BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET UE-22________

DIRECT TESTIMONY OF

KAYLENE J. SCHULTZ

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

A. My name is Kaylene J. Schultz. I am employed by Avista Corporation as Manager of Regulatory Affairs in the Regulatory Affairs Department. My business address is 1411 East Mission, Spokane, Washington.

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

A. I am a 2010 graduate from Gonzaga University with a Bachelor of Business Administration degree, majoring in both Accounting and Business Administration, with a concentration in Management Information Systems. After spending nearly eight years in the banking and capital markets sector, I joined Avista in September 2015 as a Natural Gas Analyst in the Company's Gas Supply Department, now Energy Supply. In January 2019, I joined the Regulatory Affairs Department as a Regulatory Affairs Analyst where I was responsible for preparing annual filings and various applications, including those related to the Purchased Gas Adjustments for all jurisdictions. In my current role as Manager of Regulatory Affairs, I am responsible for the preparation of normalized revenue requirement and pro forma studies for the Company's Oregon jurisdiction, among other things.

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

A. My testimony addresses the accounting associated with the power cost deferrals under the Energy Recovery Mechanism ("ERM") approved by the Commission in Docket UE-011595. I also explain what is contained in the monthly reports that are filed with the Commission. Finally, I will address the 2021 results for the Voluntary Solar Select

Program approved in Docket UE-180102.

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exh. KJS-2 and Exh. KJS-3. Exh. KJS-2 consists of a copy of the December 2021 ERM report provided for informational purposes, and Exh. KJS-3 contains a summary of the 2021 fixed costs (actual versus authorized) related to Coyote Springs II.

Q. Are other witnesses sponsoring testimony on behalf of Avista?

A. Yes. Company witness Ms. Brandon provides testimony concerning the factors contributing to the power cost deferrals during the 2021 calendar year review period. Company witness Mr. Dempsey provides testimony concerning the operation of our various thermal plants, including the availability factors of certain generating facilities.

II. ACCOUNTING ASSOCIATED WITH ERM DEFERRALS

Q. Would you please describe the accounting associated with the Company's ERM deferral mechanism?

A. Yes. In her direct testimony, Ms. Brandon discusses the calculation of the monthly variations between actual and authorized power supply revenues and expenses. Under the ERM deferral mechanism, monthly variations are accumulated until the calendar-year deadband of $4.0 million is exceeded. Once the deadband is exceeded, 50 percent of the cumulative variation between actual and authorized net power supply costs between $4.0 million and $10.0 million is deferred if the deferral is in the surcharge direction, and 75 percent is deferred if the deferral is in the rebate direction. Once the cumulative power supply cost variance from the amount included in base rates exceeds $10.0 million, 90 percent of the cost variance above $10 million is deferred for future surcharge or rebate.

When actual net power supply costs differ from authorized costs by over $4 million, entries are made to record the deferral amount by crediting FERC Account 557.28 - Other Power Supply Expenses, thereby decreasing recorded power supply expenses, and debiting FERC Account 186.28 - Miscellaneous Deferred Debits. If actual net power supply costs are less than authorized costs in a given month, an entry is made to record the difference by debiting FERC Account 557.28 - Other Power Supply Expenses, thereby increasing recorded power supply expenses, and crediting FERC Account 186.28 - Miscellaneous Deferred Debits. An accumulated debit balance in FERC Account 186.28 represents a surcharge balance, while an accumulated credit balance represents a rebate balance.

Q. How is interest recorded on the deferral balances?

A. Interest is calculated pursuant to the Settlement Stipulation approved by the Commission's Fifth Supplemental Order in Docket UE-011595, dated June 18, 2002. Interest is applied to the average of the beginning and ending month balances in Account 186.28, net of associated deferred federal income tax. The Company's weighted cost of debt is used as the interest rate. The interest rate is updated semi-annually, and interest is compounded semi-annually. The interest rate used for the period January 1, 2021 through June 30, 2021 was 4.48%, the Company's weighted cost of debt at December 31, 2020. The interest rate used for the period July 1, 2021 through December 31, 2021 was 4.81%, the Company's weighted cost of debt at June 30, 2021. The supporting workpapers for the January and July semi-annual updates of the weighted cost of debt used in the interest calculations are contained in the January 2021 and July 2021 filed monthly reports.

