

Exh. SJK-13T

WUTC DOCKET: UE-200900 UG-200901 UE-200894

EXHIBIT: SJK-13T

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

SCOTT J. KINNEY

REPRESENTING AVISTA CORPORATION

1 **I. INTRODUCTION**

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

3 A. My name is Scott J. Kinney. I am employed as the Director of Power Supply
4 at Avista Corporation, located at 1411 East Mission Avenue, Spokane, Washington.

5 **Q. Have you filed direct testimony in this proceeding?**

6 A. Yes. I have filed direct testimony in this case addressing Avista's decision to
7 join the Western Energy Imbalance Market (EIM) operated by the California Independent
8 System Operator (CAISO) and the recovery of costs associated with this initiative (see Exh.
9 SJK-1T through Exh. SJK-12).

10 **Q. Why are you providing rebuttal testimony in this case**

11 A. The Washington Utilities and Transportation Commission Staff (Staff), the
12 Public Counsel Unit of the Washington State Attorney General's Office (Public Counsel), and
13 the Alliance of Western Energy Consumers (AWEC), filed testimony in this case with regards
14 to the Company's proposed recovery of costs associated with joining the EIM and the
15 treatment of potential benefits.

16 **Q. In response to the foregoing testimony, will the Company on rebuttal**
17 **offer a level of EIM benefits in this case?**

18 A. Yes. As discussed later in my testimony, the Company proposes to include a
19 \$3.4 million value of EIM benefits on rebuttal, representing a pro-rata share of the annual \$5.8
20 million of benefits for the seven-month period of market participation. This \$3.4 million
21 system benefit represents a reduction of \$2.2 million to the Washington Power Supply expense
22 and baseline associated with the seven months of EIM operation during the rate period.

1 **Q. Please provide a summary of your rebuttal testimony**

2 A. My rebuttal testimony responds to the direct testimony of:

- 3 • Staff witness Mr. Gomez (Staff Exh. DCG-1CT Redacted)
- 4 • Public Counsel witness Ms. Wilson (PC Exh. RSW-1T)
- 5 • AWEC witness Mr. Mullins (AWEC Exh. BGM-1T)
- 6

7 In my testimony I will respond to those witnesses with respect to:

- 8 1. Approach to EIM rate recovery
- 9 2. PacifiCorp and Puget Sound Energy (PSE) initial EIM rate recovery
- 10 3. Certainty of EIM costs
- 11 4. Treatment of EIM benefits
- 12

13 My rebuttal testimony will demonstrate that the Company’s costs associated with joining the

14 EIM are known and the Commission should accept the Company’s filed cost recovery for

15 incremental EIM capital and expense. My testimony will also introduce proposed EIM

16 benefits to be included as offsets in the rate period.

17 **Q. Do any of the witnesses have issues with Avista’s decision to join the EIM**

18 **or the prudence of costs?**

19 A. No. The witnesses do not dispute Avista’s decision to the join the EIM or the

20 associated incremental capital and expenses costs associated with the Company joining the

21 EIM. The witnesses only have issues with the Company’s proposed recovery method.

22 **Q. Are you sponsoring any exhibits that accompany your testimony?**

23 A. Yes. I am sponsoring Exh. SJK-14, which includes the Company’s response

24 to Staff Data Request No. 116 that I reference in my testimony.

1 A table of contents for my testimony is as follows:

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8 **II. APPROACH TO EIM RATE RECOVERY**

9 **Q. Does the Company agree with Staff's¹ and Public Counsel's² proposal to**
 10 **treat initial EIM cost recovery similar to that of PacifiCorp and PSE?**

11 A. No. The Company believes that each utility that joins the EIM has a unique
 12 set of circumstances that need to be evaluated on an individual basis since they can impact the
 13 cost to participate as well as the opportunity to achieve benefits. Each utility was positioned
 14 differently prior to joining the EIM, based on multiple factors including the reasons or need
 15 for joining the market, the cost to join, the time needed to join based on their current operating
 16 conditions, including the current state of equipment and software applications (metering,
 17 generation controls, communication networks, and market software applications),
 18 transmission interconnections to other EIM participants, available transmission to facilitate
 19 EIM transfers, and the timing of joining the EIM as it relates to the requested rate recovery
 20 period of associated costs. These factors are different for each EIM entity and the differences
 21 need to be understood and considered when determining appropriate rate recovery
 22 mechanisms.

