BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-21____

DIRECT TESTIMONY OF

KAYLENE J. SCHULTZ

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

A. My name is Kaylene J. Schultz. I am employed by Avista Corporation as Manager of Regulatory Affairs in the Regulatory Affairs Department. My business address is 1411 East Mission, Spokane, Washington.

Q. Please briefly describe your educational background and professional experience.

A. I am a 2010 graduate from Gonzaga University with a Bachelor of Business Administration degree, majoring in both Accounting and Business Administration, with a concentration in Management Information Systems. After spending nearly eight years in the banking and capital markets sector, I joined Avista in September 2015 as a Natural Gas Analyst in the Company's Gas Supply Department. In January 2019, I joined the Regulatory Affairs Department as a Regulatory Affairs Analyst where I was, and continue to be, responsible for preparing annual filings and various applications related to the Purchased Gas Adjustments for all jurisdictions. In my current role as Manager of Regulatory Affairs, I am responsible for, among other things, preparing the capital additions pro forma adjustments in determination of the revenue requirement for all jurisdictions in which the Company provides utility services.

Q. What is the scope of your testimony in this proceeding?

A. My testimony addresses the accounting associated with the power cost deferrals under the Energy Recovery Mechanism ("ERM") approved by the Commission in Docket No. UE-011595. I also explain what is contained in the monthly reports that are filed with the Commission. Finally, I will address the 2020 results for the Voluntary Solar Select Program approved in Docket No. UE-180102.

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exh. KJS-2 and Exh. KJS-3. Exh. KJS-2 consists of a copy of the December 2020 ERM report provided for informational purposes and Exh. KJS-3 contains the supporting workpapers for the January and July semi-annual updates of the weighted cost of debt used in the interest calculations.

II. ACCOUNTING ASSOCIATED WITH ERM DEFERRALS

Q. Would you please describe the accounting associated with the Company's ERM deferral mechanism?

A. Yes. In her direct testimony, Company witness Ms. Brandon discusses the calculation of the monthly variations between actual and authorized power supply revenues and expenses. Under the ERM deferral mechanism, monthly variations are accumulated until the calendar-year deadband of $4.0 million is exceeded. Once the deadband is exceeded, 50% of the cumulative variation between actual and authorized net power supply costs between $4.0 million and $10.0 million is deferred if the deferral is in the surcharge direction, and 75% is deferred if the deferral is in the rebate direction. Once the cumulative power supply cost variance from the amount included in base rates exceeds $10.0 million, 90% of the cost variance above $10 million is deferred for future surcharge or rebate.

When actual net power supply costs differ from authorized costs by over $4 million, entries are made to record the deferral amount by crediting FERC Account 557.28 - Other Power Supply Expenses, thereby decreasing recorded power supply expenses, and debiting

FERC Account 186.28 - Miscellaneous Deferred Debits. If actual net power supply costs are less than authorized costs in a given month, an entry is made to record the difference by debiting FERC Account 557.28 - Other Power Supply Expenses, thereby increasing recorded power supply expenses, and crediting FERC Account 186.28 - Miscellaneous Deferred Debits. An accumulated debit balance in FERC Account 186.28 represents a surcharge balance, while an accumulated credit balance represents a rebate balance.

Q. How is interest recorded on the deferral balances?

A. Interest is calculated pursuant to the Settlement Stipulation approved by the Commission's Fifth Supplemental Order in Docket No. UE-011595, dated June 18, 2002. Interest is applied to the average of the beginning and ending month balances in Account 186.28, net of associated deferred federal income tax. The Company's weighted cost of debt is used as the interest rate. The interest rate is updated semi-annually, and interest is compounded semi-annually. The interest rate used for the period January 1, 2020 through June 30, 2020 was 5.09%, the Company's weighted cost of debt at December 31, 2019. The interest rate used for the period July 1, 2020 through December 31, 2020 was 4.94%, the Company's weighted cost of debt at June 30, 2020. The supporting workpapers for the January and July semi-annual updates of the weighted cost of debt used in the interest calculations have been included as Exh. KJS-3.

