

**BEFORE THE WASHINGTON
UTILITIES & TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION
Complainant,

v.

AVISTA CORPORATION d/b/a AVISTA UTILITIES
Respondent.

DOCKETS UE-220053, UG-220054 and UE-210854 (*Consolidated*)

**RESPONSE TESTIMONY OF ROBERT L. EARLE ADDRESSING THE FULL
MULTIPARTY SETTLEMENT STIPULATION
ON BEHALF OF THE
WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL UNIT**

EXHIBIT RLE-1T

July 29, 2022

RESPONSE TESTIMONY OF ROBERT L. EARLE

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DOCKETS UE-220053, UG-220054, and UE-210854 (*Consolidated*)

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EXHIBITS LIST

Exhibit RLE-2	Qualifications and Curriculum Vitae of Robert L. Earle
Exhibit RLE-3	Avista's Response to Public Counsel's Data Request No. 57 with Attachment A
Exhibit RLE-4	Washington City Gate Comparison
Exhibit RLE-5	Percent Benefits Achieved in March 2022 Compared with Avista Projections
Exhibit RLE-6	Avista's Response to Public Counsel's Data Request No. 84
Exhibit RLE-7	Annualized Benefits Based on EIM Benefit from March 2022
Exhibit RLE-8	Adjustments to Clint G. Kalich Exhibit CGK-6 Annualizing EIM Revenues

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I. INTRODUCTION & SUMMARY

Q. Please state your name and business address.

A. My name is Robert Earle. My business address is 1388 Haight St. #49, San Francisco, California 94117.

Q. By whom are you employed and in what capacity?

A. I am employed by Alea IE, LLC as the owner.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Public Counsel Unit of the Washington Attorney General’s Office (Public Counsel).

Q. Please describe your professional qualifications.

A. I have over two decades of experience in the electric power and natural gas industries. This includes working on infrastructure planning, environmental mitigation, and analysis of gas and electric power markets. I have Ph.D. and Master’s degrees from Stanford University in operations research, and a B.A. in mathematics from the College of William and Mary. My curriculum vitae is attached as Exhibit RLE-2.

Q. What exhibits are you sponsoring in this proceeding?

A. I am sponsoring the following exhibits in this proceeding:

- | | |
|---------------|--|
| Exhibit RLE-2 | Qualifications and Curriculum Vitae of Robert L. Earle |
| Exhibit RLE-3 | Avista Response to Public Counsel Data Request No. 57 with Attachment A |
| Exhibit RLE-4 | Washington City Gate Comparison |
| Exhibit RLE-5 | Percent Benefits Achieved in March 2022 Compared with Avista Projections |

1 Exhibit RLE-6 Avista Response to Public Counsel Data Request No. 84

2 Exhibit RLE-7 Annualized Benefits Based on EIM Benefit from March
3 2022

4 Exhibit RLE-8 Adjustments to Clint G. Kalich Exhibit CGK-6
5 Annualizing EIM Revenues.

6 **Q. Would you please give an overview of your testimony?**

7 A. Certainly. My testimony addresses the power costs items in the Full Multiparty
8 Settlement Stipulation (Settlement) and Energy Imbalance Market (EIM) revenue
9 projections.¹ While I am generally supportive of the Settlement concerning power
10 costs as discussed below, the Energy Recovery Mechanism (ERM) Baseline
11 should be adjusted to reflect a better estimate of EIM revenues than Avista uses.

12 **Q. How did you consider equity as described in RCW 80.28.425 in your**
13 **testimony?**

14 A. RCW 80.28.425 provides:²

15 The commission's consideration of a proposal for a multiyear rate
16 plan is subject to the same standards applicable to other rate filings
17 made under this title, including the public interest and fair, just,
18 reasonable, and sufficient rates. In determining the public interest,
19 the commission may consider such factors including, but not limited
20 to, environmental health and greenhouse gas emissions reductions,
21 health and safety concerns, economic development, **and equity**, to
22 the extent such factors affect the rates, services, and practices of a
23 gas or electrical company regulated by the commission.

24 My testimony considers the fairness of power costs paid for by ratepayers
25 as a key factor. Higher rates disproportionately impact low-income and vulnerable

¹ See Full Multiparty Settlement Stipulation (filed June 28, 2022).

² RCW 80.28.425 (emphasis added).

1 communities. By striving to make sure that rates are no higher than warranted, my
2 testimony addresses equity.

3 **II. PUBLIC COUNSEL'S RESPONSE TO THE SETTLEMENT**

4 **Q. Please describe the specific terms concerning power costs in the Settlement.**

5 A. The Settlement contains two provisions concerning power costs:³

6 a. The Settling Parties⁴ agree to accept the 2023 Pro Forma Power Supply
7 expense and ERM Baseline as filed by the Company.

