

Exh. CGK-3T

WUTC DOCKET: 190334

EXHIBIT: CGK-3T

ADMIT W/D REJECT

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-190334

DOCKET NO. UG-190335

DOCKET NO. UE – 190222

(CONSOLIDATED)

REBUTTAL TESTIMONY OF

CLINT G. KALICH

REPRESENTING AVISTA CORPORATION

IN DOCKET NO. UE-190222

(ERM ISSUES)

1

I. INTRODUCTION

2

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

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Corporation?

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A. My name is Clint G. Kalich and my business address is 1411 East Mission

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Avenue, Spokane, Washington. I am the Manager of Resource Planning & Power Supply

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Analyses in the Energy Resources Department of Avista Utilities.

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Q. Have you filed direct testimony in this proceeding?

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A. Yes. I have filed direct testimony and exhibits¹ in this proceeding providing an

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update on the progress of Power Supply Modeling workshops ordered by the Commission in

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Order No. 07 in UE-170485.

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Q. What is the scope of your rebuttal testimony?

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A. My rebuttal testimony will provide a response to the testimony of Public

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Counsel witness Mr. Allison concerning non-Colstrip related issues, primarily related to

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Natural Gas optimization, with Avista's Energy Recovery Mechanism (ERM). In addition, I

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will provide an update on the progress of the power supply workshops ordered in UE-170485.

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Company witness Ms. Andrews addresses AWEC witness Mr. Mullins's testimony regarding

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the interest rate utilized to calculate the ERM rebate and his discussion of the "\$12.3 million

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reduction in power costs" currently being addressed in UE-150204 the "2015 Remand" case.²

¹ See Exhs. CGK-1T and CGK-2.

² See Exh. EMA-8T.

1 **II. BACKGROUND**

2 **Q. Please provide a brief overview of the 2018 ERM Review filing made by**
3 **the Company in Docket No. UE-190222.**

4 A. Avista makes an annual filing each year in accordance with Docket No UE-
5 011595, which requires Avista to file annual testimony and support workpapers on or before
6 April 1 of each year in order to determine prudence for the power costs deferred in the previous
7 calendar year. Accordingly, on March 29, 2019, the Company filed with the Commission
8 supporting testimony and exhibits for Company witnesses Mr. Johnson, Mr. Dempsey, and Mr.
9 Ehrbar, in Docket UE-190222. Mr. Johnson's testimony summarized the financial impact of
10 the 2018 actual power supply costs in comparison to what was authorized in Docket No. UE-
11 150204 (January – April 2018) and UE-170485, effective May 1, 2018. Mr. Dempsey's
12 testimony was primarily related to outages at two of our generating plants during 2018. Mr.
13 Ehrbar's testimony addressed the accounting associated with the power supply deferrals under
14 the ERM, and the proposed rebate resulting from the balance exceeding the \$30 million trigger,
15 in accordance with the Multiparty Settlement Stipulation in Docket No. UE-120436.

16 The issues mentioned in the Response testimony of both AWEC and Public Counsel
17 primarily center around the level of authorized power supply costs, rather than the actual power
18 supply costs incurred during 2018. We are reviewing 2018 actual power supply costs in this
19 proceeding; authorized power supply costs belong are outside of scope. Nonetheless, I address
20 the concerns of Public Counsel herein, while Ms. Andrews addresses that of AWEC. I do not
21 address any Staff issues in my testimony.

1 **III. NON-COLSTRIP ERM CONTESTED ISSUES**

2 **Q. Extensive discovery was performed by Commission Staff witness Mr.**
3 **Gomez in the 2018 ERM Proceeding. Did Mr. Gomez have any issues concerning non-**
4 **Colstrip related issues?**

5 A. No. As noted by Mr. Gomez in his Response Testimony DCG-18T, page 2:
6 “Staff examined the entire filing and only has unresolved concerns surrounding the prudence
7 of the replacement power costs associated with the 2018 Colstrip outage.”

8 **Q. Public Counsel witness Mr. Allison asserts that Avista’s current level of**
9 **authorized power supply expense (approved by this Commission) includes a deliberate**
10 **bias which has resulted in an “unreasonably high” authorized power supply expense.³**
11 **First, is the Company’s Authorized power supply level at issue in this proceeding?**

12 A. No, it is not. The purpose of the current ERM filing is to determine the prudence
13 of costs deferred in the 2018 calendar year. The determination of an appropriate method for
14 setting the level of *future* authorized power supply expense is being addressed through a
15 workshop process ordered in Docket No. UE-170485. The goal of that workshop process is to
16 reach consensus in the assumptions utilized in setting the authorized level of power supply
17 expense. Absent an “extraordinary” event, the Commission ordered there should be no
18 adjustment to power supply expenses until conclusion of the workshop process. Where an
19 extraordinary event does occur, the order provides that the Company then propose an update to
20 authorized level of power supply expense as part of its next general rate case.

