BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-220053
DOCKET NO. UG-220054
DOCKET NO. UE-210854
(consolidated)

REBUTTAL TESTIMONY OF
SCOTT J. KINNEY
REPRESENTING AVISTA CORPORATION
Q. Please state your name, employer, and business address.
A. My name is Scott J. Kinney. I am employed as the Director of Energy Supply at Avista Corporation, located at 1411 East Mission Avenue, Spokane, Washington.

Q. Have you filed direct testimony in this proceeding?
A. Yes. I filed direct testimony providing an update on Avista’s Western Energy Imbalance Market (EIM) integration efforts and plan to join the market on March 2, 2022, Avista’s participation in the Western Resource Adequacy Program (WRAP) trial, an update on Avista’s natural gas resource procurement plan, and an overview of the Company’s 2021 Natural Gas Integrated Resource Plan (IRP).

Q. What is the purpose of your rebuttal testimony in this case?
A. The Public Counsel Unit of the Washington State Attorney General’s Office (Public Counsel) filed testimony in this case with regards to the Company’s proposed treatment of benefits associated with operating in the EIM and the impact on overall power supply costs. My rebuttal testimony responds to the direct testimony of Public Counsel Witness Earle (Exh. RLE-1T) and will demonstrate that the Company’s treatment of EIM benefits as provided in the Settlement is based on best known estimates, and the Commission should accept the Settlement’s treatment of the Company’s power supply costs.

Q. Are you sponsoring any exhibits that accompany your testimony?
A. No, I am not.

Q. Would you please explain what was agreed to in the Settlement as it relates to Pro Forma Power Supply?

---

1 See Full Multipart Settlement Stipulation (Exh. JT-2, paragraph 15).
A. Yes. As discussed in the Settlement (Exh. JT-2, ¶15), the Settling Parties agreed to the 2023 Pro Forma Power Supply expense, including the costs and revenues included in the ERM and ERM baseline, as originally-filed by the Company. The Settling Parties also agreed that Avista will not perform a 60 day power cost update prior to new rates going into effect for each year of the Two Year Rate Plan (prior to Rate Year 1 or Rate Year 2). In short, the ERM Baseline as originally filed will remain in effect through the entire Two Year Rate Plan, with no opportunity for Avista to update the underlying baseline values. Embedded in the as filed ERM baseline and 2023 Pro Forma Power Supply expense is an annual EIM benefit of $5.8 million system (or $3.8 million Washington share).

Q. Does the Company support the Settlement even though it does not include a 60 day power supply update?

A. Yes. First, the agreement to not update power supply costs for the entirety of the Two Year Rate Plan was agreed to as a part of the give and take of negotiations, whereby parties pushed and pulled all of the issues included in the Company’s filing. So we continue to support this condition, even though it varies from our originally filed case.

Q. Isn’t the Company taking on significant additional risk by having agreed to this condition?

A. Absolutely, the Company is taking on additional risk by not updating power supply costs during the pro forma period but, as previously stated, agreed to this condition in

---

2 Full Multiparty Settlement Stipulation is entered into by Avista Corporation (“Avista” or the “Company”), the Staff of the Washington Utilities and Transportation Commission (“Staff”), Alliance of Western Energy Consumers (“AWEC”), NW Energy Coalition (“NWEC”), The Energy Project (“TEP”), Sierra Club, Walmart, and Small Business Utility Advocates (“SBUA”), jointly referred to herein as the “Settling Parties.” Public Counsel did not join the Settlement Stipulation.

3 Exh. JT-2, pp. 8, paragraph 15.

4 ERM Baseline provided as Attachment C of Exh. JT-2.
the Settlement as part of the give and take to spread risk between the Company and its customers.

Q. Is it reasonable then to separate out one component, EIM Revenues, and require that value to be updated while all other components are left unchanged?

A. No, it is not. Separating out certain power supply components skews the balance of risk between the Company and customers. If any cost or revenue component is updated, then all power supply costs should be updated to ensure a proper balance of risk between the Company and its customers. For example, the Company signed a long term power purchase agreement that starts during this Rate Plan (Fall 2024) that introduces additional risk depending upon how the Company’s is positioned from a load and resource balance.