Q. How are income taxes accounted for under the deferred power cost mechanism?

A. The power cost deferral entries are not recognized in the determination of taxable income for federal income tax purposes. Therefore, deferred federal income taxes are recorded to FERC Account 283.28 – Accumulated Deferred Federal Income Tax. When

FERC Account 283.28 is credited, Account 410.10 – Deferred FIT Expense in debited. Likewise, when FERC Account 283.28 is debited, FERC Account 410.10 is credited.

Q. In 2020, what were the amounts deferred and the amount absorbed by the Company?

A. For the 2020 calendar year, actual net power costs were lower than authorized net power costs for the Washington jurisdiction by $17,479,519. Table No. 1 below illustrates the allocation between the Company and Customer:

Table No. 1 – 2020 ERM Results

	Total	Absorbed (Avista)	Deferred (Customer)
First $4M at 100%	$ (4,000,000)	$ (4,000,000)	$ -
$4M to $10M at 25% (rebate)	$ (6,000,000)	$ (1,500,000)	$ (4,500,000)
$4M to $10M at 50% (surcharge)	$ -	$ -	$ -
Over $10M at 10%	$ (7,479,519)	$ (747,952)	$ (6,731,567)
	$ (17,479,519)	$ (6,247,952)	$ (11,231,567)

The total current year deferral is comprised of $11,231,567 related to the 2020 net power costs shown above, plus interest in the amount of $209,253, less the Solar Select surcharge ($57,572) for a total rebate deferral of $11,383,248 for the twelve-months ending December 31, 2020.

Q. What was the total balance in the ERM deferral accounts at December 31, 2020 including deferrals that arose prior to 2020?

A. In total, the overall cumulative rebate balance in all ERM deferral accounts as of December 31, 2020 was $37,869,378. Table No. 2 summarizes the activity in all the ERM deferral accounts and the resulting balance at December 31, 2020.

Table No. 2 – Cumulative ERM Balances

Account	Description	Balance Surcharge/ (Rebate)
182350 - Amortizing Deferral Balance	2019 Deferral Approved per Order No. 1, Docket No. UE-200291	$ (1,502,661)
182352 - Approved for Rebate	Pre-2019 ERM Deferrals Approved for Rebate per Order No. 9, in Docket Nos. UE-190334, UG-190335 and UE-190222 (consol.)	$ (24,983,469)
186280 - Current Year Deferral (2020)	Cumulative YTD 2020 Deferral Balance	$ (11,383,248)
	Total Balance at December 31, 2020	**$ (37,869,378)**

Q. Under the mechanics of the ERM, what is the provision for a rebate or surcharge of the ERM balance to customers?

A. A rate adjustment trigger was originally set at 10% of base revenues per the Settlement Stipulation and approved by the Fifth Supplemental Order in Docket UE-011595. The Multiparty Settlement Stipulation in Docket No. UE-120436 reduced the rate adjustment trigger from 10 percent of base revenues to $30 million. However, as indicated in footnote 1, rebates of ERM balances (as approved by the Commission) have occurred separate from this provision. The Company first reached it's $30 million trigger with its 2019 annual ERM filing and was approved for a 24-month rebate effective April 1, 2020, per Order No. 9, Docket Nos. UE-190334, UG-190335 and UE-190222 (consol.). The Company began returning the rebate to customers effective April 1, 2020, with the remaining balance of approximately $25.0 million, as illustrated above in Table No. 2.

[1] As a part of the Settlement Stipulation approved by the Commission in Docket Nos. UE-140188 and UG-140189, Avista was authorized to rebate to customers approximately $8.2 million during 2015. Approximately $8.0 million was passed back to customers during 2015. That rebate was set to expire on December 31, 2015, however, in Docket No. UE-152406, the Commission extended the rebate for an additional 11 days (January 1-January 11, 2016) to coincide with the effective date of the Company's 2015 general rate case for approximately $640,000.

III. COLSTRIP UNITS #3 & #4 AND COYOTE SPRINGS II

Q. The requirements set forth in Order 03 in Docket No. UE-060181 requires that the Company tracks the availability factors for Colstrip and Coyote Springs II, and should these factors drop below 70%, the Company is to make adjustments to account for the differences between actual and authorized fixed costs. Did the availability factors drop below 70% in 2020?

