Exh. JAS-3T

WUTC DOCKET: UE-200900 UG-200901 UE-200894
EXHIBIT: JAS-3T
ADMIT ☑ W/D ☐ REJECT ☐

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-200900

DOCKET NO. UG-200901

DOCKET NO. UE-200894

REBUTTAL TESTIMONY OF

JEFF A. SCHLECT

REPRESENTING AVISTA CORPORATION

Q. Please state your name, employer, and business address.

A. My name is Jeff A. Schlect. I am employed by Avista Corporation as Senior Manager, FERC Policy and Transmission Services. My business address is 1411 East Mission, Spokane, Washington.

Q. Have you filed direct testimony in this proceeding?

A. Yes. I have filed direct testimony in this case addressing Avista's transmission revenues and expenses included in the Company's request for rate relief effective October 1, 2021 (Exh. JAS-1T and Exh. JAS-2).

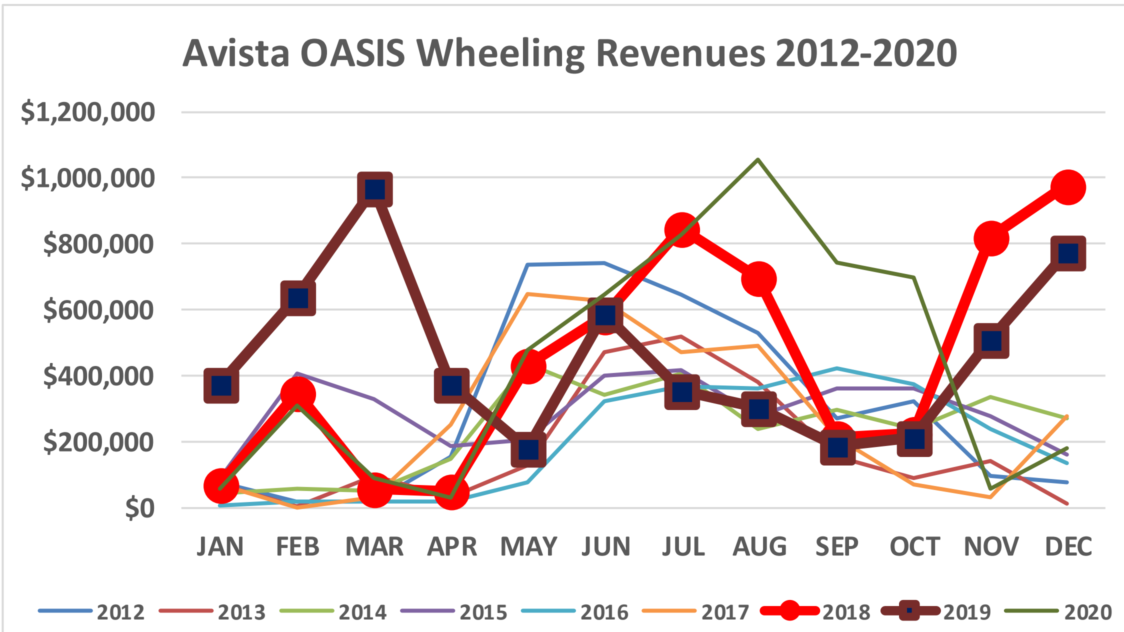
Q. What is the purpose of your rebuttal testimony?

A. My testimony will serve to rebut the testimony of AWEC witness Mr. Mullins who recommends forecasting short-term and non-firm wheeling revenues for the Company based solely upon actual revenues recognized in the 2019 test year, rather than using a three-year average. I will also provide support for an adjustment to pro forma wheeling revenues to be reflected in the 60-day update to the Power Supply adjustment and ERM baseline.

Q. Did the Company experience unique, anomalous short-term firm and non-firm use of its transmission system during the 2019 test year?

A. Yes. On October 9, 2018, a 36-inch natural gas pipeline owned and operated by Enbridge ruptured near Prince George, British Columbia, resulting in pipeline repairs and restrictions that extended for a 14-month period into December 2019. This pipeline rupture and its following restrictions impacted natural gas availability in the Pacific Northwest, including fuel for natural gas generation resources. As a result, immediately following this incident, the Company experienced dramatically increased levels of short-term firm and non-firm (OASIS) transmission service usage. This unprecedented level of OASIS wheeling was understood to be driven by the Enbridge pipeline restrictions and the fact that planned output of natural gas resources to the west needed to be replaced by power generated from the East, particularly during peak winter months. Illustration No. 1 is a chart showing the Company's monthly OASIS wheeling revenues for the years 2012 through 2020.

