



Avista Corp.

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VIA – Commission Web-Portal

May 26, 2017

Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive S. W.
P.O. Box 47250
Olympia, Washington 98504-7250

Attention: Mr. Steven King, Executive Director & Secretary

RE: Tariff WN U-28 (Schedule 93 – Power Cost Rate Adjustment)

Dear Mr. King,

The purpose of this filing is to propose revisions to Avista’s Power Cost Rate Adjustment Schedule 93 of Tariff WN U-28.

13th Revision Sheet 93 Canceling 12th Revision Sheet 93

The revisions to the tariff sheet listed above update the Company’s Power Cost Rate Adjustment Schedule 93¹ and is proposed to become effective September 1, 2017, and expire at the conclusion of Avista’s 2017 general rate case, concurrently filed on May 26, 2017.² This filing would increase

¹ Schedule 93 previously had been called “Power Cost Surcharge – Washington”. Avista is proposing to rename this tariff schedule in this filing to “Power Cost Rate Adjustment” which is more representative as to the tariff’s purpose. While it referenced “surcharge” in the past, Avista has actually provided rebates to customers from the Energy Recovery Mechanism through this schedule. Renaming this schedule to be a “rate adjustment” schedule provides for a better understanding that both surcharges and rebates related to power supply costs can occur in this schedule.

² Throughout this filing the Company makes reference to the proposed rates to be approved in the concurrently-filed general rate case to become effective on or about May 1, 2018, including a new base level of power supply expense. If that occurs, the Schedule 93 rates in this filing would expire on that date. Should the rates (and new power supply base) from the general rate case go into effect at some other time (e.g., April 29, 2018), then the rates under this tariff

annual billed revenues by approximately \$15.0 million, or 2.92 percent. The Company has spread the proposed increase on a uniform percentage basis, resulting in a 2.92 percent increase for all rate schedules as shown in Table No. 1 below:³

Table No. 1

<u>Rate Schedule</u>	<u>Power Cost Rate Adjustment % Change</u>
Residential Schedule 1	2.92%
General Service Schedules 11/12	2.92%
Large General Service Schedules 21/22	2.92%
Extra Large General Service Schedule 25	2.92%
Pumping Service Schedules 31/32	2.92%
Street & Area Lights Schedules 41-48	<u>2.92%</u>
Overall	<u>2.92%</u>

In support of this tariff revision, the Company has also provided supporting attachments and workpapers. The Company requests that the Commission allow the proposed tariff to go into effect by operation of law effective September 1, 2017.

Introduction

The Company in this filing is proposing to update the level of power supply costs currently recovered from our customers. The last time the Company’s base level of power supply costs were reset was in January 2016 in Docket No. UE-150204. For the reasons set forth below, Avista believes that it is appropriate to update certain items included in the power supply base so that, effective September 1, 2017, customers will be paying a more appropriate level of those costs in retail rates. The Power Cost Rate Adjustment, along with existing approved base power supply costs, would serve as a new base level of power supply costs for the September 1, 2017 through April 30, 2018 time period.⁴ The resulting base, and retail revenue adjustment, would be used as the basis for the Company’s Energy Recovery Mechanism (ERM).⁵ The level of power supply

would expire on that date. If for some reason a new power supply base is not set in the general rate case, the rates in Schedule 93 would remain in effect until a new power supply base is subsequently set.

³ This filing does not constitute a “general rate proceeding” as defined in WAC 480-07-505 as the requested increase overall, and to each service schedule, is less than three percent.

⁴ See footnote 2.

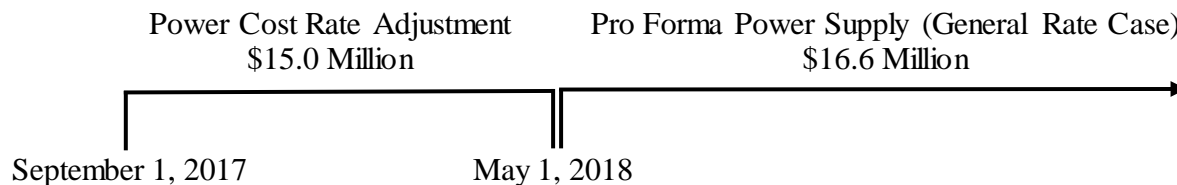
⁵ As in prior cases, the update to power supply costs not only updates the net power supply costs embedded in retail rates for the rate period, but also resets the ERM base for the rate period. The ERM is designed to track the difference

expense proposed in this filing would expire at the conclusion of the concurrently-filed general rate case, because Avista has filed a Pro Forma Power Supply Adjustment for the May 1, 2018 through April 30, 2019 rate period, as a part of its May 26, 2017 general rate case filing.

