BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET UE-23________

DIRECT TESTIMONY OF

PATRICK D. EHRBAR

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

A. My name is Patrick D. Ehrbar and my business address is 1411 East Mission Avenue, Spokane, Washington. I serve as the Director of Regulatory Affairs.

Q. Would you briefly describe your educational background and professional experience?

A. Yes. I am a 1995 graduate of Gonzaga University, earning a Bachelor of Business Administration degree with an emphasis in Finance and Economics. In 1997 I graduated from Gonzaga University, earning a Master of Business Administration degree. I started with Avista in April 1997 as a Resource Management Analyst in the Company's Demand Side Management (DSM) department. Later, I became a Program Manager, responsible for energy efficiency program offerings for the Company's educational and governmental customers. In 2000, I was selected to be one of the Company's key Account Executives, where I was responsible for, among other things, being the primary point of contact for numerous commercial and industrial customers.

I joined the State and Federal Regulation Department as a Senior Regulatory Analyst in 2007. Responsibilities in that role included being the discovery coordinator for the Company's rate cases, line extension policy tariffs, as well as miscellaneous regulatory issues. In November 2009, I was promoted to Manager of Rates and Tariffs, and later promoted to be Senior Manager of Rates and Tariffs. My primary areas of responsibility included electric and natural gas rate design, decoupling, power cost and natural gas rate adjustments, customer usage and revenue analysis, and tariff administration. In October 2017, I was promoted to my present position.

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 and address the 2022 results for the Voluntary Solar Select Program approved in Docket UE-180102. Finally, I will provide details related to the proposed surcharge of $34.6 million to customers.

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exh. PDE-2 and Confidential Exh. PDE-3C. Exh. PDE-2 consists of a copy of the December 2022 ERM report provided for informational purposes, and Confidential Exh. PDE-3C contains the supporting workpapers for the January and July semi-annual updates of the weighted cost of debt used in the interest calculation.

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

A. Yes. Company witness Mr. Kinney provides testimony concerning the factors contributing to the power cost deferrals during the 2022 calendar year review period.

II. ACCOUNTING ASSOCIATED WITH ERM DEFERRALS

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

A. Yes. In his direct testimony, Mr. Kinney 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 - Deferred Power Supply Expense, thereby decreasing recorded power supply expenses, and debiting FERC Account 186.28 – Regulatory Asset ERM Deferred Current Year. 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 – Deferred Power Supply Expense, thereby increasing recorded power supply expenses, and crediting FERC Account 186.28 - Regulatory Asset ERM Deferred Current Year. 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 (DFIT). 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, 2022 through June 30, 2022 was 4.66%, the Company's weighted cost of debt at December 31, 2021. The interest rate used for the period July 1, 2022 through December 31, 2022 was 4.57%, the Company's weighted cost of debt at June 30, 2022. 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 Confidential Exh. PDE-3C.

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 (ADFIT). When FERC Account 283.28 is credited, Account 410.10 – DFIT Expense in debited. Likewise, when FERC Account 283.28 is debited, FERC Account 410.10 is credited.

Q. In 2022, what were the amounts deferred and the amount absorbed by the Company?

A. For the 2022 calendar year, <u>actual</u> net power costs were <u>greater</u> than <u>authorized</u> net power costs for the Washington jurisdiction by $48,834,582. Table No. 1 below illustrates the allocation between the Company and Customer:

<u>Table No. 1 – 2022 ERM Results</u>

	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%	$ 38,834,582	$ 3,883,458	$ 34,951,124
	$ 48,834,582	$ 10,883,458	$ 37,951,124

The total current year customer deferral is comprised of $37,951,124 related to the 2022 net power costs shown above, plus interest in the amount of $154,713.[1] This balance does not include the effects of Solar Select as discussed later in my testimony, and which is separately tracked at 100%.

Q. What was the total balance in the ERM deferral accounts as of December 31, 2022, <u>including</u> deferrals that arose prior to 2022?

A. In total, the overall cumulative surcharge balance in <u>all</u> ERM deferral accounts as of December 31, 2022, was $32,835,935. Table No. 2 summarizes the activity in all the ERM deferral accounts and the resulting balance as of December 31, 2022.