8 b. The Settling Parties agree that Avista will not perform the 60-day power
9 cost updates, as proposed within Avista's initial filing. The ERM Baseline
10 as filed will remain over the MYRP.

11 **Q. Do you support the two provisions concerning power costs in the Settlement?**

12 A. With the exception of EIM revenue projections, the specific provisions
13 concerning power costs in the Settlement are a reasonable compromise along with
14 the other provisions in the Settlement Public Counsel supports. Frequent updates
15 undermine the purpose of a multi-year rate plan (MYRP) to provide rate stability
16 for both the utility and ratepayers. Therefore, it is reasonable to keep the ERM
17 Baseline as filed with the exception of an adjustment to EIM revenues.

18 An important provision in the Settlement is its elimination of the 60-day
19 power cost updates. These updates create three types of problems.

20 The first type of problem is that these updates make it difficult for parties
21 to agree to a Settlement. Any party to an agreement with terms that bind parties to

³ The Revised Full Multiparty Settlement Stipulation , Exh. JT-2r ¶ 15 (filed July 8, 2022).

⁴ The Settling Parties include Avista, Commission Staff, Alliance of Western Energy Consumers, NW Energy Coalition, The Energy Project, Sierra Club, WalMart, and Small Business Utility Advocates.

1 future updates would essentially be blindly agreeing to changes to the power costs
2 without knowing the direction or magnitude of the update. Party representatives
3 could not tell their management or clients what the outcome in rates would be for
4 a settlement, because without knowing the outcome of the update they could not
5 know what those rates would be. The PacifiCorp 2019 General Rate Case
6 illustrated this problem.⁵ In that proceeding, power costs were updated in April
7 2020 to be \$112.2 million. The subsequent October 2020 update resulted in a
8 \$10.0 million *increase* in power costs to \$122.2 million.⁶ Changes such as this
9 make it hard for ratepayer advocates and other intervenors to know exactly what
10 they are negotiating for and make it harder to get buy-in from their management
11 or clients.

12 The second problem with updates is that they create a disincentive for the
13 utility to hedge power and gas prices because, after all, changes in gas and power
14 prices will simply be passed through to ratepayers because of the update. Instead,
15 the utility should have the incentive to hedge on behalf of ratepayers in order to
16 stabilize rates with variances passed through the Power Cost Adjustment
17 mechanism.

18 The third problem with the 60-day updates concerns prudence. The timing
19 of the updates in October gives little or no opportunity to review the updates.

20 These updates provide no process for review, discovery, testimony, rebuttal, and

⁵ *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-191024, Order 09, 07, 12, ¶¶ 38, 64, 71–89, Appendix B ¶¶ 11, 17, 20 (Dec. 14, 2020); *see also Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-210402, Order 06, ¶ 108 (Mar. 29, 2022) (Final Order Approving and Adopting Settlement Agreement).

⁶ Supplemental Joint Testimony in Support of Settlement Stipulation, Exh. JT-3CT at 3, Figure 1, *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-191024 (filed Nov. 6, 2020).

1 so on. If these updates to determine rates were allowed to be deemed prudent
2 without an adequate opportunity for review, the Washington Utilities and
3 Transporatation Commission (Commission) essentially would be abandoning the
4 principle of prudence of rates for power costs.

5 To illustrate the problem with the updates, consider the list of items Avista
6 had proposed to include in them: wholesale natural gas and electricity prices, non-
7 gas fuel prices (i.e., wood, coal), incremental short-term contracts for natural gas
8 and electricity, and power and transmission service contracts affecting the rate
9 year.⁷ With so many potential changes occurring in the short period after the
10 October update before rates would go into effect, little time would remain to
11 discover what changes the utility may have made in its power cost modeling,
12 much less to determine their impact.

13 **Q. Are there aspects of the Settlement concerning power costs that you do not**
14 **support?**

15 A. Yes. The EIM revenue projections embedded in the revenue requirement are
16 based on an outdated study that should be updated. I discuss this issue in more
17 detail, below.

18 III. EIM REVENUES

19 A. Background on Avista EIM Revenues

20 **Q. Please describe the EIM and its role in Avista's ERM calculations.**

21 A. EIM is a real-time energy market run by the California Independent System
22 Operator (CAISO) with 15-minute and 5-minute markets that dispatch across a

⁷ Direct Testimony of Clint G. Kalich, Exh. CGK-1T at 12:7–10.

1 wide area of the Western Interconnect.⁸ Avista began participating in the EIM on
2 March 2, 2022.⁹

3 Benefits from Avista’s participation in the EIM include “lowering
4 resource dispatch costs and/or through additional revenue created from
5 dispatching resources not committed to serve Avista customers that can be bid
6 into the market to serve demand across the EIM footprint.”¹⁰ These benefits from
7 participation in the EIM are part of the calculation of the ERM baseline. An
8 increase in forecast EIM benefits decreases the baseline and therefore decreases
9 costs to ratepayers, while a decrease in EIM benefits increases the baseline and
10 therefore increases costs to ratepayers.

