

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of)	
)	
Avista Corporation, d/b/a Avista Utilities)	Docket No. UE-23_____
)	
For an Accounting Order Authorizing Deferral of)	PETITION OF AVISTA
Costs Related to a Power Purchase Agreement with)	CORPORATION
Chelan County PUD)	
)	
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I. INTRODUCTION

1 In accordance with WAC 480-100-203(3) and WAC 480-90-203(3), Avista Corporation, doing business as Avista Utilities (“Avista” or “the Company”), at 1411 East Mission Avenue, Spokane, Washington, hereby petitions the Washington Utilities and Transportation Commission (“Commission”) for an order authorizing the Company to (1) defer a portion of the costs related to the Company’s Power Purchase Agreement (“PPA”) with Chelan County PUD (“Chelan”), and (2) to establish an interest rate on the PPA at the Company’s authorized rate of return, 7.03%, on the full cost of the PPA in accordance with RCW 80.28.410.

2 Avista is a utility that provides service to approximately 406,000 retail electric customers and 373,000 retail natural gas customers in a 30,000 square-mile service territory covering portions of Washington, Idaho, and Oregon. The largest community served by Avista is Spokane, Washington, which is the location of its corporate headquarters.

3 The Company requests that all correspondence related to this Petition be sent to the following:

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4 Rules and statutes that may be brought at issue in this Petition include RCW 80.01.040,
RCW 80.28.020, RCW 80.28.410.

II. BACKGROUND

5 Avista's 2020 Integrated Resource Plan ("IRP") identified the need for additional
renewable resources in support of progress towards meeting the Company's clean energy goals
and the Clean Energy Transformation Act ("CETA") requirements of carbon neutrality by 2027
and 100 percent clean electricity by 2045. In order to fulfill these needs, Avista issued a Request
for Proposals ("RFP") soliciting bids for renewable energy, capacity, and associated
environmental attributes.

6 Avista issued its 2020 Renewables RFP on June 26, 2020, with final bids to be selected by
September 18, 2020. The RFP resulted in bids from over twenty interested parties for over 40
renewable projects located throughout the Pacific Northwest. In addition to all the projects
meeting Avista's clean energy requirements, a few of the projects also included the benefit of
providing significant capacity contributions during critical peak load periods. These projects
include hydro, biomass, and Montana-based wind.

7 The Company closed out its 2020 RFP with two contracts with Chelan. First, the acquisition
of a 5% Fixed Cost Slice (88 MW / 51 aMW) of Chelan's Power System consisting of Rocky
Reach and Rock Island hydro projects located on the Columbia River. The contract will supply
Avista with renewable energy and capacity for 10 years, beginning on January 1, 2024, and

continuing through December 31, 2033. Second, Avista secured a contract with Chelan for an additional 5% (88 MW/51 aMW) with delivery starting on January 1, 2026. This contract increases to 10% on January 1, 2031, when an existing Chelan contract expires on December 31, 2030, and continues until 2045. The table below summarizes the resources procured through the RFP process.

Table No. 1 – Chelan PPAs

Description	MW / aMW	Timeline
5% Fixed-Cost	88 MW / 51 aMW	January 1, 2024 – December 31, 2033
5% Cost-Plus	88 MW / 51 aMW	January 1, 2026 – December 31, 2030
10% Cost-Plus	176 MW / 102 aMW	January 1, 2031 – December 31, 2045

III. DEFERRAL OF A PORTION OF CHELAN POWER PURCHASE AGREEMENT

8 On January 31, 2006, the Company filed a Petition for continuation of its Energy Recovery Mechanism (“ERM”)¹ in compliance with Order 05 entered on December 21, 2005, Avista’s 2005 general rate case, Docket Nos. UE-050482 and UG-050483. In Order 05, the Commission “required Avista to file a petition on or before January 31, 2006, to initiate further review of the ERM.”² In that filing the Company reached a settlement agreement resolving most issues with the ERM, which the Commission approved on June 16, 2006, by way of Order 03. One element of the approved settlement agreement related to Long-Term Power Supply Contracts, which read as follows:

Long-Term Power Supply Contracts. – For any new power contract, or any power contract that has been renewed or extended, with a term longer than two years and of more than 50 megawatts (MW), costs in excess of the lower of the average embedded cost of power supply determined in the then most recent rate case (currently \$32.89/MWH) or the average market rate during the contract (based on the average annual price of the Dow Jones Mid-Columbia Firm Index), shall be

¹ Docket UE-060181.