Q. How are income taxes accounted for under the deferred power cost mechanism?

A. The power cost deferral entries are not recognized in the determination of taxable income for federal income tax purposes. Therefore, deferred federal income taxes are recorded to FERC Account 283.28 – Accumulated Deferred Federal Income Tax. When FERC Account 283.28 is credited, Account 410.10 – Deferred FIT Expense in debited. Likewise, when FERC Account 283.28 is debited, FERC Account 410.10 is credited.

Q. In 2021, what were the amounts deferred and the amount absorbed by the Company?

A. For the 2021 calendar year, actual net power costs were greater than authorized net power costs for the Washington jurisdiction by $16,360,791. Table No. 1 below illustrates the allocation between the Company and Customer:

Table No. 1 – 2021 ERM Results

	Total	Absorbed (Avista)	Deferred (Customer)
First $4M at 100%	$ 4,000,000	$ 4,000,000	$ -
$4M to $10M at 25% (rebate)	$ -	$ -	$ -
$4M to $10M at 50% (surcharge)	$ 6,000,000	$ 3,000,000	$ 3,000,000
Over $10M at 10%	$ 6,360,791	$ 636,079	$ 5,724,712
	$ 16,360,791	$ 7,636,079	$ 8,724,712

The total current year deferral is comprised of $8,724,712 related to the 2021 net power costs shown above, plus interest in the amount of $97,357.[1] This balance does not include the effects of Solar Select as discussed later in my testimony, and which is separately tracked at 100%.

[1] This represents actual recorded interest for 2021. Solar Select was recorded to the general ledger, however, and was inadvertently excluded from the interest calculation. Interest will be corrected in the January 2022 journal in the amount of approximately $1,400.

Q. What was the total balance in the ERM deferral accounts at December 31, 2021 <u>including</u> deferrals that arose prior to 2021?

A. In total, the overall cumulative rebate balance in all ERM deferral accounts as of December 31, 2021, was $10,792,225[2]. Table No. 2 summarizes the activity in all the ERM deferral accounts and the resulting balance at December 31, 2021.

Table No. 2 – Cumulative ERM Balances

Account	Description	Balance Surcharge/ (Rebate)
186280 - Current Year Deferral (2021)	Cumulative YTD Balance for difference between actual and authorized during 2021	$ 8,822,069
182352 - Approved for Rebate	ERM deferrals through 2018 approved for rebate in UE-190334, UG-190335 and UE-190222 (consol.)	$ (6,456,812)
182350 - Amortizing Deferral Balance	Balance approved for prudency for 2019-2020, but not yet approved for rebate	$ (13,157,482)
	Total Balance at December 31, 2021	**$ (10,792,225)**

Q. Under the mechanics of the ERM, what is the provision for a rebate or surcharge of the ERM balance to customers?

A. A rate adjustment trigger was originally set at 10% of base revenues per the Settlement Stipulation and approved by the Fifth Supplemental Order in Docket UE-011595. The Multiparty Settlement Stipulation in Docket UE-120436 reduced the rate adjustment

[2] For ease, the balances in Table No. 2 above do not include the impact of the Solar Select deferral. Account No. 186280 excludes the impact of the Solar Select deferral benefit for calendar year 2021 in the amount of approximately $893,557, including interest. Additionally, the balance in Account No. 182350 excludes approximately $206,315, including interest, related to the Solar Select deferral net benefit from prior calendar years 2019 and 2020. The total Solar Select deferral, including balances since origination of the program, was reclassified in February 2022 to a new FERC account, 186295 – Regulatory Asset ERM Solar Select, so that the balances related to that program are more easily distinguishable from how they have been tracked prior. This reclassification was not reflected in the December 31, 2021 year end general ledger balances.

trigger from 10 percent of base revenues to $30 million. However, as indicated in footnote 3, rebates of ERM balances (as approved by the Commission) have occurred separate from this provision. The Company first reached it's $30 million trigger with its 2019 annual ERM filing and was approved for a 24-month rebate effective April 1, 2020, per Order No. 9, Dockets UE-190334, UG-190335 and UE-190222 (consol.). The Company began returning the rebate to customers effective April 1, 2020, with a remaining balance as of December 31, 2021 of approximately $6.5 million, as illustrated above in Table No. 2.