<u>Table No. 2 – Cumulative ERM Balances</u>

Account	Description	Balance Surcharge/ (Rebate)
186280 - Current Year Deferral (2022)	Cumulative YTD Balance for difference between actual and authorized during 2022	$ 38,105,837
182352 - Prior Unamortized Deferral Rebate	ERM deferrals through 2018 approved for rebate in UE-190334, UG-190335 and UE-190222 (consol.) ***Residual balance - tariff at zero.***	$ (767,326)
182350 - Previously Approved Deferred Balances Not Yet Amortized	Balance approved for prudency for 2019-2021, but not yet approved for rebate	$ (4,502,576)
	Total Balance at December 31, 2022	**$ 32,835,935**

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.

[1] This represents actual recorded interest for 2022.

The Multiparty Settlement Stipulation in Docket UE-120436 reduced the rate adjustment trigger from 10 percent of base revenues to $30 million (surcharge or rebate deferral balance). 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. The tariff expired March 30, 2022. As of December 31, 2022, there is a residual balance of approximately $767,326, as illustrated above in Table No. 2.

Q. Has the Company reached the $30 million trigger during the current-year (2022) deferral period requiring an adjustment to customer rates?

A. Yes. As shown in Table No. 2 above, the overall ERM surcharge deferral balance owed from customers as of December 31, 2022 is approximately $32.8 million. That includes the 2022 deferred balance, the unamortized portion of the 2019 ERM rebate, and $4.5 million of prior ERM review deferred balances not yet amortized to customers.

Q. Is there an additional deferral balances <u>not shown in Table No. 2</u> the Company wishes for this Commission to take into consideration when approving the surcharge deferral balance to collect from customers?

A. Yes, there is. On July 11, 2022, the Company filed a deferred accounting petition requesting authorization to defer certain Energy Imbalance Market (EIM) benefits that had been previously approved to offset its net base power supply costs and base rates per general rate case Docket Nos. UE-200900 et. al., that had been inadvertently excluded in error.[2] This error resulted in an understatement of EIM benefits, and an overstatement of

[2] In Avista's 2020 GRC (Docket No. UE-200900, the Commission approved a pro forma level of EIM benefits to include within net power supply costs as a result of Avista's entrance into and participation in the EIM of $5.8 million system (or $3.4 million Washington share). In the first half of 2022, Avista determined that the calculation of the approved benefits included in its ERM power supply base and resulting revenue requirement

revenues collected from customers. The Company requested in its deferred accounting petition in Docket No. UE-220530, and the Commission approved in Order No. 01 authority to defer this overcollection of revenues to be returned to customers at a later date and future proceeding. The net deferral as of December 31, 2022 resulted in a deferred benefit to customers of $971,670 recorded in FERC Account No. 254303 "Regulatory Liability Washington Revenue Deferral due to power Supply."[3]

The Company believes including this deferred regulatory liability of $971,670 as an offset to the ERM surcharge deferred balance owed from customers is appropriate to reduce the overall customer surcharge in this proceeding. Table No. 3 below shows the net impact and the Company's proposed overall adjusted ERM deferred balance owed from customers.

Table No. 3 – Adjusted ERM Balance

Account	Description	Balance Surcharge/ (Rebate)
Cumulative ERM Deferred Balance at December 31, 2022		$ 32,835,935
254303 - Regulatory Liability - WA Revenue Deferral due to Power Supply	Deferral of misstated EIM benefits in UE-200900 et. al.	$ (971,670)
Adjusted ERM Deferred Balance at December 31, 2022		**$ 31,864,265**

Through this filing, the Company proposes to include an amortization rate to collect this adjusted balance ($31.9 million) customers effective July 1, 2023. After factoring in the forecasted accrued interest and revenue conversion items, the total balance to be recovered from customers is $34.6 million.

Q. How does the Company propose to spread the adjusted net deferral

approved by the Commission contained an error, and thus the actual ERM level of benefits included were understated by approximately $757,000 lower than the agreed-upon level of ERM benefits.

[3] Other than interest, this balance will not materially change as the error was corrected with the most recent general rate case (Docket UE-220053) effective December 21, 2022.

balance of $34.6 million surcharge balance amongst the rate schedules?