² Docket UE-060181, Order 03 ¶3.

excluded from actual power supply costs until such time as the contract is incorporated in base rates pursuant to a general rate case. Such costs, if approved, would be recoverable only on a going-forward basis. The contracting of up to 50 aMW under Avista's current renewable energy RFP is exempt from this limitation.³

9 The Chelan PPA, commencing January 1, 2024, is a new contract longer than two years in length, is more than 50 MW, and has a price that is higher than the threshold established in the above reference settlement item when updated based on the Company's 2022 general rate case. As such, the portion of costs above this threshold (calculated to be \$40.87/MWh as discussed later) may not be included in the ERM until such time as the contract is incorporated in base rates pursuant to a general rate case.

10 The threshold of \$32.89/MWh was established in the 2006 ERM filing, as noted above in the excerpt from the settlement. From Company witness McKenzie's testimony in the 2006 ERM filing,

Q. How did the Commission address the retail revenue credit rate issue in its last rate order?

A. In Docket No. UE-050482 the issue was discussed in paragraphs 78-80, beginning on page 35, of Order No. 5 dated December 21, 2005. The Commission determined that the issue should be considered in the near-term review of the ERM. The Commission also determined that the retail revenue credit can be adjusted at any time prior to the end of 2006 with the new credit applying for the entire year 2006.

Q. Should the common administrative and general costs be included in the retail revenue credit rate?

A. No. The costs to be used in determining the retail revenue credit should include only those directly assigned production costs that are incurred to meet the load requirements of retail customers. An allocation of common administrative and general costs to production-related costs artificially inflates the value of production-related costs and should not be included.

Q. How much difference does excluding or including an allocation of common administrative and general costs have on the retail revenue credit rate?

A. Paragraph 78 at page 35 of Order No. 5 identifies a retail revenue credit rate of 3.399 cents per kilowatt-hour without an allocation of common costs, and 3.739

³ Docket UE-060181, Order 03, Appendix A, page 3.

cents per kilowatt-hour with an allocation of common costs. These amounts were based on the Company's original rate increase filing of \$35.8 million. Based on the final approved electric revenue increase of \$21,387,000, **the retail revenue credit rate becomes 3.289 cents per kilowatt-hour** without an allocation of common costs, and 3.619 cents per kilowatt-hour with an allocation of common costs. The difference between the retail revenue credit rates, excluding and including an allocation of common costs, is 0.330 cents per kilowatt-hour. (emphasis added)

11 Updating the \$32.89/MWh threshold using the Company's most recent general rate case, which was its 2022 case,⁴ the threshold increases to \$40.87/MWh.⁵ Therefore, based on the new Chelan Contract effective January 1, 2024, which is priced at \$45.67 per MWh, and the allowable amount to be included in the ERM of \$40.87/MWh, an estimated \$5.00 per MWh cannot be included in the ERM until the contract is reviewed in a future general rate case and embedded in the ERM baseline.

12 However, subsequent to the agreement approved in Docket UE-060181, RCW 80.28 was established in the State of Washington. As provided below, because the contract with Chelan effective January 1, 2024, will be incurred in connection with a solicitation of bids for delivering clean electric capacity and energy, the deferral of such costs can occur:

RCW 80.28.410 Clean energy action plan—Account for and defer costs.

(1) An electrical company may account for and defer for later consideration by the commission costs incurred in connection with major projects in the electrical company's clean energy action plan pursuant to RCW 19.280.030(1)(l), or selected in the electrical company's solicitation of bids for delivering electric capacity, energy, capacity and energy, or conservation. The deferral in this subsection begins with the date on which the resource begins commercial operation or the effective date of the power purchase agreement and continues for a period not to exceed thirty-six months. However, if during such a period the electrical company files a general rate case or other proceeding for the recovery of such costs, deferral ends on the effective date of the final decision by the commission in such a proceeding.

