

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION d/b/a AVISTA UTILITIES,

Respondent.

DOCKET NOS. UE-200900 and UG-200901

**RESPONSE TESTIMONY OF RACHEL S. WILSON
ON BEHALF OF THE
WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL UNIT**

EXHIBIT RSW-1T

April 21, 2021

DOCKET NOS. UE-200900 and UG-200901

RESPONSE TESTIMONY OF RACHEL S. WILSON

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Exhibit RSW-2 Resume of Rachel Wilson

I. STATEMENT OF QUALIFICATIONS

1 **Q. Please state your name and occupation.**

2 A. My name is Rachel Wilson and I am a Principal Associate with Synapse Energy
3 Economics, Incorporated (“Synapse”). My business address is 485 Massachusetts
4 Avenue, Suite 3, Cambridge, Massachusetts 02139.

5 **Q. Please describe Synapse Energy Economics.**

6 A. Synapse is a research and consulting firm specializing in energy and environmental
7 issues, including electric generation, transmission and distribution system reliability,
8 ratemaking and rate design, electric industry restructuring and market power, electricity
9 market prices, stranded costs, efficiency, renewable energy, environmental quality, and
10 nuclear power.

11 Synapse’s clients include state consumer advocates, public utilities commission
12 staff, attorneys general, environmental organizations, federal government agencies, and
13 utilities.

14 **Q. Please summarize your work experience and educational background.**

15 A. At Synapse, I conduct analysis and write testimony and publications that focus on a
16 variety of issues relating to electric utilities, including: integrated resource planning;
17 power plant economics; federal and state clean air policies; emissions from electricity
18 generation; environmental compliance technologies, strategies, and costs; electrical
19 system dispatch; and valuation of environmental externalities from power plants.

20 I also perform modeling analyses of electric power systems. I am proficient in the
21 use of spreadsheet analysis tools, as well as optimization and electricity dispatch models

1 to conduct analyses of utility service territories and regional energy markets. I have direct
2 experience running the Strategist, PROMOD IV, PROSYM/Market Analytics, PLEXOS,
3 EnCompass, and PCI Gentrader models, and have reviewed input and output data for
4 several other industry models.

5 Prior to joining Synapse in 2008, I worked for the Analysis Group, Inc., an
6 economic and business consulting firm, where I provided litigation support in the form of
7 research and quantitative analyses on a variety of issues relating to the electric industry.
8 I hold a Master of Environmental Management from Yale University and a Bachelor of
9 Arts in Environment, Economics, and Politics from Claremont McKenna College in
10 Claremont, California. A copy of my current resume is attached as Exhibit RSW-2.¹

11 **Q. On whose behalf are you testifying in this case?**

12 A. I am testifying on behalf of the Public Counsel Unit of the Washington State Attorney
13 General's Office ("Public Counsel").

14 **Q. What is the purpose of your testimony in this proceeding?**

15 A. My testimony evaluates Avista's treatment of the costs that it plans to incur for both
16 integration with the Western Energy Imbalance Market ("EIM") and ongoing operational
17 support.

¹ Rachel Wilson, Exh. RSW-2 (Resume of Rachel Wilson).

1 **Q. Please identify the documents and filings on which you base the opinions presented**
2 **in your testimony.**

3 A. This testimony relies on the direct testimony, exhibits, and workpapers of Company
4 Witnesses Elizabeth Andrews and Scott Kinney in this docket.² In addition, I rely on
5 previous UTC precedent for EIM cost recovery for both PacifiCorp and Puget Sound
6 Energy (PSE).³

7 **Q. Please summarize your findings.**

8 A. Avista's proposed approach to the recovery of EIM costs is inconsistent with the
9 approved treatment of EIM costs for other utilities operating in Washington. Their
10 current proposal only includes the costs associated with EIM participation and does not
11 consider the offsetting benefits that are expected to accompany EIM membership. The
12 Commission could reject Avista's proposal to recover EIM costs in this docket and
13 instead mandate that EIM costs be included as a line-item in the annual Energy Recovery
14 Mechanism (ERM) alongside commensurate benefits. Alternatively, if EIM costs are to
15 be recovered in this proceeding, they should be accompanied by an offsetting adjustment
16 to the power cost baseline based on projected EIM benefits.

17 **Q. Please summarize your recommendations.**

18 A. I recommend that the Commission deny Avista's request for recovery of EIM costs in
19 base rates. Instead, the approach for recovery of EIM costs should follow the precedent

² Direct Testimony of Elizabeth M. Andrews, Exh. EMA-1T through EMA-5; Direct Testimony of Scott J. Kinney, Exh. SJK-1T through SJK-12.