¹ Exh. DCG-1T, pp. 55-66.

² Exh. RSW-1T, pp. 1-9.

1 **Q. Does the Company believe EIM costs and benefits should be recovered**
2 **through its Energy Recovery Mechanism (ERM) as proposed by witnesses Ms. Wilson³**
3 **and Mr. Gomez⁴ in their testimony?**

4 A. No. Avista has approached the EIM integration project like any other capital
5 facility improvement or replacement project and the decision to join was based on risk
6 mitigation, not achieving additional economic benefits (albeit such benefits will mitigate some
7 of the costs). We developed a project plan, schedule, and budget estimate to ensure the
8 Company was prepared to join the EIM by March 2022 per our Implementation Agreement
9 with CAISO. In order to meet all requirements to join the EIM in March 2022, Avista needs
10 to complete all of its equipment upgrades/replacements and integrate all new software by July
11 1, 2021 per the CAISO implementation schedule. Between July 1, 2021 and March 2, 2022,
12 Avista will conduct market simulation testing and parallel operations per the CAISO schedule.
13 Since Avista needs to be prepared for market operations well in advance of market go-live,
14 all capital projects must be, and will be, completed prior to new rates going into effect.

15 However, although the equipment related projects will all transfer to plant in the summer of
16 2021, the software applications (while complete) will not officially transfer-to-plant until all
17 testing is complete and the Company officially joins the EIM in March 2022. Therefore, the
18 Company believes that the costs associated with EIM integration are known and measurable
19 (available for review by the parties throughout this proceeding), and all but the software
20 application plant addition (transferring to plant in March 2022), will be in-service prior to new

³ Exh. RSW-1T, p. 3, ll. 8-16.

⁴ Exh. DCG-1T, p. 65, ll. 8-13.

1 rates going into effect. As discussed by Ms. Andrews, the Company has pro formed
2 approximately \$12.6 million of net plant for the rate effective period⁵.

3 **Q. Was the Company aware of the rate recovery treatment approved by the**
4 **Commission for PacifiCorp and PSE?**

5 A. Yes, we were fully aware of how EIM was treated for those two entities. But
6 the outcomes for PSE and PacifiCorp were based on unique circumstances and were unlike
7 Avista's present request. One of the Commission decisions was approval of a settlement
8 stipulation that included EIM terms. That has no precedential value, otherwise suggested by
9 Staff witness Mr. Gomez⁶. Avista's proposal is based on our unique conditions, as described
10 above. Avista recognizes that both PSE and PacifiCorp agreed to track both investments,
11 O&M, and benefits of EIM through their power cost tracking mechanisms. In this case Avista
12 has not, and for good reason. From our review there are significant differences between
13 Avista's requested filing and that approved for PSE and Pacific under the circumstances of
14 their cases. These are discussed below.

15 First of note, is Puget's treatment was approved based on a Settlement Agreement
16 between Puget and the parties to that proceeding and is not precedential as noted above. As
17 with any settlement, it would have been negotiated based on the give-and-take of the parties
18 to reach agreement, along with other considerations specific to their case. It is unknown if
19 PSE and the parties would have agreed to these same terms today, nor what considerations
20 PSE received in exchange for the treatment of EIM costs.

⁵ As discussed by Ms. Andrews, net plant includes the effect of accumulated depreciation and accumulated deferred federal income taxes during the rate effective period. The Company has also pro formed \$1.7 million of operating expenses and \$1.7 million in depreciation expense. See Andrews Exh. EMA-6T, p. 43, ll. 1 – 9.

⁶ Exh. DCG-1T, p. 64, ll. 22-23.