⁴ Docket UE-220053, UG-220054, and UE-210854 (consolidated).

⁵ The 3.289/MWh referenced ties back to Company witness Knox's electric Cost of Service Study, Tab "SumCost" Cell F316, which was based on the original rate case filing. The math for that is "Net Production Costs" divided by (Annual Consumption MWhs/1000). Using that same math today, it would be \$234,679,000 (UE-220053, Exh. MJG-2, p. 32, ln. 74) divided by (5,742,541,023/1000) (UE-220053 Miller workpapers) = \$40.87 per MWh. This amount was not otherwise reduced from the original filing, due to the "results oriented" settlement approved by the Commission.

Creation of such a deferral account does not by itself determine the actual costs of the resource or power purchase agreement, whether recovery of any or all of these costs is appropriate, or other issues to be decided by the commission in a general rate case or other proceeding.

13 In the end, the Company finds itself with an established order related to the ERM that essentially already tracks and defers the majority of the costs associated with the Chelan contract, effective January 1, 2024, but not all of the costs. The remainder of the costs are prudent to separately defer and include in the ERM, as allowed under RCW 80.28. Therefore, the Company is requesting approval in this filing to include the incremental difference between the portion of the Chelan contract not already covered by existing ERM requirements and include those costs also in the annual ERM review.

IV. INTEREST ON CHELAN POWER PURCHASE AGREEMENT

14 Regarding the second component of the Company's request for an interest rate on the PPA, Senate Bill 5116 or CETA, provides the following related to the accounting treatment of a PPA.

RCW 80.28.410 Clean energy action plan—Account for and defer costs.

(2) The costs that an electrical company may account for and defer for later consideration by the commission pursuant to subsection (1) of this section include all operating and maintenance costs, depreciation, taxes, cost of capital associated with the applicable resource or the execution of a power purchase agreement. Such costs of capital include:

(a) The electrical company's authorized return on equity for any resource acquired or developed by the electrical company; or

*(b) For the duration of a power purchase agreement, **a rate of return of no less than the authorized cost of debt and no greater than the authorized rate of return of the electrical company**, which would be multiplied by the operating expense incurred by the electrical company under the power purchase agreement. (emphasis added)*

15 As allowed for in the statute, Avista is seeking an interest rate for the duration of the PPA at its current authorized rate of return, 7.03%. A full rate of return is appropriate in this case

because this is a long-term power supply agreement, one that will be financed using the Company's full capital structure. It is not a contract that is simply financed with short-term borrowings, such as other deferral accounts that might go up, or down. Rather the financing for this long-term contract is a part of the Company's long-term financing decisions. Therefore, a full rate of return is appropriate.

V. PROPOSED ACCOUNTING TREATMENT

16 The Company proposes to record the deferral of the Chelan PPA above the \$40.87/MWH threshold as a regulatory asset in FERC account 182.3 (Regulatory Asset) and will record a carrying charge at its authorized rate of return, 7.03%, from its most recent rate case.⁶ For purposes of the deferral, Avista will defer the interest on the full amount of the PPA for costs incurred beginning January 1, 2024, through the rate-effective date of the Company's next general rate case. In the Company's next general rate case, it will address recovery of the deferral, the PPA and interest rate from the rate-effective date forward.

17 If approved, Avista anticipates deferring \$2,250,000 for calendar year 2024, based on expected generation, which is a combination of \$2,100,000 for the portion of the Chelan PPA not included in the ERM, and \$150,000 for the interest rate on the PPA.

VI. REQUEST FOR RELIEF

18 WHEREFORE, Avista respectfully requests that the Commission issue an Order authorizing the Company to defer the incremental cost of the Chelan PPA above the long-term supply contract threshold established in the ERM, including an interest rate at the Company's

⁶ Docket UE-220053, UG-220054, and UE-210854 (consolidated), Final Order 10/04, ¶ 158.

authorized rate of return 7.03%, beginning January 1, 2024, when the PPA begins, through the rate effective date of the Company's next general rate case.

DATED this 28th day of August 2023.



By: _____

Patrick D. Ehrbar

Director of Regulatory Affairs