



STATE OF WASHINGTON
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August 27, 2020

Mark L. Johnson, Executive Director and Secretary
Washington Utilities and Transportation Commission
P. O. Box 47250
Olympia, Washington 98504-7250

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

Dear Mr. Johnson:

On April 26, 2018, the Washington Utilities and Transportation Commission (Commission) entered its Final Order (Order 07) in Avista Corporation's (Avista or Company) 2017 general rate case (GRC).¹ In Order 07 the Commission ordered Avista to engage stakeholders in a discussion about how power cost modeling may be simplified and improved, and directed the Company to consult with its peer utilities, independent experts in the power cost modeling industry, Staff, and the other parties in this case on ways in which the Company may document the functionality and rationale of its power cost modeling and make changes to eliminate its directional bias.² Avista ultimately selected E3 to perform an independent study of the Company's power supply modeling.

On March 25, 2020, the Commission entered its Final Order (Order 09) in Avista's 2019 GRC.³ Order 09, among other things, required Avista to provide an update on the status of E3's study.⁴ On June 25, 2020, in compliance with Order 09 Avista filed E3's final report of its study of Avista's power cost modeling.

¹ *WUTC v. Avista Corporation*, Dockets UE-170485/UG-170486, Order 07 (April 26, 2018).

² *Id.* at ¶161

³ *WUTC v. Avista Corporation*, Dockets UE-190334/UG-190335/UE-190222, Order 09 (March 25, 2020).

⁴ *Id.* at ¶118.

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In this letter, Staff provides (1) its assessment of whether Avista's June 25, 2020, filing complies with the requirements set forth in Order 09, and (2) a brief discussion of Staff's concerns regarding certain of Avista's takeaways from the study's findings.

COMPLIANCE WITH ORDER 09

On June 25, 2020, Avista filed the final report of the power cost modeling study conducted by E3. By providing the final report by June 25, 2020, Avista has complied with the requirement that the Company provide the Commission with a status update within three months of the Commission entering Order 09. Therefore, Avista's filing satisfies the compliance requirement established in Order 09.

STAFF COMMENTS ON AVISTA'S TAKEAWAYS

In Avista's cover letter accompanying its June 25, 2020, compliance filing, the Company summarizes four major findings from the E3 study relating to Avista's existing process for determining rate year power costs. They are:

1. Avista's approach to power cost modeling is complex and time-consuming, making it difficult for stakeholders to follow (E3, pg. 2).
2. Although the current ERM design provides an incentive for bias by rewarding the Company for overestimating its energy costs, no intentional bias was uncovered in Avista's approach to modeling power costs (E3, pg. 3).
3. Avista has little control over its energy costs (E3, pg. 3).
4. The process employed by Avista in determining its rate year power costs consumes a lot of time for all parties involved and it is not clear whether this investment of time and resources yields any gains in efficiency and forecast accuracy (E3, pg. 4).

While Staff generally agrees with the conclusions Avista has drawn from the E3 study, Staff disagrees with the asserted or implied relevance of certain commentary related to (A) ERM design/redesign, (B) directional bias, and (C) Avista's control over its costs.

A. ERM Design

Staff does not agree that the ERM's design is an issue for the collaborative to consider at this time, as may be implied by Item No. 2. While the collaborative's participants have discussed changes to the design of the ERM, Staff has been consistent in its position that an agreed upon approach at arriving at the baseline should come first. Until such time that we can observe the performance of a new power cost modeling regime, a principled approach to ERM design is not possible.

B. Directional Bias

In Item No. 2, Avista notes that E3 did not uncover intentional bias in Avista's current approach to modeling power costs. While the report says that no "intentional" biases were found, Staff sees this finding as largely irrelevant given the efforts of the collaborative to address the ERM's directional bias through a top-down review of Avista's existing modeling practices. Additionally, in Order 09 the Commission addressed the issue of continued debate regarding its finding in

Avista's 2017 GRC of a "directional" ERM bias:

"We determine that the Commission need not reassert any declaration of bias already asserted in Avista's 2017 rate case, but we emphasize our continued support for the workshop process and encourage the progress being made by the Parties and stakeholders."⁵

C. Avista's Control Over Costs

In Item No. 3, Avista notes E3's finding that the Company has little control over its power costs. This finding appears to be at odds with Avista's testimony in previous GRCs, where the Company summarizes the activities it employs to manage its power costs during the rate year to the benefit of its customers.⁶ While Staff agrees the Company is largely a price taker with regard to variable power and natural gas costs, to say it exercises very little control over its energy costs is a stretch considering the daily/hourly activities of its power and gas trading groups, resource optimization and hedging.

CONCLUSION AND RECOMMENDATION

In spite of the concerns Staff notes above, the collaborative effort has produced promising results and is on track to meet the Commission's expectations regarding this important effort. Staff plans on continued engagement with Avista and the other collaborative participants to arrive at a modelling methodology which addresses the ERM's directional bias. The collaborative effort is on track to meet the Commission's expectations in Order 09, namely, that the Parties will resolve many, if not all issues through the power costs workshops and apply those findings in Avista's next GRC.⁷

Staff reviewed the filing provided by Avista dated June 25, 2020, and finds that it contains sufficient detail on the progress of the E3 study to satisfy the requirement in Order 09 that Avista file a status update by June 25, 2020. Therefore, Staff believes that the filing complies with Order 09.

Sincerely,



David C. Gomez

Assistant Power Supply Manager, Energy Regulation

⁵ *Id.*

⁶ For example, in rebuttal testimony in the Company's 2017 general rate case (Docket UE-170485), Avista witness Mr. Bill Johnson stated: "The Company is always managing and optimizing its power resource portfolio to reduce costs. The Company is not managing power supply costs to match baseline ERM costs, which we could do by simply closing positions and buying weather-related hedges as soon as rate case costs are approved. Doing so may result in power costs closer to baseline, but would be bad for customers by foregoing the opportunity to further lower costs through optimization and creating rebate deferrals for customers. Instead, we have been taking advantage of the continuing decline in natural gas and power prices below the costs embedded in baseline costs to further reduce power costs. The ERM structure, by its very design, incentivizes the Company to behave in this manner and the outcome has been good for customers."

⁷ Order 09 at ¶118.