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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-11-01 DIRECT TESTIMONY OF SCOTT J. KINNEY

FOR AVISTA CORPORATION

(ELECTRIC ONLY)

I. INTRODUCTION

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

A. My name is Scott J. Kinney. I am employed by Avista Corporation as Director, Transmission Operations. My business address is 1411 East Mission, Spokane, Washington.

Q. Please briefly describe your educational background and professional experience.

A. I graduated from Gonzaga University in 1991 with a B.S. in Electrical Engineering. I am a licensed Professional Engineer in the State of Washington. I joined the Company in 1999 after spending eight years with the Bonneville Power Administration. I have held several different positions in the Transmission Department. I started at Avista as a Senior Transmission Planning Engineer. In 2002, I moved to the System Operations Department as a supervisor and support engineer. In 2004, I was appointed as the Chief Engineer, System Operations. In June of 2008 I was selected to my current position as Director, Transmission Operations.

Q. What is the scope of your testimony?

A. My testimony describes Avista's pro forma period transmission revenues and expenses. I also discuss the transmission and distribution expenditures that are part of the capital additions testimony provided by Company witness Mr. DeFelice, as well as projects associated with the

Company's Asset Management Program (including the additional vegetation management expenses included in the Company's case). Company witness Ms. Andrews incorporates the Idaho share of the net transmission expenses, the transmission and distribution capital additions, and the electric distribution vegetation management expenses proposed in this case.

Q. Are you sponsoring any exhibits?

A. Yes. Exhibit 9, Schedule 1 provides the transmission pro forma adjustments, and Schedule 2C is the Transmission Line Ratings Confirmation Plan (original dated January 18, 2011 and Revision B dated April 27, 2011) that was developed and filed with NERC to address the "NERC Alert" issued on October 7, 2010.

A table of contents for my testimony follows:

II. PRO FORMA TRANSMISSION EXPENSES

Q. Please describe the pro forma transmission expense revisions included in this filing.

A. Adjustments were made in this filing to incorporate updated information for any changes in transmission expenses from the January 2010 to December 2010 test year to the 2012 pro forma rate period. The changes in expenses and a description of each is summarized in Table 1:

Table 1

Transmission Expenses	
	***Pro Forma (System)**
Northwest Power Pool (NWPP)	$1,000
Colstrip O&M - 500kV Line	$117,000
ColumbiaGrid RTO Development	$(14,000)
ColumbiaGrid Planning	$56,000
ColumbiaGrid OASIS	$42,000
Grid West (ID Direct)	$(71,000)
Electric Scheduling & Acctg. Services (OATI)	$4,000
NERC CIP	$3,000
OASIS Expenses	$1,000
BPA Power Factor Penalty	$(7,000)
WECC Sys Secur & Admin- Net Oper Comm Sys	$(21,000)
WECC - Loop Flow	$12,000
CNC Transmission Project	$255,000
Transmission Line Ratings Confirmation Plan (NERC Alert)	$2,145,000
Total Expense	**$2,523,000**

*Representing the change in expense above or below the 2010 test period level.

<u>Northwest Power Pool (NWPP)</u> ($1,000) - Avista pays its share of the NWPP operating costs. The NWPP serves the electric utilities in the Northwest by supporting regional transmission planning coordination, providing coordinated transmission operations including generation reserve sharing, and Columbia River water coordination. Actual 2010 transmission-related NWPP expenses were $42,000 and a

$1,000 increase was made for the pro forma period to reflect the NWPP expenses allocated to the Company.

<u>Colstrip Transmission</u> ($117,000) - Avista is required to pay its portion of the O&M costs associated with its share of the Colstrip transmission system pursuant to the joint Colstrip contract. In accordance with NorthWestern Energy's (NWE) proposed Colstrip transmission plan provided to the Company, NWE will bill Avista $560,000 for Avista's share of the Colstrip O&M expense during the pro forma period. This is an increase of $117,000 from the actual expense of $443,000 incurred during the 2010 test year.

<u>ColumbiaGrid RTO Development</u> (-$14,000) - Avista became a member of the ColumbiaGrid regional transmission organization (RTO) in 2006. ColumbiaGrid's purpose is to enhance transmission system reliability and efficiency, provide cost-effective coordinated regional transmission planning, develop and facilitate the implementation of solutions relating to improved use and expansion of the interconnected Northwest transmission system, reduce transmission system congestion, and support effective market monitoring within the Northwest and the entire Western interconnection. Avista supports ColumbiaGrid's general developmental and regional coordination activities under a general funding agreement and supports specific functional activities under the Planning and Expansion Functional Agreement and the OASIS Functional Agreement. The current general funding agreement for ColumbiaGrid

expires December 31, 2012. Avista's ColumbiaGrid general funding expenses for the 2010 test year were $194,000 while pro forma general funding expenses are $180,000, a reduction of $14,000.