11 **B. Avista’s Proposal**

12 **Q. What does Avista propose to do to forecast EIM benefits for the ERM**
13 **baseline?**

14 A. Avista proposes to use a five-year-old study conducted by E3 to determine the
15 EIM benefit used in the ERM baseline.¹¹

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17 //

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19 //

⁸ Cal. Indep. Sys. Operator, *Western Energy Imbalance Market, About Page*, <https://www.westerneim.com/Pages/About/default.aspx> (last visited July 19, 2022).

⁹ Cal. Indep. Sys. Operator, *Western Energy Imbalance Market: Benefits Report, First Quarter 2022* at 4–5 (Apr. 21, 2022) (hereinafter WEIM Report), <https://www.westerneim.com/Documents/ISO-Western-Energy-Imbalance-Market-Benefits-Report-Q1-2022.pdf> (WEIM Economic Benefits in Q1 2022).

¹⁰ Direct Testimony of Scott J. Kinney, Exh. SJK-1T at 7:19–21.

¹¹ *Id.* at 7:23–8:5 (Avista Energy Imbalance Market Benefits Assessment, Oct. 11, 2017, Energy+Environmental Economics (E3), Exh. SJK-3).

1 **Q. Please describe the study Avista uses to estimate EIM benefits for the ERM**
2 **baseline.**

3 A. The E3 study used two different approaches, benchmarking and a statistical
4 analysis, to estimate the benefits for Avista from EIM participation. Based on
5 these analyses, for Avista in 2023, E3 estimated that the benefit at the time of the
6 study was \$2 million to \$13 million (in 2017 dollars).¹²

7 Avista describes the \$5.8 million estimate (system, or \$3.8 million
8 Washington jurisdictional) in 2017 dollars as based on “averaging the four most
9 likely EIM scenarios out the 24 scenarios evaluated by E3.”¹³ Avista describes the
10 \$5.8 million estimate as the “best estimate the Company has at this time.”¹⁴

11 **Q. Is this a reasonable approach?**

12 A. Not at all. Avista proposes to use a five-year-old study denominated in 2017
13 dollars¹⁵ as the EIM benefit used in the ERM baseline. If this were a reasonable
14 approach, the Commission should consider asking Avista to rerun its ERM
15 calculations using 2017 gas prices. This is just as ridiculous as using a study from
16 2017 to estimate EIM benefits. Recall that Avista’s proposal included updates to
17 gas prices in its 60-day update. The gas price used in the 2017 E3 study was

¹² Kinney, Exh. SKJ-3 at 3.

¹³ Kinney, Exh. SKJ-1T at 8:5–7. Avista actually appears to average four of the EIM scenarios to get \$7.29 million and then subtracts \$1.5 million for “15 minute optimization revenue without EIM” Earle, Exh RLE-3 (Avista’s Response to Public Counsel’s Data Request No. 57, with Attachment A). It is unclear why this adjustment is justified.

¹⁴ *Id.* at 7:23–8:1.

¹⁵ Kinney, Exh. SJK-3 at 3.

1 \$3.81/MMBtu.¹⁶ The average price for Washington City Gate over the past 11
2 months is \$5.40/MMBtu, an increase of 42 percent.¹⁷

3 The California Independent System Operator (CAISO) that runs the EIM
4 estimates Avista's benefits for the one month of participation in the EIM in March
5 2022 at \$1.95 million.¹⁸ In the one month of March, the EIM benefits were
6 already 34 percent of the annual \$5.8 million projection sponsored by Avista.¹⁹

7 **C. The E3 Study Should be Updated**

8 **Q. Please describe your proposal.**

9 A. A simple approach to getting a better estimate of EIM benefits would be to have
10 E3 perform an updated study. When asked about this, Avista said it “does not feel
11 the additional time and costs to redo the E3 EIM study will improve the results
12 because the same model and general assumptions would be used to perform the
13 updated study.”²⁰ While it might be true that E3 would use the same model and
14 general assumptions, the input data will have changed, of course. Moreover, a
15 new study conducted toward the end of this year could include information based
16 on seven months of EIM participation, including two more quarters of CAISO
17 estimates of EIM benefits.²¹

¹⁶ *Id.* at 12.

¹⁷ Earle, Exh. RLE-4 (Washington City Gate Comparison). Data for May 2021 was not available from the Energy Information Agency (EIA).