1 PacifiCorp, on the other hand, agreed on rebuttal to remove its EIM fixed costs, as
2 proposed by certain parties, requesting recovery of its costs “be addressed through the
3 PCAM’s annual true-up.”⁷ In Pacific’s case, they however, chose not to file for a change in
4 power costs and therefore precluded a change to the baseline power cost in the PCAM. Order
5 12, at paragraph 224 in PacifiCorp’s case, states:

6 ...we are allowing Pacific Power to include fixed costs related to the EIM in the actual
7 power costs in its annual PCAM filing, but we do not approve their inclusion
8 indefinitely. Pacific Power, in its next general rate case, must remove the EIM fixed
9 costs from the PCAM’s annual true-up and propose their recovery in non-power cost
10 rates.⁸

11
12 Specific to Avista, we have proposed to include the capital additions, EIM labor and
13 IS/IT expenses in its filed case to be recovered through its non-power cost rates. Avista’s
14 ERM does not, nor has it in the past, been used to recover non-power supply costs such as
15 capital investment, labor costs or IS/IT costs. In addition, Avista’s power supply costs,
16 including fixed costs, and its ERM baseline, are not reviewed on an annual basis as a part of
17 a power cost adjustment mechanism or power cost only rate case (PCAM or PCORC), but
18 within the context of a general rate case. Actual EIM benefits in the form of revenues or EIM
19 power supply-related expenses, however, will be tracked and passed through the Company’s
20 ERM mechanism. Consistent with prior general rate cases, the recovery of all capital
21 investment, as well as non-power supply related expenses (including labor and IS/IT
22 expenses), have been recovered in base retail rates through the process of a general rate case.

⁷ Exh. DGC-1T, p. 59, ll. 21-22

⁸ Wash. Utils. and Transp. Comm’n v. Pacific Power & Light Co., Docket UE-152253, Order 12, ¶¶ 224 (Sept. 1, 2016) (2015 Pacific GRC).

1 **Q. Please responds to Mr. Gomez’s assertions that Avista submitted “light”**
2 **pre-filed testimony?**⁹

3 A. Mr. Gomez, respectfully, is not accurate with his characterization of “light”
4 pre-filed testimony. I provided detailed testimony in Exh. SJK-1T, and then provided all of
5 the following documents in support of our EIM request:

- 6 • Exh. SJK-2 includes Avista’s signed EIM Implementation Agreement with the
7 CAISO.
- 8 • Exh. SJK-3 includes the CAISO FERC filing of Avista’s Implementation
9 Agreement.
- 10 • Exh. SJK-4 includes the FERC acceptance of Avista’s Implementation
11 Agreement.
- 12 • Exh. SJK-5 includes Utilicast Technology Assessment.
- 13 • Exh. SJK-6 includes Utilicast Metering and Controls Assessment.
- 14 • Exh. SJK-7 includes Avista’s original EIM project Charter.
- 15 • Exh. SJK-8 includes Avista’s Human Resource Plan.
- 16 • Confidential Exh. SJK-9C includes the cost estimate associated with the
17 Human Resource Plan.
- 18 • Exh. SJK-10 includes the updated EIM Scope document.
- 19 • Confidential Exh. SJK-11C includes the updated cost estimate associated with
20 the Human Resource Plan.
- 21 Exh. SJK-12 includes the Energy and Environmental Economics (E3) EIM
22 benefit analysis report.
- 23

24 This clearly suffices as a “prima facie” case.

25

26 **III. CERTAINTY OF EIM COSTS**

27 **Q. Does the Company believe the incremental costs associated with joining**
28 **the EIM are uncertain as suggested by the testimony of Mr. Mullins?**¹⁰

⁹ Exh. DCG-1T, p. 64, ln. 21.

¹⁰ Exh. BGM-1T, p. 29, ln. 20.

A. No. Table No. 1 below provides a summary of EIM projects by business unit that have either transferred to plant as of the end of April, 2021, will transfer to plant as of the end of June, 2021, or will transfer to plant after market go-live in March, 2022.