Q. Does the Energy Recovery Mechanism (ERM) provide a level of protection for both customers and the Company should power supply components vary from the baseline levels included in this case?

A. Yes. All power supply costs and revenues are ultimately tracked in the ERM. If actual revenues are higher or lower, such as those from participation in the EIM, they will be shared among customers and the Company based on the dead band and sharing bands. This provides protection and reduces risk to both the Company and its customers. For example, with the recent volatility in wholesale natural gas and power prices, the ERM has been in the 90/10 surcharge sharing position and is projected to end the year in this sharing band. That means Avista is projected to absorb the first $4 million of increased net power supply expense, and then absorb an additional $3 million of the next $6 million of increased net power supply expense, all before reaching the 90% customer, 10% Company sharing band.
Q. Does the Company support updating only the EIM benefit component of the Company’s power supply costs in this case, as suggested by Public Counsel5?

A. No. The Company does not believe it is right to cherry pick only one component of the overall level of power supply included in this case and agreed-to by the Settling Parties. That is especially true as Witness Earle is selecting just one item that he believes should be higher than the amount embedded in the baseline using partial and incomplete estimates. Further, separating out certain components of the power supply costs isn’t appropriate since the Company has completely changed how it sets up and positions our resources to ensure customer demand is served first, and then look for additional revenue/optimization opportunities to benefit customers. Some of the benefits attributed to EIM are a shift from the Company’s historical day ahead and hourly bilateral optimization efforts employed prior to joining the EIM. These traditional benefits are already reflected in the filed power supply costs. As we gain additional experience in EIM we are also finding there are times it is better to transact in the day ahead market instead of the EIM due to better prices. Therefore, power supply costs need to be determined as a whole instead of separating into pieces. Put another way, all of the components work together and are not mutually exclusive, and so cherry picking one item while ignoring other items, is not reasonable.

Q. Does the Company believe the E3 study provides the best estimate of EIM benefits during the pro forma period?

A. Yes. As stated in my direct testimony (Exh. SJK-1T) and in the E3 Study (Exh. SJK-3), there are multiple factors that can influence EIM benefits including hydro availability, transmission capacity to facilitate market transactions, the amount of renewable resources in

---

5 Exh RLE-1T, p. 9, ll. 18-19.

Rebuttal Testimony of Scott J. Kinney
Avista Corporation
Docket Nos. UE-220053, UG-220054 and UE-210854
a participants resource mix, and market price volatility. All of these factors can influence the opportunity to achieve benefits through EIM operations and can have different impacts each year and each season of the year. Therefore, using an average approach of the scenarios previously analyzed by E3 as described in my direct testimony (Exh. SJK-1T), provides a good estimate until the Company has achieved significant EIM operating experience and has a better understanding how to understand its market opportunities and what factors influence them.

Q. **Does the Company support witness Earle’s proposal to redo the E3 study to determine future EIM benefits?**

A. No, the Company believes an updated study will not necessarily result in a significant change in the outcome from the original analysis and probably can’t be completed in a timeframe to inform this rate proceeding. As previously stated, there are multiple variables that impact potential EIM benefits, and these variables are more impactful and relevant in the extreme scenarios evaluated by E3. However, the scenarios that model average system conditions probably won’t change significantly and the Company believes these average scenarios are best to use in determining future outcomes. As with the overall power supply cost methodology, assumptions and inputs are based on annual averages (hydro generation as example) not annual extreme conditions. In the development of the current power supply cost methodology, stakeholders including Public Counsel agreed with the approach to use average conditions, not extremes to predict future costs. It is prudent to use a similar methodology for estimating future EIM benefits.

