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VIA – Electronic Mail

June 25, 2020

Mark L. Johnson
Executive Director and Secretary
Washington Utilities & Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

RE: Avista Corporation – Docket Nos. UE-190334 / UG-190335 / UE-190222 – Compliance Filing

Avista Corporation (“Avista” or “Company”) provides this Compliance Filing concerning a status update of the Company’s Power Supply workshop process and the agreed-upon development of a study by the modeling consultant, Energy and Environmental Economics (“E3”), as required per final Order 09 in Docket UE-190334, paragraph 118, page 41:

We find it unnecessary to reassert the determinations made in Avista’s 2017 rate case. Public Counsel is correct that we ordered the currently ongoing series of power cost workshops. The Parties testify to the value of these workshops and the prospect that the workshops will resolve stakeholder concerns. We encourage the Parties and stakeholders to continue their collaborative efforts and trust that the workshops will bring the parties’ concerns to a speedy and successful conclusion. In general, we find it unnecessary to require resolution prior to Avista’s next GRC, but we expect the Parties to be able to resolve many, if not all, issues through the power costs workshops and apply those findings in Avista’s next GRC. ...In addition, we require Avista to provide a status update within three months of the date of this Order regarding the agreed-upon power supply modeling consultant, E3, and its development of a study.

As previously summarized for the Commission in the direct testimony of Company witness Mr. Kalich in Avista’s most recent general rate case (Docket No. UE-190334), “the Parties have engaged

in multiple workshops but have not reached a conclusion on how best to approach modeling for future rate filings; however, very good progress has occurred since the workshops began in mid-2018...”. In addition to the Company, the participants to these on-going workshops include WUTC Staff, Washington Public Counsel and the Alliance for Western Energy Consumer (the “Parties”). The participants have already had a total of 11 workshops and meetings, four of which included participation and presentations by E3.¹

By agreement of the Parties, the Company contracted with E3 to support the ongoing power cost modeling workshops by providing “... an independent, expert perspective on power cost modeling and to review Avista’s current modeling practices” (E3, pg. 2). The report included “... a review of Avista’s power cost modeling process as well as those of other utilities across different jurisdictions” ... and “...also reviewed the cost tracking and cost sharing mechanisms employed by regulators in different jurisdictions as a comparison for the ERM” (E3, pg. 2). All workshop participants attended the meetings and presentations by E3 and reviewed each draft of, and, the final E3 report. The final E3 report is included as Attachment A.

E3’s report determined four major findings as summarized below:

1. Avista’s power cost modeling “...approach is extraordinarily complex and time-intensive” relative to its peer utilities” making it “...difficult for stakeholders to follow and undermining stakeholders’ confidence in the accuracy of the process” (E3, pg. 2).
2. ERM design “...provides an incentive for bias by rewarding the Company for overestimating its energy costs” (E3, pg. 3). However as noted on page 53 of their report, they did not find any intentional bias in Avista’s approach to modeling power costs.²

¹ The first workshop was held on June 13, 2018. Since the Company’s last update with the Commission provided in Docket UE-190334, a total of 7 additional workshops have been held by the Parties.

² With regards to “bias,” E3 at page 3 stated: “E3 is aware of the Commission’s previous finding of a bias in Avista’s calculations. E3 was not able, with the limited time and resources available for this review, to determine the source of the bias or even to verify whether there is, indeed, a bias.” Additionally, at page 53: “...From our review, E3 has not found any evidence of intentional bias in Avista’s approach to modeling power costs. ...Nevertheless, E3 notes that the existence of a dead band within which Avista bears the risk of forecast errors provides an incentive for Avista to minimize the chance of a significant under-forecast of its energy costs.”

3. “Avista has very little control over its actual energy costs” (E3, pg. 3).³
4. The overall ERM process takes significant time for Avista and all stakeholders involved and “... it is not clear that this investment of time and resources yields any gains in efficiency, i.e., whether it leads to lower power costs than less costly alternatives” (E3, pg. 4).

E3 also provided the following suggestions in its report for the workshop participants to consider:

1. Seek opportunities to simplify power cost modeling in a manner that reduces complexity and increases transparency while maintaining sufficient accuracy. Suggestions include the incorporation of market forwards and modeling a single or median water year instead of the full hydro record.
2. Consider “... updating forward market inputs as close to the rate implementation date as possible ... due to reliance on market forwards” in conjunction with the simplification of the modeling process (E3, pg. 4).
3. Consider “... the merits and limitations of the current Energy Recovery Mechanism to better understand and potentially address the incentives it creates” through potential design modifications while balancing cost and efficiency gains (E3, pg. 4).

The workshop participants have been working towards resolution of the following seven major methodological areas:

1. Price Source: areas of discussion include the use of forwards, third party forecasts and regression.
2. Pricing Methodology: discussions include direct input and model generated.
3. Modeling Tool: considerations in this area include continued use of Aurora or the development of a spreadsheet-based model.
4. Water Years: the water year discussion focuses on the continued use of the full hydro record or simplification through the use of median hydro or a percentile approach.
5. Costs Updated Prior to Final Rates Going into Effect: discussions include what should and should not be updated closer to new rates going into effect, such as forwards and contracts.

³ E3 noted at page 3: “it is nonetheless clear that the majority of Avista’s energy cost variations are due to fluctuations in continental commodities markets, particularly natural gas prices and natural gas basis spreads which have a downstream impact on electricity market prices. It is notable that the ERM resulted in under-forecasts of Avista’s energy costs during years in which natural gas prices were generally rising (2003-2009) and over-forecasts during years in which natural gas prices were generally falling (2011-2019).”

6. Hedging Methodology: discussions revolve around dispatching Coyote Springs 2 at Malin and pricing its fuel at AECO or pricing at Malin and using a historical average to capture the AECO-Malin basis differential optimization value.
7. Rules for Input: inputs under discussion include forced outages, planned maintenance, hydro shaping, PURPA and small contracts, and variable energy resource forecasts.

The Parties participating in these workshops are engaged in the Power Supply workshop process and working towards resolution of these seven areas now that the attached E3 report is complete. For its part, Avista is hopeful that consensus will be reached by the Parties on all aspects of its power supply modeling approach by Fall of 2020. The Company will provide further information on the progress or completion of the Power Supply workshops in its next general rate case planned to be filed in the 4th Quarter of 2020. Please direct any questions related to this filing to Liz Andrews at 509.495.8601.

Sincerely,

/s/ Patrick Ehrbar

Patrick Ehrbar
Director of Regulatory Affairs

Enclosures

c: Service List