Agenda Date: March 29, 2018
Item Number: A1

Docket: UE-180102
Company: Avista Corporation

Staff: Kathi Scanlan, Regulatory Analyst
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Recommendation

Take no action, thereby allowing the proposed tariff Schedule 87 filed by Avista Corporation in Docket UE-180102 to go into effect by operation of law.

Background

On July 1, 2017, Engrossed Substitute Senate Bill 5939 went into effect, providing for the continuation of the Washington State renewable generation incentive program, including the addition of incentives for shared commercial solar projects. Codified under provisions of RCW 82.16, a utility may organize and administer a shared commercial solar project, offering customers who participate an incentive of up to $0.11 per kilowatt-hour (kWh).[1] This tariff filing was also made pursuant to RCW 19.29A.090(1), which requires electric utilities to offer "retail electricity customers qualified alternative energy resources."

On February 2, 2018, Avista Corporation (Avista or company) filed Schedule 87 with the Washington Utilities and Transportation Commission (commission), proposing to establish a new Voluntary Solar Select Program for large, non-residential retail customers, in Docket UE-180102. This program will be offered to Avista's commercial and industrial electric customers and participation is *voluntary*. On February 21, 2018, Avista filed replacement pages and updated the corporate tax rate that impacted the solar resource rate, as a result of the Tax Cuts and Jobs Act (TCJA).

On March 6, 2018, Avista filed replacement pages, correcting a labeling error, and provided staff additional information on avoided costs, including how costs and benefits will flow back to the customers through the Energy Recovery Mechanism (ERM).[2] The company also corrected a decimal error on March 19, 2018, and filed a replacement tariff page. Avista requests an effective date of April 2, 2018.

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[1] As outlined in RCW 82.16.130, Washington State University (WSU) Extension Energy Program calculates the incentive annually and provides the utility the amount of the incentive payment due to each participant and the total amount of credit against tax due available to the utility, which is essentially a one-to-one reduction to the company's Washington State Public Utility tax obligation.

[2] Under the ERM, Avista makes an annual filing to provide the opportunity for the WUTC and other interested parties to review the prudence of and audit the ERM deferred power cost transactions for the prior calendar year.

Discussion

New Voluntary Green Power Option. Schedule 87 offers an additional long-term qualified renewable energy product to certain commercial and industrial customers, which will help satisfy its larger customers' increasing corporate sustainability targets. In order to provide the renewable energy, in December 2017, Avista executed a 20-year Power Purchase Agreement (PPA) with an independent solar developer to construct a 28 MW (DC) solar resource in Lind, Washington.[3] Avista proposes eight separately-metered shared commercial solar projects, where customers will be placed into the eight projects, and each project has a minimum of five participants. This facility qualifies as a shared commercial solar facility and related incentives under the law, as determined by Washington State University (WSU) Extension Energy Program.[4]

Qualified large, non-residential retail energy customers have the option to contract for some or all of their energy supplied from specific alternative energy sources in place of their usual scheduled volumetric rates. Customers who participate in Avista's Voluntary Solar Select shared commercial project can receive up to $35,000 per year in incentives, or $0.11 ($0.06 base rate + $0.05 made in Washington bonus for projects certified in 2018), paid on a per kWh basis, for energy they purchase.[5]

Customers will pay a known *Solar Resource Rate* for the energy under this contract, equaling an estimated $0.05268 per kWh. The customers essentially "lock-in" a solar rate for 8 years, where the rate will not increase within the term. Avista selected the 8-year term as the time period consistent with the renewable generation incentive under RCW 82.16. The company estimates the following *Renewable Generation Incentives* based on information in its 2015 General Rate Case: $0.023 per kWh for Schedule 21, $0.025 per kWh for Schedule 25, and $0.026 per kWh for Schedule 31. The shared commercial solar energy supply and RECs will be tracked through WREGIS, which is already part of the administrative costs of this tariff.

Billing. Participants will receive a rate credit for the variable power supply portion of their rate and will pay the premium for the kWh from the *Solar Resource Rate* for the share of output they signed up to receive. The monthly bill will show three new line items: the *Renewable Generation Incentive* will appear as a line item on customers' bills, in addition to the *Solar Resource Rate* and *Solar Resource Credit*. As shown in Table 1, for a Schedule 21, Voluntary Solar Select participating customer with an annual usage of 307,000 kWh, there is no incremental per kWh cost.

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[3] Avista will contract with Strata Solar, based out of Chapel Hill, North Carolina, to design, build, operate, maintain and administer the system and will not retain ownership of the facility.
[4] RCW 82.16.175, Shared commercial solar projects—organization and administration.
[5] The company indicated the solar components used for the project are not made in Washington, thus the $0.06 base rate incentive applies.

