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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE POWER COST)
ADJUSTMENT (PCA) ANNUAL RATE)
ADJUSTMENT FILING OF AVISTA)
CORPORATION)

CASE NO. AVU-E-12-06

DIRECT TESTIMONY OF
WILLIAM G. JOHNSON

FOR AVISTA CORPORATION

1 I. INTRODUCTION

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

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

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

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

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

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

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

18 A. My testimony will provide a brief summary of the factors driving power supply
19 expenses during the review period, July 2011 through June 2012. I also describe new long-term
20 contracts the Company entered into during the deferral period and the supporting documentation
21 that is provided in electronic format.

1 **II. SUMMARY OF DEFERRALS**

2 **Q. Would you please summarize power supply expenses during the July 2011**
3 **through June 2012 review period?**

4 A. Yes. During the review period, Idaho's share of power supply expenses were
5 lower than the authorized level by \$3,423,072, excluding the Clearwater Paper related
6 differences. Certain changes in revenues and expenses are tracked at 100% in the PCA, per prior
7 Commission orders, such as the Clearwater Paper power purchase expense, and the Clearwater
8 Paper retail revenue related to the level of Clearwater generation¹. The Company absorbs
9 \$342,306 with the 90%/10% sharing, leaving a balance of \$3,080,766 in the rebate direction.
10 The \$3,080,766 rebate plus the Clearwater Paper differences of \$89,333 in the rebate direction,
11 results in a net deferral for the period of \$3,170,099 in the rebate direction.

12 **Q. What factors contributed to the lower power supply expense during the**
13 **review period?**

14 A. Overall, lower power costs were due primarily to above normal hydro generation
15 and lower natural gas and power prices. Low natural gas prices reduced the cost to generate with
16 gas-fired resources. Low power prices reduced the need to generate with gas-fired and thermal
17 resources because it was less expensive to purchase power instead. The average market power
18 price during the review period was \$21.02/MWh compared to an authorized average price of
19 \$37.70/MWh. The average natural gas price during the review period was \$3.11/dth compared
20 to an authorized average price of \$4.79/dth.

21 Partially offsetting the lower spot market natural gas and power prices was the cost of
22 prior fixed-priced purchases of natural gas and power through the Company's hedging program.

¹ The Clearwater Paper power purchase and revenue associated with the purchase is tracked at 100% in the PCA per Idaho Public Utilities Commission Order No. 29418 dated January 15, 2004.

1 Avista's hedging program layers in energy purchases (both power and natural gas) to serve load
 2 in future periods. Energy purchases are made up to three years prior to delivery period under the
 3 hedging program. Because spot market energy prices have been declining over the past several
 4 years, these prior purchases were made at prices higher than the spot market natural gas and
 5 power prices during the review period. Avista did not include these known actual purchases in
 6 the power supply expense included in base rates, which lowered the authorized level of expense
 7 in the PCA. The higher expense of these prior purchases is flowed through the PCA and in this
 8 instance, reduced the PCA rebate.

9 The table below shows a summary of the major factors driving the deferrals during the
 10 review period.

| Factors Contributing to Increased (Decreased) Power Supply Expense July 2011 - June 2012 - Idaho Allocation | |
|--|---------------------|
| Change due to Hydro Generation | -\$1,939,785 |
| Change due to Gas-Fired Generation, Fuel and Power Expense (1) | -\$435,088 |
| Change due to Colstrip Generation and Fuel Expense | -\$688,176 |
| Change due to Kettle Falls Generation and Fuel Expense | -\$705,907 |
| Change due to Retail Loads | \$345,884 |
| Total Expenses Above (Below) the Authorized Level | -\$3,423,072 |
| 10% Absorbed by the Company | \$342,307 |
| Clearwater Paper Generation and Revenue Variance | -\$89,333 |
| Total Power Cost Deferrals, Surcharge (Rebate) | -\$3,170,099 |

19 1) Includes the affect of fixed-price power and natural gas purchases through the
 20 Company's hedging program.

21 Over the review period hydro generation was 82 aMW above the authorized level. Very
 22 high hydro generation during July and August of 2011 was followed by good hydro generation
 23 during the spring of 2012.

1 Gas-fired generation was 92 aMW below the authorized level due to economics resulting
2 from low power prices. Colstrip and Kettle Falls generation was 9 aMW and 8 aMW below the
3 authorized levels, respectively, due to the plants being displaced by low cost power purchases.
4 Retail loads were 6 aMW below the authorized level.

5 The table below shows the change in generation and retail loads from the authorized
6 levels.

| Jul 11 - Jun 12 Generation and Load Differences from the Authorized Level | | |
|--|------------------------------------|----------------------------------|
| | <u>Change</u> aMW | <u>Change</u> % |
| Change in Hydro Generation | 82.0 | 15.6% |
| Change in Gas-Fired Generation | -91.6 | -31.8% |
| Change in Colstrip Generation | -8.7 | -4.8% |
| Change in Kettle Falls Generation | -8.2 | -22.3% |
| Change in Idaho Retail Load | -5.7 | -1.7% |

14

15 **III. NEW LONG-TERM CONTRACTS ENTERED INTO DURING REVIEW PERIOD**

16 **Q. Please provide a brief description of new long-term contracts that the**
17 **Company entered into during the review period.**

18 A. The Company entered into five long-term contracts during the review period. In
19 September 2011, the Company entered an agreement to purchase a small amount of power
20 generated at the new Spokane County wastewater treatment plant. In December 2011, the
21 Company entered into four PURPA agreements. These agreements included the City of
22 Spokane's Waste-to-Energy plant and Upriver hydro facility, and two renewed agreements with
23 Stimson in Plummer, Idaho and Hydro Technology (Meyers Falls) in Kettle Falls, Washington.

1 The only new contract in this group was the Waste-to-Energy plant purchase. The output from
2 the City of Spokane's Waste-to-Energy plant had been purchased by Puget Energy for the past
3 20 years. Electronic copies of these contracts have been provided with this filing.

4 5 **IV. SUPPORTING DOCUMENTATION**

6 **Q. Please provide a brief overview of the documentation provided by the**
7 **Company in this filing.**

8 A. The Company maintains a number of documents that record relevant factors
9 considered at the time of a transaction. The following is a list of current documents that are
10 maintained. Unless noted, these documents have been provided on a compact disk as part of this
11 filing. Other documents will be provided on request:

12 Electric/Gas Transaction Record: These documents record the key details of the price,
13 term and conditions of a transaction and include a discussion of market conditions at the
14 time of the transaction, the reason for the transaction, and pertinent transmission or other
15 delivery issues. The Company has provided worksheets showing the important details of
16 each electric and natural gas term transaction during the review period. Additional
17 documentation will be provided on request.

18 Position Reports: These daily reports show the daily and term purchases each business
19 day and provide a summary of market power and natural gas prices over a 36-month
20 forward period.

21 Forward Market Electric and Natural Gas Price Curves: This daily data shows forward
22 market prices for electricity and natural gas and is maintained in Nucleus, the Company's

1 electronic energy transaction database record system. Forward market prices are
2 included in the daily Position Reports.

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

4 **A. Yes.**