<u>ColumbiaGrid Transmission Planning</u> ($56,000) - The ColumbiaGrid Planning and Expansion Functional Agreement (PEFA) was accepted by the Federal Energy Regulatory Commission (FERC) on April 3, 2007 and Avista entered into the PEFA on April 4, 2007. Coordinated transmission planning activities under the PEFA allows the Company to meet the coordinated regional transmission planning requirements set forth in FERC's Order 890 issued in February 2007, and outlined in the Company's Open Access Transmission Tariff, Attachment K. Funding under the PEFA is on a two-year cycle with provisions to adjust for inflation. Actual PEFA expenses for the 2010 test year were $164,000. The Company's PEFA pro forma expenses are at the maximum total payment obligation of $220,000, reflecting ColumbiaGrid's final staffing levels to support the PEFA and the reallocation of a portion of ColumbiaGrid's administrative expenses (previously paid under the general funding agreement) to this functional agreement.

<u>ColumbiaGrid Open Access Same-Time Information System (OASIS)</u> ($42,000) - Avista entered into the ColumbiaGrid OASIS Functional Agreement in February 2008. This agreement provides for the development of a common Open

Access Same-time Information System (OASIS) which would give transmission customers the ability to purchase transmission capacity from all ColumbiaGrid members via a single common OASIS site instead of having to submit multiple transmission service requests to each member individually on each member's respective OASIS sites. Avista's 2010 test year expenses of $44,000 reflected initial developmental activities under this functional agreement. Avista's ColumbiaGrid OASIS pro forma expenses are $86,000, reflecting operational capability of the ColumbiaGrid OASIS and the reallocation of a portion of ColumbiaGrid's administrative expenses (previously paid under the general funding agreement) to this functional agreement.

Grid West (ID Direct) (-$71,000) - Avista signed an initial funding agreement in 2000, as did all other Pacific Northwest investor-owned electric utilities, to provide funding for the start-up phase of Grid West (then named "RTO West"). Grid West had planned to repay the loans to Avista and other funding utilities through surcharges to customers once it became operational. With the dissolution of Grid West, this repayment did not occur. As a result, Avista filed an application with the Commission to defer these costs. The Commission approved, on October 24, 2006, in Order No. 30151, the Company's request for an order authorizing deferred accounting treatment for loan amounts made to Grid West. In its Order the IPUC found these costs to be "prudent and in the public interest" and required the Company to begin amortization of the Idaho share of the loan principal ($422,000) beginning January 2007, for five years. With the completion of the amortization in December 2011 the Company will not incur costs associated with Grid West in the pro forma period. Avista did amortize a total of $71,000 in the test year.

<u>Electric Scheduling and Accounting Services</u> ($4,000) - The $4,000 increase in the pro forma period compared to test year expense for electric scheduling and accounting services is a result of additional services provided by our third party vendor. These services are required to assist in meeting the requirements of the NERC mandatory reliability standards. The pro forma scheduling and accounting costs are $175,000.

<u>NERC Critical Infrastructure Protection</u> ($3,000) - The Company has purchased two software products to assist in protecting critical transmission system data from intrusion and to meet applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards. The Company's pro forma expenses increase $3,000 from the actual 2010 test year expense of $47,000 due to annual software application cost increases.

<u>OASIS Expenses</u> ($1,000) - These OASIS expenses are associated with travel and training costs for transmission pre-scheduling and OASIS personnel. This travel is required to monitor and adhere to NERC reliability

standards and FERC OASIS requirements. The costs associated with OASIS expenses in the pro forma period are $1,000 more than in the 2010 test year.

<u>Power Factor Penalty</u> (-$7,000) - Power factor penalty costs are associated with the Bonneville Power Administration's (Bonneville) General Transmission Rate Schedule Provisions. Bonneville charges a power factor penalty at all interconnections with Avista that exceed a given threshold for reactive power flow during each month. If the reactive flow from Bonneville's transmission system into Avista's system or from Avista's system to Bonneville's system exceeds a given threshold, then Bonneville bills Avista according to its rate schedule. The charge includes a 12-month rolling ratchet provision. Avista currently pays Bonneville a power factor penalty at several points of interconnection. Avista incurred $138,000 of power factory penalty charges during the 2010 test year. The Company's pro forma 2012 expenses are set at $131,000 representing an average of the power factor penalty charges incurred in 2009 and 2010.

