BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET UE-25_______

DIRECT TESTIMONY OF

PATRICK D. EHRBAR

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

Q. Please state your name, business address and present position with Avista Corporation?

A. My name is Patrick D. Ehrbar and my business address is 1411 East Mission Avenue, Spokane, Washington. I serve as the Director of Regulatory Affairs.

Q. Would you briefly describe your educational background and professional experience?

A. Yes. I am a 1995 graduate of Gonzaga University, earning a Bachelor of Business Administration degree with an emphasis in Finance and Economics. In 1997, I graduated from Gonzaga University, earning a Master of Business Administration degree. I started with Avista in April 1997 as a Resource Management Analyst in the Company's Demand Side Management (DSM) department. Later, I became a Program Manager, responsible for energy efficiency program offerings for the Company's educational and governmental customers. In 2000, I was selected to be one of the Company's key Account Executives, where I was responsible for, among other things, being the primary point of contact for numerous commercial and industrial customers.

I joined the State and Federal Regulation Department as a Senior Regulatory Analyst in 2007. Responsibilities in that role included being the discovery coordinator for the Company's rate cases, line extension policy tariffs, as well as miscellaneous regulatory issues. In November 2009, I was promoted to Manager of Rates and Tariffs, and later promoted to be Senior Manager of Rates and Tariffs. My primary areas of responsibility included electric and natural gas rate design, decoupling, power cost and natural gas rate adjustments, customer usage and revenue analysis, and tariff administration. In October 2017, I was promoted to my present position.

Q. What is the scope of your testimony in this proceeding?

A. My testimony addresses the accounting associated with the power cost deferrals under the Energy Recovery Mechanism ("ERM") approved by the Commission in Docket UE-011595. I also explain what is contained in the monthly reports that are filed with the Commission and address the 2024 results for the Voluntary Solar Select Program approved in Docket UE-180102. Finally, I will provide details related to the proposed net surcharge of $15.3 million to customers.

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Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exh. PDE-2 and Exh. PDE-3, which were prepared on my behalf. Exh. PDE-2 consists of a copy of the December 2024 ERM report provided for informational purposes, and Exh. PDE-3 contains the supporting workpapers for the January and July semi-annual updates of the weighted cost of debt used in the interest calculation.

Q. Are other witnesses sponsoring testimony on behalf of Avista?

A. Yes. Company witness Mr. Holland provides testimony concerning the factors contributing to the power cost deferrals during the 2024 calendar year review period.

II. ACCOUNTING ASSOCIATED WITH ERM DEFERRALS

Q. Would you please describe the accounting associated with the Company's ERM deferral mechanism?

A. Yes. In his direct testimony, Mr. Holland discusses the calculation of the monthly variations between actual and authorized power supply revenues and expenses. Under the ERM deferral mechanism, monthly variations are accumulated until the calendar-year deadband of $4.0 million is exceeded. Once the deadband is exceeded, 50 percent of the cumulative variation between actual and authorized net power supply costs between $4.0 million and $10.0 million is deferred if the deferral is in the surcharge direction, and 75 percent is deferred if the deferral is in the rebate direction. Once the cumulative power supply cost variance from the amount included in base rates exceeds $10.0 million, 90 percent of the cost variance above $10 million is deferred for future surcharge or rebate.

When actual net power supply costs differ from authorized costs by over $4 million, entries are made to record the deferral amount by crediting FERC Account 557.28 - Deferred Power Supply Expense, thereby decreasing recorded power supply expenses, and debiting FERC Account 186.28 – Regulatory Asset ERM Deferred Current Year. If actual net power supply costs are less than authorized costs in a given month, an entry is made to record the difference by debiting FERC Account 557.28 – Deferred Power Supply Expense, thereby increasing recorded power supply expenses, and crediting FERC Account 186.28 - Regulatory Asset ERM Deferred Current Year. An accumulated debit balance in FERC Account 186.28 represents a surcharge balance, while an accumulated credit balance represents a rebate balance.

Q. How is interest recorded on the deferral balances?

A. Interest is calculated pursuant to the Settlement Stipulation approved by the Commission's Fifth Supplemental Order in Docket UE-011595, dated June 18, 2002. Interest is applied to the average of the beginning and ending month balances in Account 186.28, net of associated deferred federal income tax (DFIT). The Company's weighted cost of debt is used as the interest rate. The interest rate is updated semi-annually, and interest is compounded semi-annually. The interest rate used for the period January 1, 2024 through June 30, 2024 was 5.232%, the Company's weighted cost of debt at December 31, 2023. The interest rate used for the period July 1, 2024 through December 31, 2024 was 5.155%, the Company's weighted cost of debt at June 30, 2024. The supporting workpapers for the January and July semi-annual updates of the weighted cost of debt used in the interest calculations are contained in Exh. PDE-3.

