

Agenda Date: September 26, 2024
Item Number: A2

Docket: UE-240276
Company: Avista Corporation d/b/a Avista Utilities

Staff: Kody McConnell, Regulatory Analyst

Recommendation

Issue an Order authorizing Avista Corporation to record their deferred 2023 net power cost variance utility ratepayer surcharge balance of \$15,825,797 and Solar Select Program utility ratepayer rebate balance of \$1,241,395 and finding new long-term resource contracts prudent.

Filing Purpose

Avista Corporation d/b/a Avista Utilities (Company) must file a report on its preceding calendar year annual Energy Recovery Mechanism (ERM) and Solar Select Program (SSP) activities in a review filing with the Washington Utilities and Transportation Commission (Commission) by April 1 of each following year. Commission Staff (Staff) and interested parties receive a 90-day period to evaluate the reasonableness of the annual ERM deferred net power cost (NPC) variances.¹ On March 29, 2024, the Company provided its 2023 annual ERM review filing. On May 1, 2024, Staff received notice from participating parties of agreement to extend the review period to July 31, 2024, and subsequently extended again until August 30, 2024.²

Procedural Background

On June 18, 2002, the Commission entered its Fifth Supplemental Order in Docket UE-011595 authorizing the Company to implement an ERM that guardrails adjustments to rates by tracking and recovering NPC variances that exceed an authorized deadband and accrete up to an established surcharge or rebate threshold.³ Variance excursions for NPC beyond the authorized deadband penetrate sharing-bands that emanate equidistantly from forecasted baselines and provide proportionally asymmetric distribution of said variances.⁴ The Company determines its monthly NPC variances by calculating the difference between actual and authorized NPC. Net values receive deferred accounting treatment until annual prudency evaluation. In the Multiparty Settlement Stipulation filed December 26, 2012, in consolidated Dockets UE-120436 and UG-120437, the event horizon of the rate adjustment rebate or surcharge trigger was lowered from a

¹ WUTC v. Avista Corporation d/b/a Avista Utilities, Docket UE-011595, Settlement Stipulation at 6-7, 4.b. (June 18, 2002).

² Per § 4.b of the Settlement Stipulation approved by the Commission in Docket UE-011595, the 90-day review period may be extended by agreement of the parties participating in the review.

³ WUTC v. Avista Corporation d/b/a Avista Utilities, Docket UE-011595, Order 05 at 14, C. 34. (June 18, 2002).

⁴ See Figure 1: Avista Corporation Energy Recovery Mechanism Visual Model

maximal deferral of 10 percent of Company base revenues to a static \$30 million threshold.⁵ The resulting cumulative total of the 2023 current year review period deferral and the deferred NPC variance aggregate surcharge balance is now \$15,825,797.

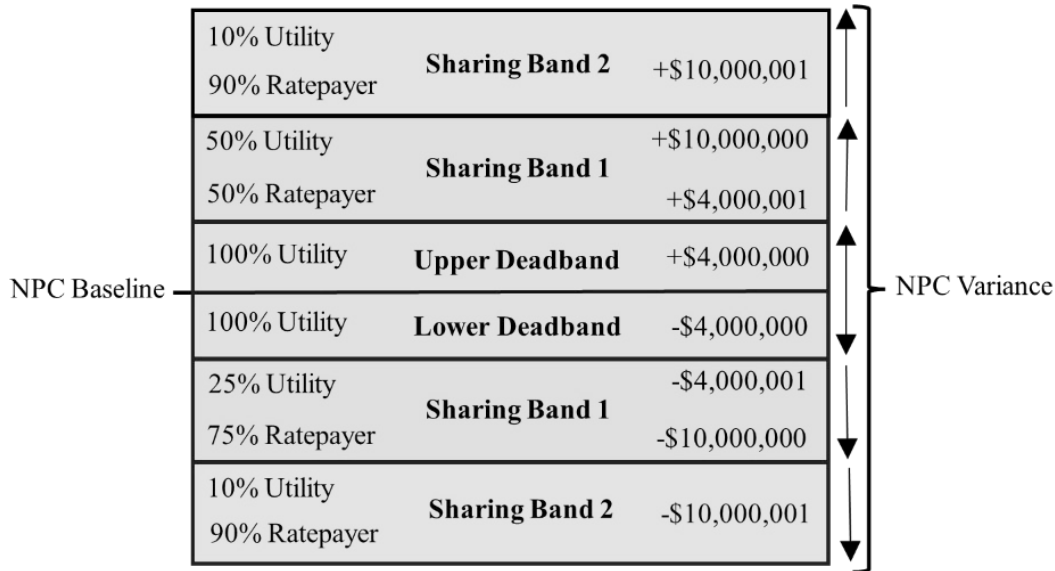


Figure 1: Avista Energy Recovery Mechanism Visual Model

NPC Variance Analysis

From January 1, 2023, through December 31, 2023, the Company's actual NPC were \$23,910,731 greater than the authorized baseline forecast. The current year review period was challenging for the Company, yet ERM history suggests that nascent magnifications in baseline forecast errors began within the last few years.⁶ It seems as if the short-term ability of the Company to competently estimate its NPC is deteriorating as it struggles to manage changing market dynamics, climatological conditions, and expanding regulatory expectations.