<u>WECC - System Security Monitor and WECC Administration & Net Operating Committee Fees</u> (-$21,000) - The Company's total WECC fees have begun to level off. The past increases have been driven primarily by increased compliance requirements associated with mandatory national reliability standards. WECC is responsible for monitoring and measuring Avista's compliance with the standards and,

therefore, has substantially increased its staff and other resources to meet this FERC requirement. The Company's 2010 test year WECC assessments were $167,000 for system security monitoring and $384,000 for dues and net Operating Committee fees, for a total 2010 WECC assessment of $551,000. The Company paid its 2011 WECC assessments in January 2011: $171,000 for system security monitoring and $359,000 for dues and net Operating Committee fees, for a total WECC assessment of $530,000. The Company's pro forma 2012 expenses have been set equal to these amounts paid in January 2011.

<u>WECC - Loop Flow</u> ($12,000) - Loop Flow charges are spread across all transmission owners in the West to compensate utilities that make system adjustments to eliminate transmission system congestion throughout the operating year. WECC Loop Flow charges can vary from year to year since the costs incurred are dependent on transmission system usage and congestion. Therefore a five-year average is used to determine future Loop Flow costs. Based upon the WECC Loop Flow charges incurred by the Company during the five-year period from 2006 through 2010, pro forma Loop Flow expenses are $32,000. This is $12,000 more than actual 2010 test year charges of $20,000.

Q. Please describe Avista's engagement in the Northern Tier Transmission Group?

A. Avista is currently a Member of the ColumbiaGrid Subregional Group. ColumbiaGrid currently coordinates regional transmission planning for its members, offers a single portal access to OASIS, and performs regional coordination and development of other operational improvement efforts including evaluating Balancing Authority consolidation of its members. Avista is a signatory to the Planning and Expansion Functional Agreement (PEFA) and has relied on the PEFA and ColumbiaGrid to meet its FERC Order 890 Attachment K Requirements. Avista initially joined ColumbiaGrid to leverage an independent organization's ability to direct BPA (only as bound by the PEFA) to construct needed facilities and leverage ColumbiaGrid's dispute resolution process and cost allocation methodologies to meet FERC's Attachment K requirements.

Avista is geographically located at the edge of both the ColumbiaGrid and NTTG footprints and is physically interconnected with several NTTG members; Idaho Power, NorthWestern Energy and PacifiCorp. Avista also participates in several current regional study efforts to expand the northwest transmission system that involve these same entities.

With its geographic location and physical interconnection to both ColumbiaGrid and NTTG members, Avista plans to join NTTG in 2011. Avista will engage NTTG to determine what level of membership makes sense. Avista hopes to join NTTG as a nominal funder and participant. Becoming an NTTG member will allow Avista to gain knowledge of NTTG processes, continue to enhance relationships with its interconnected utilities, and further facilitate the relationship between the two sub-regional groups. Avista intends to remain a full member of ColumbiaGrid and utilize ColumbiaGrid and the PEFA to meet its FERC Attachment K requirements. At this time, no additional costs have been included in the Company's case for its involvement in the group.

Q. Please now describe the proposed Canada to Northern California ("CNC") transmission project expense included in the Company's request.

A. The CNC transmission project was initially proposed with Pacific Gas and Electric Company ("PG&E") as its primary sponsor. As initially proposed, the CNC transmission project was an Extra High Voltage ("EHV") transmission project that, if developed, would include a 500 kV transmission line that would run between British Columbia, Canada and Northern California. With PG&E as the primary sponsor, Avista, British Columbia Transmission Corporation, PacifiCorp and Transmission Agency of Northern California were sponsors of the CNC transmission project.

Q. What was the purpose of the CNC transmission project?

A. The CNC transmission project was evaluated as a regional project intended to meet three primary objectives:

1. Enhance access to significant incremental renewable resources in Canada and the Pacific Northwest;

2. Improve regional transmission reliability; and
3. Provide market participants with beneficial opportunities to use the facilities.

Initially, the CNC transmission project offered three distinct alternatives for satisfying these objectives, which included:

1. An overland alternative from Southeast British Columbia to Northern California;
2. An overland alternative from Idaho to Northern California; and
3. An undersea alternative from Western British Columbia to Northern California.

