

Avista Corp.
1411 East Mission P.O. Box 3727
Spokane, Washington 99220-0500
Telephone 509-489-0500
Toll Free 800-727-9170



November 1, 2016

Mr. Steven King
Executive Director & Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
P. O. Box 47250
Olympia, Washington 98504-7250

Re: Docket Nos. UE-160228 and UG-160229
Power Supply Update

Dear Mr. King:

On February 19, 2016, Avista Corporation (“Avista” or “Company”) filed with the Commission its request for electric and natural gas rate relief for an 18-month period, from January 1, 2017 through June of 2018. Within the Company’s filing, it proposed to update its power supply costs sixty (60) days prior to new rates going into effect on January 1, 2017, as well as for January 1, 2018. As in prior cases, this proposed update in power supply costs, just before new base retail rates go into effect, would reflect the most recent information available for power supply costs. The updated power supply cost data would not only be reflected in the base rate adjustment, but would also reset the base for the ERM calculations for the future rate period.¹

Therefore, as it relates to the Company’s proposed update in power supply costs for the 18-month period, January 1, 2017 through June 30, 2018, Avista respectfully submits an original and seven (7) copies of this letter, as well as Attachments A through G. Attachment A is revised Exhibit No. WGJ-5 reflecting the revised proposed ERM power supply expense and revenue, transmission expense and revenue, retail sales and retail revenue credit for the 2017 and 2018 (January – June) rate periods. Attachment B is revised Exhibit No. PDE-4, pages 1 and 2. Attachment C shows the November power supply update versus that proposed by the Company on rebuttal and the calculation of the revenue requirement change, for both the 2017 and 2018 (January – June) rate periods. Attachment D provides a detailed listing of power supply and transmission revenue adjustments included in the power supply update and the overall change in net expense. Attachments E and F contain revised Exhibit Nos. EMA-7 and EMA-9, respectively, providing the Company’s updated electric and natural gas Attrition models showing the impact of the November power supply update. Lastly, Attachment G provides a hardcopy of supporting documentation, as well as related models and files provided in electronic format only

¹ See Morris Exh. No. SLM-1T, p.5:16-p.6:2.

for the 2017 and 2018 power supply updates. Please note that certain electronic workpapers of Mr. Cox, Mr. Johnson and Mr. Kalich have CONFIDENTIAL information. These documents should be treated as CONFIDENTIAL per WAC 480-07-160.

As noted at page 9, of Mr. Johnson's direct testimony, Exhibit No. WGJ-1T, lines 15-20, the purpose of this power supply update, as in past proceedings, would be to: 1) update the three-month average of natural gas and electricity market prices; 2) include new short-term contracts for natural gas and electric; and 3) update or correct power and transmission service contracts for the 18-month rate period. In addition, in response to testimony by certain parties to this proceeding, on rebuttal Avista agreed to update certain power supply related expenses and transmission revenues within this power supply update.²

As noted within Attachment C, page 1, the 2017 rate period updated power supply results in a net reduction to expense of approximately \$591,000 (\$611,000 impact on revenue requirement).³ Page 2 of Attachment C, shows that the 2018 (January – June) rate period updated power supply results in an incremental reduction to net power supply expense of approximately \$1.46 million (\$1.5 million impact on revenue requirement).

The decrease of \$591,000 for calendar 2017 and the incremental decrease of \$1.46 million for 2018 (January - June) in net expense, results from incorporating the latest three month average of forward natural gas prices through October 19, 2016, adding new forward natural gas and power transactions, and accounting for known changes in power and transmission contracts for the 2017 and 2018 (Jan-June) rate periods. In addition, based on a proposal by ICNU,⁴ this update reflects a modeling change within the Company's power supply model (AURORA), allowing the Company's Noxon Rapids hydro plant to spill water for two units in the event prices fell below negative \$1.00 per MWh. This model change reflects Noxon Rapids ability to spill water per its FERC license and lower customer rates by either allowing the Company to purchase negative power, or not sell in a negative price environment.