Table 1: **Example Monthly Rate for Schedule 21 Customer (per KWh)**

Solar Resource Rate	$0.053
Solar Resource Credit (Schedule 21)	($0.030)
Renewable Generation Incentive	$0.023
Net	$0.0000
% of Project	0.63%

Accounting for Energy Supply through the ERM. The solar energy will not be supplied in real time, but rather over the course of a year, and will be balanced to match the green power supply with the subscribed customer demand. Staff finds that Avista's proposal to allow expenses and revenues to flow through its annual ERM filing, outside of the "deadband" and sharing bands, is appropriate (similarly to how REC revenues are treated). Avista will pass through 100 percent of all Voluntary Solar Select benefits/costs through the ERM to customers, where benefits/costs would be pulled-out of the "deadband" and the sharing bands. If there is positive margin from the program, Avista would pass it back to all customers. Avista is not proposing to retain any of the positive margin.

Annual Prudence Review. Under RCW 19.29A.090(5), Avista must ensure that the rest of Avista's customer base is not subsidizing costs that have been incurred to supply power to customers that voluntarily opt to take service under Schedule 87. Staff identified two primary risks related to Avista's proposed Voluntary Solar Select Program: 1) deviation from forecast of energy projections, and 2) less than 100 percent Voluntary Solar Select Program subscription. In the event the subscription to Schedule 87 is less than the energy supply PPA, prudence review, through the ERM, would need to occur. Further, if market prices fall below the forecast used to determine the value of the energy no longer needed by the program participants, unrecovered costs from the program participants would be tracked and documented separately in the ERM. To mitigate these risks, the commission can review unrecovered costs in the company's annual ERM filing (every March), where net margin, either positive or negative, can be evaluated for prudency. Avista should track and document all costs and revenues associated with the PPA to serve Schedule 87 customers for the 8-year term separately in its ERM on a monthly basis.

PPA: Years 9 through 20. There is additional risk at the end of the 8-year Voluntary Solar Select term. Avista has advised staff that it will continue to purchase energy from the solar facility for the remainder of the 20-year term of the PPA, where cross-subsidization could become an issue. The company proposes that the output from the solar facility may be used for multiple purposes, which will be determined towards the end of the 8-year term. Avista proposes possible options, including: a continuation of the Solar Select Program, a different renewable program, or using the output towards the company's compliance of the renewable portfolio standard.

Staff's Opinion. After its review, staff believes Avista's new Voluntary Solar Select program will provide a useful service and address the changing needs of Avista's large customers, allowing customers to take advantage of the state's generous renewable energy incentives. Staff identified several issues and worked with the company to resolve its concerns. On March 22, 2018, Avista filed a letter agreeing to the following:

Update its Tariff with 2017 GRC Cost of Capital and Cost of Service Data – Staff questioned the timing of this tariff, essentially on the heels of its 2017 general rate case, where Avista uses its cost of capital and cost of service data from its 2015 rate case for its 20-year projection calculations. To properly update these projections, the company agreed to reflect any cost of capital and cost of service changes and update its Voluntary Solar Select Program tariff rates and workpapers accordingly.

Enhanced ERM Reporting and Notification to Commission – To enable the commission to review for prudency, Avista agreed to track and provide detailed workpapers pertaining to its revenues and expenses of the 28 MW (DC) PPA, separately. In its monthly Voluntary Solar Select Program subscription updates in the monthly ERM filings, Avista also agreed to include how excess power associated with Schedule 87 is treated.

Beyond the 8-year Voluntary Solar Select Program term, there may be additional risks related to the remainder of the executed 20-year solar PPA. In year 7 of the 8-year Voluntary Solar Select Program term, Avista will update the commission about the intended use of the solar power for the remaining 12 years of the 20-year PPA. The commission has the ability, through future annual ERM filings, to evaluate prudency.

Notification of Program or Facility Expansion – Staff notes that Avista elected to increase the facility size from 15 MW to 28 MW (DC), deviating from the initial scope of the RFP and scale identified in its 2017 Electric IRP. Avista indicated to staff that there was increasing interest in the project from schedule 21, 25, and 31 customers. In the event it expands the program or solar resource acquired to serve the program, Avista commits to filing to revise its tariff Schedule 87. Such a filing would allow the commission to review the prudency of any expansion prior to it being approved and taking effect.

Comments. There were no comments filed in this docket.

Conclusion

Staff believes this new service is a useful effort to meet the needs of Avista's commercial and industrial customers. Staff recommends the commission allow the proposed tariff Schedule 87 to go into effect by operation of law.