Table No. 1 – Summary of EIM Project Spend and Transfer to Plant Dates

Business Unit	Complete as of April 2021		Complete as of June 2021		Complete as of March 2022	
	# of Projects	Total Approved Spend	# of Projects	Total Approved Spend	# of Projects	Total Approved Spend
Facilities	2	\$ 311,071	0	\$ 0	0	\$ 0
Network	14	\$ 1,677,902	5	\$ 362,799	0	\$ 0
Software	2	\$ 449,170	3	\$ 3,985,824	7	\$ 12,535,541
Generation	9	\$ 4,373,886	0	\$ 0	0	\$ 0
Substation	15	\$ 1,374,164	7	\$ 871,030	1	\$ 750,577
Totals	42	\$ 8,186,193	15	\$ 5,219,653	8	\$ 13,286,118

All costs associated with upgrading equipment including meters replacements, measurement transformers replacements, communication network upgrades and generation controls upgrades will be completed and transferred to plant by the end of June 2021. This is required in order to begin market testing with CAISO in mid-July. Approximately three-quarters of the equipment upgrades/replacements have previously been completed, and all remaining project designs are completed, and field implementation of remaining projects is on schedule with a full in-service date of June 30, 2021.

All new market software applications and an upgrade to the current GE Supervisory Control and Data Acquisition (SCADA) system will also be installed by the end of June to ensure market testing can begin in July. Even though the software applications and SCADA module will not transfer to plant until market go-live in March 2022, all the application integrations will be complete and functioning prior to market testing beginning in July. The remaining software application and SCADA module costs from July 2021 to market go-live

1 in March 2022 are associated with labor to support market testing, Utilicast consulting costs,
2 hardware/server costs, license costs and vendor professional services, hosting fees, and
3 support fees. The Utilicast consulting costs, hardware/server costs and software license costs
4 are known and included in each vendor contract. The vendor professional services, hosting
5 fees, and support fees are also known per terms of the contracts, but the actual payments are
6 tied to passing different testing milestones and will be paid accordingly through EIM go-live.
7 Finally, all budgeted new positions to support on-going market operations will be hired by
8 September 2021 to support market testing as indicated in the EIM Resource Plan, so the
9 associated costs of incremental labor to support testing are known.

10

11

IV. TREATMENT OF EIM BENEFITS

12

Q. Why did the Company not include EIM benefits in its initial rate filing?

13

A. Although the Company had contracted with Energy and Environmental

14

Economics (E3) to conduct an EIM benefit study (Exh. SJK-12), the results of the study

15

provided a large range of potential annual benefits because of the different factors that could

16

influence the Company's participation in the market. Without any true operating history and

17

the recognition that it isn't reasonable to achieve projected benefits during the first few months

18

of market operations, the Company elected to not include any EIM benefits associated with

19

the first seven months of market operations. The Company expects to be conservative in its

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initial market participation as the Company changes business practices and gains familiarity

21

with EIM operations. Further, the rate period only includes seven months of market

22

operations, not a full year. Avista felt it would be difficult to predict if these months will

23

produce greater or lesser benefits than other periods of the year. Historical performance

1 suggests that Avista could receive less benefits during the second and third quarters of the
2 year. Market prices in the second quarter are significantly depressed because of the abundance
3 of available hydro, and the Company's thermal units are offline for scheduled annual
4 maintenance resulting in a reduction of available resources to bid into the market. In the third
5 quarter Avista has less excess generation to bid into the market since hydro output is at
6 minimum levels as river flows subside and summer loads increase due to warm temperatures.

7 **Q. Is the Company, on rebuttal, now proposing to include a level of EIM**
8 **benefits?**

9 A. Yes. Avista recognizes that it will begin to receive EIM benefits in March of
10 2022 during the rate period. As previously stated, the Company decided to join the EIM
11 primarily to maintain reliable service to our customers due to market liquidity risk and support
12 the integration of renewable energy. The decision to join was not made based on obtaining
13 additional economic benefits, although any such benefits would serve to mitigate the costs of
14 joining the EIM. The results of the E3 study showed an annual system benefit range from \$2
15 to \$12 million depending on multiple factors. Until Avista joins the market it is not exactly
16 sure how these factors will influence actual benefits, but the Company's best estimate is for
17 annual system benefits to be approximately \$5.8 million (system) once fully operational. This
18 baseline value was calculated through consultation with E3 and by averaging the four most
19 likely EIM scenarios out of the 24 scenarios evaluated by E3.

