

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of	DOCKET UE-230214
AVISTA CORPORATION'S d/b/a AVISTA UTILITIES	ORDER 01
Energy Recovery Mechanism Annual Filing to Review Deferrals for Calendar Year 2022	AUTHORIZING ENERGY RECOVERY MECHANISM DEFERRALS FOR CALENDAR YEAR 2022

BACKGROUND

- 1 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 adjustments to its rates to account for fluctuations in power costs outside of an authorized band for power-cost recovery in base rates. 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.¹
- 2 The Company's April 1 filings are intended to be sufficient to provide the Commission and interested parties an opportunity to audit and review the prudence of the ERM deferrals for the year in question. A 90-day review period is contemplated, though that period can be extended by agreement of the parties.²
- 3 The first ERM annual review covered the period July 1, 2002, through December 31, 2002, and resulted in a Commission Order approving a settlement of the issues presented.³ Among other things, the Settlement Stipulation in Docket UE-030751

¹ Settlement Stipulation in Docket UE-011595 at 6-7, 4.b.

² *Id.*

³ *WUTC v. Avista Corp., d/b/a Avista Utilities*, Docket UE-030751, Order 05, Order Approving and Adopting Settlement Stipulation (Feb. 3, 2004).

identified specific documentation the Company would file in future ERM annual review proceedings.⁴

4 On October 1, 2021, the Commission authorized Avista's methodology for setting power supply base in the Company's 2020 general rate case.⁵ As such, the ERM review period is based on authorized power supply expenses from January 1 through December 21 of 2022.⁶ Base levels for December 21 through December 31, 2022, were approved in Docket UE-200900 et al.⁷

5 On March 31, 2023, Avista filed testimony, exhibits, and supporting documentation relating to power costs deferred under the ERM for calendar year 2022. The 90-day review period was April 1, 2023, to June 30, 2023.

6 Included as part of the ERM Annual Review are the revenues and expenses associated with the Company's Voluntary Solar Select Program (Solar Select), which is subject to the same prudence review as all power supply revenues and expenses.⁸ At the end of the ERM deferral year, any difference between Solar Select revenues and expenses (margin) will be deferred until program end, at which time a decision on the disposition of the program's final margin balance will be made.

7 In 2022, Avista's actual net power expense allocated to Washington was higher than the authorized baseline expense by \$48,834,582. Pursuant to the terms of the ERM, because actual costs are higher than authorized costs the deferral calculation is as follows:

⁴ See Settlement Stipulation in Docket UE-030751 at 6-7, ¶ III.C.

⁵ See Final Order 8 in Docket UE-200900 at 13, ¶ B.I.i.

⁶ See Final Order 8 in Docket UE-200900 at 14, ¶ B.I.i.

⁷ See Final Order 10/04 in Docket UE-220053, UG-220054, and UE-210854 (Consolidated) at ¶¶129-136.

⁸ On February 2, 2018, Avista filed Schedule 87 with the Commission to establish its Solar Select Program 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 from the Lind Solar Facility located in Lind, Washington. Lind Solar qualifies as a shared commercial solar facility under Engrossed Substitute Senate Bill (ESSB) 5939, enacted in RCW 82.16, Renewable Energy System Cost Recovery. Solar Select expenses and revenues flow through the annual Energy Recovery Mechanism (ERM) outside of the dead band and sharing bands (similar to renewable energy credits).

- a. Dead Band – The first \$4 million is absorbed by the Company;
- b. First Sharing Band – 50 percent of the next \$6 million is absorbed by the Company, and 50 percent is deferred to customers; and
- c. Second Sharing Band – 10 percent of the remaining deferral balance of \$38,834,582 is absorbed by the Company, or \$3,883,458; and 90 percent, or \$34,951,124, is deferred as a surcharge to customers.

8 In 2022, Avista recorded an annual surcharge deferral balance for its customers of \$38,105,837. This amount includes \$154,713 in interest earned on the annual ERM balance and does not include the \$1,154,955 benefit to Solar Select customers.

9 Avista's end of 2022 annual ERM surcharge balance of \$38,105,837, when added to the end of 2021 credit balance of -\$4,502,576 and a credit balance of -\$767,326 of residual unamortized deferrals approved for rebate in 2018, results in a total ERM surcharge deferral balance of \$32,835,935. 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.