Interaction of Power Cost Rate Adjustment with General Rate Case

The Company has filed a Pro Forma Power Supply Adjustment of \$16.6 million as a part of its general rate case (GRC) filed on May 26, 2017. As depicted in Illustration No. 1 below, the final approved Pro Forma Power Supply Adjustment approved in the GRC will serve as the new level of power supply costs in base rates effective May 1, 2018 (as well as the base for the ERM and electric decoupling, as discussed below).

Illustration No. 1: Interaction of Power Cost Rate Adjustment and General Rate Case



At the conclusion of the general rate case, assuming that a new level of power supply expense is included in base rates, the rates under Schedule 93 through this filing would expire and be reset to \$0.00000/kWh in recognition that an updated level of power supply costs would now be reflected in base rates. Accordingly, this Power Cost Rate Adjustment of \$15.0 million and the proposed Pro Forma Power Supply adjustment in the GRC are not additive.

Interaction of Power Cost Rate Adjustment with ERM and Decoupling

Attachment A, page 4, of this filing provides the new base level of power supply costs and Retail Revenue Adjustment that would be effective for the September 1, 2017 through April 30, 2018 time period. This new base level of power supply costs is based on the same billing determinants used

between certain actual power supply revenues and expenses, and the power supply revenues and expenses embedded in retail rates. Therefore, the ERM base must match the power supply revenues and expenses ultimately approved in retail rates.

in Docket No. UE-150204. For decoupling purposes, the Company has provided Attachment G which demonstrates that the costs tracked in the decoupling mechanism (i.e., Delivery and Power Plant Revenue) remain unaffected by the effects of this filing.⁶ The increased revenue from this Power Cost Rate Adjustment is added to both “Total Rate Revenue” and “Variable Power Supply Revenue”. The net effect is that the increase related to this filing for decoupling purposes is \$0, and the revenue tracked in the decoupling mechanism is exactly the same as what is currently being tracked based on the authorized decoupling base previously approved in Docket No. UE-150204.

Supporting Documentation

In support of the Company’s filed tariff, it has provided the following attachments.^{7/8}

- A. Attachment A – Page 1 provides the comparison of authorized power supply expense to the proposed level. Pages 2-3 provide a detailed listing of the revenue and expense items related to power purchases and sales, fuel expenses, and other miscellaneous power supply expenses and revenues. The items on Pages 2-3 that are boxed are those items that have been changed due to updated electric and natural gas pricing, or are related to short-term contracts. The items that are highlighted in gray are those items related to updated contracts,

⁶ In the Company’s decoupling mechanism, the test year billing determinants are multiplied by the final approved retail revenue adjustment to determine the level of “Base Rate Variable Power Supply Revenue” included in base rates. In this filing, only power supply costs are being updated. Therefore, in Attachment G, the Company added the revenue from this rate adjustment of \$14.956 million (“Schedule 93 Revenue Increase” shown on line 2) to present base revenue (“UE-150204 Authorized Rate Revenue 01.11.2016”, shown on line 1) in order to determine the new level of revenue customers will provide beginning on September 1, 2017 (“Total Rate Revenue Base + Sch 93 (Sept 1, 2017)” shown on line 3). As a part of the decoupling mechanism, variable power supply costs are subtracted from total rate revenue in order to determine “Delivery and Power Plant Revenue” (shown on line 7). Therefore, the Power Cost Rate Adjustment increase of \$14.956 million added to total base revenue must also be subtracted so that “Delivery and Power Plant Revenue” remains unchanged. Line 6A of Attachment G shows that the revenue increase is included in the variable power supply section which is subtracted from total rate revenue.

⁷ Please note that the Company has provided both native format and “.pdf” versions of Attachments A, E, F, and G. Only .pdf versions of Confidential Attachments B, C, D are available. Confidential Exhibit H is being provided in electronic format.

