

## **FERC Accounts 134122 – Other Special Deposits Mizuho and 134123 – Other Special Deposits Wells**

Wells Fargo Securities, LLC (Wells) and Mizuho Securities USA, LLC (Mizuho) are registered futures commission merchants (FCM) with the Commodity Futures Trading Commission (CFTC) and members of the National Futures Association (NFA). Avista transacts futures-based swaps for power and natural gas, through ICE (Intercontinental Exchange) Futures Europe, one of the derivative exchanges and Swap Execution Facilities whom both Wells and Mizuho are clearing members.

Clearing members stand in the middle of each trade and become the central counterparty to the trade, thereby guaranteeing financial performance of the contract, mitigating counterparty risk for Avista, and providing more liquid markets. Transactions executed on these exchanges are financially cleared through either Wells or Mizuho. There are stringent requirements including minimum capital levels, operational and technical abilities, and risk management competence that FCM's must meet and maintain to be clearing members.

When Avista enters into a financial transaction, the transaction is assessed initial margin, based on published rates by the Exchange for each futures product (i.e. Mid C Pwr, Mid C Peak, Nymex Alberta, Nymex Malin, etc.) and cash is posted to either Wells or Mizuho into Avista's segregated accounts. Initial margins represent a theoretical loss that could occur over a specified time based on historical price volatility. In addition, transactions are marked to market (MTM) daily to ensure adequate margin which may require an additional deposit to Wells or Mizuho. Avista wires funds to or receives funds from Wells and Mizuho daily. The funds are cumulative of changes in initial margin, MTM changes, fees (commissions, clearing, NFA, etc.), and profit or loss of settled transactions with the net deficit/excess amount either being wired or received.

Minimal interest is calculated by Wells and Mizuho on a minimal portion of Avista's account in slightly different manners. Wells calculates interest daily using the margin excess or deficit amount, based on the 90 day T-Bill rate. Mizuho calculates interest daily using the difference between the ending account balance and the open trade equity balance. The interest income or interest expense is credited or debited to Avista's accounts after month end by Wells and Mizuho.

As described above, for the deposits in FERC Accounts 134122 and 134123, only a minimal portion of the balances earn minimal interest. Avista has determined that of the system AMA balances of \$30.6 million included in these two accounts, approximately \$7.7 million effectively earned interest. Therefore, the Company is proposing to remove Washington's share of these balances that were "interest-bearing" from working capital. WA electric share is \$3.752 million and WA natural gas share is \$1.144 million that will be removed from working capital rate base. The remaining balances included in working capital in FERC Accounts 134122 and 134123 represent the non-interest bearing portion of the account balances. Please see spreadsheet called "WellsMizuho- Calculate Interest-Bearing Amount-2019" for the calculation of the interest-bearing amounts.

This method of treatment is consistent with that discussed with WA Staff (B. Erdahl) and supported within Ms. Erdahl's Working Capital Direct testimony in Docket UE-190334 et al.