

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION,

Respondent.

DOCKETS UE-160228/UG-160229

COMMISSION STAFF'S RESPONSE
TO AVISTA'S MOTION TO
SUPPLEMENT THE RECORD TO
INCLUDE POWER SUPPLY UPDATE

I. INTRODUCTION

1 Pursuant to WAC 480-07-35(1)(d) and the Commission's November 4th Notice Extending Time for Responses, Commission Staff of the Washington Utilities and Transportation Commission (Commission) submits this Response to the Motion of Avista Corporation to Supplement the Record to Include Power Supply Update (Motion). Staff recommends that the Commission deny the Motion.

II. BACKGROUND

2 At issue in this Motion are proposed updates to the electric power costs of Avista Corporation d/b/a Avista Utilities ("Avista" or "Company"). When Avista filed this case, it proposed revenue requirements for gas and electric for the 2017 rate year and for the first six months of 2018. The Company's revenue requirements for electric service were \$38.6 million for the 2017 rate year¹ and \$10.3 million for the 2018 rate period.² On rebuttal, Avista presented increased electric revenue requirements in the amount of \$40.1 million for 2017 and \$10.5 for 2018, but stated that the Company's actual request had not changed from as-filed levels.³

¹ Morris, Exh. No. SLM-1T 4:9-12.

² Morris, Exh. No. SLM-1T 5:3-4.

³ E.g., Andrews, Exh. No. EMA-6T 3:18-23.

3 On November 1, 2016, Avista filed its Motion. In its Motion, Avista reports that there will be a net reduction in power supply costs for calendar year 2017 in the amount of \$591,000.⁴ Avista subtracts this number from its most recently presented 2017 electric revenue requirement of \$ 40.1 million.⁵ The difference is approximately \$39.5 million. Because the difference remains above Avista’s requested revenue requirement of \$38.6 million, Avista proposes that the decrease in power supply expense not be considered in establishing Avista’s 2017 revenue requirement.⁶ The decrease in power costs would, however, be applied to set a new Energy Recovery Mechanism (ERM) baseline for 2017.⁷

4 According to Avista’s Motion, power supply costs will decrease also for the six-month 2018 rate period. The reduction is incremental and is in the amount of \$1.46 million.⁸ Avista subtracts this reduction from Avista’s electric revenue “need” of \$10.5 million presented on rebuttal for the 2018 rate period. This difference results in a revised revenue requirement of \$8,986,000, which is the revenue requirement that Avista now requests for the 2018 rate period. This means that, with this Motion, Avista has changed its position and now bases its requested revenue requirement for 2018 on the level it presented on rebuttal.

5 Avista’s Motion includes a four-page cover letter and Attachments A through G, which are revised spreadsheets incorporating the power cost changes into the Company’s case. Staff has reviewed the filing, including the Company’s workpapers.⁹ The Motion, however, is not a simple update of power costs.¹⁰ For example, Avista changed the

⁴ Avista Cover Letter dated November 1, 2016.

⁵ Motion at ¶ 5.

⁶ Motion at ¶ 5.

⁷ Cover Letter at 2-3.

⁸ Motion at ¶ 5.

⁹ Declaration at ¶ 4.

¹⁰ See Declaration of David C. Gomez (Declaration), ¶ 7.a.

parameters of the Aurora model itself to generate the power cost update.¹¹ In addition, Avista has changed the assumptions and estimates that it relied on in earlier phases of the case and to which witnesses responded in testimony and which are presently being deliberated by the Commission.¹² Taken together, this means that Avista essentially presents a new power cost case.

6 On the same day that Avista filed its power cost update proposal, the Commission issued Bench Request No. 10.¹³ Bench Request Nos. 10.3 and 10.4 relate to power costs. In response, Avista provided a subset of the same attachments (Attachments A through D) that it included in its Motion.¹⁴

III. DISCUSSION

7 This motion should be denied principally because Avista has presented a new power cost case rather than a straightforward update to power costs. This makes it challenging for other parties to analyze the filing and respond accordingly. The challenge is exacerbated by the nature of the filing. The update consists mostly of spreadsheets, with limited narrative. This is the sort of information that could be more clearly presented as written testimony. This proceeding, however, is well beyond the testimony stage. At this stage in the proceeding, there is no procedural opportunity to rigorously analyze all of the changes that Avista appears to have made, to back out the underlying assumptions, to conduct discovery,

¹¹ Declaration at ¶ 7.a.