³ *WUTC v. Pacific Power & Light Co.*, Docket UE-152253, Order 12 (Sept. 1, 2016); Multiparty Settlement and Stipulation Agreement, *WUTC v. Puget Sound Energy*, (Sept. 15, 2017) (Dockets UE-170033 & UG-170034 (*Consolidated*)).

1 set by current EIM participants, including PacifiCorp and PSE, and these costs should be
2 included in actual power costs in the ERM true-up filings. I recommend that this solution
3 be a temporary one, however, and that EIM costs be recovered in rates after Avista has
4 gained experience as a member of EIM and therefore has a better estimate of the benefits
5 of participation in the market.

II. AVISTA'S PROPOSED APPROACH TO EIM COST RECOVERY

6 **Q. What is the Western Energy Imbalance Market?**

7 A. The Western EIM is the first real-time energy market in the western United States that
8 allows its participants to buy and sell energy close to the time at which it is actually
9 consumed. The market has 14 active participants and another eight pending participants,
10 including Avista, that are scheduled to join between 2021 and 2023.⁴

11 **Q. When will Avista join the EIM?**

12 A. Avista is currently scheduled to join the EIM on March 2, 2022, on the same day as the
13 Bonneville Power Association and Tacoma Power.⁵

14 **Q. What are the most recent cost estimates associated with Avista's EIM participation?**

15 A. Avista presents total EIM integration costs of \$32.1 million and ongoing costs of \$3.9
16 million. The incremental EIM integration cost is estimated to be \$30.7 million. These
17 cost estimates include both labor and non-labor costs, as well as contingency costs.⁶

⁴ Western Energy Imbalance Market Overview, *About*, available at <https://www.westerneim.com/Pages/About/default.aspx> (Last Accessed April 13, 2021).

⁵ Kinney, Exh. SJK-1T, at 5.

⁶ Kinney, Exh. SJK-1T, at 8.

1 **Q. What are the EIM expenses for which Avista is seeking rate recovery in this**
2 **proceeding?**

3 A. In this proceeding, the EIM is one of four specific capital projects planned for completion
4 in 2021 that are driving the company's request for rate relief, and which Avista is
5 requesting be included in base rates. With respect to EIM costs, the amount pro formed in
6 Avista's case on an average-monthly-average basis (Washington share) is \$10.8 million.⁷
7 This reflects capital additions and associated accumulated depreciation, accumulated
8 deferred federal income taxes, depreciation expense, and the operating expenses that are
9 expected to be incurred during the rate-effective period.⁸

10 **Q. Did Avista estimate the benefits of joining the EIM?**

11 A. Avista hired Energy and Environmental Economics ("E3") to develop an EIM benefits
12 study in 2017.⁹ E3 determined that Avista can expect to see \$2 million to \$12 million in
13 annual system benefits as a result of joining the EIM.¹⁰ E3 developed their estimate of
14 EIM benefits using 24 scenarios, using various sensitivities for available transmission and
15 amount of Avista hydro capacity and renewable generation. Avista analyzed four of the
16 24 scenarios and expects annual system EIM benefits to be approximately \$5.8 million.
17 However, Company witness Scott Kinney points out that this number is likely lower than
18 the benefits that Avista will receive from the EIM, based on the actual EIM participant
19 benefits that have been observed since the E3 study was conducted. According to

⁷ Andrews, Exh. EMA-1T, at 77.

⁸ *Id.*

⁹ Kinney, Exh. SJK-12.

¹⁰ Kinney, Exh. SJK-1T, at 14.

1 Mr. Kinney, EIM participants Idaho Power Company and Portland General Electric
2 received actual benefits that were over five times higher than the benefits were
3 anticipated in studies similar to the E3 study commissioned by Avista.

4 **Q. Are the benefits of joining EIM included as part of Avista's cost recovery proposal?**

5 A. No. Avista emphasizes customer benefits as a rationale for joining the EIM and presents
6 estimates of those benefits that they expect to receive from EIM participation throughout
7 the testimony in this docket. However, the amount they request to recover from
8 ratepayers only includes EIM costs and not the projected EIM benefits. Similar to what
9 was argued in the PacifiCorp case by Boise White Paper, this violates the accounting
10 matching principle, which calls for related costs and benefits to be accounted for in the
11 same period.¹¹ It also violates the Commission's "long standing adherence to the
12 principle that benefits should follow burdens."¹²

13 **Q. Is Avista's approach to EIM cost recovery reasonable?**

14 A. No. Avista's proposal in this docket to recover costs associated with EIM in general rates
15 does not align with precedent and differs from the approach that the Commission applied
16 to PacifiCorp and PSE. At no point does Avista include the benefits of joining the EIM
17 alongside the costs of joining the EIM. The Commission should ensure that both costs
18 and benefits are fairly assessed, either by allowing an adjustment to the power cost

¹¹ *WUTC v. Pacific Power & Light Co.*, Docket UE-152253, Order 12, at 8 (Sept. 1, 2016).