Q. How are income taxes accounted for under the deferred power cost mechanism?

A. The power cost deferral entries are not recognized in the determination of taxable income for federal income tax purposes. Therefore, deferred federal income taxes are recorded to FERC Account 283.28 – Accumulated Deferred Federal Income Tax (ADFIT). When FERC Account 283.28 is credited, Account 410.10 – DFIT Expense in debited. Likewise, when FERC Account 283.28 is debited, FERC Account 410.10 is credited.

Q. In 2024, what were the amounts deferred and the amount absorbed by the Company?

A. For the 2024 calendar year, <u>actual</u> net power costs were <u>greater</u> than <u>authorized</u> net power costs for the Washington jurisdiction by $22,932,503. Table No. 1 below illustrates the allocation between the Company and Customer:

Table No. 1 – 2024 ERM Results

	Total	Absorbed (Avista)	Deferred (Customer)
First $4M at 100%	$ 4,000,000	$ 4,000,000	$ -
$4M to $10M at 25% (rebate)	$ -	$ -	$ -
$4M to $10M at 50% (surcharge)	$ 6,000,000	$ 3,000,000	$ 3,000,000
Over $10M at 10%	$ 12,932,503	$ 1,293,250	$ 11,639,253
	$ 22,932,503	$ 8,293,250	$ 14,639,253

The total current year customer deferral is comprised of $14,639,253 related to the 2024 net power costs shown above, plus interest in the amount of $280,887.[1] This balance does not include the effects of Solar Select as discussed later in my testimony, and which is separately tracked at 100%.

Q. What was the total balance in the ERM deferral accounts as of December 31, 2024, including deferrals that arose prior to 2024?

A. In total, the overall cumulative surcharge balance in all ERM deferral accounts as of December 31, 2024, was $40,295,333. Table No. 2 summarizes the activity in all the ERM deferral accounts and the resulting balance as of December 31, 2024.

Table No. 2 – Cumulative ERM Balances

Account	Description	Balance Surcharge/ (Rebate)
186280 - Current Year Deferral (2024)	Cumulative YTD Balance for difference between actual and authorized during 2024	$ 14,920,140
182352 - Amortizing Deferral - Approved for Surcharge	ERM deferrals approved through 2022. Net surcharge currently being amortized per UE-230214 ***Two-year tariff effective July 1, 2023***	$ 8,890,515
182350 - Amortizing Deferral Balance	Balance approved for prudency, but not yet approved for surcharge	$ 16,484,678
	Total Balance at December 31, 2024	**$ 40,295,333**

Q. Under the mechanics of the ERM, what is the provision for a rebate or surcharge of the ERM balance to customers?

[1] This represents actual recorded interest for 2024.

A. A rate adjustment trigger was originally set at 10% of base revenues per the Settlement Stipulation and approved by the Fifth Supplemental Order in Docket UE-011595. The Multiparty Settlement Stipulation in Docket UE-120436 reduced the rate adjustment trigger from 10 percent of base revenues to $30 million (surcharge or rebate deferral balance). The Company first reached its $30 million trigger with its 2019 annual ERM filing and was approved for a 24-month rebate effective April 1, 2020, per Order No. 9, Dockets UE-190334, UG-190335 and UE-190222 (consol.). The Company began returning the rebate to customers effective April 1, 2020. The tariff expired March 30, 2022.

Most recently, the Company reached its second $30 million trigger with its 2023 annual ERM filing. The overall ERM surcharge balance owed from customers[2] was approved for a 24-month surcharge effective July 1, 2023, per Order 01, Docket UE-230214. The Company began collecting the surcharge from customers through Tariff Schedule 93 beginning July 1, 2023. As of December 31, 2024, the surcharge balance currently being amortized was approximately $8,890,515, as illustrated above in Table No. 2.

Q. Has the Company reached the $30 million trigger during the current-year (2024) deferral period requiring an adjustment to customer rates?

A. Yes. As shown in Table No. 2 above, the overall ERM surcharge deferral balance owed from customers as of December 31, 2024 is approximately $31.4 million. That includes the 2024 deferred balance of $14.9 million and $16.5 million of prior ERM review deferred balances not yet amortized to customers.

