BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of Avista Corporation, d/b/a Avista Utilities For an Accounting Order Authorizing Avista to Defer Any Insurance Proceeds Received for the Failed Transformer at its Coyote Springs 2 Generating Station	)	Docket No. UE-21_____ PETITION OF AVISTA CORPORATION

I. INTRODUCTION

1 In accordance with WAC 480-100-203(3), Avista Corporation, doing business as Avista Utilities ("Avista" or "Company"), at 1411 East Mission Avenue, Spokane, Washington, hereby petitions the Commission for an order authorizing Avista to defer any and all insurance claim proceeds received due to the failures of equipment at the Coyote Springs 2 ("CS2") natural gas generating facility. This filing complies with the Commission Order 08/05 in Dockets UE-200900 et.al., at paragraph 204, as follows:

> We are satisfied that Avista included appropriate offsets to its pro forma 2020 major capital additions adjustment associated with the failed transformers. We find, however, that submitting an insurance claim for failed distribution infrastructure, such as a failed transformer, should trigger a regulatory process to ensure transparency and tracking. Accordingly, we require Avista to file with the Commission an accounting petition to defer the insurance claim proceeds associated with the Coyote Springs 2 Single Phase Transformer highlighted in Staff witness Gomez's testimony. In addition, we direct Avista to file with the Commission an accounting petition to defer any insurance claim proceeds associated with any material future distribution infrastructure failure, such as a failed transformer, for which the Company submits an insurance claim.

2 Avista is a utility that provides service to approximately 395,000 electric customers and 258,000 natural gas customers in a 26,000 square-mile area in eastern Washington and northern Idaho. Avista Utilities also serves approximately 105,000 natural gas customers in Oregon. The

largest community served by Avista is Spokane, Washington, which is the location of its corporate headquarters. Please direct all correspondence related to this Petition as follows:

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3 Rules and statutes that may be brought at issue in this Petition include RCW 80.01.040, RCW 80.28.020, and WAC 480-07-370(3)(b).

II. BACKGROUND

4 CS2 is a natural gas fired combined cycle combustion turbine located in Boardman, Oregon. Portland General Electric, who owns Coyote Springs 1, operates both units. The plant, completed in 2003, has a maximum capacity of 317.5 megawatts in the winter, 285 megawatts in the summer, and has a nameplate rating of 287.3 megawatts. In 2016 the plant was upgraded with new control technology that increased its capacity by 18 megawatts.

5 Prior to 2021, there was one Generator Step-Up (GSU) Transformer (a single three-phase transformer configuration) in use at any time at Coyote Springs 2. This Siemens 532kv transformer was fed by one natural gas turbine generator which produced 18,000 volts of electricity and one steam turbine generator which produced 13,800 volts of electricity. The electricity produced from both units flowed through the GSU Transformer where the voltage is increased to 500,000 volts, and then connected to the Bonneville Power Administration

transmission system. Transformer #3 was placed in service in May 2007 and was still in operation as of September 21, 2018. Transformer #4 was located at the plant for use as a spare.

6 On September 21, 2018, a protective device tripped Transformer #3 offline and CS2 was automatically removed from service. Subsequent investigation of gassing[1] revealed evidence of high energy internal arcing rendering the transformer unavailable for continued service. Work began the end of September 2018 to remove Transformer #3 and position Transformer #4 for commissioning. Transformer #4 was placed in service on October 28, 2018, however shortly thereafter, gassing analysis indicated internal arcing in this unit as well. Given that the gassing observed with Transformer #4 was lesser in magnitude than observed with Transformer #3; and also given that we no longer had a usable spare, Transformer #4 was deemed fit to operate at reduced load until such time as a repair to Transformer #3 was made or the transformers were replaced.

7 After careful consideration of the repair or replacement options, Avista made the decision to change the configuration to a more robust single-phase design going forward.

8 Project planning and design activities began in 2019. In order to minimize outage activities during critical operations windows, the project plan included a two-phased outage during the Spring/Summer of 2020 and 2021. The 2020 outage consisted of early civil/structural foundation work for the Transformer #5 A and C locations and Transformer # 5 A, B, and C containment. The 2021 outage included all civil/structural activities that required Transformer #4 to be out of service and relocated, as well as all other activities. The project was completed, and Coyote Springs 2 was back online by the end of June 2021.

[1] Whenever a transformer undergoes abnormal thermal and electrical stresses, certain gasses are produced due to the decomposition of the transformer oil.