A. The Company proposes to spread the $34.6 million surcharge balance by the Generation Level Consumption (E02 Allocator) from the Company's most recent cost of service study in Docket UE-220053 sponsored by Company witness Mr. Garbarino. This allocation follows the allocation prescribed in WAC 480-85-060 for the allocation of net power costs and is consistent with how the Company has spread these costs in its electric cost of service studies (See Table 2, WAC 480-85-060 - "Net power costs are allocated using annual energy usage at the point of generation").

Q. Is this allocation also consistent with the allocation approved by the Commission for the most recent ERM rebate in Docket No. UE-190222?

A. Yes. This method is consistent with the allocation methodology utilized in Docket No. UE-190222.

Q. Is this allocation also consistent with the allocation approved by the Commission for the Renewable Energy Credits (REC) rebate?

A. Yes. The Generation Level Consumption (E02 Allocator), is consistent with the allocation approved by the Commission for the Renewable Energy Credits (REC) rebate approved in Docket UE-140188, Order 05.[4]

Q. What amortization period is the Company proposing to recover the surcharge balance over?

A. We propose this surcharge to be amortized over a period of twelve-months beginning July 1, 2023. Interest will be calculated consistent with the calculation described earlier in my testimony.

[4] Docket UE-140188 Settlement Stipulation – 3, footnote 3.

Q. Why did the Company not consider a longer amortization period to spread out the overall increase?

A. The Company believes that the trigger level ($30M) has been set at a level that is appropriate to surcharge or rebate over a twelve month period. When that trigger level was agreed to, by the vary nature of that value and total Company electric revenue, a 6% increase or decrease was inferred as being reasonable.

Q. What other considerations did the Company consider for why a twelve-month amortization period is appropriate in this filing?

A. A key consideration for Avista's desire to recover the deferred balance over a twelve month period is for liquidity purposes. In 2022 and 2023 year-to-date, the wholesale commodity markets have been more volatile than experienced in recent years. This has led to larger amounts of cash being required to procure energy for customers. Further, increased liquidity will be required especially in Washington related to compliance with the Climate Commitment Act and forthcoming auctions. As such, with significant amounts of cash being expended on behalf of customers, timely recovery of cash also needs to occur.

Q. What is the annual impact by rate schedule of the proposed spread?

A. Please see Table No. 4 below for the annual impact by rate schedule.

<u>Table No. 4 – Proposed Rate Spread</u>

Schedule No.	Rate Schedule	Change % Billed Revenue (1-Year)	Change $ Billed Revenue (1-Year)
1/2	Residential	6.0%	$ 15,394,629
11/12	General Service Schedule	4.3%	$ 3,909,958
21/22	Large General Service Schedule	5.8%	$ 8,000,277
25	Ext. Lg General Service Schedule	9.1%	$ 6,177,914
31/32	Pumping Service Schedule	7.0%	$ 1,005,693
41-48	Street and Area Lights Schedule	1.4%	$ 104,584
	Overall	**6.0%**	$ 34,593,056

Q. Would you briefly explain why the rate spread among the schedules is quite varied as compared to the overall increase?

A. Yes. The proposed rate spread is based on the utilization of the E02 allocator as discussed earlier. Being an energy allocator, any surcharge (or rebate) will be spread to more energy intensive customer classes vis-a-vie less energy intensive classes. For example, Street and Area Light Schedules are primarily made up of the fixed cost assets associated with lights – pedestals, LED lights, etc. Only a very small portion of that classes rates are based on the actual energy. On the other hand, industrial customers served under Schedules 25 and 25P are very energy intensive (i.e., a large portion of those customers cost of service is energy-related). As such, more of the energy-related ERM costs necessarily flow to more energy intensive schedules.

Q. What is the impact of the increase to an average Residential Customer?

A. The average residential customer using 932 kWhs per month will see an increase of $5.60 per month, or approximately 6.3%. The present bill for 932 kWhs is $88.82 while the proposed bill is $94.42. The actual bill change will vary based on customer usage.

<u>III. COLSTRIP UNITS #3 & #4 AND COYOTE SPRINGS II</u>

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 2022?

