Agenda Date: June 29, 2023
Item Number: A1

Docket: **UE-230214**
Company: Avista Corporation d/b/a Avista Utilities

Staff: Alex Tellez, Regulatory Analyst

Recommendation

Issue an order authorizing Avista Corporation to record a 2022 ratepayer deferral of $38,105,837 for calendar year 2022, as reported in Avista Corporation's Energy Recovery Mechanism report for 2022 and allow the updated tariff revisions filed on June 22, 2023, to go into effect July 1, 2023. Additionally, Staff recommends the Commission approve the Company's 2022 Solar Select benefit of $1,154,955.

Background

On June 18, 2002, the Washington Utilities and Transportation Commission (Commission) entered its Fifth Supplemental Order in Docket UE-011595, which authorized Avista Corporation d/b/a Avista Utilities (Avista or Company) to implement an Energy Recovery Mechanism (ERM) allowing for positive or negative rate adjustments to account for fluctuations in power costs outside of an authorized band for power-cost recovery in base rates.[1] Under the Settlement Stipulation approved by the Commission in the same order, Avista is required to make a filing by April 1 of each year regarding the power costs it deferred the prior calendar year under the ERM, and the Commission and interested parties are afforded a 90-day period to review the prudence of and audit the reported ERM deferral entries.[2]

On March 31, 2023, in Docket UE-230214, Avista filed its 2022 ERM report regarding power cost deferrals for the calendar year 2022.

Overview of Avista's 2022 ERM deferrals

Energy cost deferrals under the ERM are calculated each month by subtracting base net power supply expenses from actual net power supply expenses to determine the change in net power supply expenses. For January 1, 2022, through December 31, 2022, ERM period, Avista's actual power costs exceeded their authorized costs of $110 million by $48,834,582 million. In accordance with the ERM mechanism, for power cost variances in the surcharge direction, Avista absorbed 100 percent of the first $4 million dollars in the surcharge direction, 50 percent of the next $6 million, and 10 percent beyond $10 million. Accordingly, Avista absorbed $10,883,458 and proposes to add $37,951,124 in the surcharge direction to the deferral balance. With interest applied, the total 2022 ERM surcharge balance would be $38,105,837. When added

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[1] *WUTC v. Avista Corporation,* Docket UE-011595, Order 05 at 14, C. 34. (June 18, 2002).

[2] *I.d.,* Settlement Stipulation at 6-7, 4.b. (June 18, 2002).

to the end of the 2021 annual ERM credit balance of -$4,502,576 and a prior unamortized deferral credit balance of -$767,436 the total ERM deferral balance would be $32,835,935 in the surcharge direction. Because the $30 million trigger has been as outlined in the Multiparty Settlement Stipulation in Docket UE-120436, the Company proposes to implement a surcharge to recover the deferral balance over the next year. The Company proposes to offset this surcharge balance with a $971,670 deferred regulatory liability approved in Docket UE-220530 that came from an error in understating Energy Imbalance Market (EIM) benefits approved to offset net base power supply costs in its 2020 General Rate Case (GRC). This would reduce the ERM surcharge balance to $31,864,265.

The ERM also contains the accounting and filing requirements for Avista's Voluntary Solar Select Program (Solar Select). 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.[3] Schedule 87 offers a long-term, qualified renewable energy product to certain commercial and industrial customers. The proposed tariff filing went into effect on April 2, 2018. Subject to the prudence review, 100 percent of the benefits or costs associated with the Solar Select program will flow through to customers via the ERM deferral.[4]Avista reports a net benefit associated with the Solar Select program of $1,154,955 in 2022.

<u>Discussion</u>

Variance Analysis

A large contributor to the variance between Avista's authorized and actual power supply costs in the 2022 ERM period was high load variance due to extreme weather coupled with low hydrogeneration and high market power prices. The actual load for the ERM period exceeded the authorized by 57 average megawatts (aMW) per month as the Company experienced unusually high temperatures in the summer months and unusually low temperatures in the winter months. Load and extreme temperatures had the greatest impact on power costs in November and December 2022 when record low temperatures increased customer loads not only in Avista's service territory but in the whole Pacific Northwest region, forcing the Company to purchase additional power on the market.[5,6,7]

While Avista experienced high loads and faced rising market power prices, the Company experienced unfavorable hydro conditions. Hydroelectric generation was lower than authorized in November and December by -14,202 MWh and -53,089 MWh respectively. This can be explained by the record low temperatures in the Spokane region which the Company testified prevented snowpack from melting and causing precipitation to fall as snow.[8] Lower

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[3] Docket UE-180102
[4] Letter from Avista on the Company's commitment to the Solar Select program, Docket UE-180102.
[5] Climate (weather.gov)
[6] Electricity Monthly Update - U.S. Energy Information Administration (EIA)
[7] U.S. Energy Information Administration - EIA - Independent Statistics and Analysis
[8] UE-230215, Testimony of Scott J. Kinney, at 17

hydrogeneration in November and December meant that Avista had to rely more on purchasing expensive power on the market. Unfavorable hydro conditions coupled with record high loads in December resulted in approximately $9.4 million of the total $14 million total power cost variance.