III. COSTS

9 All the amounts included in this filing are system costs. Washington's share is approximately 65%, which is the production/transmission allocation factor. Costs that had been capitalized for the three-phase transformer configuration at CS2 was approximately $8.9 million, with a current net book value of approximately $6.2 million. These costs are detailed as follows:

CS2 Three-Phase Transformer Capital Costs ($millions)

	Transformer #3 Retired September 2020	Three-phase Transformer Infastructure Retired November 2021	(1) Transformer #4 & Infastructure Spare (Not Retired)
Cost	$ 3.9	$ 0.2	$ 4.8
Accumulated Depreciation	(1.3)	-	(1.4)
Net Book Value	$ 2.6	$ 0.2	$ 3.4

(1) The capital with a net book value of $3.4 million includes approximately $1.6 million that will be retired in the future, which is primarily the T4 transformer and underlying infastructure. The remainig net book value of $1.8 million will remain in service and not retired.

10 The Company retired Transformer #3 with a net book value of $2.6 million in September 2020. In addition, transformer infrastructure costs with a net book value of $0.2 million were retired in November 2021. Those costs are included in rate base as a reduction to accumulated depreciation, in accordance with approved regulatory accounting. Transformer #4 and remaining infrastructure with a net book value of $3.4 million has not been retired as of this filing. The Company plans to continue to hold the asset as an emergency spare for the

foreseeable future. When it is determined that the Transformer #4 will no longer be used as a spare, assets with a current net book value of $1.6 million will be retired. The remaining plant with a net book value of $1.8 million will still be used and useful and therefore will not be retired.

11 The Company incurred approximately $2.53 million to date of expenses for the failure of Transformer #3. These costs were primarily for testing, investigation, transportation, and storage costs of the transformers. These costs were recorded in FERC Account No. 553 – Other Generation Maintenance – Generation and Electric Equipment. The costs were primarily incurred in 2018 and 2019, which were both test periods in the Company's last two general rate cases, and therefore have been or are currently being recovered from customers. The Company estimates that it will offset capital costs with approximately $100,000 of proceeds received from the sale of scrap for Transformer #3.

IV. INSURANCE CLAIM

12 The process of obtaining a claims recovery on the Siemens 532kv transformer (Transformer #3) previously in service at our Coyote Springs 2 generation facility continues. A claim was filed on September 27, 2018 due to the transformer tripping offline on September 21, 2018 attributable to an overpressure event involving the transformer.

13 Over the course of the last three years, Avista has engaged with the insurance adjuster representing the insurance panel providing property coverage for Avista Corp. Insurers contend that identified damage to the B phase of the transformer is not covered. Avista disagrees with this position and engaged outside counsel to assist in potential recovery of our claim.

14 Outside counsel sent correspondence to the insurance adjuster on September 13, 2021

requesting that the insurers formally either accept or deny the claim. The correspondence indicated that if a response was not received within 30 days of the date of the letter, it would be considered as a formal declination of Avista's claim.

15 A response was received from outside counsel representing the insurance panel, on October 21, 2021. In summary, the letter indicates that the insurer's position is that the claimed damage was caused by problems with the transformers since it was installed and do not fall within the insuring provision of the policy. Also, the insurer's stance is that the policy exclusions would apply to preclude coverage for the loss. Avista continues to work with outside counsel to determine the appropriate course of action going forward.

16 The Company's current estimate of costs incurred to date and potential insurance claim proceeds is approximately $4.2 million. This is made up of the costs incurred for Transformer #3 of $5.2 million less a $1.0 million deductible. The Company has allocated the costs between capital and expenses as follows:

Allocation of Insurance Claim Proceeds
($millions)

	Capital	**Expenses**	**Total**
Transformer #3	$ 2.6	$ 2.5	$ 5.1
Three-phase Transformer Infastructure	0.2	-	0.2
Scrap Proceeds	(0.1)	-	(0.1)
Total	2.7	2.5	5.2
Allocation of Deductible	(0.5)	(0.5)	(1.0)
Net Insurance Proceeds	$ 2.2	$ 2.0	$ 4.2

V. PROPOSED ACCOUNTING TREATMENT

17 Avista will record the net insurance proceeds received, if any, as follows:

- The capital portion of $2.2 million will be recorded as a reduction to rate base by crediting FERC Account No. 108 – Accumulated Depreciation.
- Washington's share of the expense portion of $2.0 million (system) will be deferred and recorded as a credit to FERC Account No. 254.3 – Regulatory Liability. This credit of approximately $1.3 million will be returned to Washington customers in a future regulatory proceeding.

18 The regulatory liability balance will accrue a carrying charge, on a monthly basis, equal to the current Federal Energy Regulatory Commission (FERC) rate, presently at 3.25 percent, annually. The carrying charge will cease when recovery begins in a future rate proceeding.

VI. REQUEST FOR RELIEF

19 WHEREFORE, Avista respectfully requests that the Commission issue an Order approving Avista to defer all insurance claim proceeds received as described in this Petition, if any, due to the failures of equipment at the Coyote Springs 2 natural gas generating facility. Customer rates would not be impacted, and any deferral of costs would be addressed in a future rate proceeding.

DATED this 17th day of November 2021

By: _____
Patrick D. Ehrbar
Director of Regulatory Affairs