

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

1 **Q. Please state your name, employer, and business address.**

2 A. My name is Scott J. Kinney. I am employed as the Director of Energy Supply
3 at Avista Corporation, located at 1411 East Mission Avenue, Spokane, Washington.

4 **Q. Have you filed direct testimony in this proceeding?**

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

10 **Q. What is the purpose of your rebuttal testimony in this case?**

11 A. The Public Counsel Unit of the Washington State Attorney General’s Office
12 (Public Counsel) filed testimony in this case with regards to the Company’s proposed
13 treatment of benefits associated with operating in the EIM and the impact on overall power
14 supply costs. My rebuttal testimony responds to the direct testimony of Public Counsel
15 Witness Earle (Exh. RLE-1T) and will demonstrate that the Company’s treatment of EIM
16 benefits as provided in the Settlement¹ is based on best known estimates, and the Commission
17 should accept the Settlement’s treatment of the Company’s power supply costs.

18 **Q. Are you sponsoring any exhibits that accompany your testimony?**

19 A. No, I am not.

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

¹ See Full Multiparty Settlement Stipulation (Exh. JT-2, paragraph 15).

1 A. Yes. As discussed in the Settlement (Exh. JT-2, ¶15), the Settling Parties²
2 agreed to the 2023 Pro Forma Power Supply expense, including the costs and revenues
3 included in the ERM and ERM baseline, as originally-filed by the Company.³ The Settling
4 Parties also agreed that Avista will not perform a 60 day power cost update prior to new rates
5 going into effect for each year of the Two Year Rate Plan (prior to Rate Year 1 or Rate Year
6 2). In short, the ERM Baseline as originally filed will remain in effect through the entire Two
7 Year Rate Plan, with no opportunity for Avista to update the underlying baseline values.⁴
8 Embedded in the as filed ERM baseline and 2023 Pro Forma Power Supply expense is an
9 annual EIM benefit of \$5.8 million system (or \$3.8 million Washington share).

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

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

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

18 A. Absolutely, the Company is taking on additional risk by not updating power
19 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.

1 the Settlement as part of the give and take to spread risk between the Company and its
2 customers.

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

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

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

15 A. Yes. All power supply costs and revenues are ultimately tracked in the ERM.
16 If actual revenues are higher or lower, such as those from participation in the EIM, they will
17 be shared among customers and the Company based on the dead band and sharing bands. This
18 provides protection and reduces risk to both the Company and its customers. For example,
19 with the recent volatility in wholesale natural gas and power prices, the ERM has been in the
20 90/10 surcharge sharing position and is projected to end the year in this sharing band. That
21 means Avista is projected to absorb the first \$4 million of increased net power supply expense,
22 and then absorb an additional \$3 million of the next \$6 million of increased net power supply
23 expense, all before reaching the 90% customer, 10% Company sharing band.

1 **Q. Does the Company support updating only the EIM benefit component of**
2 **the Company’s power supply costs in this case, as suggested by Public Counsel⁵?**

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

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

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

⁵ Exh RLE-1T, p. 9, ll. 18-19.

1 a participants resource mix, and market price volatility. All of these factors can influence the
2 opportunity to achieve benefits through EIM operations and can have different impacts each
3 year and each season of the year. Therefore, using an average approach of the scenarios
4 previously analyzed by E3 as described in my direct testimony (Exh. SJK-1T), provides a
5 good estimate until the Company has achieved significant EIM operating experience and has
6 a better understanding how to understand its market opportunities and what factors influence
7 them.

8 **Q. Does the Company support witness Earle’s proposal to redo the E3 study**
9 **to determine future EIM benefits?⁶**

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

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

⁶ Exh. RLE-1T, p. 9, line 18.

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

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

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

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

⁷ Exh. RLE-1T, p. 7, ln. 11 – p. 8, ln. 2

1 **of Avista's EIM benefits⁸?**

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

17 Witness Earle's testimony indicates that E3 notes that PSE's proposed accounting
18 methodology appears to be fundamentally sound for modeling economic benefits based on
19 information in a recent PSE rate filing.⁹ He compares PSE's estimated EIM benefits against
20 CAISO average historical calculation over four years. An important thing to consider is that
21 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.

1 the EIM in the fall of 2016, yet just recently finalized their benefit methodology because it
2 needed several years of history to be able to verify that its assumptions and models did a
3 decent job of predicting future opportunities. Avista should be granted a similar opportunity
4 to utilize actual EIM results to verify EIM estimates.

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

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

21 **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.

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

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

12 This is an unreasonable assumption based on all of the factors that can impact monthly
13 EIM benefits. Using a single month of operations to project benefits across all seasons of the
14 year is not appropriate. For example, Avista had higher than average hydro production in
15 March 2022 (117% above average) and assuming above average hydro will exist every month
16 throughout the pro forma period is unreasonable. Also, when the Company joined the EIM
17 in March, the Bonneville Power Administration (BPA) had not yet joined the EIM. BPA has
18 a large hydro resource mix that will take some benefits away from existing participants after
19 BPA joined the EIM in May. The exact impact to Avista's benefits with BPA participating
20 in the market is not possible to determine, but there has been an impact as Avista competes in
21 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.

1 critical variable to achieving EIM benefits. The Company's available transmission varies
2 significantly throughout the year as other transmission customers purchase and use available
3 transmission, and the system capability varies greatly as higher temperatures reduce
4 transmission capacity. Therefore, extrapolating March EIM benefits to each of the months in
5 the pro forma period is not appropriate, and if approved by this Commission would understate
6 annual power supply over the MYRP. Using average assumptions as determined by the E3
7 study is the best estimate at this time until more operating experience is obtained, as included
8 in the Settlement and supported by the Settling Parties.

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

11 A. Yes. Avista acknowledges the Commission order settling its previous general
12 rate case UE-200900, UG-200901, UE-200894 (2020 GRC) required the Company to invite
13 parties to a collaborative to consider the proper modeling of EIM benefits.¹³ While such a
14 collaborative did not complete prior to Avista filing its 2022 GRC, Avista reaffirms its
15 commitment to see this stakeholder process through to ultimately realize an accurate EIM
16 benefits calculation methodology that is just, fair, reasonable, and equitable to the Company,
17 customers, and other impacted parties. Now that Avista is actively participating in EIM, the
18 Company believes such actual market performance will facilitate this continued EIM benefits
19 collaborative.

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

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

¹³ *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-200900 & UG-200901, Order 08, 17, ¶39 (Avista 2021 Order).

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

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

14 A. Yes.