A. No. As noted in Mr. Kinney’s testimony, the equivalent availability factors for

2022 were 88% for Coyote Springs II and 92% for Colstrip Units 3 & 4. As such, the Company was above the threshold, and therefore, no adjustment is necessary to account for the 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. Expenses and revenues are recorded monthly and evaluated coincident with the annual Energy Recovery Mechanism (ERM) filing. These expenses and revenues are tracked outside of the "deadband" and sharing bands (similar to the treatment of renewable energy credits). Subject to a prudence review at the 8-year period, 100% of the benefits or costs associated with the Solar Select program will be evaluated to determine if it's appropriate to flow through to customers via the ERM deferral. The Company does not retain any benefits associated with the program. Table No. 5 below summarizes the activity in the new Solar Select general ledger account since origination of the program.

Table No. 5 – Solar Select Balances

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)
Calendar 2021 - Approved per Docket UE-220232, Order 01	$	892,145
Prior Years Solar Select Balances (excluding interest) Approved	$	1,083,766
Calendar 2022 Solar Select Balance (excluding interest) Subject to Prudency Review	$	1,154,955
Total Solar Select Balance Excluding Interest	$	2,238,721
Total Interest	$	67,919
Total Solar Select Balance Including Interest	$	2,306,640

Q. What was the net benefit or loss associated with the Solar Select program for 2022?

A. For 2022, the net benefit associated with the Solar Select program was $1,154,955. Expenses, which include the power purchase agreement, transmission, distribution and communication interconnection costs, integration costs etc. were $2,652,322 versus revenues of $3,807,277. 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. The net benefit of the Solar Select program as of December 31, 2022 is a credit balance of $1,154,955, as shown in Table No. 5 above. As described in Mr. Kinney's testimony, the primary contributor to this net benefit is related to wholesale power prices and volumes being above what was anticipated, particularly during the Summer of 2022.

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 confidential workpapers, specific to Solar Select, have been 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. The monthly reports also include any new power supply contracts of one-year or longer, entered into during the month. The December 2022 report is attached for informational purposes as Exh. PDE-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. In past annual ERM review filings, Avista has agreed to extend the 90-day review period. Is there a reason the Company will not agree to extend the 90-day review period this time?

A. Yes, in prior proceedings the ERM had not hit the trigger level requiring a rate change, and therefore the Company was agreeable to extending the 90-day review period. In this filing the ERM has risen to a level that requires a rate change and the Company believes it is appropriate to implement the rate change effective July 1 in order to recover the deferred dollars in a timely matter. In the end, adjusting customer rates on July 1 is consistent with the mechanics of the ERM what has been required by the Commission through orders.

Q. Have the 2022 ERM calculations and accounting entries been made in a manner consistent with the ERM methodology approved by the Commission?

A. Yes, they have.

VI. EQUITY CONSIDERATIONS

Q. How has the Company considered Equity in this rate filing?

A. The Company recognizes the importance of equity, and importantly how the proposed increase in this filing may have a disproportionally higher impact on some customers, particularly those located in Named Communities. With the objective to mitigate a portion of their share of this burden, Avista will utilize a targeted communication and outreach strategy to reach customers located within Named Communities informing, educating and facilitating participation of the many resources available for customers. The intent is to address some of the disproportionate impact of this filing by impacting the overall energy or non-energy burden through the use of these resources.

Avista engaged a third-party public engagement consultant, Public Participation Partners (P3), to develop an overarching communication strategy we can implement to effectively target our customers with an emphasis on those residing in Named Communities. It is the Company's goal to broaden its reach within the communities it serves to ensure customers have a platform to hear about Avista's clean energy goals, potential rate increases, and ways customers can offset those increases. On April 11, 2023, (12:00 p.m. and 5:00 p.m.) customers will have an opportunity to hear about the potential rate increase as a result of this ERM filing, including primary driving factors, along with the numerous energy assistance options and programs offered by Avista to help reduce customers energy burden. Avista will continue to engage with its customers in an effort to reach those who may need assistance regarding energy affordability through access to programs and providing information on payment plan options. In the future, we may be able to further enhance customer reach by providing outreach and communication about potential rate changes in additional languages, such as the top five most prevalent languages in Avista's service territory to promote awareness in Named Communities.

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

A. Yes, it does.