III. COLSTRIP UNITS #3 & #4 AND COYOTE SPRINGS II

Q. The requirements set forth in Order 03 in Docket UE-060181 requires that the Company track the availability factors for Colstrip and Coyote Springs II, and should these factors drop below 70%, the Company is to make adjustments to account for the differences between actual and authorized fixed costs. Did the availability factors drop below 70% in 2020?

A. Yes. There was an extended outage at the Coyote Springs 2 Generating Station (CS2) that reduced the availability of the plant below 70% for the 2021 ERM review period. As noted in Ms. Brandon's testimony, the equivalent availability factor for CS2 was 64.50% for 2021, while Colstrip Units 3 & 4 was 81.30%. Paragraph 6(E) of the Settlement Agreement approved by Order 03 in Docket UE-060181 dated June 16, 2006, requires the Company to demonstrate that:

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[3] As a part of the Settlement Stipulation approved by the Commission in Dockets UE-140188 and UG-140189, Avista was authorized to rebate to customers approximately $8.2 million during 2015. Approximately $8.0 million was passed back to customers during 2015. That rebate was set to expire on December 31, 2015, however, in Docket UE-152406, the Commission extended the rebate for an additional 11 days (January 1-January 11, 2016) to coincide with the effective date of the Company's 2015 general rate case for approximately $640,000.

(1) the fixed costs set in rates were in fact incurred for the time the plants had an outage that reduced the availability factor below 70%; and (2) the outage was not the result of imprudent actions on the part of the Company. The fixed costs for each of the plants include return on rate base net of tax, depreciation expense, and operation and maintenance expense not included in the net power costs and other production costs related to these plants. To the extent that the actual fixed costs are below the level used to calculate base rates, or to the extent the outage was the result of imprudent actions and some level of cost is disallowed these disallowed costs or reductions in actual costs are to be subtracted. No adjustment is necessary to the normal method of calculating the retail revenue credit and the same retail revenue credit factor will be used that would have been used absent such an event.

With regards to CS2, my testimony explains that the actual level of fixed costs for 2021 exceeded the fixed costs set in rates, and Mr. Dempsey explains that the outage was not the result of imprudent actions. As for Colstrip Units 3 & 4, the Company was above the threshold, and therefore, no further analysis is required.

Q. How are fixed costs defined in the Settlement Agreement approved by Order 03 in Docket UE-060181?

A. As stated above, the fixed costs are defined as return on rate base net of tax, depreciation expense, and operation and maintenance expense not included in the net power costs and other production costs related to the plant.

Q. How do the CS2 plant fixed costs for 2021 compare to the fixed costs set in rates?

A. Exhibit No. KJS-3 provides a summary of the actual fixed costs related to CS2 for 2021 compared to the amount set in rates (authorized). The authorized amount results from 1) the order approving and adopting the Partial Multiparty Settlement Stipulation and resolving contested issues, approved in Docket UE-190334 by Final Order 09 dated March 25, 2020 with rates effective April 1, 2020 and 2) the order approving and adopting the Partial Multiparty Settlement Stipulation and resolving contested issues, approved in Docket UE-

200900 by Final Order 08/05 dated September 27, 2021 with rates effective October 1, 2021. Exhibit No. KJS-3 shows that the actual CS2 fixed costs were higher during 2021 than the amount set in rates. Detailed workpapers supporting this exhibit are included with this filing as well.

Q. What can be concluded from the comparison of CS2 plant fixed costs?

A. Since the actual CS2 plant fixed costs were higher during 2021 than the amount set in rates, and because the reason for the extended outage at CS2 was, in the Company's view prudent, no adjustment is necessary to account for differences between actual and authorized fixed costs.

IV. VOLUNTARY SOLAR SELECT PROGRAM

Q. Please provide a brief overview of the Company's Voluntary Solar Select Program.

A. On February 2, 2018, Avista filed Schedule 87 with the Commission to establish a new Voluntary Solar Select Program ("Solar Select") for large, non-residential retail customers, in Docket UE-180102. Schedule 87 offers a long-term, qualified renewable energy product to certain commercial and industrial customers. In order to meet the needs associated with the Solar Select program, Avista entered into a Power Purchase Agreement (PPA) with Strata Solar for 28 MW located in Lind, WA (Lind Solar Farm). This solar facility qualifies as a shared commercial solar facility under Engrossed Substitute Senate Bill (ESSB) 5939, enacted in RCW 82.16, Renewable Energy System Cost Recovery. During the March 29, 2018 Open Meeting, the Commission took no action on the Company's proposed tariff filing, thus letting the tariff go into effect by operation of law with an effective date of April 2, 2018.

