 1990  
4 to 1994, I was employed by Chevron USA as a Lease Revenue  
5 Accountant.

6 **Q. Mr. Christie, what is the purpose of your testimony**  
7 **in this proceeding?**

8 A. The purpose of my testimony is to describe Avista's  
9 natural gas procurement planning process, and provide an  
10 overview of the Jackson Prairie natural gas storage facility.

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

12 A. Yes. I am sponsoring Exhibit 7, which is a copy of  
13 the Company's 2009 Natural Gas Integrated Resource Plan  
14 (Schedule 1).

15

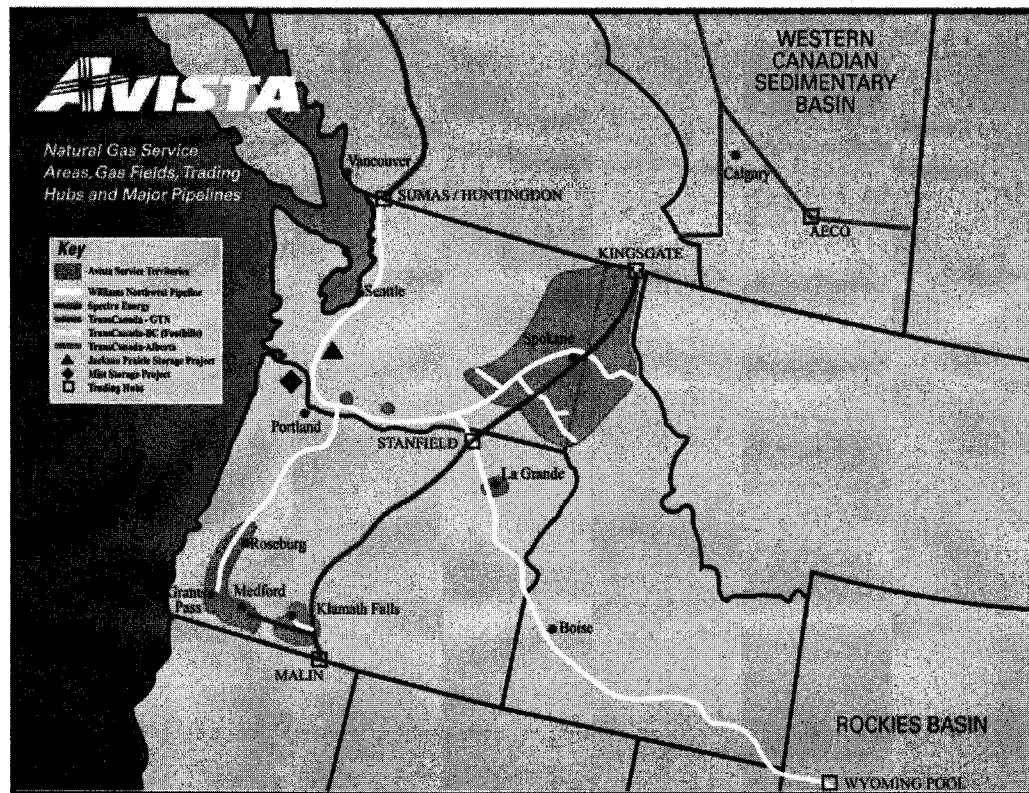
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**Procurement Planning**

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

19 A. Avista purchases natural gas for LDC customers in  
20 wholesale markets at multiple supply basins in the western  
21 United States and western Canada. Purchased natural gas can be  
22 transported through six connected pipelines on which Avista  
23 holds contractual transportation rights. Access to this  
24 diverse portfolio of natural gas resources allows the Company

1 to make natural gas procurement decisions that benefit our LDC  
 2 customers. Further, the Company has interstate pipeline  
 3 transportation capacity to serve approximately 25 percent of  
 4 natural gas supplies from domestic sources (Rocky Mountains),  
 5 with the remaining 75 percent from Canadian sources (British  
 6 Columbia and Alberta). As natural gas prices in the Pacific  
 7 Northwest can be affected by global energy markets, as well as  
 8 supply and demand factors in other regions of the United States  
 9 and Canada, future prices and delivery constraints may cause  
 10 the source mix to vary. Below is a map showing our service  
 11 territory, natural gas trading hubs, intrastate pipelines, and  
 12 natural gas storage facility.