A. No. As noted in Ms. Brandon's testimony, the equivalent availability factor for Coyote Springs II was 84% for 2020, and Colstrip Units 3 & 4 was also 74%. As such, the Company was above the threshold, and therefore, no adjustment is necessary to account for differences between actual and authorized fixed costs.

IV. VOLUNTARY SOLAR SELECT PROGRAM

Q. Please provide a brief overview of the Company's Voluntary Solar Select Program.

A. On February 2, 2018, Avista filed Schedule 87 with the Commission to establish a new Voluntary Solar Select Program ("Solar Select") for large, non-residential retail customers, in Docket UE-180102. Schedule 87 offers a long-term, qualified renewable energy product to certain commercial and industrial customers. In order to meet the needs associated with the Solar Select program, Avista entered into a Power Purchase Agreement (PPA) with Strata Solar for 28 MW located in Lind, WA (Lind Solar Farm). This solar facility qualifies as a shared commercial solar facility under Engrossed Substitute Senate Bill (ESSB) 5939, enacted in RCW 82.16, Renewable Energy System Cost Recovery. During the March 29, 2018 Open Meeting, the Commission took no action on the Company's proposed tariff filing, thus letting the tariff go into effect by operation of law with an effective date of April 2, 2018.

Q. Is the Solar Select program fully subscribed?

A. Yes. The Solar Select program opened for reservations on May 1, 2018 and by day end, the program was fully subscribed.

Q. Please describe the accounting process related to the Solar Select program.

A. Avista proposed, and Staff accepted, that expenses and revenues flow though the <u>annual</u> Energy Recovery Mechanism (ERM) filing, outside of the "deadband" and sharing bands (similar to renewable energy credits). Subject to prudence review, 100% of the benefits or costs associated with the Solar Select program will flow through to customers via the ERM deferral. The Company does not retain any benefits associated with the program.

Q. What was the net benefit or loss associated with the Solar Select program for 2020?

A. For 2020, the net surcharge associated with the Solar Select program was $57,572. Expenses, which include the power purchase agreement, transmission, distribution and communication interconnection costs, integration costs etc. were $3,335,656 versus revenues of $3,278,084. The net benefit/expense was calculated and tracked on a monthly basis, and summarized on an annual basis, separate from the ERM balances described in Section II above. A debit was recorded to FERC Account 186.280 to reflect the surcharge associated with the Solar Select Program deferral balance in the amount of $57,572.

Q. Will the prudency of revenues/expenses be determined as part of the annual ERM filing review?

A. Yes. The expenses and revenues associated the Solar Select program will be subject to the same prudence review as all power supply revenues and expenses. Detailed workpapers, specific to Solar Select, are provided with this filing.

V. ERM MONTHLY AND ANNUAL REPORTS

Q. Would you please describe the monthly reports that the Company submits to the Commission?

A. Yes. The Company submits monthly reports to the Commission that include the monthly power cost deferral journal entries together with backup work papers and other supporting documentation. The cover letter for each monthly report contains a brief explanation of the factors causing the variance between actual and authorized power costs. The beginning of the month account balances, the recorded activity within the accounts, and the ending month account balances are shown. The supporting workpapers for the January and July semi-annual updates of the weighted cost of debt used in the interest calculations have been included as Exh. KJS-3. The monthly reports also include any new power supply contracts of one-year or longer, entered into during the month. The December 2020 report is attached for informational purposes as Exh. KJS-2.

Q. What are the requirements associated with the annual filing to review deferrals?

A. The Company is required to make an annual filing, on or before April 1 of each year, regarding the power costs deferred in the prior calendar year under the ERM. As previously discussed, in accordance with Docket No. UE-180102, the Company also is required to provide information related to the Solar Select program. The filing consists of testimony, exhibits, and supporting documentation.

Q. What is the review period for the annual ERM filing?

A. The Commission Staff and other interested parties have the opportunity to review the deferral information during a 90-day review period ending June 30th each year. The 90-day review period may be extended by agreement of the parties participating in the review, or by Commission order.

Q. Have the 2020 ERM calculations and accounting entries been made in a manner consistent with the ERM methodology approved by the Commission?

A. Yes.

Q. Does this conclude your pre-filed, direct testimony?

A. Yes, it does.