¹⁸ WEIM Report at 3. Note that because the methodology incorporates a counterfactual, there is no need to adjust the benefits because of “15-minute optimization revenue EIM” as Avista does with the E3 study. *See, EIM Quarterly Benefit Report Methodology*, <https://www.westerneim.com/Documents/EIM-BenefitMethodology.pdf> (last visited July 21, 2022).

¹⁹ Earle, Exh. RLE-5 (Percent Benefits Achieved in March 2022 Compared with Avista Projections).

²⁰ Earle, Exh. RLE-6 at 1, subpart b (Avista Response to Public Counsel Data Request No. 84).

²¹ Cal. Indep. Sys. Operator, *Western Energy Imbalance Market, About Quarterly Benefits*, (Apr. 21, 2022) <https://www.westerneim.com/Pages/About/QuarterlyBenefits.aspx>.

1 E3 considers the CAISO benefits studies as a reliable indicator of benefits.

2 In reviewing Puget Sound Energy’s EIM accounting methodology, E3 notes that

3 PSE’s proposed accounting methodology appears to be a
4 fundamentally sound approach for modeling the economic impact
5 of the EIM for this rate case. The results of PSE’s calculations,
6 which were used to demonstrate this approach, produced \$13.5
7 million in EIM benefit for the study year, which is generally
8 consistent with the \$13.3 million average annual EIM benefits that
9 CAISO has estimated for PSE over 2017-2020.²²

10 It is clear why Avista is unreasonably resistant to updating the E3 benefits
11 study: an underestimate of EIM benefits accrues to the Company’s benefit. Avista
12 defends its position with the banality that “[t]here are too many variables that can
13 impact actual EIM benefits and therefore the models can’t precisely predict
14 outcome.”²³ Of course, that is true. It is true of virtually any economic prediction,
15 including the power cost modeling used to set the ERM baseline. The absence of
16 a precisely predicted outcome does not mean the data for the model should not be
17 updated.

18 Public Counsel recommends that the E3 study be updated and incorporate
19 information based on seven months of Avista’s participation in the market. The
20 Company should establish a collaborative process to resolve any issues in the
21 construction and interpretation of the model. Because of Avista’s recalcitrance on
22 this issue, its shareholders should pay the cost of the new study.

²² Paul K. Wetherbee, Exh. PKW-13 at 1–2, *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Dockets UE-220066 & UG-220067 (*consol.*) (Review of Puget Sound Energy’s EIM Accounting Methodology,” E3, Dec. 16, 2021).

²³ Earle, Exh. RLE-6 at 1 (Avista’s Response to Public Counsel’s Data Request No. 84, subpart b).

1 **Q. In the absence of an updated E3 study, what do you recommend?**

2 A. In the absence of an updated E3 study, I recommend using the results from
3 CAISO's benefits studies to update the EIM benefits forecast. At present, we have
4 only one month of results, but around the end of July there will be three months
5 more, and then near the end of October there will be a total of seven months of
6 data. Whatever the number of results that are available from CAISO, the benefits
7 could be annualized to use as an estimate of EIM benefits.

8 Currently, there is one month of EIM benefits calculated by CAISO for
9 Avista. As discussed earlier, this amount is \$1.95 million, or an annualized \$23.4
10 million.²⁴ The revenue requirement proposed in the testimony of Public Counsel
11 witness Sebastian Coppola includes this change,²⁵ As new data becomes available
12 this figure can be updated.

13 **Q. Are there challenges to using partial year data?**

14 A. Yes. If benefits are seasonal, it could pose a problem. However, the E3 Study
15 used by Avista says, "there is no definite trend thus far in the variation of the
16 quarterly benefits across current entities in the EIM."²⁶ Moreover, Avista's
17 methodology to derive 2022 estimated EIM benefits simply takes the 12-month
18 EIM benefit of \$5.8 and multiplies it by 7 months/12 months in a year to get 2022
19 benefits of \$3.4 million.

20 Another challenge is that data currently available is limited. The results
21 from March 2022 may be lower or might be higher than other months. This is

²⁴ Earle, Exh. RLE-7 (Annualized Benefits Based on EIM Benefit from March 2022).

²⁵ See Response Testimony of Sebastian Coppola, Exh. SC-1CT at 91:1-10.

²⁶ Kinney, Exh. SJK-3 at 14.

1 why I recommend having E3 redo the study taking into account the actual benefits
2 realized at the time they conduct the study.

3 **Q. Have you prepared an exhibit showing the impact of the annualization of**
4 **March 2022 EIM benefits on the Retail Revenue Adjustment rate?**

5 A. Yes. Exhibit RLE-8 shows the change to Clint G. Kalich's Exhibit CGK-6. The
6 resulting Retail Revenue Adjustment rate changes from \$12.53/MWh for the pro
7 forma period to \$10.48/MWh.

8 **Q. Does this conclude your testimony?**

9 A. Yes.