¹² Declaration at 7.b.

¹³ Bench Request 10.3

Please provide an updated response to Staff Data Request 146 if the expenses related to the BPA expected tariff change or contract inflation assumptions have changed due to the November 1, 2016 power cost update.

Bench Request 10.4

Please provide workpapers supporting Electric Adjustment 3.00 Pro Forma Power Supply to include amounts aggregated by FERC account and subaccount (i.e., Account 555 Purchased Power, Subaccount WNP-3) adjusted for November 1, 2016 power cost update.

¹⁴ Avista's Response to Bench Request No. 10, dated November 4, 2016.

and to cross examine witnesses on the elements that are not transparent. For these reasons, Staff cannot verify the reasonableness or the accuracy of the filing.¹⁵ So, even though there appears to be a reduction in power costs, Staff cannot recommend incorporating into the revenue requirement either the 2017 or 2018 power cost updates because Staff does not have insight into exactly how the Company arrived at its numbers.

8 Staff questions the value of incorporating the 2017 update into this case. The amount of the reduction that Avista proposes, \$591,000, is negligible in terms of the overall revenue requirement.¹⁶ Given the small magnitude of the update coupled with the inability of the parties to properly vet it, it is sensible to wait until Avista's next rate case to incorporate new power costs. This would also support a clearer record and fairer process. Avista is not even proposing to flow through the 2017 reduction to ratepayers, so foregoing the reduction does not change the effect of Avista's proposed update for 2017 rates.

9 Avista's proposed update for 2017 has one other unexpected feature. Although Avista does not plan to flow through the power cost reduction to rates, it does intend to re-set the ERM baseline. The effect is the allocation of the \$591,000 to corporate operations spending.¹⁷

10 Staff opposes the power cost update for 2018 for reasons in addition to procedural unfairness. This update is unnecessary, and it would interfere with the operation of Avista's ERM. Avista's 2018 power costs are estimates, as are its "re-revised power costs" in the update.¹⁸ It is not necessary to incorporate the updated estimates into the revenue requirement because Staff's revenue requirement already provides for one revenue increase

¹⁵ See Declaration at ¶ 7.b.

¹⁶ Declaration at ¶ 7.c.

¹⁷ Declaration at ¶ 7.d.

¹⁸ See Declaration at ¶ 7.e.

in 2017 that is sufficient to recover Avista's costs, including power costs, for the entirety of the 18-month rate period.¹⁹

11 Further, using power cost updates to update the ERM baseline twice in 2018, not to mention once now, frustrates the purpose of the ERM. As Mr. Gomez explains, "Avista's ERM mechanism protects both shareholders and customers from the effects of significant shifts in power costs," and "[f]requent baseline changes erode the protections of the ERM."²⁰ Making the amount of baseline changes Avista proposes in such a short time frame overrides the function of the ERM.

12 Staff did not expect to be confronted with such extensive and multifaceted changes to Avista's power costs at this point in a rate case. An acceptable power cost update, according to Staff witness Mr. Gomez, would contain the following:

- Material known and measurable updates to power contracts
- Updates to forward gas and market power prices
- Aurora model run parameters set identical to Avista's as-filed case or modified as may be specified in the Commission's final order.²¹

13 Avista's as-filed power cost update does not comport with these contents. The filing is inappropriate considering that it is more like a new case rather than just an update of discrete items and also considering that it was submitted after the testimony phase of the proceeding.

14 One final concern of Staff's is that Avista's response to the Commission's bench requests regarding updated power costs inappropriately contains the same new case proposed in the Motion. Accordingly, Staff recommends that when the Commission

¹⁹ Declaration at ¶ 7.e.

²⁰ Declaration at ¶ 7.f.

²¹ Declaration at ¶ 8.

disposes of the Motion that it apply the same disposition to Avista's response to Bench Request Nos. 10.3 and 10.4.

IV. CONCLUSION

15 For the reasons discussed above, Staff recommends denying Avista's Motion. Staff is not advocating the elimination of power cost updates but believes that guidance is required regarding their appropriate contents and timing. Consistent with Staff's opposition to the Motion, Staff objects to the admission into the record of the responses to Bench Request Nos. 10.3 and 10.4 as well as the documents contained in the Motion.

DATED this 10th day of November 2016.

Respectfully submitted,

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