⁸ The files and documents marked confidential are confidential per WAC 480-07-160. The confidential information that Avista is disclosing can be classified as information pertaining to contract prices, terms and conditions, risk management practices, and plant operation data, and, as such, comprises valuable commercial information. In addition, Avista has a licensing agreement with EPIS, Inc., for the use of their AURORA_{XMP} Electric Market Model software package used by the Company to determine power supply costs, and can only be shared with licensed users. As in the past, arrangements can be made for parties to access this model. Avista also asserts that the aforementioned information is confidential in that certain contract information is prohibited, by the contract terms, from public disclosure.

as discussed later. Page 4 provides the new Energy Recovery Mechanism base and Retail Revenue Adjustment.

- B. Confidential Attachment B – Excerpt from the agreement with Portland General Electric.⁹
- C. Confidential Attachment C – Excerpt from the agreement with Public Utility District No. 1 of Chelan County, Washington.¹⁰
- D. Confidential Attachment D – Excerpt from the agreement with Palouse Wind, LLC.¹¹
- E. Attachment E – Natural Gas Transportation Expense for Coyote Springs 2 and Lancaster.
- F. Attachment F – Rate Spread Summary
- G. Attachment G – Decoupling Base
- H. Confidential Attachment H – Electronic file containing Confidential AURORA_{XMP} files (these electronic files have been sent to the Commission on a CD as they are too large to be filed through the Commission’s Portal).

Rationale for Power Supply Rate Adjustment

There are five primary reasons why Avista believes that a Power Cost Rate Adjustment is appropriate at this time and should be allowed to go into effect on September 1, 2017:

1. **Portland General Contract** – As discussed in detail in the Company’s last general rate case (Docket UE-160228), presently included in base power supply costs is the contract between Avista and Portland General Electric. This contract, a capacity sale where Portland General Electric could take 150 MW for 10 hours each day and return the energy on the hours of their choosing, expired on December 31, 2016. Avista was not able to replace this contract, as current market conditions do not support a capacity sale at rates similar to the expiring contract. Effective January 1, 2017, the Company is no longer receiving approximately \$8 million (Washington share) of net benefits (revenues net of costs) related to this agreement from Portland General Electric. However, Avista is still providing approximately \$8 million in net benefits to its Washington customers through the existing authorized net power supply costs. It is important that retail rates reflect the fact that Avista is no longer receiving the net benefits from this expired contract – and hasn’t been since

⁹ Full text of the agreement is provided in the Company’s confidential workpapers.

¹⁰ Ibid.

¹¹ Ibid.

January 1, 2017. Delaying the recognition of the approximate \$8 million of lost net benefits until the implementation of new base rates on May 1, 2018 would mean that, for the extended sixteen-month (16) period of January 1, 2017 to May 1, 2018, rates would not reflect this substantial, ongoing reduction in net benefits.

2. **Staleness of Present Base Power Supply Costs** – The Company’s last update to its base power supply costs occurred in the Company’s 2015 general rate case, Docket No. UE-150204. On November 1, 2015, Avista filed a Power Supply Update which reflected the latest three-month average of forward gas prices through October 15, 2015, adding new forward natural gas and power transactions, and accounting for known changes in power and transmission contracts for the 2016 rate year. The base level of power supply costs needs to be updated, especially in light of the expired Portland General Electric agreement, as well as to better reflect in rates wholesale power and natural gas prices more closely related to the prices Avista is actually experiencing.
3. **The Same Power Supply Cost Components are Updated as in Prior Filings** – In the Company’s 2014 and 2015 general rate cases, as a part of settlements, Avista agreed to file power supply updates 60 days before new rates were to go into effect. The purpose of those power supply updates was to: 1) update the three-month average of forward natural gas and electricity market prices for the pro forma period; 2) include new short-term contracts for gas and electric; and 3) update or correct power and transmission service contracts for the rate year. Ultimately the Commission approved the settlements in those cases, inclusive of the power supply updates. The components in the prior power supply updates include the same components that Avista has updated in this filing.^{12/13} Those components are:

Item No. 1 - Update three-month average of natural gas and electricity market prices – In this filing the Company has updated the three-month average of forward natural gas and electricity prices using the average prices from December 8, 2016 through March 7, 2017.