10 The net benefit of Avista's Solar Select Program in 2022 was \$1,154,955. When added to the previous credit balance of \$1,083,766 and \$67,919 of interest, the total Solar Select balance is \$2,306,640 in benefits.

11 Staff has conducted a review of the Company's ERM annual review filing in this Docket, including results from its Solar Select Program, and is satisfied the Company provided adequate documentation of its ERM power cost revenue and expenses.

12 On June 5, 2023, the Alliance of Western Energy Consumers (AWEC) filed a petition for adjudication (Petition) requesting the Commission suspend the tariff surcharge of overall deferral balances associated with Avista's ERM and initiate an adjudicative 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 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 AWEC wants to investigate how gas sales were included in rates. In its petition, AWEC represents that Public Counsel supports its petition, Staff does not oppose it, and Avista opposes it.

- 13 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. Because the Company is on a negative credit watch with S&P and at risk for a credit downgrade, Staff recommends that, if the Commission determines further investigation is warranted, the Commission should authorize Avista to charge the proposed tariff rates on an interim basis to ensure that any delay in recovery of the ERM balance does not negatively affect Avista's credit score.
- 14 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 approach and it satisfies the other interested parties, Staff supports this approach.
- 15 On June 22, 2023, the Company filed revised tariff pages reflecting a two-year amortization period of the net deferral balance. AWEC accordingly withdrew its petition for adjudication. Public Counsel and Staff both filed written comments in support of the tariff pages filed on June 22, 2023, reflecting a two-year amortization period going into effect July 1, 2023.

DISCUSSION

- 16 We agree with Staff that the Company's documentation of its ERM power cost deferrals for calendar year 2022 adequately supports the ratepayer deferral of \$38,105,837 reflected in the filing. We further conclude that a two-year amortization period for the net ERM deferral balance is reasonable and approve the proposed tariff revisions filed on June 22, 2023, which will become effective on July 1, 2023. Accordingly, we find that the proposed tariff revisions are consistent with the public interest and will result in rates that are fair, just, reasonable, and sufficient.

FINDINGS AND CONCLUSIONS

- 17 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, rules, regulations, practices, and accounts of public service companies, including electric companies.
- 18 (2) Avista is a public service company subject to Commission jurisdiction. Avista is engaged in the business of providing electric and natural gas service within the state of Washington.
- 19 (3) This matter was brought before the Commission at its regularly scheduled meeting on June 29, 2023.
- 20 (4) The Company has provided adequate documentation of its ERM power cost deferrals for calendar year 2022 to support the ratepayer deferral of \$38,105,837.
- 21 (5) For 2022, Avista recorded a benefit margin of \$1,154,955 for its Voluntary Solar Select Program. This amount, along with the 2021 benefit margin of \$1,083,766 and \$67,919 of interest, results in an overall positive margin in fourth year of the program of \$2,306,640.
- 22 (6) The Commission finds that the Avista's 2022 ERM power expense and revenues, including its Solar Select Program, were prudently incurred.
- 23 (7) After reviewing the proposed tariff revisions filed on March 31, 2023, as revised on June 22, 2023, and giving due consideration to all relevant matters, the Commission finds that the Company's tariff revisions will result in rates that are fair, just, reasonable, and sufficient, and concludes that they should be granted.

ORDER

THE COMMISSION ORDERS:

- 24 (1) Avista Corporation's d/b/a Avista Utilities filing meets the requirements in Dockets UE-011595 and UE-030751, and Avista Corporation d/b/a Avista Utilities has properly calculated the 2022 Energy Recovery Mechanism amount.
- 25 (2) Pursuant to the terms of the Energy Recovery Mechanism, Avista Corporation d/b/a Avista Utilities is authorized to record a 2022 ratepayer deferral of \$38,105,837.

- 26 (3) The Commission allows the revised tariff pages filed by Avista Corporation d/b/a Avista Utilities on March 31, 2023, as revised on June 22, 2023, to become effective on July 1, 2023.
- 27 (4) This Order shall in no way affect the Commission's authority over rates, services, accounts, valuations, estimations, or determination of costs, or any matters whatsoever that may come before it. Nor shall this Order be construed as an agreement to any estimate or determination of costs, or any valuation of property claimed or asserted.
- 28 (5) The Commission retains jurisdiction to effectuate the terms of this Order.

DATED at Lacey, Washington, and effective June 29, 2023.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chair

ANN E. RENDAHL, Commissioner

MILTON H. DOUMIT, Commissioner