1           While Avista cannot accurately predict future natural gas  
2 prices, market conditions and experience help shape our overall  
3 procurement approach. The Company's goal is to provide  
4 reliable supply at competitive prices in volatile commodity  
5 markets. To that end, the Company utilizes a Procurement Plan  
6 which includes hedging (on both a short term and long term  
7 basis), storage utilization, and index purchases. This  
8 approach is diversified by time, component, counterparty, and  
9 supply basin. The Procurement Plan is disciplined, yet  
10 flexible, which layers in fixed price purchases to reduce price  
11 volatility to customers. A copy of the Company's Natural Gas  
12 Procurement Plan is included as an exhibit in Avista's Energy  
13 Resources Risk Policy (see Exhibit 4, Confidential Schedule  
14 3C).

15           The Procurement Plan provides a process that fixes prices  
16 for a designated portion of the portfolio through the use of  
17 hedge windows. The hedge windows are "open" for a  
18 predetermined time period and have upper and lower pricing  
19 levels which are set by the market at the time the window  
20 becomes effective. In a rising market, this reduces exposure to  
21 extreme price spikes. In a declining market, it can facilitate  
22 locking in lower prices. These windows can be closed if  
23 certain pricing levels are met, or upon time expiration. The

1 Company always maintains some level of discretion and may  
2 choose not to execute a window given market conditions.

3 In addition, a portion of the portfolio that is separate  
4 from the hedge windows is designated as discretionary. This  
5 opportunistic portion of the portfolio allows the Company to  
6 hedge additional volumes at potentially favorable pricing  
7 levels. In the event those pricing levels are not reached, the  
8 unexecuted volumes designated as discretionary hedges will  
9 become a part of the index purchases portfolio.

10 Gas Supply continuously monitors the results of the  
11 Procurement Plan, evolving market conditions, variation in  
12 demand profiles, new supply opportunities, and regulatory  
13 conditions. Although various windows and targets are  
14 established in the initial design phase of the portfolio, the  
15 plan provides flexibility to exercise judgment to revise and/or  
16 adjust the plan in response to changing conditions.

17 **Q. What delivery period does the natural gas Procurement**  
18 **Plan include?**

19 A. The natural gas Procurement Plan includes four  
20 complete natural gas operating years (November through October)  
21 and whole months remaining from now until the next October 31  
22 (the Current natural gas operating year). The four complete  
23 upcoming natural gas operating years are designated "Prompt",  
24 "Second", "Third", and "Fourth" years.

1           **Q. Please describe the components of the prompt year**  
2 **natural gas Procurement Plan.**

3           A. Each year a comprehensive review of the previous  
4 year's plan is performed. The review includes analysis of  
5 historical and forecasted market trends, fundamental market  
6 analysis, demand forecasting, and transportation and other  
7 resource considerations. From this review, decisions are made  
8 about how much forecasted demand should be served by various  
9 components of the portfolio, including:

10           1. **Previous Year(s) Hedges** - longer-term fixed-price  
11 purchases executed as a part of a previous year's  
12 Procurement Plan.

13           2. **Prompt Year Hedges** - the portion of the portfolio  
14 addressed through the utilization of hedge windows.  
15 In each window fixed price purchases are made for  
16 various prompt year delivery periods. Prior to the  
17 execution of each window, market conditions,  
18 fundamental market knowledge, and other information  
19 is considered to determine if execution will occur.

20           3. **Storage Withdrawals** - utilizing the capacity and  
21 deliverability from the Jackson Prairie storage  
22 facility, Avista is able to inject natural gas during  
23 the summer months and withdraw it to serve customers  
24 during the higher demand winter months.

1           4. Discretionary Prompt Year Hedges - opportunistic  
2           purchases based on a set of price targets that  
3           trigger possible execution. At the time the triggers  
4           are reached, evaluation of market conditions,  
5           fundamental market knowledge, and other information  
6           are considered. These hedges will generally be  
7           executed when they can be done at or below the  
8           established targets.