21 Mr. Allison appears to agree with this process, stating “it is reasonable for the
22 Commission to allow the ongoing power cost workshop to proceed as the primary effort to

³ Exh. AA-1T, at 3:2-6.

1 correct the bias in Avista's net power cost calculation."⁴

2 **Q. Mr. Allison appears primarily concerned with the level of authorized**
3 **Natural Gas Transportation Revenues, stating that "Avista's calculations of the 2018 pro**
4 **forma gas transport optimization revenues were biased in a way that predictably**
5 **contributed to actual 2018 net power costs being lower than authorized levels".⁵ Is this**
6 **true?**

7 A. No. Natural gas optimization revenues were part of an adjudicated proceeding
8 in which the Commission weighed the evidence and agreed that the total level of power supply
9 expense (which includes optimization revenues) included in base rates were fair, just and
10 reasonable. Looking back with hindsight is not how ratemaking occurs in this or other states.
11 Correlation is not causation. Good luck is not bias. Even if the Commission were to consider
12 Mr. Allison's argument, it is based only on an historical look at actual optimization revenues.
13 It is inappropriate to rely only on historical trends as the basis for an adjustment, without other
14 considerations. As a matter of fact, the Commission agreed with this in UE-170485 stating:

15 *"Power costs are based on known and forecast costs during a normalized test*
16 *year, and decisions should not be made solely on how the forecast performed*
17 *during the specific circumstances on a single test year."⁶ (emphasis added).*

18
19 Past performance is not a guarantee of the future, and in fact, when the longer-term
20 spreads in the marketplace are considered, it becomes evident that one cannot simply rely on
21 averages. Since our original filing, the spreads between AECO and Malin have continued to
22 grow. Customers receive the benefits of this arbitrage through the ERM.

23 Looking forward, we do not expect this substantial arbitrage opportunity to persist due

⁴ Exh. AA-1T, at 12:7-9

⁵ Exh. AA-1T, at 8:10-12.

⁶ Order No. 07, page 54 paragraph 158.

1 to an increase in demand precipitated by new participants in the market. In fact, new pipeline
2 capacity is currently being built which will put downward pressure on arbitrage opportunities.
3 This will likely result in a decrease in optimization revenues in the ERM, with customer
4 benefits most likely falling back to historically normal ranges.

5 Once again, however, the purpose of this review is to determine the prudence of the
6 2018 actual deferral – not the mechanics of the ERM itself, including any change in natural
7 gas optimization revenues at this time, or in this proceeding.

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IV. POWER SUPPLY WORKSHOP UPDATE

10 **Q. Please provide an update as to the status of the current workshops.**

11 A. The parties, including AWEC, Public Counsel, and Staff, have met for six
12 workshops. Additional workshops are anticipated, beginning in early 2020 as the parties work
13 with a consultant to finalize a report to the Commission. My Direct testimony in this case
14 (Dockets UE-190334, UG-190335, and UE-190222)⁷ documented the success of our first four
15 workshops. Since that filing, the parties had discussions and met on July 31, 2019, where
16 various analyses requested after Workshop 4 were presented to the parties. At that meeting, the
17 parties agreed it was time to hire Energy+Environmental Economics (E3)⁸ as our power supply
18 modeling expert consultant. E3 led our next workshop on November 4, 2019, where they
19 presented a general overview of power supply issues, and a discussion of desired “scope” for a
20 further study. On December 19, 2019, the parties are scheduled to review and discuss E3’s
21 draft document, to finalize the scope, timeline and budget for the work to be performed by E3,

⁷ See Exhs. CGK-1T and CGK-2.

⁸ <https://www.ethree.com/>

1 as requested by the parties.

2 **Q. What feedback has the Company received from Parties concerning the**
3 **progress of these workshops?**

4 A. Staff witness Mr. Gomez, in his direct testimony, states on page 30, beginning
5 at line 10, that “Staff would like to acknowledge the hard work of the Avista team and
6 participants in addressing what is a very technically demanding problem. We agree with his
7 [Mr. Kalich] assessment that the parties remain committed towards achieving consensus with
8 the goal of an improved power supply modelling methodology.” Mr. Allison is also supportive
9 of the workshop process, stating “This power cost workshop process is ongoing and appears to
10 be headed in a useful direction”.⁹ While Mr. Mullins has not offered an opinion regarding the
11 workshop process, his reply testimony provides details of the workshops and the learnings from
12 it.

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

14 A. Yes, it does.

⁹ Exh. AA-1T, at 6:16-17.