In 2023, the region experienced atypical extreme seasonal temperature fluctuations and lower than anticipated annual rainfall that disadvantaged economic energy management. Unusual levels of cold in early winter drove energy load higher and natural gas prices with them across the northwest. Unusually fast rates of warming in early spring accelerated annual snowmelt and reduced hydroelectric generation to 35-year lows and below baseline forecasts.

Since 2020, state public policymakers have enacted ambitious legislative directives that are implementing structural industry changes. However the volatility risk present today in regional

⁵ WUTC v. Avista Corporation d/b/a Avista Utilities, Dockets UE-120436 and UG-120437, Order 09 at Appendix A (December 26, 2012).

⁶ WUTC v. Avista Corporation d/b/a Avista Utilities, Dockets UE-240006 and UG-240007, Exh. SJK-1T Table No. 10 at 55:1. (January 18, 2024).

wholesale energy markets can be hedged and utility ratepayers should reasonably anticipate improving performance as the Company continues refining its Power Supply Hedging Plan.

New Long-Term Contracts

From January 1, 2023, through December 31, 2023, the Company executed three new long-term contracts. Two are bilateral Purchased Power Agreements (PPA) and the other serves a Public Utility Regulatory Policy Act (PURPA) qualifying facility.

The first PPA with Clearwater Wind III, LLC was effective January 20, 2023, and resulted in the acquisition of 100 MW capacity of renewable wind energy generation in Rosebud and Garfield Counties, Montana from January 1, 2026, through December 31, 2055. The Company agreed to an early commercial operation date of September 1, 2024.

The second PPA is with Tyr Energy and is extending an original agreement set to expire in October 2026 for the sole right to dispatch their Rathdrum, Idaho 179 MW combined-cycle combustion turbine (CCCT) natural gas generation plant. This contract extension includes both energy and capacity resources effective March 31, 2023, and runs through December 31, 2041.

Thirdly, on August 11, 2023, the Company signed a 15-year PURPA agreement with Elf I Solar, LLC providing for 19 MW capacity of renewable solar energy generation within Spokane County, Washington. The project has a planned commercial operating date of June 30, 2026.

Solar Select Program

On April 2, 2018, the Commission allowed Schedule 87 of Tariff WN U-28 to go into effect establishing a new voluntary program for large non-residential retail customers that can provide long-term qualified renewable energy products.⁷ This demand was met via a PPA with Strata Solar for 28 MW of generation at a facility in Lind, Washington. The Company does not benefit financially from the voluntary Solar Select Program, and it remains fully subscribed.

In 2023, the program benefited from the higher than anticipated wholesale purchased energy volumes and prices and ended the year with a total deferred net rebate balance of \$3,480,116 before interest accrual. The program is scheduled for evaluation in 2026 to determine if it is appropriate to pass through program benefits or costs to ratepayers.

Other Considerations

Deferrals in Recovery

On June 29, 2023, in Order 01 of Docket UE-230214 the Commission authorized a deferred NPC variance of \$38,105,837 for calendar year 2022 activities and approved the consequent

⁷ WUTC v. Avista Corporation d/b/a Avista Utilities, Docket UE-180102, No Action Item (February 2, 2018).

revision to Tariff WN U-28 for cost recovery effective July 1, 2023. As of March 29, 2024, the remaining amortizing balance was \$25,478,296. No other NPC balances are in recovery.

Variance Net Interest

Of the \$23,910,731 higher than authorized NPC variance in 2023, ERM mechanics require the Company absorb \$8,391,242. The remaining \$15,519,489 is subject to deferred interest accrual at actual cost of debt updated and compounded semiannually. The accrued interest on the annual deferred NPC variance balance calculated on December 31, 2023, totaled \$306,308.

Additional Provisions

On June 16, 2006, in Order 03 of Docket UE-060181 the Commission approved a Settlement Agreement containing two requirements potentially applicable to annual ERM review filings.⁸ The first brackets the costs of renewed or extended long-term PPAs above 50 MW but exempts 50 aMW of renewable energy. The second governs thermal resource availability and associated accounting treatment of major plant outages. Neither influence this annual ERM review filing.

Current Year Update

Calendar year 2024 began with a frigid winter for the region resulting in purchased energy costs over those anticipated to meet ratepayer demand. While the months that followed were more seasonally typical, hydroelectric generation remained lower than was authorized for Company-owned and contracted resources. Consequently increased non-hydroelectric generation and increased wholesale energy market demand shifted midyear review period NPC variance to the benefit of ratepayers. For the first six months of 2024, variances exceeded baseline by \$5.3 million penetrating the deadband resulting in a \$659.991 midyear estimated surcharge deferral.⁹

Interested Parties

Staff engaged with interested parties to this docket including the Alliance of Western Energy Consumers, Northwest Energy Coalition, The Energy Project, and the Office of Public Counsel. No objections to its recommendation or additional public comment have been received.

Conclusion

Staff deems the workbooks and narrative provided adequate, the new long-term energy contracts prudent, and that the deferral of the requested surcharge balance serves the public interest and promotes rates that are fair, just, reasonable, and sufficient.

⁸ WUTC v. Avista Corporation d/b/a Avista Utilities, Docket UE-060181, Order 03 § 2 at 8:10 (June 16, 2006).

⁹ Per personal communication between Commission Staff and Avista Corporation. (July 9, 2024).