Q. Is the Solar Select program fully subscribed?

A. Yes. The Solar Select program opened for reservations on May 1, 2018 and by day's end, the program was fully subscribed.

Q. Please describe the accounting process related to the Solar Select program.

A. Avista proposed, and Staff accepted, that expenses and revenues flow though the <u>annual</u> Energy Recovery Mechanism (ERM) filing, outside of the "deadband" and sharing bands (similar to the treatment of renewable energy credits). Subject to a prudence review, 100% of the benefits or costs associated with the Solar Select program will flow through to customers via the ERM deferral. The Company does not retain any benefits associated with the program. Table No. 3 below summarizes the activity in the new Solar Select general ledger account since origination of the program.

<u>Table No. 3 – Solar Select Balances</u>

Account 186290 - Regulatory Asset ERM Solar Select		
		Balance (+ benefit / - loss)
Calendar 2019 - Approved per Docket UE-200991, Order 01	$	249,193
Calendar 2020 - Approved per Docket UE-210216, Order 01	$	(57,572)
Prior Years Solar Select Balances (excluding interest) Approved	$	191,621
Calendar 2021 Solar Select Balance (excluding interest) Subject to Prudency Review	$	892,145
Total Solar Select Balance Excluding Interest	$	1,083,766
Total Interest	$	17,793
Total Solar Select Balance Including Interest	$	1,101,559

Q. What was the net benefit or loss associated with the Solar Select program for 2021?

A. For 2021, the net benefit associated with the Solar Select program was $892,145. Expenses, which include the power purchase agreement, transmission, distribution and communication interconnection costs, integration costs etc. were $3,222,977 versus revenues of $4,115,122. The net benefit/expense was calculated and tracked on a monthly basis, and summarized on an annual basis, separate from the ERM balances described in Section II above. A credit was recorded to FERC Account 186.280 to reflect the benefit associated with the Solar Select Program deferral balance in the amount of $892,145. As described in Ms. Brandon's testimony, the primary contributor to this net benefit is related to wholesale power prices being above what was anticipated, particularly during the Summer of 2021 and the Heat Dome event.

Q. Will the prudency of revenues/expenses be determined as part of this annual ERM filing review?

A. Yes, consistent with previous annual ERM reviews. The expenses and revenues associated the Solar Select program will be subject to the same prudence review as all power supply revenues and expenses. Detailed workpapers, specific to Solar Select, are provided with this filing.

V. ERM MONTHLY AND ANNUAL REPORTS

Q. Would you please describe the monthly reports that the Company submits to the Commission?

A. Yes. The Company submits monthly reports to the Commission that include the monthly power cost deferral journal entries together with backup workpapers and other supporting documentation. The cover letter for each monthly report contains a brief explanation of the factors causing the variance between actual and authorized power costs. The beginning of the month account balances, the recorded activity within the accounts, and the ending month account balances are shown. As previously mentioned, the January 2021 and July 2021 reports contain the supporting workpapers for the semi-annual updates of the weighted cost of debt used in the interest calculations. The monthly reports also include any new power supply contracts of one-year or longer, entered into during the month. The December 2021 report is attached for informational purposes as Exh. KJS-2.

Q. What are the requirements associated with the annual filing to review deferrals?

A. The Company is required to make an annual filing, on or before April 1 of each year, regarding the power costs deferred in the prior calendar year under the ERM. As previously discussed, in accordance with Docket UE-180102, the Company also is required to provide information related to the Solar Select program. The filing consists of testimony, exhibits, and supporting documentation.

Q. What is the review period for the annual ERM filing?

A. The Commission Staff and other interested parties have the opportunity to review the deferral information during a 90-day review period ending June 30th each year. The 90-day review period may be extended by agreement of the parties participating in the review, or by Commission order.

Q. Have the 2021 ERM calculations and accounting entries been made in a manner consistent with the ERM methodology approved by the Commission?

A. Yes, they have.

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

A. Yes, it does.