Q. Does the Company believe the current ERM balance being surcharged to

[2] The overall ERM surcharge balance owed from customers was comprised of the 2022 deferred balance, the unamortized portion of the 2019 ERM rebate discussed above, and prior ERM review deferred balances not yet amortized to customers, offset by the deferred regulatory liability (FERC account 254303) of misstated EIM benefits in UE-200900 et. al.

customers should be taken into consideration when approving the surcharge deferral balance to collect from customers?

A. Yes, The Company believes including the prior ERM deferral balances as of December 31, 2024 with expected accrued interest through June 30, 2025 and the expected residual balance of the current amortization expiring June 30, 2025 as an offset to the ERM surcharge deferred balance owed from customers is appropriate to reflect the overall customer surcharge in this proceeding. As shown in Table No. 2 above the existing balance as of December 31, 2024 of the existing ERM balance was $8,890,515. The forecasted balance as of June 30, 2025, after taking into consideration forecasted amortization and interest is a rebate balance of $35,443. The Company believes it is appropriate to include this forecasted rebate balance as an offset to the surcharge balances shown below. Table No. 3 below shows the net impact and the Company's proposed overall adjusted ERM deferred balance owed from customers.

<u>Table No. 3 – Adjusted ERM Balance</u>

Account	Description	Balance Surcharge/ (Rebate)
186280 - Current Year Deferral (2024)	Cumulative YTD Balance for difference between actual and authorized during 2024	$ 14,920,140
182350 - Amortizing Deferral Balance	Balance approved for prudency, but not yet approved for surcharge	$ 16,484,678
182352 - Amortizing Deferral - Approved for Surcharge	ERM deferrals approved through 2022. Net surcharge currently being amortized per UE-230214 ***Expected residual balance at June 30, 2025***	$ (35,443)
186290/182350	Expected Interest through June 2025	$ 640,715
	Total Balance at June 30, 2025	**$ 32,010,090**

Through this filing, the Company proposes to include an amortization rate to collect this adjusted balance ($32.0 million) from customers effective July 1, 2025. After factoring in the expected accrued interest for July 2025 through June 2026 and revenue conversion items, the total balance to be recovered from customers is approximately $34.3 million, as shown in filed workpapers.[3]

Avista is presently recovering approximately $19.0 million in ERM-related expenses in customer rates, which will end July 1, 2025. The combined effect of the current ERM balance expiring, offset by the proposed ERM recovery proposed in this filing, is a net increase in revenue of $15.3 million, or 2.1%.

Q. How does the Company propose to spread the adjusted net deferral surcharge balance amongst the rate schedules?

A. The Company proposes to spread the ERM surcharge balance by the Generation Level Consumption (E02 Allocator) from the Company's most recent cost of service study in Docket UE-240006 sponsored by Company witness Mr. Garbarino. This allocation follows the allocation prescribed in WAC 480-85-060 for the allocation of net power costs and is consistent with how the Company has spread these costs in its electric cost of service studies (See Table 2, WAC 480-85-060 - "Net power costs are allocated using annual energy usage at the point of generation").

Q. Is this allocation also consistent with the allocation approved by the Commission for the most recent ERM surcharge in Docket No. UE-230214?

A. Yes. This method is consistent with the allocation methodology utilized in Docket No. UE-230214, and previously in Docket No. UE-190222.

Q. Is this allocation also consistent with the allocation approved by the Commission for the Renewable Energy Credits (REC) rebate?

[3] The expected accrued interest for July 2025 through June 2026 is $643,256. Total ERM Balance at June 30, 2025 of $32,010,090, plus $643,256 interest equals $32,653,346. That amount ($32,653,346) divided by the conversion factor of approximately 0.95251 (unrounded) equals $34,281,507.

A. Yes. The Generation Level Consumption (E02 Allocator), is consistent with the allocation approved by the Commission for the Renewable Energy Credits (REC) rebate approved in Docket UE-140188, Order 05.[4]

Q. What amortization period is the Company proposing to recover the surcharge balance over?

A. The Company proposes this surcharge be amortized over a period of twelve-months beginning July 1, 2025. Interest will be calculated consistent with the calculation described earlier in my testimony.

Q. Why did the Company not consider a longer amortization period to spread out the overall increase?

A. The Company believes that the trigger level ($30M) has been set at a level that is appropriate to surcharge or rebate over a twelve-month period. When that trigger level was agreed to, by the vary nature of that value was inferred as being reasonable. Additionally, a key consideration for Avista's desire to recover the deferred balance over a twelve-month period is for liquidity purposes. In 2024 and 2025 year-to-date, the wholesale commodity markets have been more volatile than experienced in recent years. This has led to larger amounts of cash being required to procure energy for customers. As such, with significant amounts of cash being expended on behalf of customers, timely recovery of cash also needs to occur in order for the Company to maintain, or improve, its credit metrics which leads to lower borrowing costs for the Company.