¹² The current power supply update was conducted in a newer version of AURORA_{XMP}. The newer version of AURORA_{XMP} includes an update to the model version and database. Given the nearly two year difference in proforma periods, the update includes the base data set from the 2017 IRP and the 2017 IRP’s version of the model. Avista’s generation resources, contracts, and load configurations remain the same as the compliance filing from the 2015 Washington General Rate Case.

¹³ As in past general rate cases, the Company has made available access to AURORA_{XMP}. Please contact Patrick Ehrbar of Avista for further information to facilitate access.

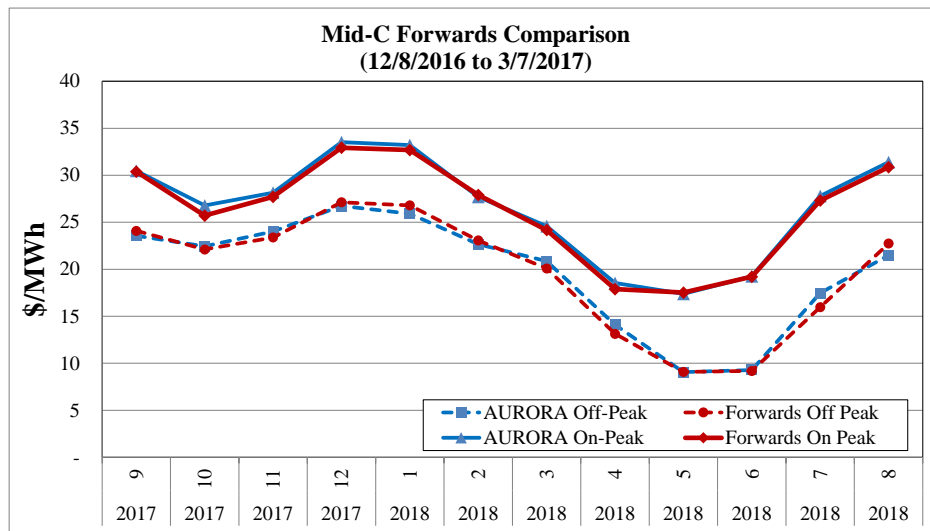
Table No. 2 below provides a comparison of the authorized level of natural gas costs approved in Docket No. UE-150204 to the three-month average noted above:

Table No. 2 – Natural Gas Price Comparison

Basis	Authorized Gas Prices (Price \$/dth)	Sep 2017 - Aug 2018 (Price \$/dth)	Difference
AECO	\$2.28	\$2.22	(\$0.06)
Malin	\$2.85	\$2.95	\$0.10
Rockies	\$2.93	\$2.90	(\$0.03)
S. Calif.	\$2.76	\$3.08	\$0.32
Stanfield	\$2.77	\$2.87	\$0.10
Sumas	\$2.47	\$2.68	\$0.21
Henry Hub	\$2.98	\$3.20	\$0.22
PG&E Citygate	\$2.96	\$3.43	\$0.47

Consistent with prior power cost updates, adjustments were made to AURORA_{XMP}'s regional hydro and load assumptions so that electric market prices from the 80-year AURORA_{XMP} study are aligned with current forward market pricing.¹⁴ Illustration No. 2 below shows the forward pricing and the resulting prices from AURORA_{XMP} for this Power Cost Rate Adjustment. As shown, Avista's price forecast in the model is tightly-aligned with forward-market pricing.

Illustration No. 2 – Monthly AURORA_{XMP} modeled versus forward Mid-C Prices (Proposed)



¹⁴ These adjustments for this Power Cost Rate Adjustment can be found in the AURORA_{XMP} model and outputs provided with this filing. In the confidential electronic workpapers, review the “Change Sets” functionality in the AURORA_{XMP} model.

The effect of using more up-to-date pricing affects several power supply components as shown on pages 2 and 3 of Attachment A, including thermal generation fuel expense, short-term market purchases and sales, and contracts with market price components.

