WUTC DOCKET: UE-200900 UG-200901 UE-200894
EXHIBIT: DCG-25
ADMIT ☑ W/D ☐ REJECT ☐

**Exh. DCG-25**
**Dockets UE-200900, UG-200901, UE-200894**
**Witness: David C. Gomez**

**BEFORE THE WASHINGTON**
**UTILITIES AND TRANSPORTATION COMMISSION**

| | |
|---|---|
| **WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,**<br><br>**Complainant,**<br><br>**v.**<br><br>**AVISTA CORPORATION, d/b/a AVISTA UTILITIES,**<br><br>**Respondent.** | **DOCKETS UE-200900, UG-200901, UE-200894 (*Consolidated*)** |

**EXHIBIT TO**
**TESTIMONY OF**

**David C. Gomez**

**STAFF OF**
**WASHINGTON UTILITIES AND**
**TRANSPORTATION COMMISSION**

***Avista's Response to UTC Staff Data Request No. 122, EIM PSE and PAC Methodology***

**April 21, 2021**

# AVISTA CORP.
# RESPONSE TO REQUEST FOR INFORMATION

| | | | |
|---|---|---|---|
| JURISDICTION: | WASHINGTON | DATE PREPARED: | 02/19/2021 |
| CASE NO.: | UE-200900 & UG-200901 | WITNESS: | Scott Kinney/E. Andrews |
| REQUESTER: | UTC Staff | RESPONDER: | Scott Kinney/L. Andrews |
| TYPE: | Data Request | DEPT: | Power Supply |
| REQUEST NO.: | Staff – 122 | TELEPHONE: | (509) 495-4494 |
| | | EMAIL: | scott.kinney@avistacorp.com |

**SUBJECT: EIM**

**REQUEST:**
Past commission proceedings involving, respectively, Puget Sound Energy[1] (PSE) and Pacific Power & Light[2] (Pacific) provided for the recovery of incremental proforma EIM capital and expense with no offsetting benefits included in the rate year.

The Commission's decision in the Pacific case in UE-152253, Order 12, paragraph 222, is provided below:

> **Commission Decision**. When fixed costs that reduce variable power costs are included in general rates, the PCAM's baseline power costs must be reset to reflect the benefits in order for ratepayers to realize the net benefits of the fixed costs they are being asked to pay for. Doing so matches the benefits with the burden. The Commission approves, with the following modifications, Pacific Power's final proposal to remove EIM costs from non-power cost rates and include them instead in the actual power costs of its annual PCAM true-up filing. In this proceeding, Pacific Power chose not to file for a change in power costs and therefore precluded a change to the baseline power cost in the PCAM. Without a means for matching benefits with the burden of the EIM costs, recovery of EIM costs in non-power cost rates is limited. In approving Pacific Power's proposal, we are allowing Pacific Power to include fixed costs related to the EIM in the actual power costs in its annual PCAM filing, but we do not approve their inclusion indefinitely. Pacific Power, in its next general rate case, must remove the EIM fixed costs from the PCAM's annual true-up and propose their recovery in non-power cost rates. The Commission will determine at that time if the costs are commensurate with the benefits.

Please list and explain any circumstances which Avista believes would preclude it from adopting the approach in both the PSE and Pacific cases to recover incremental EIM capital and expense in the rate year. Include in your response an explanation of how Avista's proposal to recover its incremental EIM capital and expense through rates, without the inclusion of offsetting benefits, is consistent with the Commission's decision in the Pacific case referenced above. Additionally, explain how Avista's proposal to recover its incremental EIM capital and expense through rates, without the inclusion of offsetting benefits, is consistent with the Commission's recent "Policy Statement on Property That Becomes Used and Useful After Rate Effective Date".

---

[1] *Washington Utilities & Transportation Commission v. Puget Sound Energy*, Dockets UE-170033 & UG-170034, Multiparty Settlement Stipulation Agreement, page 20, paragraph 72.
[2] *Washington Utilities & Transportation Commission v. Pacific Power & Light Co.*, Docket UE-152253, Order 12, Pages 73 & 74, paragraphs 218 to 224.

**RESPONSE:**
Avista recognizes that both Puget Sound Energy[3] (PSE) and Pacific Power & Light[4] (Pacific) agreed to track both investments, O&M, and benefits of EIM through their power cost tracking mechanisms. In this case Avista has not. From our review there are significant differences between Avista's requested filing and that approved for PSE and Pacific under the circumstances of their cases.

First of note, is Puget's order was approved based on a Settlement Agreement between Puget and the parties to that proceeding. As with any settlement, it would have been negotiated based on the give-and-take of the parties to reach agreement, along with other considerations specific to their case. It is unknown if Puget and the parties would have agreed to these same terms today. Whereas Pacific, although based on a litigated proceeding, agreed on rebuttal to remove its EIM fixed costs, as proposed by certain parties, requesting recovery of its costs "be addressed through the PCAM's annual true-up." As noted in the language above from Order 12, in Pacific's case they chose not to file for a change in power costs and therefore precluded a change to the baseline power cost in the PCAM. Order 12, at paragraph 224, also states "…we are allowing Pacific Power to include fixed costs related to the EIM in the actual power costs in its annual PCAM filing, but we do not approve their inclusion indefinitely. Pacific Power, in its next general rate case, must remove the EIM fixed costs from the PCAM's annual true-up and propose their recovery in non-power cost rates."