Illustration No. 1 – Avista OASIS Wheeling Revenues 2012-2020



While the Company regularly experiences volatility in its summer OASIS revenues year-to-year, Winter OASIS revenues during the October-March timeframe is generally consistent and is traditionally lower than revenues experienced in the Summer months. During the November 2018 through December 2019 time period when the Enbridge natural gas pipeline was either out of operation or heavily restricted, the Company experienced historically record-high OASIS revenues during the Winter months of November 2018 through March 2019, and November-December 2019. This is shown in Illustration No. 1, above. It is clear that the Company's elevated OASIS revenues during the 2019 test year were largely due to a unique operational issue that impacted generation resources and electricity markets in the Pacific

Northwest. Notwithstanding this anomalous, one-time operational situation resulting in elevated OASIS revenues, the Company has not attempted to pursue any pro forma adjustment based upon this information.[1]

Instead, as the Company has consistently included in past general rate cases, pro forma adjustments to OASIS revenues are made based upon a three-year average which appropriately recognizes the volatility in the Company's OASIS revenues, which can be driven by a number of regional load and resource factors including, in this case, a major restriction to the region's natural gas supply that would normally be available to fuel generation intended to meet peak Winter load.[2] Any recommendation to single out the Company's 2019 test year OASIS revenues as being appropriately representative of the Company's forecasted OASIS revenues during the 2021-2022 rate period would be completely misguided.

Q. Absent the impacts of the Enbridge pipeline restrictions from October 2018 to December 2019, what would you have expected Avista's OASIS wheeling revenues to be for the 2019 test year?

A. As demonstrated above, the impact to the Company's OASIS wheeling revenues were evident during the months of November 2018 through March 2019, and November-December 2019. If the wheeling revenue for each of these months were to be restated using the <u>maximum revenue ever experienced for each such month going back ten years</u>, the estimated 2019 test year OASIS wheeling revenues would be only $3,809,137 as compared to 2019 actuals of $5,473,825 (details are provided in Exh. JAS-4). It is apparent

[1] See Exh-JAS-1T at 9:5-8
[2] *Id* at 9:8-14

that the Enbridge pipeline restrictions of 2018-2019 created abnormally high OASIS wheeling revenues for the Company during the 2019 test year. It would not be appropriate to forecast the Company's OASIS wheeling revenues for the 2021-2022 rate period using only actual recorded OASIS wheeling revenues from the 2019 test year.

Q. Did PacifiCorp, as asserted by Mr. Mullins, increase its short-term and non-firm use of the Avista transmission system in 2018 and 2019?

A. Yes. Mr. Mullins asserts that the increase in wheeling revenues on the Company's system "can be attributable to utilities such as PacifiCorp, purchasing more short-term transmission on Avista's transmission system to deliver power to loads located in the Northwest."[3] I agree with this assertion. Beginning in November 2018, immediately following the Enbridge pipeline explosion and the resulting pipeline restrictions, PacifiCorp began reserving short-term transmission capacity on the Company's system at levels considerably higher than it had before. This is shown in Table No. 1 below:

<u>Table No. 1: PacifiCorp Short-Term Revenues</u>

PACIFICORP SHORT-TERM FIRM AND NON-FIRM WHEELING REVENUES ON THE AVISTA SYSTEM												
YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2014	--	--	--	--	$83,134	$6,359	--	--	$29,364	$5,539	$173	--
2015	--	$5,533	--	--	$25,076	$18,923	--	--	$160,812	--	--	--
2016	--	--	--	$4,604	$19,791	$18,031	--	$4,616	--	--	--	--
2017	--	--	--	$18,424	$6,659	--	--	$92,517	--	$3,514	$13,669	--
2018	--	--	--	--	$231	--	$4,449	$6,001	$83,505	$7,513	$455,131	$590,000
2019	$325,081	$300,570	$391,854	$18,415	$11,076	$307,333	$2,020	$20,691	$14,137	$47,418	$279,898	$720,000
2020	$6,636	$45,127	$68,138	$11,252	$27,223	$26,196	$214,414	--	$2,597	$70,493	$48,872	$182,020
										2019 Total:		**$2,438,492**
										2020 Total:		**$702,966**

Q. Do you agree that PacifiCorp is expected to continue to rely upon the Avista transmission system in this way, as referenced by Mr. Mullins?

