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April 22, 2022

Ms. Amanda Maxwell, Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

RE: Docket UE-210183 - Avista's Comments Re: the CETA "Use" Rules

Dear Ms. Maxwell:

Avista Corporation, dba Avista Utilities (Avista or the Company), submits the following comments in accordance with the Washington Utilities and Transportation Commission's (Commission) Notice of Opportunity to File Written Comments on Draft Rules (Notice) issued in Docket UE-210183 on March 23, 2022, relating to electricity markets and compliance with the Clean Energy Transformation Act (CETA). Avista's comments herein are in addition to the Joint Utilities comments filed in this matter and specific to the question posed in the Notice regarding a utility's dispatch of generation.

QUESTION

The proposed rules recognize that a utility's dispatch decisions of its owned, contracted, or controlled generation are driven by economic optimization with respect to market conditions. To better understand the value of such economic dispatch, the Commission requests interested persons respond to the following question:

1.Washington state utilities with hydroelectricity generation will, to the extent the hydroelectric generation resource has the pondage or coordinated dispatch with other hydroelectric generation facilities, purchase off system power during lower load or lower price time periods to meet their load obligations and in turn use the reserved water in hydroelectric generation facilities to facilitate peak hour or peak price off system power sales, including, at times, electricity from their own hydroelectric generation facilities. The Commission requests commenters explain the frequency, magnitude, economic significance, and contribution to reliability of this market driven dispatch to the utility and Washington state's load service.

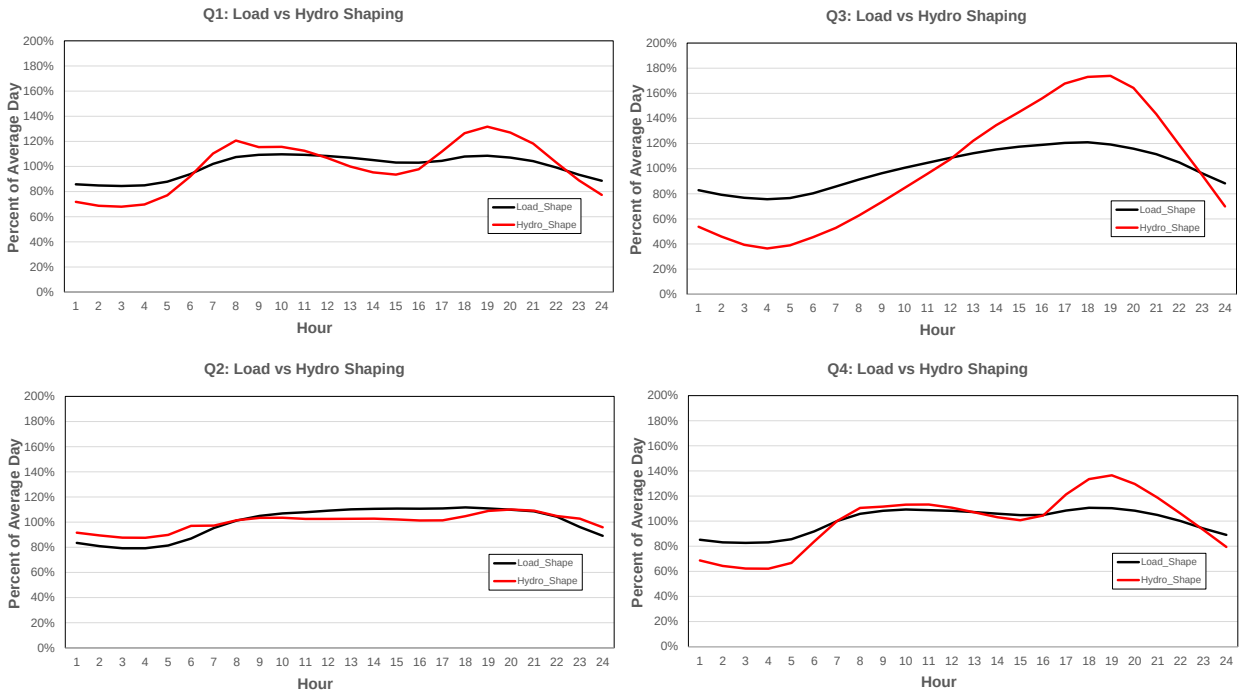
Avista Response:

Avista's objective power supply function is to serve all customer load each day while maximizing the value of our generation assets, including hydro for the benefit of customers. For decades Avista has used the "optionality" of each resource's flexibility. This means, generating at hydro facilities to levels above real-time load when prices are high and a market exists to sell the power into, and then doing the opposite in the lower-valued hours. In this approach, customers receive the highest value for each asset, resulting in downward pressure or mitigated increased pressure in power supply costs.