20 Avista will only be operating in the EIM for the last seven months of the rate period,
21 which is also its first months of EIM participation. As stated earlier, Avista anticipates taking
22 a conservative approach in our initial participation until we gain market experience. This
23 conservative approach is consistent with how other utilities operated during their initial

1 months of market participation. As experience is gained, benefits should increase and
2 potentially reach levels towards the upper range estimated by E3. Because of the uncertainty
3 associated with initial market performance the Company was not comfortable initially
4 proposing a benefit amount to include in the rate period. However, upon further review of
5 actual benefits received by current EIM entities, specifically during their first months of
6 operations, the Company now feels comfortable including some EIM benefits as an offset to
7 Power Supply expense in its rate filing. The Company recognizes there is uncertainty
8 associated with calculating EIM benefits but feels that the baseline annual benefits level of
9 \$5.8 million (system) developed from the E3 analysis, is an appropriate starting point until the
10 Company can obtain EIM operating experience.

11 By including EIM benefits the “matching principle” set forth by previous Commission
12 orders is being adhered to. Of course, this “matching principle” will be ignored if the
13 Commission were to capture even the proposed level of benefits (\$3.4 million system) while
14 not also including all costs up to March 2, 2022, when the Company begins full market
15 operations.

16 **Q. Would you provide a summary of the estimated benefits E3 calculated,**
17 **and how you landed on a system benefit of \$5.8 million?**

18 A. Yes. The E3 assessment estimated Avista could achieve a range of system
19 annual benefits from \$2 million to \$12 million by participating in the EIM. There are four
20 main study assumptions that drive the range of potential EIM benefits: (1) the amount of
21 flexible hydro Avista bids into the market, (2) the amount of transmission that is made
22 available for market transactions, (3) the amount of renewable generation that is integrated in
23 Avista’s Balancing Authority Area, and (4) the data source of the estimated benefits of other

1 EIM participants, which was used for comparison purposes and a proxy for market price
2 variations. E3 varied the assumption of these critical drivers to create 24 different study
3 scenarios. Avista analyzed the 24 different scenarios with guidance from E3 and anticipates
4 EIM system annual benefits to be approximately \$5.8 million, which is an average of four of
5 the 24 benefit scenarios (scenarios 6, 12, 18, 24 - See Exhibit SJK-12). These four scenarios
6 assume: Avista maximizes hydro bidding into the market; has increased renewable generation
7 in the Avista resource mix, due to new carbon emission policies; uses a medium level of
8 transmission made available to the market; and uses an average of EIM benefits based on E3
9 modeled benefits and actual observed EIM participant benefits to represent price volatility.
10 And of course, none of these “benefits” occur unless the EIM is fully operational, with
11 corresponding costs actually included in rates.

12 Avista recognizes that other EIM participants have achieved benefits above baseline
13 estimates from their E3 studies but that was after at least a year of operating in the market and
14 they had gained market knowledge and experience. As previous EIM entities joined the
15 market their initial achieved EIM benefits were lower due to the lack of market experience
16 and the ability to analyze actual data to fine tune their market participation strategy. Table
17 No. 2 below shows a comparison of the first six months of EIM revenue to the six months of
18 revenue after a full year of operating in the market for several EIM entities. As shown in the
19 table EIM Entity benefits increase after gaining a year of operating experience.