¹² Multiparty Settlement and Stipulation Agreement, *WUTC v. Puget Sound Energy*, (Sept. 15, 2017) (Dockets UE-170033 & UG-170034 (*Consolidated*)).

1 baseline to include EIM benefits or by excluding EIM costs from rates and instead jointly
2 including EIM costs and benefits in annual ERM true-up filings.

3 **Q. Do you believe that Avista can accurately estimate the benefits of EIM membership?**

4 A. Not at this time, no. As referenced above, there is much uncertainty about the potential
5 benefits to Avista, with the E3 study estimating a range of \$2 million to \$12 million in
6 benefits based on a study that examined actual benefits that had accrued to comparable
7 utilities, and yet in 2019, those same utilities earned benefits of \$28.2 million and \$42.9
8 million, which was well above estimated study values.

9 **Q. How have EIM costs for other Washington utilities been considered in rates?**

10 A. In recent cases regarding the EIM, the Commission has emphasized the need to match
11 benefits with burden when recovering costs from ratepayers. Both PacifiCorp and PSE
12 went through similar proceedings when joining the EIM, and the Commission had to
13 determine how those utilities should include EIM benefits alongside EIM costs.

14 **Q. How does PacifiCorp recover EIM costs while still accounting for EIM benefits?**

15 A. PacifiCorp joined the EIM in 2014 and settled their approach to EIM costs and benefits in
16 Docket UE-152253 as a result of Commission Order 12.¹³ Throughout the docket, the
17 Commission focused on the need to match benefits with burdens. Their final decision
18 allowed PacifiCorp to remove EIM costs from non-power cost rates and instead include
19 them in the annual PCAM true-up filing. The Commission's rationale was that their
20 ability to include both EIM costs and EIM benefits in rate cases was limited, and

¹³ *WUTC v. Pacific Power & Light Co.*, Docket UE-152253, Order 12 (Sept. 1, 2016).

1 PacifiCorp had not filed for an adjustment to the power cost baseline that would have
2 allowed consideration of EIM benefits. The Commission decided that the best way to
3 include EIM costs and benefits in the same proceeding was via the PCAM true-up filing.
4 The Commission's directive was temporary, as they directed PacifiCorp to include EIM
5 costs in future non-power cost rates as long as EIM benefits were included in the power
6 cost baseline. Their reasoning is particularly salient to this case: "When fixed costs that
7 reduce variable power costs are included in general rates, the PCAM's baseline power
8 costs must be reset to reflect the benefits in order for ratepayers to realize the net benefits
9 of the fixed costs they are being asked to should include EIM costs they are being asked
10 to pay for."¹⁴

11 **Q. How does PSE recover EIM costs will still accounting for EIM benefits?**

12 A. As part of the Multiparty Settlement and Stipulation Agreement in Consolidated Dockets
13 UE-170033 and UG-170034, the Commission accepted Staff's proposal that PSE should
14 remove EIM costs and benefits from their rate proposal and instead count them in the
15 annual PCA true-up filing.¹⁵ Staff witness Kyle A. Frankiewicz argued in his testimony
16 that because the benefits of EIM are simply estimated placeholders, and not calculated
17 amounts, it is reasonable to include EIM costs and benefits as part of the PCA true-up
18 filing because the PCA is, by design, meant to capture uncertainty and variability.¹⁶

¹⁴ *WUTC v. Pacific Power & Light Co.*, Docket UE-152253, Order 12, at 73 (Sept. 1, 2016).

¹⁵ Multiparty Settlement and Stipulation Agreement, at 20, *WUTC v. Puget Sound Energy*, (Sept. 15, 2017) (Dockets UE-170033 & UG-170034 (*Consolidated*)).

¹⁶ Response Testimony of Kyle A. Frankiewicz, Exh. KAF-1T, at 16, *WUTC v. Puget Sound Energy* (June 30, 2017) (Dockets UE-170033 and UG-170034, *Consolidated*).

III. CONCLUSIONS AND RECOMMENDATIONS

1 **Q. Please summarize your conclusions and recommendations regarding Avista's EIM**
2 **costs and benefits.**

3 A. I recommend that the Commission deny Avista's request for base rate recovery of EIM
4 costs and order these costs be included in actual power costs of the ERM true-up filings. I
5 recommend that this solution be a temporary one, however, and that EIM costs be
6 recovered in rates after Avista has gained experience as a member of EIM and therefore
7 has a better estimate of the benefits of participation in the market.

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

9 A. Yes.