[3] See 200900-200901-200894-AWEC-Exh-BGM-1T at 32:4-6

A. No, I do not. Reviewing the data in Table No. 1 above, notwithstanding PacifiCorp's representation in another proceeding as relied upon by Mr. Mullins, following the resumption of full service on the Enbridge natural gas pipeline in December 2019, PacifiCorp's use of the Company's transmission system has fallen far below its use during the pipeline restriction period. PacifiCorp's use of short-term firm and non-firm transmission service on the Company's transmission system totaled $2,438,492 during the 2019 test year, while its use during 2020 fell to $702,966, a 71% drop from its use during the Enbridge pipeline restrictions that extended through December 2019. While PacifiCorp's ongoing use of the Company's transmission system on a short-term and non-firm basis is greater than its use prior to November 2018, its ongoing use from January 2020 at a marked decrease from its 2019 test year levels demonstrates that PacifiCorp is not continuing to use the Company's transmission system at the same levels it did during the 2019 test year. Accordingly, PacifiCorp's use of the Company's transmission system during the 2019 test year, or any representation that its use will continue at this level, cannot be relied upon for forecasting the Company's OASIS revenues during the 2021-2022 rate period.

Q. What do you recommend in this proceeding?

A. Notwithstanding Mr. Mullins' reliance upon PacifiCorp's representations in another proceeding and misplaced reliance on 2019 actual results reflecting the Enbridge pipeline restrictions, I recommend continuing to use a three-year average in forecasting OASIS wheeling revenues for the 2021-2022 rate period[4], which would result in a decrease of $812,000 from the 2019 test year on a system basis. Should a three-year average not be

[4] The three-year average results in pro formed OASIS wheeling revenues of $4,662,000 (system), adjusted downward $812,000, from that included in the Company's 2019 test period. See Exh. JAS-2.

used in this case, I would recommend using re-stated 2019 OASIS revenues to remove the impact of the one-time, abnormal results of the October 2018 Enbridge natural gas pipeline explosion in British Columbia and the resulting restrictions that were in place for the succeeding 14 months. This would result in forecasted OASIS revenues of $3,809,137 (as shown in Exh. JAS-4), or a decrease of $1,663,825 to system OASIS revenues, and a corresponding $1,142,320 increase in Washington allocated revenue requirement from 2019 test period levels[5].

Q. Are there any other transmission revenue adjustments that should be considered that were not addressed in your direct testimony?

A. Yes. Since the filing of direct testimony in this proceeding, the Company was able to successfully negotiate a long-term firm point-to-point transmission service agreement with Idaho Power for 100 MW of service commencing on May 1, 2021 and continuing through April 30, 2026. While short-term capacity was not available to meet Idaho Power's long-term request, the Company was able to creatively mitigate the short-term capacity issue in an effort to attain the overall revenue benefits for the Company's retail customers associated with the long-term (five-year) agreement. The annual revenue to the Company under this agreement at current transmission rates is $2,400,000, on a system basis. This new transmission revenue will be reflected in the 60-day update to the Power Supply adjustment and ERM baseline as described by Company witness Mr. Kalich.

In late May 2021, the Company was also able to complete a second long-term firm point-to-point transmission service agreement with Idaho Power for 100 MW of service

[5] This would result in an incremental increase to the Company's Washington electric revenue requirement proposed in this case of approximately $586,000.

commencing on May 1, 2022 and continuing through April 30, 2027. While the annual revenue to the Company under this agreement at current transmission rates is $2,400,000, on a system basis, the revenue to the Company during the 2021-2022 rate period will be $1 million, on a system basis. This new transmission revenue will also be reflected in the 60-day update to the Power Supply adjustment and ERM baseline as described by Company witness Mr. Kalich.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.