

Agenda Date: September 29, 2022
Item Number: A1

Docket: UE-220232
Company: Avista Corporation d/b/a Avista Utilities

Staff: Natalie Roberts, Regulatory Analyst
Alex Tellez, Regulatory Analyst
Chris McGuire, Regulatory Analyst

Recommendation

Issue an order authorizing Avista Corporation to record a 2021 ratepayer deferral of \$8,724,712 for calendar year 2021, as reported in Avista Corporation's Energy Recovery Mechanism report for 2021.

Background

On June 18, 2002, the Washington Utilities and Transportation Commission (Commission) entered its Fifth Supplemental Order in Docket UE-011595, which authorized Avista Corporation d/b/a Avista Utilities (Avista or Company) to implement an Energy Recovery Mechanism (ERM) allowing for positive or negative rate adjustments to account for fluctuations in power costs outside of an authorized band for power-cost recovery in base rates.¹ Under the Settlement Stipulation approved by the Commission in the same order, Avista is required to make a filing by April 1 of each year regarding the power costs it deferred the prior calendar year under the ERM, and the Commission and interested parties are afforded a 90-day period to review the prudence of and audit the reported ERM deferral entries.²

On March 31, 2022, in Docket UE-220232, Avista filed its 2021 ERM report regarding power cost deferrals for calendar year 2021. On April 8, 2022, counsel for Commission staff (Staff) filed a letter to Docket UE-220232 providing notice to the Commission that the parties participating in the review agreed to extend the review period for Avista's 2021 ERM deferrals to September 30, 2022.³

Overview of Avista's 2021 ERM deferrals

Energy cost deferrals under the ERM are calculated each month by subtracting base net power supply expenses from actual net power supply expenses to determine the change in net power supply expenses. A newly developed methodology for setting power supply base was authorized

¹ *WUTC v. Avista Corporation*, Docket UE-011595, Order 05 at 14, C. 34. (June 18, 2002).

² *I.d.*, Settlement Stipulation at 6-7, 4.b. (June 18, 2002).

³ Per Section 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.

in Avista's 2020 general rate case and became effective October 1, 2021.⁴ As such, for 2021, Avista recorded monthly ERM variances against two power cost baselines: the first nine months in this ERM review period were based on the level of power supply expenses authorized in the Company's 2017 GRC,⁵ and the last three months of the ERM review period are based on the level of power supply expenses authorized in the Company's 2020 GRC.^{6,7}

For the January 1, 2021, through December 31, 2021, ERM period, Avista's actual power costs exceeded their authorized costs of \$146 million by approximately \$16.4 million. In accordance with the ERM mechanism, for power cost variances in the surcharge direction, Avista absorbed 100 percent of the first \$4 million dollars in the surcharge direction, 50 percent of the next \$6 million, and 10 percent beyond \$10 million. Accordingly, of the total variance of \$16.4 million, Avista absorbed \$7,636,078 and proposes to add \$8,822,069 in the surcharge direction to the deferral balance. This amount includes \$97,357 in interest accrued on the annual ERM balance. When added to the end of the 2020 annual ERM credit balance of \$13,157,482, the total ERM credit (rebate) deferral balance would be \$4,335,413 in the rebate direction. Because the \$30 million trigger has not been met as outlined in the Multiparty Settlement Stipulation in Docket UE-120436, these savings will continue to accrue in deferral balance; rates will not change at this time.

The ERM also contains the accounting and filing requirements for Avista's Voluntary Solar Select Program (Solar Select). On February 2, 2018, Avista filed Schedule 87 with the Commission to establish a new Voluntary Solar Select Program (Solar Select) for large, non-residential retail customers.⁸ Schedule 87 offers a long-term, qualified renewable energy product to certain commercial and industrial customers. The proposed tariff filing went into effect on April 2, 2018. Subject to the prudence review, 100 percent of the benefits or costs associated with the Solar Select program will flow through to customers via the ERM deferral⁹. Avista reports a net benefit associated with the Solar Select program of \$892,145 in 2021.

⁴ *WUTC v. Avista Corporation*, Docket UE-200900, UG-200901, and UE-200894, Order 08 at 13 B.1.i.30 (September 7, 2021).