Incorporating the current higher natural gas prices in the AURORA model results in higher electricity prices, and changes the dispatch of the Company's thermal generation plants. Other effects of adding new contracts and increasing natural gas and electric prices include a change in the mark-to-market value of actual forward transactions, and a change in the expense and revenue of index-priced contracts. Power and transmission contract changes incorporated in the update include three Mid C power purchase expenses, an update to BPA transmission rates, an update to Coyote Springs 2 and Lancaster natural gas transportation expense, and updates to Stimson, Lancaster and WNP-3 power purchase expenses. A detailed listing of changes incorporated in this November update, as well as, supporting documentation and related models are provided as Attachments D and G, respectively.

The updated level of net power supply costs would be used to determine the new base set of power supply revenues and expenses for ERM calculations beginning January 1, 2017 as shown

² See Johnson, Exh. No. WGJ-6T, p.1:20-p.3:22; Kalich, Exh. No. CGK-37, p.6:20-p.7:3; Smith, Exh. No. JSS-4T, p.16:9-p.17:2.

³ This results from an increase in transmission revenues of \$915,000 (WA share), offset by an increase in net power supply expense of \$324,000 (WA share). See Attachment C, page 1.

⁴ Exh. No. CGK-37, p.6:20-p.7:3

on Attachment A, page 1 for the 2017 rate period; and beginning January 1, 2018, as shown on Attachment A, page 2 for the 2018 six-month rate period January 1 – June 30, 2018.

To determine the adjustments to Washington revenues on January 1, 2017 and January 1, 2018 related to this power supply update, the net power supply costs resulting from this power supply update were compared with the net power supply costs filed by the Company on rebuttal as shown on Attachment C, pages 1 and 2. Page 1 of Attachment C shows the overall change in revenue requirement related to the power supply update is a reduction of \$611,000. Accordingly, Avista's updated electric revenue requirement, as filed on rebuttal, of \$40.1 million in 2017 would be reduced to approximately \$39.5 million, still above Avista's filed-for electric revenue increase request of \$38.6 million in 2017. Avista is not proposing to change its original revenue increase request of \$38.6 million for 2017. Provided as Attachment E is the Company's updated 2017 electric Attrition Model (revised Exhibit No. EMA-7) including the impact of this power supply update.

For the six-month period January – June 2018, as shown on Attachment C, page 2, the overall change in revenue requirement related to the power supply update is an incremental reduction of \$1.5 million. Accordingly, Avista is revising its filed-for electric revenue increase request of \$10.3 million for the first six months of 2018 downward to \$9.0 million (more precisely \$8,986,000) in order to reflect this updated information.⁵ Provided as Attachment F is the Company's updated 2018 electric Attrition Model (revised Exhibit No. EMA-9) including the impact of this power supply update.

As shown in Attachment B (revised Exhibit No. PDE-4, pages 1-2), the proposed percentage overall base rate change for electric service related to the revised incremental increase effective January 1, 2018 of \$9.0 million is 3.4%. Table No. 1 below shows the proposed percentage base rate change for electric by Schedule, net of the ERM Credit Offset as proposed by the Company, results in 0.0% bill impact to customers for the January 1 through June 30, 2018 rate effective period.

⁵ Avista's previously updated revenue requirement need for the first six months of 2018 was \$10.5 million (see, Exhibit No. EMA-9). Avista's requested revenue increase was \$10.3 million. Recognizing the reduction of \$1.5 million of revenue requirement as a result of the power supply update (\$10.5 million - \$1.5 million) produces a revised revenue requirement of approximately \$9.0 million.

Table No. 1 - Proposed % Electric Change by Schedule

<u>Rate Schedule</u>	Increase in Base Rates	ERM Credit Offset	Total Change in Billing Rates
Residential Schedule 1	3.7%	-3.7%	0.0%
General Service Schedules 11/12	3.1%	-3.1%	0.0%
Large General Service Schedules 21/22	3.3%	-3.3%	0.0%
Extra Large General Service Schedule 25	3.0%	-3.0%	0.0%
Pumping Service Schedules 31/32	3.7%	-3.7%	0.0%
Street & Area Lights Schedules 41-48	<u>4.4%</u>	<u>-4.4%</u>	<u>0.0%</u>
Overall	<u>3.4%</u>	<u>-3.4%</u>	<u>0.0%</u>

A service list is attached, with the parties on the service list receiving a complete copy of this filing by overnight mail.

Please direct any questions related to this filing to Liz Andrews at (509) 495-8601.

Sincerely,



David Meyer
VP and Chief Counsel for Regulatory and Governmental Affairs
Enclosures