Q. Why was Avista one of the sponsors of the CNC transmission project?

A. While there were several reasons why Avista was a sponsor of the CNC transmission project, Avista's sponsorship was based upon two primary objectives: (i) to obtain access to additional resources and additional import capacity to serve the needs of Avista's native load customers, and (ii) to maintain and enhance system reliability.

The CNC transmission project offered an opportunity for Avista to access resources that would help Avista meet its intermediate and long-term future renewable resource needs in order to satisfy its renewable portfolio standard requirements, as well as, other resources to meet future native load. In the context of integrating variable renewable resources, future access to regulation or shaping services from BC Hydro was also a consideration.

To the extent Avista intends to consider any new resources, renewable or otherwise, that reside outside its service territory to meet the future needs of the Company's native load customers, the Company must maintain and develop additional import capacity on its transmission system to accommodate such resources. The vast majority of the Company's current transmission import capability flows through its interconnections with the Bonneville Power Administration. The CNC transmission project not only offered an opportunity to provide for future increase in import capability, but provided an opportunity to diversify that import capability.

The CNC transmission project also would serve to enhance system reliability both from a regional standpoint and specifically for Avista's system. The CNC transmission project would provide an EHV (extra-high voltage) source on the west side of Avista's service territory, increasing the overall reliability of Avista's transmission grid. Avista currently has only three 500 kV sources supporting its transmission system; the Company's Bell, Hatwai and Hot Springs interconnections, which are all with the Bonneville Power Administration.

By participating as a sponsor of the CNC transmission project, Avista was able to affect certain determinations regarding the project, including the choice of the overland alternative from Southeast British Columbia to Northern

California, and the planned interconnection with Avista's transmission system at Devils Gap.

Additionally, Avista was an affected party that needed to participate in review and analysis of the project as part of the Company's coordinated regional planning obligations under Attachment K to its Open Access Transmission Tariff.

Q. What is the current status of the CNC transmission project?

A. Currently, the CNC transmission project is undergoing a transformation. As originally conceived, the project sponsors planned to work cooperatively to develop a single transmission project from Canada to Northern California. That project has completed the Western Electricity Coordinating Council ("WECC") Regional Planning and Project Review process and Phase 1 Rating Study, and it is now in the WECC Phase II study process. As the project has evolved, however, the current sponsors BC Hydro, Avista, and PG&E have recognized that each sponsor now desires to focus its resources on potential transmission segments that are geographically closer to its own respective service area. PG&E continues to be interested in developing a transmission line from Northern California to Eastern Oregon. Similarly, BC Hydro is interested in developing a transmission line from Canada to Eastern Oregon. Accordingly, the CNC transmission project is being evaluated as two distinct projects; a northern project which will be a 500kV transmission line from Selkirk, BC to a transmission switching station in Northeast Oregon ("NEO"), and a southern project that will run from NEO to Northern California. To the extent that the northern and/or southern projects are developed, they will be developed as separate projects that will likely be sponsored primarily by BC Hydro and PG&E, respectively.

Q. Will Avista continue to participate as a sponsor of either the proposed northern or the proposed southern transmission lines?

A. Avista has not yet made a final determination regarding the scope of its participation, including sponsorship, in the northern transmission line. At this point in time, Avista has no plans to participate as a sponsor in the southern transmission line.

Q. Will Avista continue to participate in the development of either the proposed northern or the proposed southern transmission lines?

A. Yes. While Avista has not yet made a final determination regarding the scope of its participation, to the extent that BC Hydro continues to develop the northern transmission line, Avista will need to continue to participate in the regional planning process as an affected party under its Attachment K and as planning activities relate to the Company's development of its Devils Gap Interconnection. Avista does not anticipate the need to continue participation in the southern transmission line at this time.

Q. Have Avista's customers derived any benefit from Avista's initial participation in the CNC transmission project?

A. Yes. As explained previously in this testimony, there were initially three alternatives for developing the CNC transmission project. Through its participation as a sponsor of the CNC transmission project, Avista was instrumental in the selection of the first alternative (i.e., an overland route from Southeast British Columbia to Northern California) and the establishment of a transmission corridor for the project that would run through Avista's service territory. To the extent that the northern transmission line is developed, the current plans call for the use of portions of existing Avista transmission corridors. This is significant because Avista will be able to establish an interconnection to the northern transmission line at Devils Gap, which would meet the objectives sought by the Company, namely: (i) access to additional resources, shaping services and import capacity to meet the needs of native load customers, and (ii) enhanced system reliability, as described earlier in this testimony.