⁵ Docket UE-170485, Order 07

⁶ Docket UE-200900, Order 08

⁷ While Avista did file a GRC in 2019, the Company in that case did not propose to update the power cost baseline and, citing the ongoing collaborative focused on resolving Avista's power cost modeling issues, the Commission agreed that making no changes to the baseline was appropriate. *See WUTC v. Avista Corporation*, Dockets UE-190334 and UG-190335, Order 09 at ¶ 119 (April 25, 2020).

⁸ Docket UE-180102

⁹ Letter from Avista on the Company's commitment to the Solar Select program, Docket UE-180102.

Discussion

Variance Analysis

A large contributor to the variance between Avista's authorized and actual power supply costs in the 2021 ERM period was high load variance coupled with low hydrogeneration. Actual load for the ERM period exceeded the authorized by 19 average megawatts (aMW) per month which led to an additional \$9.8 million in Washington-allocated costs. Load variance was particularly high during the months of June and July when Washington experienced record high temperatures, as well as in December during a cold snap period. Costs associated with high load during the heat dome were particularly high as much of the region experienced record high temperatures those months which significantly increased market prices for power.¹⁰

While Avista experienced high loads, the Company's hydroelectric generation was 34 aMW lower per month than authorized which meant that Avista had to rely more on purchasing expensive power on the market. The Company's low hydrogeneration can be explained by record high temperatures in the summer, low precipitation, and low river discharge for the 2021 water year.¹¹ In 2021 the Spokane River, along which most of Avista's hydropower plants are located, experienced an average annual river discharge of 4,289 cubic feet per second, which is 36 percent below the 130-year average of 6,655 cubic feet per second.¹² Unfavorable hydro conditions coupled with record high loads in July resulted in approximately \$10.9 million in variance for that month alone.

In addition to high loads and low hydrogeneration, Avista experienced several planned and unplanned gas power plant outages in 2021, some of which overlapped the heat dome event between June 26 and July 6, contributing to high power cost variances in the summer months. Outages at Coyote Springs 2, Lancaster, and Northeast CT are discussed in turn below.

Outages

Coyote Springs 2 – According to the 2006 Settlement Stipulation, if Kettle Falls, Colstrip 3 & 4, or Coyote Springs 2 drops below a 70 percent availability factor for the ERM review period, the Company must demonstrate that the outage(s) were not the result of imprudent action.¹³ The availability factor Coyote Springs 2 did drop to a 65 percent availability factor. The largest outage was a planned outage during which Avista performed scheduled maintenance from February 26, 2021, through June 30, 2021. Because the outage coincided with the first few days of the heat dome, it exacerbated costs associated with high load and low hydrogeneration. However,

¹⁰ [U.S. Energy Information Administration - EIA - Independent Statistics and Analysis](#)

¹¹ October 1 through September 30

¹² [USGS Surface Water data for USA: USGS Surface-Water Annual Statistics](#)

¹³ Docket UE-060181, 6(E)

Staff did not identify any reason to conclude that this outage for transformer replacement was imprudently caused. It was scheduled during June which is not typically a high load month.

Lancaster – While the annual Spring maintenance cycle at Lancaster was originally scheduled for June 4 through June 18, 2021, Avista reports that “additional issues were identified which extended the by 10 days to June 28, 2021.”¹⁴ During the 10-day unplanned outage, Avista was forced to procure replacement power at a time when regional demand already was high, including during a portion of the Heat Dome event.¹⁵ Through discovery, Staff learned that due to the 10-day unplanned outage at Lancaster, Avista incurred an incremental net power supply expense (WA share).¹⁶ While the extended outage at Lancaster contributed to the surcharge deferral for 2021, Avista appears to be unaware of the cause of the outage or whether it was outside of the control of the facility’s owner and operator, Rathdrum Power, LLC. Avista states that “[a]s this is a PPA, rather than owned resource, Avista does not have routine access to outage detail.”¹⁷ Whether the extended outage was the result of negligence on the part of Rathdrum Power, LLC, or otherwise was a preventable outage, is an unanswered question.

However, after reviewing the PPA Staff agrees with Avista’s understanding that the extended outage did not trigger remuneration under the contract. Avista appears to have limited ability to gain compensation from Rathdrum Power, LLC for the costs of the extended outage. Therefore, Staff recommends the Commission authorize the deferral amount associated with the extended outage at Lancaster, subject to the Commission being satisfied through questioning at the Open Meeting that Avista satisfactorily explored its potential legal remedies for the costs it incurred due to the extended outage.