Finally, the Company forecasts that the $30 million ERM threshold will be triggered annually, as authorized power supply costs are currently set at an expense level well below

[4] Docket UE-140188 Settlement Stipulation

what the Company is likely to incur, and at a more substantial level than that included in this filing. As such, recovering this balance over a 12 month period will actually help to layer in future rate increases, as when the proposed surcharge rolls off, the new surcharge will have less of an effect for customers. It will limit the large build up ERM balances and minimize the intergenerational inequities that will occur by not recovering costs over a shorter timeframe from the customers causing the deferral in the first place.

Q. What is the annual impact by rate schedule of the proposed spread?

A. Please see Table No. 4 below for the annual impact by rate schedule.

<u>Table No. 4 – Proposed Rate Spread</u>

Schedule No.	Rate Schedule	Change % Billed Revenue (1-Year)	Change $ Billed Revenue (1-Year)
1/7/8	Residential	2.1%	$ 7,231,622
11/12/13/17/18	General Service Schedule	1.8%	$ 1,954,611
21/22/23	Large General Service Schedule	2.2%	$ 3,591,844
25/Sp Ct	Ext. Lg General Service Schedule	2.7%	$ 2,133,706
30/31/32	Pumping Service Schedule	1.8%	$ 321,274
42-48	Street and Area Lights Schedule	0.4%	$ 42,691
	Overall	**2.1%**	$ 15,275,747

Q. Would you briefly explain why the rate spread among the schedules is quite varied as compared to the overall increase?

A. Yes. The proposed rate spread is based on the utilization of the E02 allocator as discussed earlier. Being an energy allocator, any surcharge (or rebate) will be spread to more energy intensive customer classes vis-a-vie less energy intensive classes. For example, Street and Area Light Schedules are primarily made up of the fixed cost assets associated with lights – pedestals, LED lights, etc. Only a very small portion of that classes rates are based on the actual energy. On the other hand, industrial customers served under Schedules 25 are very energy intensive (i.e., a large portion of those customers' cost of service is energy-related). As such, more of the energy-related ERM costs necessarily flow to more energy intensive schedules.

Q. What is the impact of the increase to an average Residential Customer?

A. The average residential customer using 945 kWhs per month will see an increase of $2.55 per month, or approximately 2.1%. The present bill for 945 kWhs is $120.86 while the proposed bill is $123.41. The actual bill change will vary based on customer usage.

Q. From an equity standpoint, how will the Company mitigate the proposed rate impact on low-income and/or vulnerable customers?

A. Avista offers a number of programs and services to help customers manage their energy use and costs. Customers can visit www.myavista.com or call 1-800-227-9187 for information on these programs, which include Comfort Level Billing, bill payment options and payment arrangements, automated payment service, assistance programs such as monthly bill discounts (*My Energy Discount*, or MED) or help with past due balances, conservation tips, and energy efficiency rebates.

Regarding *My Energy Discount*, this program is the primary means by which Avista assists income-eligible customers. MED ensures customers' energy bills remain affordable by providing a discount on their bill based on their household income. Customers can sign up for *My Energy Discount* on Avista's website, over the phone with a Customer Service Representative, or through their local Community Action Agency. Once enrolled, customers receive the bill discount for two years (or four years for customers on a fixed income), at which time they can re-enroll in the program if they are still eligible.

III. COLSTRIP UNITS #3 & #4 AND COYOTE SPRINGS II

Q. The requirements set forth in Order 03 in Docket UE-060181 requires that the Company track the availability factors for Colstrip and Coyote Springs II, and should these factors drop below 70%, the Company is to make adjustments to account for the differences between actual and authorized fixed costs. Did the availability factors drop below 70% in 2024?

A. No. As noted in Mr. Holland's testimony, the equivalent availability factors for 2024 were 94.1% for Coyote Springs II and 77.7% for Colstrip Units 3 & 4. As such, the Company was above the threshold, and therefore, no adjustment is necessary to account for the differences between actual and authorized fixed costs.