Specific to Avista, we have proposed to include the capital additions, EIM labor and IS/IT expenses in its filed case to be recovered through its non-power cost rates. Avista's Energy Recovery Mechanism (ERM) does not, nor has it in the past, recovered non-power supply costs within its ERM mechanism, such as capital investment, labor costs or IS/IT costs. In addition, Avista's power supply costs, including fixed costs, and its ERM baseline, are not reviewed on an annual basis as a part of a power cost adjustment mechanism or power cost only rate case (PCAM or PCORC), but within the context of a general rate case. Actual EIM Benefits in the form of revenues or EIM power supply-related expenses, however, will be tracked and flow through the Company's ERM mechanism. Consistent with prior general rate cases, the recovery of all capital investment, as well as non-power supply related expenses (including labor and IS/IT expenses) have been recovered in base retail rates through the process of a general rate case.

Additional differences ascertained by Avista from the literature, are that both utilities decided to join the EIM based on expected significant additional financial benefits from participating in the market. Avista made its decision to join the EIM based on maintaining system reliability and preserving the ability to optimize our system due to observed changes in short-term market liquidity and the transition of Avista's resource portfolio to incorporate more renewable resources to meet new emission policy requirements. Avista delayed its decision to join the EIM for several years because it could not justify joining the market based on just economics alone. As market conditions changed, Avista recognized that it needed to join the market to reduce risk and signed an EIM implementation agreement with the CAISO in April 2019, more than five years after Pacificorp joined. Absent EIM Avista has no real chance of sustaining the historical margins upon which this rate case is built, and it would face greater (and more costly) challenges in ensuring our customers receive reliable service. Essentially, we are being forced into EIM by the actions of our peers, where over 80% the load in the west is either operating in or has committed to join the EIM by the time we join in March 2022.

Further Avista recognizes that the opportunity to receive full EIM benefit potential as estimated in the E3 study will be limited during the rate period based on two important factors. First, the rate period only includes seven months of market operations, not a full year. Avista is not able to predict if these months

[3] *Washington Utilities & Transportation Commission v. Puget Sound Energy*, Dockets UE-170033 & UG-170034, Multiparty Settlement Stipulation Agreement, page 20, paragraph 72.
[4] *Washington Utilities & Transportation Commission v. Pacific Power & Light Co.*, Docket UE-152253, Order 12, Pages 73 & 74, paragraphs 218 to 224.

will produce greater or lesser benefits than other periods of the year. Historical performance would suggest that Avista would receive less benefits during the second and third quarters of the year because price in the second quarter are significantly depressed because of the abundance of available hydro and the scheduling of thermal unit maintenance. In the third quarter Avista has limited excess generation to bid into the market since hydro output is at minimum levels as river flows subside and peak summer loads increase due to warm temperatures. Secondly, during the first few months of EIM operation Avista expects to be conservative in its market participation as the Company changes business practices and gains familiarity with EIM operations. Therefore, the Company is expecting to achieve a very minimal level of benefit on a system basis, at best, during the rate period; whereas, as noted below, there are very real costs to Avista today and beginning with the effective date of the GRC October 1, 2021.

As noted in Avista's response to Staff-DR-124, Avista has proposed to include the capital additions and EIM labor and IS/IT expenses in its filed case to be recovered through its retail base rates totaling approximately $3.8 million (revenue requirement). Avista's Energy Recovery Mechanism (ERM) does not, nor has it in the past, recovered non-power supply costs specified within its ERM, such as capital investment or labor costs. Benefits from the EIM, however, will flow through the ERM as power supply revenues (FERC Account 447 - see Avista's response to Staff-DR-121). The Company is not adverse to including EIM benefits in its power supply base when the Company can determine a reliable baseline.

If the Commission were to order Avista to exclude its EIM capital investment, labor and IS/IT expenses from its filed case, the overall reduction to Avista's filed case would be to exclude $9.4 million in increased net rate base[5], $2.796 million in increased expenses, and a reduction to the Company's revenue requirement of $3.781 million. (These balances are as-filed.) These balances are very real and will not be recovered unless the Commission approves recovery through base rates. Whereas, ERM benefits in the form of revenues will be recorded in FERC Account 447, which will flow through the ERM mechanism.

See also Avista's response to Staff-DR-113 and Staff-DR-124.

[5] As noted in Avista's response to Staff-DR-113, in order to meet all requirements to join the EIM in March 2022, Avista needs to complete all of its equipment upgrades/replacements and integrate all new software by July 1, of 2021 per the CAISO implementation schedule. Between July 1, 2021 and March 2, 2022 Avista will conduct market simulation testing and parallel operations per the CAISO schedule. Since Avista needs to be prepared for market operations well in advance of market go-live, all capital projects will be completed prior to new rates going into effect. However, although the equipment related projects will all transfer to plant in the summer of 2021, the software applications (while complete) will not officially transfer to plant until all testing is complete and the Company officially joins the EIM in March 2022. Therefore, the Company believes that the costs associated with EIM integration will be known and measurable (can be reviewed by the parties), and all but the software application plant addition (transferring to plant in March 2022), will be in-service prior to new rates going into effect. The software application additions however will sit in CWIP until it transfers to plant in March 2022. Avista has included all capital additions on an average-monthly-average (AMA) basis during the rate effective period. As noted in Ms. Andrews' testimony at Exh, EMA-1T, page 30 starting at line 1, the Company has included the EIM software application addition transferring into service as of March 2020 on an AMA basis for the rate effective period, in part, because it is a short-lived asset to be amortized over five years. Delay in its recovery would significantly impair the overall recovery of this project.