Item No. 2 – New Short-term Contracts – Consistent with past power cost updates, new short-term electric and natural gas contracts as of March 8, 2017 have been incorporated in this Power Cost Rate Adjustment. The Company has provided in its workpapers details related to each short-term contract.¹⁵

Item No. 3 – Updated Power and Transmission Service Contracts – In this filing the Company has included four updated power supply contracts as listed below. These four items account for the most significant changes from the present level of authorized power supply expense. All of the other changes were immaterial, including all changes to transmission revenue and expense. In fact, as discussed later in this filing, while the Company has only requested \$15.0 million in this filing, the Pro Forma Power Supply Adjustment included in the Company’s general rate case supports an increase of \$16.6 million. While the pro forma periods for the two filings are slightly different¹⁶, had Avista included all of the immaterial power supply and transmission revenue and expense changes in this filing, the request would have been higher than \$15.0 million. Further, removing the immaterial items also helps to minimize the number of items Commission Staff and other parties would need to audit as a part of this filing. The four items included in this filing are:

- A. Portland General Electric Agreement – the effects of the expiration of this contract are discussed above. The Company has included as Confidential Attachment B to this filing certain excerpts from the contract with Portland General Electric which document the expiration date of December 31, 2016. The entire contract has been provided in the Company’s workpapers.
- B. Updated Contract Rates with Chelan County PUD related to Rocky Reach/Rock Island – Pursuant to the terms of the agreement with Chelan County PUD, the rates Avista pays for its share of the output of Rocky Reach/Rock Island have increased as compared to the authorized level. Confidential Attachment C to this filing contains excerpts from the agreement with Chelan County PUD demonstrating the new contract rates. The entire agreement has been included in the Company’s workpapers.
- C. Updated contract rates related to the Palouse Wind Power Purchase Agreement – Pursuant to the terms of the agreement with Palouse Wind, the rates Avista pays for the output of the Palouse Wind Power Purchase Agreement have increased as compared to the authorized level. Confidential Attachment D to this filing contains confidential excerpts from the agreement with Palouse Wind documenting the new contract rates. The entire agreement has been included in the Company’s confidential workpapers.

¹⁵ See file “CONFIDENTIAL Short Term Contracts with Gas Mark to Market.xlsx”.

¹⁶ The pro forma period for this filing is the 12-month period beginning September 1, 2017, and running through April 30, 2018, while the pro forma period in the general rate case is May 1, 2018 through April 30, 2019.

D. Updated natural gas transportation contract rates for Coyote Springs 2 and Lancaster – Included as Attachment E is a summary of the updated pipeline contract expenses related to the transportation of natural gas to Coyote Springs 2 and Lancaster natural gas generating facilities.

As demonstrated above, through this filing Avista is only updating certain (typically less controversial) items; these are items that the parties are familiar with through prior filings and are capable of being reviewed prior to September 1, 2017. The updates have been refined over time and typically result in adjustments included just before rates have gone into effect under past practice.

Table No. 3 below provides a comparison of the authorized power supply base to the proposed base:

Table No. 3 – Comparison of Authorized to Proposed Power Supply Base - Washington Share (\$ in thousands)¹⁷

Authorized Power Supply Base (UE-150204)	\$ 92,916
Proposed Power Supply Base	\$ 107,873
Change	\$ (14,957)

Table No. 4 below provides a breakdown of the components that make up the approximate \$15 million revenue adjustment:

Table No. 4 – Breakdown of Power Cost Rate Adjustment Components (\$ in thousands)

Portland General Electric Contract	\$ 8,000
Chelan/Palouse/Gas Contracts	\$ 930
Updated Prices and ST Contracts	\$ 6,027
Total	\$ 14,957

¹⁷ The effective date for authorized power supply costs from Docket No. UE-150204 was January 11, 2016.

4. **The Filing is Similar to Puget’s Power Cost Only Rate Case (PCORC) as well as Avista’s Purchase Gas Cost Adjustments (PGAs)** – The Company’s proposed changes in its power supply costs reflect changes that are similar to what Puget Sound Energy (“Puget”) updates through its PCORC mechanism, nor different from what the Company does on an annual basis through the PGA process. For example, in Docket No. UE-161135, filed in September 2016, Puget filed to update certain power supply costs, including updated power and natural gas prices, and the effects of updated purchases and sales (i.e., contracts). In the annual PGA, Avista updates wholesale natural gas costs (based on a 30-day average), as well as includes the effects of new, changed, or expired natural gas supply and transportation contracts so that the rates in effect for customers more accurately reflect the costs Avista is actually incurring to serve customers. This Power Cost Rate Adjustment serve the same objectives as Puget’s PCORC and Avista’s PGA.