While U.S. electricity generation from natural gas this past winter was the highest since at least 1997,[9] U.S. natural gas storage, and inventories were below the five-year average.[10] In December, storage in the Pacific region was 30 percent below the five-year average while natural gas imports from Canada and the Rockies dropped 6 percent and 9 percent respectively.[11] Production was also outpaced by temperature-related demand.[12] Furthermore, continually increasing LNG exports significantly impacted supply of natural gas and drove up market prices for power.[13]

Solar Select

Under RCW 19.29A, the cost and benefits of Avista's Solar Select Program must be borne by the participants in that program. Consistent with that requirement, the Solar Select Program's expenses and revenues are tracked outside of the ERM's dead band and sharing bands but reported as part of Avista's annual ERM filing. For 2022, the net benefit of the Solar Select Program was $1,154,955. All benefits after eight years will be distributed to Solar Select customers through the ERM, and Avista will not retain any of the positive margin. When added to the previous credit balance of $1,083,766 and $67,919 of interest, the total Solar Select balance would be $2,306,640 in benefits.

Staff has reviewed the Solar Select net benefit for 2022 and find the amounts to be accurately calculated and reflective of market conditions during the year. While the benefit in 2022 is much higher than in previous years, this can be explained by region-wide extreme temperatures which increased the market price for energy. As Solar Select generation represents an avoided cost for Avista (i.e., it represents load that Avista did not have to serve), the avoided cost benefit of Solar Select generation is high when market prices are high.

Interested Parties

On June 5, 2023, the Alliance of Western Energy Consumers (AWEC) filed a petition asking the Commission to suspend the tariff surcharge of overall deferral balances associated with its ERM and to initiate an adjudicatory proceeding to review whether Avista's proposed rates are reasonable and just. AWEC identified two concerns that it claims warrant additional investigation: 1) Avista may not have been sufficiently hedged for high power prices in

[9] U.S. Energy Information Administration - EIA - Independent Statistics and Analysis
[10] U.S. Energy Information Administration - EIA - Independent Statistics and Analysis
[11] U.S. Energy Information Administration - EIA - Independent Statistics and Analysis
[12] Natural Gas Weekly Update (eia.gov)
[13] Liquefied U.S. Natural Gas Exports (Million Cubic Feet) (eia.gov)

December of 2022 and 2) Avista made daily gas sales that were much more valuable than the gas sales that it has allocated to electric service and wants to investigate how gas sales were included in rates. In its petition, AWEC relayed that Public Counsel supported their petition while Staff did not oppose and Avista opposed.

Finding no evidence that the Company's costs were imprudently incurred and no evidence to suggest that the Company was not sufficiently hedged nor imprudently excluding profitable gas sales from rates, Staff filed a response to AWEC's petition for adjudication on June 14, 2023. The response reiterated that Staff neither joins nor opposes AWEC's petition. Having established that the Company is on a negative credit watch with S&P and at risk for a credit downgrade, Staff recommended that if the Commission decides to adjudicate, the Commission authorize Avista to charge the proposed tariff rates on an interim basis. This would ensure that any delay in recovery of the ERM balance does not negatively affect Avista's credit score.

On June 21, 2023, Public Counsel arranged a meeting with the Company, AWEC, and Staff to discuss rate mitigation. Public Counsel advocated for the Company to amortize the ERM deferral balance over a two-year period to mitigate rate shock for ratepayers. The Company ultimately agreed to this if AWEC would withdraw its petition for adjudication and all parties file comments supporting this approach. Despite being on negative credit watch, the Company felt comfortable enough to extend the amortization period to two years. Because the Company felt comfortable with this and this approach satisfies the other interested parties, Staff supports this approach.

<u>Impact to Customer Bills</u>

In its initial filing, the Company proposed to implement a surcharge to recover the deferral balance over a one-year amortization period. The net effect of the surcharge at that amortization schedule (after including projected interest and revenue related expenses) would be $34,593,056, or 6.0 percent. The average residential customer using 932 kWh per month would see an increase of $5.60 per month or approximately 6.3 percent, on their monthly bill.

However, the Company filed revised tarrif pages on June 22, 2023, to reflect rates that amortize the surcharge balance over two years as agreed upon by AWEC, Public Counsel, and Staff. By extending the amortization period, the net impact to annual revenue would be approximately $17.6 million, or 3.0 percent. The average residential customer using 932 kWh per month would see an increase of $2.84 per month, or approximately 3.2 percent, on their monthly bill.

<u>Customer Comments</u>

Beginning April 1, 2023, the Company began notifying its customers by bill insert of the proposed increase of approximately 6 percent for the Company's annual Energy Recovery Mechanism (ERM) filing. Customers were notified that they may contact Avista directly with questions or concerns, or they may contact Commission Staff to provide comments for the filing. Staff received 29 comments, all in opposition of the filing.

General Comments
Fourteen commenters oppose the request due to high inflation or corporate greed. Nine commenters state they are opposed because they are on fixed incomes and their rates are already high. Four commenters opposed but provided no additional reasoning. One commenter is opposed because they feel that Avista could be more proactive in construction of new buildings to maximize energy efficiency to keep rates low, and the last commenter is in opposition due to an on-going consumer complaint regarding quality-of-service issues.

Staff Response
Consumer Protection staff reached out to customers to address their concerns with the filing. The customers were advised of the opportunity to participate in the Open Meeting. One customer expresses interest in calling in to the speak at the open meeting.

State law requires rates to be fair, just, reasonable, and sufficient to allow the Company to recover reasonable operating expenses and the opportunity to earn a reasonable return on its investment. Commission Staff perform a thorough review of rate filings to ensure that all rates and fees are appropriate.

Conclusion

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