1 **Table No. 2 – EIM Entity Benefit Comparison**

2

EIM Benefits (\$ million)		
EIM Entity	0-6 months	12-18 months
PacifiCorp	\$8.55	\$17.02
Nevada Energy	\$1.54	\$6.57
Arizona Public Services	\$11.21	\$15.90
Puget Sound Energy	\$2.96	\$5.84
Portland General	\$6.47	\$20.86
Idaho Power	\$21.06*	\$13.69
BANC	\$13.18	\$17.87

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10 * The 2018 total Q3 EIM revenue was over \$100M (second highest revenue quarter) due
11 to extreme market volatility so this skewed Idaho Power's first 6 months of revenue
12

13 Therefore, Avista believes it is prudent to incorporate a baseline level of benefits as
14 determined from the E3 EIM benefit study until the Company has operated in the market for
15 at least a full year to gain experience, refine its resource bid strategy and operate through the
16 different seasonal conditions.

17 **Q. How does the Company proposed to incorporate EIM Benefits?**

18 A. The Company proposes to include \$3.4 million value of EIM benefits on
19 rebuttal, representing a pro-rata share of the annual \$5.8 million for the seven-month period
20 of market participation during the rate year. This \$3.4 million system benefit represents a
21 reduction of \$2.2 million to the Washington Power Supply expense and baseline associated
22 with the seven months of EIM operation during the rate period (March 2022 through
23 September 2022).

1 As discussed by Company witness Mr. Kalich¹¹, to delineate the EIM benefits in the
2 ERM baseline, the Company will include a separate line for EIM revenues. However, actual
3 EIM benefits will flow through the Company's ERM as revenue to account for benefits
4 received similar to how other resource optimization revenue is accounted for. Until the ERM
5 is reset in a future rate case, the assumed EIM benefit amount would remain at \$3.4 million
6 until such time as the annual benefit of \$5.8 million, or other determined amount, can be
7 simultaneously built into both base rates and the ERM baseline going forward and on an
8 annual basis. Mr. Kalich reflects the impacts to Power Supply expense on the baseline and
9 ERM calculation in his rebuttal testimony.

10 **Q. Does the Company believe that by including EIM benefit upon rebuttal it**
11 **meets the “matching principle”?**

12 A. Yes. Avista has treated the EIM integration effort like any other traditional
13 capital project. Initial detailed project requirements, estimates and schedules were created
14 and have been updated and refined as the project has progressed. This detailed information
15 was provided in my direct testimony and Exh. SJK-7 (EIM Project Charter), Exh. SJK-8
16 (Human Resource Plan) and Exh. SJK-10 (EIM Scope document). As previously discussed
17 in my rebuttal testimony all projects will be installed by the end of June of 2021. Cost
18 associated with equipment upgrades/replacements will have all transferred to plant.
19 Approximately half of the software applications costs will have been already spent by the end
20 of June and the remaining costs are known because these costs are either part of signed vendor
21 contracts or internal incremental labor hired to support market testing and on-going market

¹¹ Exh. CGK-9T, p.4, ll. 9-11.

1 operations. The Company's inclusion of EIM benefits on rebuttal results in offsets to the
2 project costs and were calculated similar to offsetting benefits associated with previous capital
3 projects that the Commission has approved in prior rate filings. Project benefits or offsets are
4 traditionally calculated estimates based on some form of analysis using the best available data.
5 Including the baseline benefit result from the E3 analysis is no different than how other project
6 offsetting benefits have been determined.

7 **Q. Does the Company believe that prior to getting actual operating history in**
8 **the EIM it can determine the potential economic value of the non-economic benefits**
9 **discussed in the E3 benefit study and in witness Gomez's testimony¹²?**

10 A. No. As discussed in the E3 study and my direct testimony the following non-
11 economic benefits related to participating in the EIM are difficult to quantify into actual
12 economic values at this time.