Northeast CT – Response to discovery indicates that Engine B of Northeast CT has been offline and unavailable for the past 3.5 years – from April 17, 2019, to present. As a result, the facility has been operating at a capacity of 34.7 MW which is 50 percent of its designed operating capacity of 69.4 MW.¹⁸ Had Engine B been available during 2021, Avista would have had an additional 34.7 MW of capacity that it could have used to reduce high-price market purchases in June and July of 2021. Although the prolonged outage of Engine B likely contributed to surcharge variances in 2021, Staff at this time believes that Avista has taken reasonable action to diagnose and remedy the issues with Engine B and does not recommend the Commission order a prudence disallowance for increased power costs associated with the outage.

However, given that Engine B has been offline for 3.5 years and apparently will continue to be offline for the foreseeable future, Staff has concerns regarding the inclusion of Engine B plant – and the inclusion of the broader Northeast CT generating facility in full – in base rates. As the

¹⁴ Dempsey, Exh. TCD-1T at 13:7-10.

¹⁵ The Heat Dome event took place between June 26, 2021, and July 6, 2021.

¹⁶ Avista Response to Staff DR 002, Confidential Attachment A.

¹⁷ Dempsey, Exh. TCD-1T at 13:12-13.

¹⁸ see Confidential Avista Response to Staff DR 004

present docket pertains to power cost deferrals, Staff intends to raise the issue of the recovery of Northeast CT plant in a future proceeding.

Staff has reviewed the workpapers, testimony and exhibits offered by Avista, as well as Avista’s responses to informal discovery issued by Staff, and finds nothing to indicate that the Company’s 2021 power costs were imprudently incurred. Additionally, Staff has confirmed the cumulative customer deferred balance in all customer ERM accounts of -\$10,792,225 in the rebate direction as of December 31, 2021.¹⁹

Solar Select

Under RCW 19.29A, the cost and benefits of Avista’s Solar Select Program must be borne by the participants in that program. Consistent with that requirement, the Solar Select Program’s expenses and revenues are tracked outside of the ERM’s dead band and sharing bands but reported as part of Avista’s annual ERM filing. For 2021, the net benefit of the Solar Select Program was \$892,145 Expenses, which include the power purchase agreement, transmission, distribution and communication interconnection costs, and integration costs, were \$3,22,977 while revenues were \$4,115,122. The benefit will be distributed to Solar Select customers through the ERM, and Avista will not retain any of the positive margin. The table below outlines the benefit and loss for each program year as well as the current deferral balance.

Account 186290 – Regulatory Asset ERM Solar Select		
		Balance
		(+ benefit / - loss)
Calendar 2019 – Approved per Docket UE-200991, Order 01	\$	249,193
Calendar 2020 – Approved per Docket UE-210216, Order 01	\$	(57,572)
Prior Years Solar Select Balances (excluding interest) Approved	\$	191,621
Calendar 2021 Solar Select Balance (excluding interest) Subject to Prudency Review	\$	892,145

Staff has reviewed the Solar Select net benefit for 2021 and finds the amounts to be accurately calculated and reflective for market conditions during the year. While the benefit in 2021 is much higher than in previous years, this can be explained by region-wide high temperatures which increased the market price for energy. As Solar Select generation represents an avoided cost for Avista (i.e., it represents load that Avista did not have to serve), the avoided cost benefit of Solar Select generation is high when market prices are high

¹⁹ This amount includes \$8,822,069 (including interest) in the 2021 deferral account number 186280, -\$6,456,812 in account number 182352 which was ERM deferrals through 2018 already approved for rebate, and -\$13,157,482 in account number 182350 which is the ERM Deferral Balance approved for 2019-2020, but not yet approved for rebate.

Interested Parties

Staff reached out to Public Counsel regarding this filing. They do not plan to file any comments. Staff has not received any customer comments so far.

Conclusion

Staff recommends the Commission approve the Company's 2021 ERM report and the associated ERM Deferral Balance of \$8,724,712 as of December 31, 2021. Additionally, Staff recommends the Commission approve the Company's Solar Select \$892,145 benefit.