Hydro Dispatch

Figure 1 illustrates how Avista manages its hydro generation compared to load in 2021. Shown in this figure is each quarter's load and hydro production index. For example, in Q3 loads increase in the evening, but hydro generation has a much more pronounced shape then load, which shows the maximized market opportunities due regional pricing.

Figure 1: Hydro vs Load Shaping



In 2021, had Avista simply used its hydro each day to follow load rather than leveraging the wholesale market (ignoring any physical hydro constraints), Avista's power cost would have risen at least $6.2 million using hour ahead prices. This is not withstanding operational requirements in Avista's other jurisdiction to optimize its system to minimize customer costs. Avista will be expanding its hydroelectric portfolio over the next five years with its recent acquisition of a portion of Chelan PUD's hydro generation and these market-based dispatch savings will increase and daily market prices are expected to be more volatile in the future due to solar generation from California. Hydro flexibility will remain key to lowering customer costs from extreme market price volatility.

There could be difficulty finding power in constrained hour if other regional utilities are not allowed to use market-based dispatch of its resources and therefore driving prices higher or requiring utilities to have higher reserves in order to serve customers reliably.

In 2022, Avista entered the Energy Imbalance Market (EIM); customers will benefit from using the Company's flexible hydro system to bid into sub-hourly markets that are volatile due to regional variable energy resources. If Avista were unable to use is resources for regional system markets, it would lead to higher cost to integrate additional renewable resources required under CETA and other regional clean energy laws. Further, these benefits are included in Avista rates and all benefits of the EIM would need to be removed from rates and costs of market entry would be wasted.

Over the next several years, utilities will be required to add new storage resources to manage variable energy resources (VERs), and to meet system peak loads. These resources have similar characteristics as storage hydro, meaning they are energy limited and flexible with the potential to utilize the energy market to minimize customer costs. These resources are higher, or in some cases much higher in cost than traditional natural gas fired resources; the best way to minimize customer costs is to utilize them in the marketplace when they aren't needed to serve retail loads. For example, an Avista study of a 100-MW/4-MWh battery dispatching to 2021 hourly hour-ahead prices had a market value of energy of $4.3 million. If it instead was only dispatched to meet only Avista load obligations, it would have generated only $1.7 million of value. Thereby reducing customer benefits by $2.6 million.

Resource Adequacy

During high or peak load events, Avista flexes its hydro system to move water to either the highest load hours or highest priced hours, thereby reducing higher-cost market purchases. For example, on one of Avista's smaller hydro storage facilities we might have only 2 or 4 hours of storage in the summer. We typically hold this stored water until the daily load and/or peak prices occur. The value of this strategy during extreme load and price events can be substantial even with a limited duration of storage. Further, holding this water allows the unit to qualify for spinning reserves and make it able to respond to system emergencies.

Another benefit of the northwest dispatching resources to market conditions rather than customer load, is meeting resource adequacy at lower cost; utility diversity means each participant in the broader market can reduce their planning margins. Specifically, Avista conducted an analysis in its 2015 IRP[1] indicating it would need to add an additional 16 percent Planning Reserve Margin if it did not rely on markets to support a portion of its resource adequacy needs. This reduced margin translated into approximately $31 million of customer savings annually. As the Western Power Pool's WRAP program begins, Avista and other utility's customers are likely to reap further cost reductions from a coordinated resource adequacy market. Avista is fearful that any prohibition in using off-system power may limit its ability to participate in regional markets.

If you have any questions regarding these comments, please contact James Gall at

[1] Docket UE-143214, page 6-4, Figure 6.1; illustrating a 31% planning margin vs 15% planning margin.

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Sincerely,

/s/Shawn Bonfield

Shawn Bonfield
Sr. Manager of Regulatory Policy & Strategy