5. **Mitigation of Rate Increase for Customers** – On May 26, 2017, the same day that Avista filed this tariff revision, the Company filed a general rate case requesting an increase in overall base rates of 12.5 percent, including a Pro Forma Power Supply Adjustment which incorporates the items included in this filing. However, through this filing, Avista would implement an approximate 2.9 percent billed revenue increase for the September 1, 2017 through April 30, 2018 time period. On May 1, 2018, the rates under Schedule 93 would revert to \$0.00000/kWh, assuming that a new power supply base level of expense is set in the general rate case and reflected in base rates. While base rates may increase by 12.5 percent on May 1, 2018, billed rates would only go up by 8.8 percent at that time, given that a portion of the rate increase was implemented earlier on September 1, 2017.

In conclusion, the Company is aware that any increase to customers’ bills affects them. However, we also believe that we should reflect in rates the costs that Avista incurs in order to provide them with safe and reliable service. Further, through this filing, Avista is proposing to update what it believes are less controversial items. By allowing a Power Cost Rate Adjustment sooner, it is not only more fair to Avista especially in light of the expired Portland General Electric contract discussed earlier, but also serves to keep the overall billed

rate increase from the general rate case in May 2018 lower, thereby somewhat smoothing out the impact of needed rate relief.

Proposed Increase and Rate Spread

Through this filing the Company is proposing to increase billed revenues by \$15.0 million, or 2.92 percent. The Company has spread the proposed increase on a uniform percentage basis, resulting in a 2.92 percent increase for all rate schedules as shown in Table No. 5 below:

Table No. 5

<u>Rate Schedule</u>	<u>Power Cost Rate Adjustment %</u>
Residential Schedule 1	2.92%
General Service Schedules 11/12	2.92%
Large General Service Schedules 21/22	2.92%
Extra Large General Service Schedule 25	2.92%
Pumping Service Schedules 31/32	2.92%
Street & Area Lights Schedules 41-48	<u>2.92%</u>
Overall	<u>2.92%</u>

The Company spread the increase within each schedule among the variable energy blocks. Attachment F provides more details related to the rate spread, and the resulting rates for Schedule 93. The proposed increase for a residential customer using an average of 938 kWhs per month is \$2.58 per month, or a 3.1% increase in their electric bill.¹⁸ The present bill for 938 kWhs is \$84.51 compared to the proposed level of \$87.09, including all rate adjustments. The Company requests, in this filing, that the Commission allow the proposed tariff to go into effect by operation of law on September 1, 2017.

Requested Relief

For the reasons described above, the Company requests that the Commission allow Avista’s Power Cost Rate Adjustment to go into effect on September 1, 2017, and expire when new base rates are

¹⁸ While the increase for a customer using 938 kWhs per month is 3.1%, the overall increase to residential Schedule 1 is 2.92% which supports the fact that this filing does not constitute a “general rate proceeding” as defined in WAC 480-07-505.

established in the Company's concurrently-filed general rate case (estimated effective date of May 1, 2018). The Company will issue a customer notice, starting in June 2017, to inform customers of this filing. The form of notice has been included in the Company's filing.

Please direct any questions regarding this filing to Liz Andrews at (509) 495-8601 or Patrick Ehrbar at (509) 495-8620.

Sincerely,

A handwritten signature in black ink, appearing to read "Kelly Norwood". The signature is written in a cursive, flowing style.

Kelly Norwood
Vice President, State & Federal Regulation

Enclosures

VERIFICATION

STATE OF WASHINGTON)
)
County of Spokane)

I, Kelly Norwood, being first duly sworn on oath, deposes and says: That he is the Vice President of Avista Corporation and makes this verification for and on its behalf of said corporation, being thereto duly authorized;

That he has read the foregoing filing, knows the contents thereof, and believes the same to be true.

Kelly Norwood

SIGNED AND SWORN to before me this 26th day of May 2017.



Patty L. Hanson
NOTARY PUBLIC in and for the State of
Washington, residing at Spokane.

Commission Expires: 11/23/2017