IV. VOLUNTARY SOLAR SELECT PROGRAM

Q. Please provide a brief overview of the Company's Voluntary Solar Select Program.

A. 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, in Docket UE-180102. Schedule 87 offers a long-term, qualified renewable energy product to certain commercial and industrial customers. In order to meet the needs associated with the Solar Select program, Avista entered into a Power Purchase Agreement (PPA) with Strata Solar for 28 MW located in Lind, WA (Lind Solar Farm). This solar facility qualifies as a shared commercial solar facility under Engrossed Substitute Senate Bill (ESSB) 5939, enacted in RCW 82.16, Renewable Energy System Cost Recovery. During the March 29, 2018 Open Meeting, the Commission took no action on the Company's proposed tariff filing, thus letting the tariff go into effect by operation of law with an effective date of April 2, 2018.

Q. Is the Solar Select program fully subscribed?

A. Yes. The Solar Select program opened for reservations on May 1, 2018 and by day's end, the program was fully subscribed.

Q. Please describe the accounting process related to the Solar Select program.

A. Expenses and revenues are recorded monthly and evaluated coincident with the annual Energy Recovery Mechanism (ERM) filing. These expenses and revenues are tracked outside of the "deadband" and sharing bands (similar to the treatment of renewable energy credits). At the end of the 8-year period, the Solar Select program will be evaluated to determine if it's appropriate to flow through 100% of the benefits or costs to customers via the ERM deferral. The Company does not retain any benefits associated with the program. Table No. 4 below summarizes the activity in the new Solar Select general ledger account since the origination of the program.

Table No. 5 – Solar Select Balances

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)
Calendar 2021 - Approved per Docket UE-220232, Order 01	$	892,145
Calendar 2022 - Approved per Docket UE-230214, Order 01	$	1,154,955
Calendar 2023 - Approved per Docket UE-240276, Order 01	$	1,241,395
Prior Years Solar Select Balances (excluding interest) Approved	$	3,480,116
Calendar 2024 Solar Select Balance (excluding interest) Subject to Prudency Review	$	582,149
Total Solar Select Balance Excluding Interest	$	4,062,265
Total Interest	$	351,930
Total Solar Select Balance Including Interest	$	4,414,195

Q. What was the net benefit or loss associated with the Solar Select program for 2024?

A. For 2024, the net benefit associated with the Solar Select program was a credit balance of $582,149, excluding interest, as shown in Table No. 5 above. Expenses, which include the power purchase agreement, transmission, distribution and communication interconnection costs, integration costs etc. were $3,153,852 versus revenues of $3,736,001. The net benefit/expense was calculated and tracked on a monthly basis, and summarized on an annual basis, separate from the ERM balances described in Section II above. As described in Mr. Holland's testimony, the primary contributor to this net benefit is related to wholesale power prices and volumes being above what was anticipated, particularly during the Summer of 2024.

Q. Will the prudency of revenues/expenses be determined as part of this annual ERM filing review?

A. Yes, consistent with previous annual ERM reviews, the expenses and revenues associated with the Solar Select program will be subject to the same prudence review as all power supply revenues and expenses. Detailed confidential workpapers, specific to Solar Select, have been provided with this filing.

V. ERM ANNUAL REPORTS

Q. Would you please describe the annual report that the Company submits to the Commission?

A. Yes. In Docket U-210151, Order 01 the Commission modified the requirement that Avista file a monthly ERM Deferral Report, established in the 5th Supplemental Order of

Docket UE-011595 (approving the Settlement Stipulation in that Docket), from a monthly filing frequency to an annual filing frequency. As such, the Company submits an annual report to the Commission that includes the individual monthly power cost deferral journal entries together with backup workpapers and other supporting documentation for the calendar year. The cover letter for the annual report contains a brief explanation of the factors causing the variance between actual and authorized power costs. The beginning of the month account balances, the recorded activity within the accounts, and the ending month account balances are shown within each individual monthly report. The annual report also includes any new power supply contracts of one-year or longer, entered into during the calendar year. The annual ERM report is attached for informational purposes as Exh. PDE-2.

Q. What are the requirements associated with the annual filing to review deferrals?

A. The Company is required to make an annual filing, on or before April 1 of each year, regarding the power costs deferred in the prior calendar year under the ERM. As previously discussed, in accordance with Docket UE-180102, the Company is required to provide information related to the Solar Select program. The filing consists of testimony, exhibits, and supporting documentation.

Q. What is the review period for the annual ERM filing?

A. The Commission Staff and other interested parties have the opportunity to review the deferral information during a 90-day review period ending June 30th each year. The 90-day review period may be extended by agreement of the parties participating in the review, or by Commission order.

Q. Have the 2024 ERM calculations and accounting entries been made in a

manner consistent with the ERM methodology approved by the Commission?

A. Yes, they have.

Q. Does this conclude your pre-filed, direct testimony?

A. Yes, it does.