Witness Earle references the increase in natural gas costs as an indication of the need

---

6 Exh. RLE-1T, p. 9, line 18.
to update the study.\textsuperscript{7} However, natural gas costs alone are not a predictor of overall EIM benefits. The value of the Company’s resources in the EIM will depend upon the total EIM footprint load obligation and the bids of other utility resources into the market. Potential EIM benefits from Avista’s thermal resources are a result of the relationship of natural gas costs to power prices, so unless power prices increase at or above the rate of natural gas price increases the potential revenue from thermal resources could actually decrease not increase with higher natural gas prices. This emphasizes how difficult it is to predict future EIM benefits using models and assumptions without any actual operating history. It also demonstrates that cherry picking one item for updating (whether in EIM benefits or Power Supply baseline values generally) is inappropriate.

Q. Could E3 even be able to perform an updated assessment during the pendency of this case?

A. No, it may not be feasible to contract with E3 to complete an updated assessment in sufficient time to inform EIM benefits for this case. Previous experience with E3 has shown it takes at least 6 months to complete an assessment including contract development, completing a draft assessment, allowing sufficient time to review and then update the assessment and then finalizing the analysis. And, most importantly, this assumes that E3 would even be available, given their other work, and would support doing another assessment so early in to Avista’s joining the EIM, having only been in the EIM for 6 months as of the writing of this testimony.

Q. Do you agree with Witness Earle’s statement that the CAISO benefit studies, and Puget Sound Energy’s EIM accounting methodology, are reliable indicators

\textsuperscript{7} Exh. RLE-1T, p. 7, ln. 11 – p. 8, ln. 2

Rebuttal Testimony of Scott J. Kinney
Avista Corporation
Docket Nos. UE-220053, UG-220054 and UE-210854
of Avista’s EIM benefits?  

A. No. Without any operating experience it is too early for the Company to tell whether the CAISO benefit calculation methodology or the PSE accounting methodology will accurately reflect estimated benefits for Avista. The Company is aware that most EIM participants have developed internal EIM accounting methodologies to compare results against calculated CAISO benefits based on better internal information associated with opportunity costs and other assumptions. The CAISO methodology assigns no costs or limitations to the transmission utilized for EIM transactions, and baseline dispatch costs assuming no EIM participation are calculated based on participants bids - not actual costs. These assumptions can result in elevated estimated benefits depending on a participant’s bidding strategy and transmission utilization. The Company is working on an internal EIM benefit methodology as a check against published CAISO values. The methodology is not final yet because the Company needs more historical data to compare against (again, as of the writing of this testimony we have been in the EIM for 6 months). Being able to back cast against actual data is important prior to finalizing a methodology. The Company will share its methodology in the future with stakeholders and provide opportunities for input.

Witness Earle’s testimony indicates that E3 notes that PSE’s proposed accounting methodology appears to be fundamentally sound for modeling economic benefits based on information in a recent PSE rate filing. He compares PSE’s estimated EIM benefits against CAISO average historical calculation over four years. An important thing to consider is that PSE has taken multiple years to develop its EIM benefit calculation methodology. PSE joined

---

8 Exh. RLE-1T, p. 9, ll. 1-9.
9 Ibid.
the EIM in the fall of 2016, yet just recently finalized their benefit methodology because it
needed several years of history to be able to verify that its assumptions and models did a
decent job of predicting future opportunities. Avista should be granted a similar opportunity
to utilize actual EIM results to verify EIM estimates.

Q. Does the Company support Witness Earl’s alternate proposal to
determine the Company’s EIM benefits in the absence of updating the E3 study?¹⁰

A. No. The Company does not believe it is correct to take one month or even four
months of EIM benefits calculated by CAISO and use that to inform future revenue
opportunities through the multi-year rate period. A minimum of a year and more likely two
years of EIM operations are needed to predict future opportunities. As previously discussed,
PSE took almost five years to finalize its model and assumptions, yet Public Council is
suggesting that Avista use as little as one month as a predictor.¹¹ This is not sufficient based
on the variables that can impact operational benefits in either a positive or negative way. For
example, the Company is aware that a transmission line that interconnects to other EIM
participants will be out of service for five months during each of the next two years associated
with equipment replacement. This will reduce the opportunity for the Company to transact in
the EIM. Additionally, the implementation of the Climate Commitment Act (RCW 70A.65)
is going to impute a carbon cost on the market and impact revenue opportunities for the
Company’s thermal resources. None of these factors were accounted for in determining the
EIM benefits included in filed power supply costs which increases risk to the Company.