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

16          **Q. Please describe the long term components of the**  
17          **natural gas Procurement Plan.**

18          A. As part of the development of the prompt year  
19          Procurement Plan, future years are also considered (referred to  
20          as "Second", "Third", and "Fourth" years). For a portion of  
21          the forecasted demand of the three years following the prompt  
22          year, a discretionary long term hedging program is developed.  
23          This program has a series of pricing targets that, when  
24          reached, trigger possible execution. At the time the triggers



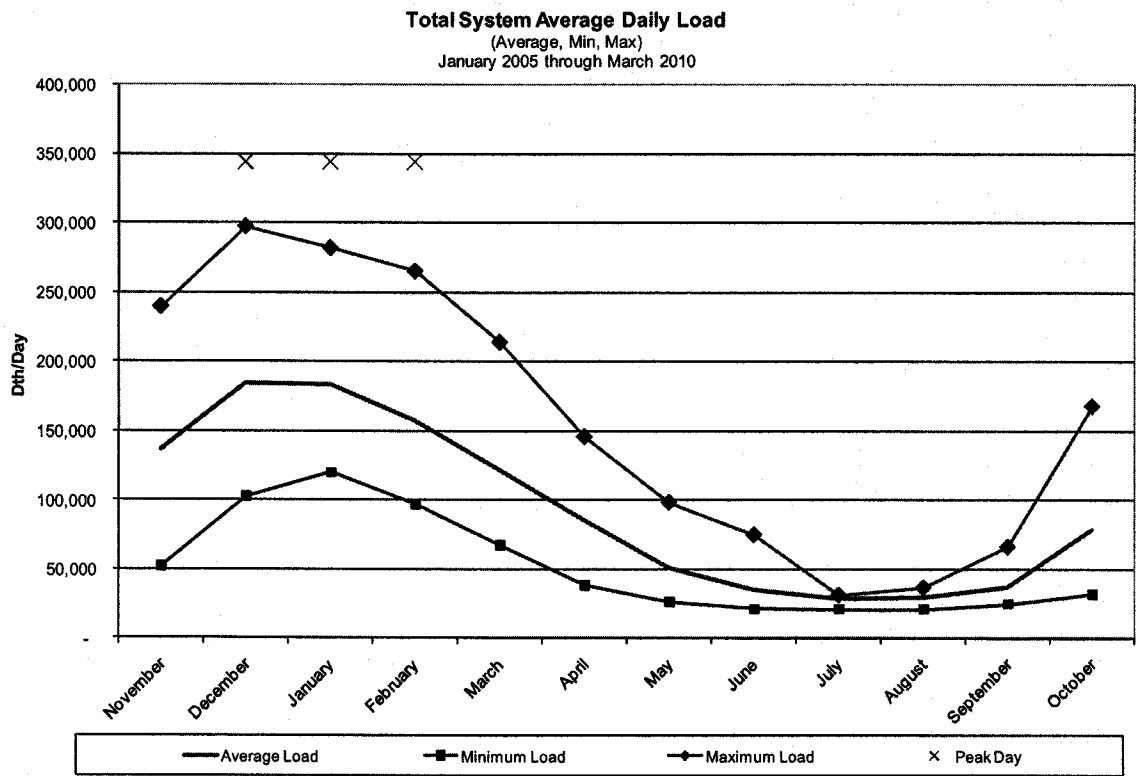
1 are reached, evaluation of market conditions, fundamental  
2 market knowledge, and other information are considered in order  
3 to determine if execution will occur.

4 **Q. Please describe how the Procurement Plan manages**  
5 **volatility.**

6 A. The Procurement Plan focuses on managing demand and  
7 price volatility. Natural gas demand is volatile and will vary  
8 day to day. For example, average daily demand for LDC  
9 customers in the summer months is approximately 30,000  
10 Dekatherms (Dth) per day, and in a winter month average daily  
11 demand can be as high as 185,000 Dth per day. Further, within  
12 the month of November, the Company has an average daily demand  
13 as high as 150,000 Dth per day and a low of 50,000 Dth per day.  
14 Finally, from Avista's 2009 IRP, peak day demand for 2011-2012  
15 heating season is forecasted to be approximately 344,000 Dth  
16 per day. For the winter 2010-2011 heating season the observed  
17 peak demand was 272,000 Dth per day. In order to manage these  
18 seasonal, monthly and daily swings, Avista shapes the  
19 components of the Procurement Plan by month (i.e. more natural  
20 gas is hedged for the winter months than for the summer).  
21 Below is a chart that shows the demand volatility:

22

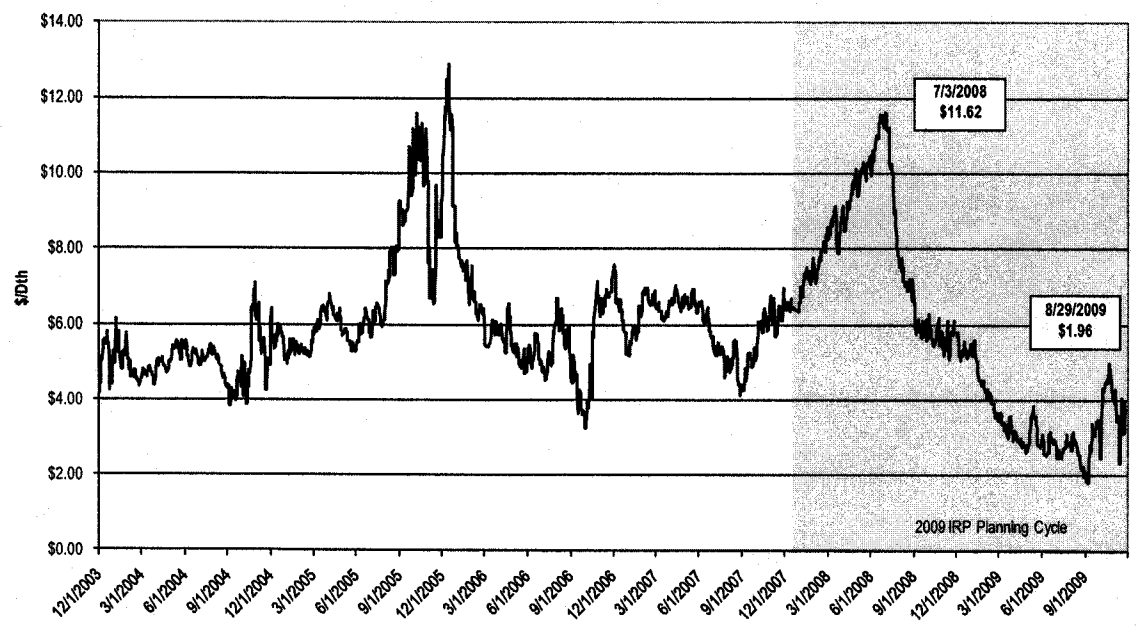
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Price volatility can also vary widely by season, month and day. For example, on July 9, 2008 daily natural gas prices at AECO reached \$11.82/Dth and on August 29, 2009 hit a low of \$1.96/ Dth. By layering in purchases over time (both hedges and index), setting upper and lower pricing levels on the hedge windows, and opportunistically hedging at favorable pricing levels through the discretionary hedge program, Avista is able to meet our goal of providing stable yet competitive prices to our customers. Below is a chart from the Company's 2009 Integrated Resource Plan demonstrating natural gas price volatility:

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Historical Daily Prices  
AECO



**Jackson Prairie Storage Facility**

Q. Could you please describe Avista's involvement with the Jackson Prairie natural gas storage facility?

A. Yes. Avista is one of the three original developers and owners of the underground aquifer storage facility at Jackson Prairie, which is located near Chehalis, Washington. Although there have been corporate changes due to mergers, acquisitions and name changes, Avista, Puget Sound Energy (PSE) and Northwest Pipeline each hold a one-third share (equal, undivided interest) of this underground natural gas storage facility through a joint ownership agreement. Development of

1 the facility began in the 1960's and the project first went  
2 into service in the early 1970's.

3 **Q. Please describe the present level of storage that**  
4 **Avista owns at Jackson Prairie.**

5 A. Prior to May 1, 2011, the Company held a total of  
6 5,497,112 Dth of seasonal capacity. This seasonal capacity  
7 comes with a withdrawal capability of 294,667 Dth per day  
8 (deliverability). As was described in the Company's previous  
9 general rate case AVU-G-10-01, on May 1, 2011, the utility  
10 received an additional 3,030,887 Dth of seasonal capacity and  
11 an additional 104,000 Dth of daily deliverability. This  
12 capacity was originally held by Avista Energy, and as part of  
13 the asset sales agreement this capacity was assigned to Shell  
14 Energy through April 30, 2011. As of May 1, 2011, the  
15 Company's total capacity at Jackson Prairie is 8,527,999 Dth  
16 and total deliverability is 398,667 Dth per day.

17 **Q. Please briefly describe what the Commission approved**  
18 **in Case Nos. AVU-G-10-01 as it relates to Jackson Prairie**  
19 **assets that were received by the Company on May 1, 2011.**

20 A. As noted in the Settlement Agreement approved by the  
21 Commission<sup>1</sup>, the Parties agreed that the "JP assets that will  
22 transfer from Avista Energy on May 1, 2011 will include plant  
23

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<sup>1</sup> Settlement Stipulation, Dockets AVU-G-10-01, Page 3, Para. 6.