- 13 • Cost savings from reduced flexibility reserve needs
- 14 • Fuel cost savings and the avoided loss of renewable energy and tax credits
- 15 associated with reduced curtailment of wind and solar resources
- 16 • Reduced greenhouse gas emissions
- 17 • Improved reliability

18 Accordingly, it is extremely difficult to translate these items into true savings because they
19 are either operational efficiency gains, or Avista needs some operating experience in the
20 market before the Company can attempt to quantify the actual benefits, since the benefits are
21 tied directly to actual market dispatch of Avista's generation portfolio. The Company believes
22 these benefits, if eventually quantifiable, will be quite a bit less than the benefits received from
23 interregional dispatch. This issue is further discussed in my response to Staff Data Request

¹² Exh. DCG-1T, p. 58, ll. 6-10.

1 No. 116 included as Exh. SJK-14.

2 **Q. At a high level, what is the Company's understanding of how greenhouse**
3 **gas compliance is treated within the CAISO market?**

4 A. The Company's understanding is that greenhouse gas (GHG) is a component
5 of the CAISO market solution and that the result of that solution is that the Locational
6 Marginal Prices (LMPs) reflect the cost of compliance with the California Air Resources
7 Board (CARB) GHG rules. As part of our existing business, Avista sells energy to the CAISO
8 on a day-ahead and hour-ahead basis. The prices received by Avista are impacted by the
9 greenhouse gas component of LMP today. If an Avista sale into the CAISO market is tagged
10 to a resource that emits GHG, Avista incurs a GHG compliance obligation.

11 **Q. What are the Company's thoughts regarding Mr. Gomez's testimony on**
12 **GHG revenue opportunity in the EIM.¹³**

13 A. Once Avista joins the EIM, Avista will have an opportunity to participate in
14 the CAISO Real-Time market. Similar to the Day-Ahead and Hour-Ahead markets, the real-
15 time LMPs include a GHG component. If Avista's generation is dispatched to serve CAISO
16 load, Avista may receive additional compensation to offset GHG compliance costs as Mr.
17 Gomez states. From public data, it appears that GHG prices are often zero and Avista is not
18 readily able to estimate the volume that is being "cleared" in the market or what Avista's
19 potential share of that clearing would be. The integration of additional EIM members with
20 large hydroelectric portfolios also makes it difficult to judge potential future GHG prices
21 relative to GHG compliance costs. Avista is also not able to correlate potential dispatch of its

¹³ Exh. DCG-1T, p. 58, ln. 12 – p. 59, ln. 6.

1 generation fleet with CAISO's demand for future EIM imports and the GHG bidding behavior
2 of other EIM participants. Avista anticipates that the Company will be able to gain additional
3 insight into revenue opportunities associated with the EIM GHG market after at least a year
4 of operating in the EIM. Until then any GHG revenue will be included in the ERM.

5 **Q. Does the Company agree with witness Gomez's proposal in his testimony**
6 **to require a small team to develop an EIM benefit methodology before the Company's**
7 **next GRC?**

8 A. No. As witness Gomez explained in his testimony (Exh. DCG-1T, pp. 65-66)
9 even PacifiCorp and its stakeholders have yet to determine an appropriate EIM benefit
10 calculation methodology even though they have been operating in the EIM since the fall of
11 2014. EIM benefit modeling and estimating is complicated. Utilities in general do not have
12 the production models, data, or experience to estimate future EIM benefit. In fact, that is why
13 current or planned EIM participating entities hired E3 to conduct initial benefit assessments
14 on their behalf. As discussed in the Company's E3 studies there are key modeling
15 assumptions that can impact results. There are also multiple operational factors that impact
16 EIM benefits year to year that are difficult to predict. These include the specific hydro year,
17 fuel prices, unplanned resource, transmission, and gas transport outages, temperature and its
18 effect on load levels, and price volatility. Therefore, the Company feels it isn't practical to
19 mandate that an EIM benefit estimation methodology be agreed to among key stakeholders
20 prior to the Company filing its next GRC.

21 Avista does support, however, the creation of a stakeholder group to discuss the critical
22 factors that can influence EIM benefits and agree on an approach the Company can test and
23 potentially implement if practical. The Company also believes that a common benefit

1 methodology should be developed for all three Washington IOU utilities to provide
2 consistency.

3 **Q. Does this conclude your rebuttal testimony?**

4 **A. Yes, it does.**