Q. Does the Company agree with the proposed revenue adjustment for the

¹⁰ Exh. RLE-1T, p. 10, ll. 1-12.
¹¹ Exh. RLE-1T, p. 10, ln. 9.
pro forma period as proposed by Witness Earl at Exh. RLE-1T, p. 10:8-12, and shown in Exh. RLE-8?

A. No. Witness Earle, while supporting the 2023 Pro Forma Power Supply expense included in the case, and that Avista would not be allowed to perform a 60 day power cost update, suggests an annual EIM system revenue adjustment of $23.4 million. As described at Exh. RLE-1T, p. 10:8-12, Witness Earle’s revenue adjustment is based on the assumption that the Company’s EIM revenue for only the month of March 2022 ($1.95 million system) will apply for all months of 2023. This adjustment would be an incremental $17.6 million of system revenues above that agreed to per the Settling Parties ($5.8 million system), resulting in an incremental Washington electric revenue requirement reduction of approximately $12.1 million, as discussed by Company witness Ms. Andrews.

This is an unreasonable assumption based on all of the factors that can impact monthly EIM benefits. Using a single month of operations to project benefits across all seasons of the year is not appropriate. For example, Avista had higher than average hydro production in March 2022 (117% above average) and assuming above average hydro will exist every month throughout the pro forma period is unreasonable. Also, when the Company joined the EIM in March, the Bonneville Power Administration (BPA) had not yet joined the EIM. BPA has a large hydro resource mix that will take some benefits away from existing participants after BPA joined the EIM in May. The exact impact to Avista’s benefits with BPA participating in the market is not possible to determine, but there has been an impact as Avista competes in the market with BPA’s hydro resources.12 Finally, transmission access to the market is a

---

12 E3 confirmed that BPA joining the market with its substantial hydro will impact the Company’s opportunity to achieve benefits and this was not factored into the previous E3 analysis.
critical variable to achieving EIM benefits. The Company’s available transmission varies significantly throughout the year as other transmission customers purchase and use available transmission, and the system capability varies greatly as higher temperatures reduce transmission capacity. Therefore, extrapolating March EIM benefits to each of the months in the pro forma period is not appropriate, and if approved by this Commission would understate annual power supply over the MYRP. Using average assumptions as determined by the E3 study is the best estimate at this time until more operating experience is obtained, as included in the Settlement and supported by the Settling Parties.

Q. **Is Avista still committed to honoring the EIM investment terms of its 2020 GRC settlement, albeit under an extended time period?**

A. Yes. Avista acknowledges the Commission order settling its previous general rate case UE-200900, UG-200901, UE-200894 (2020 GRC) required the Company to invite parties to a collaborative to consider the proper modeling of EIM benefits. While such a collaborative did not complete prior to Avista filing its 2022 GRC, Avista reaffirms its commitment to see this stakeholder process through to ultimately realize an accurate EIM benefits calculation methodology that is just, fair, reasonable, and equitable to the Company, customers, and other impacted parties. Now that Avista is actively participating in EIM, the Company believes such actual market performance will facilitate this continued EIM benefits collaborative.

Q. **Would you please summarize your testimony?**

A. Yes. In short, Avista fully supports the agreed upon level of power supply

---

expense included in the Settlement and requests that the Commission approve that key term of the Settlement without condition. It is not reasonable, in our view, to simply cherry-pick one item – EIM benefits – and adjust that single component based on inferences and suggestions that perhaps the level of benefits are too low. As PSE has demonstrated, determining benefit methodology has taken nearly six years of active EIM participation. Using a small data set for Avista and extrapolating potential benefits is simply not reasonable. With Avista being in its infancy in terms of participation in EIM, we will all learn a lot – how additional market participants, transmission issues, and Company operations affect the level of EIM benefits. Such insights should make continued collaborative discussions regarding an Avista-specific EIM benefits calculation methodology more robust. In the short term, the estimated benefits calculated by E3 included in the base level of power supply costs is reasonable.

Q. Does this conclude your testimony?

A. Yes.