Q. Please explain the benefits of Avista's planned interconnection with the northern transmission line at Devils Gap.

A. Avista is planning the development of a 500/230 kV transmission interconnection project with the northern transmission line of the CNC transmission project at Devils Gap ("Devils Gap Interconnection"). Avista has completed the Western Electricity Coordinating Council ("WECC") Regional Planning and Project Review process and Phase 1 Rating Study for the Devils Gap Interconnection and is now in the WECC Phase II study process for this project. In conjunction with the northern portion of the CNC transmission project, the Devils Gap Interconnection would provide benefits to Avista's native load customers consistent with the Company's objectives previously outlined.

Q. What is the cost associated with Avista's participation in the CNC transmission project?

A. The cost accrued by Avista for its participation in the CNC transmission project is $886,000. Of this amount, $665,000 is the amount Avista paid for its initial sponsorship of the CNC transmission project pursuant to the Stage One Project Development Agreement, and $221,000 consists of the direct transmission planning expenses incurred by Avista. Avista anticipates receiving a refund from the CNC Development Agreement of $121,000 with the closure of the Stage One agreement in the third quarter of 2011. Therefore the Company's net expenditures are $765,000.

Q. How does Avista propose to recover the costs associated with its participation in the CNC transmission project?

A. Avista proposes to recover these expenses over a three-year period, resulting in an amortized expense of $255,000 ($89,000 Idaho share) in each of the next three years. Ms. Andrews has reflected this amount in her revenue requirement calculations.

Q. Please describe the Transmission Line Ratings Confirmation Plan and the amounts for which the Company is requesting an increase in costs above its historical test period.

A. The Transmission Line Ratings Confirmation Plan was developed to address a "NERC Alert" issued on October 7, 2010. The North American Electric Reliability Corporation (NERC) issued a "Recommendation to Industry addressing Consideration of Actual Field Conditions in Determination of Facility Ratings" based on a vegetation contact conductor-to-ground fault by another Transmission Owner, which stated at p. 4:

> "NERC and the Regional Entities are concerned that Transmission Owners and Generator Owners have, in some instances, not considered existing field conditions when establishing facility ratings for transmission facilities, including transmission conductors. Transmission Owners should strive to achieve a heightened awareness of the actual operating conditions of their respective transmission conductors and take prompt corrective action as necessary."

Upon further review, the affected Transmission Owner subsequently discovered significant discrepancies between actual topography and the values used for design. Using a Light Detection and Ranging (LIDAR) technology, the Transmission Owner identified over one hundred (100) previously undetected conductor-to-ground issues. These discrepancies resulted in the Transmission Owner operating with higher facility ratings than actual conditions. This could lead to the Transmission Owner operating its system to higher levels than appropriate and, therefore, impacting the reliability of the interconnected transmission grid.

The NERC Alert was issued to provide the industry an opportunity to review actual field conditions and compare them to design values to ensure system reliability. Avista is required to meet NERC Standard FAC-008-1 - Facility Ratings Methodology. The purpose of the standard is "To ensure that facility ratings used in the reliable planning and operations of the Bulk Electric System (BES) are determined based on an established methodology or methodologies." Requirement R1.1 states that a Facility Rating shall equal the most limiting applicable Equipment Rating of the individual equipment that comprises that Facility. Therefore Avista must adhere to the NERC Alert in order to ensure compliance with FAC-008-1. If Avista doesn't comply with the Alert, then the Company will lack sufficient compliance evidence to provide auditors during its next on-site audit.

The Avista Transmission Line Ratings Confirmation Plan is a three year program designed to:

- Provide true-up between Plan and Profile drawings produced in the Transmission Line Design (TLD) Group and the SCADA Variable Limit (SVL) documents utilized by the System Operations Group, provided to NERC under FAC-008-1.
- Establish a field confirmation process for conductor sag clearances using a variety of techniques.
- Provide a means to annually identify changes to grade and other clearance impacts.

Unless otherwise exempted/confirmed due to construction inspection documentation or a substantial design clearance buffer, the Plan calls for performing LIDAR surveying of all Avista 230kV transmission lines and the five (5) 115kV transmission lines. These lines represent Avista's High Priority facilities (NERC assessment reporting date of December 31, 2011 as mentioned in the November 29, 2010 NERC update). It is expected this process will take two years to complete, depending upon availability of resources and weather conditions. LIDAR will allow for Avista to computer model (via TL-Pro) its most important transmission lines, and also support Transmission Vegetation Management efforts. The original plan was submitted to NERC on January 18, 2011. A revised plan was submitted on April 28, 2011 to show a modification