BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET UE-24_______

DIRECT TESTIMONY OF

KAYLENE J. SCHULTZ

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

A. My name is Kaylene J. Schultz. I am employed by Avista Corporation as Manager of Regulatory Affairs in the Regulatory Affairs Department. My business address is 1411 East Mission, Spokane, Washington.

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

A. Yes. I am a 2010 graduate from Gonzaga University with a Bachelor of Business Administration degree, majoring in both Accounting and Business Administration, with a concentration in Management Information Systems. After spending nearly eight years in the banking and capital markets sector, I joined Avista in September 2015 as a Natural Gas Analyst in the Company's Gas Supply Department, now Energy Supply. In January 2019, I joined the Regulatory Affairs Department as a Regulatory Affairs Analyst where I was responsible for preparing various annual filings and applications. In my current role as Manager of Regulatory Affairs, my primary areas of responsibility include preparation of general rate case filings, and annual power supply-related filings, among other things.

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. Finally, I address the 2023 results for the Voluntary Solar Select Program approved in Docket UE-180102.

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exh. KJS-2 and Exh. KJS-3. Exh. KJS-2 consists of a copy of the December 2023 ERM report provided for informational purposes, and Exh. KJS-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. Kinney provides testimony concerning the factors contributing to the power cost deferrals during the 2023 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. Kinney 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, 2023 through June 30, 2023 was 4.79%, the Company's weighted cost of debt on December 31, 2022. The interest rate used for the period July 1, 2023 through December 31, 2023 was 5.06%[1], the Company's weighted cost of debt on June 30, 2023. 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. KJS-3.

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

[1] The Company recorded interest using a rate to the third decimal: 4.790% for the period January 1, 2023 through June 30, 2023 and 5.064% for the period July 1, 2023 through December 31, 2023.

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) ERM. 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 2023, what were the amounts deferred and the amount absorbed by the Company?

A. For the 2023 calendar year, <u>actual</u> net power costs were <u>greater</u> than <u>authorized</u> net power costs for the Washington jurisdiction by $23,910,731. Table No. 1 below illustrates the allocation between the Company and Customer:

<u>Table No. 1 – 2023 ERM Results</u>

	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%	$ 13,910,731	$ 1,391,242	$ 12,519,489
	$ 23,910,731	$ 8,391,242	$ 15,519,489

The total current year customer deferral is comprised of $15,519,489 related to the 2023 net power costs shown above, plus interest in the amount of $306,308.[2]/[3] 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, 2023, <u>including</u> deferrals that arose prior to 2023?

[2] This represents actual recorded interest for 2023.

[3] The total customer current year deferral surcharge (Account 186280) per the general ledger (GL) as of December 31, 2023 was $15,825,797, which is comprised of $15,519,489 current year deferral, plus $306,308 in interest. In 2023, the total customer current year deferral surcharge was understated in the GL by approximately $1,725 (customer deferral of $1,688, plus $37 in interest) related to broker fees. In January 2024, the Company recorded an adjustment to correct the GL for this amount.

A. In total, the overall cumulative surcharge balance in all ERM deferral accounts as of December 31, 2023, was $41,304,093. Table No. 2 summarizes the activity in all the ERM deferral accounts and the resulting balance as of December 31, 2023.

Table No. 2 – Cumulative ERM Balances[4]

Account	Description	Balance Surcharge/ (Rebate)
186280 - Current Year Deferral (2023)	Cumulative YTD Balance for difference between actual and authorized during 2023	$ 15,825,797
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***	$ 25,478,296
182350 - Amortizing Deferral Balance	Balance approved for prudency, but not yet approved for rebate/surcharge	$ -
	Total Balance at December 31, 2023	**$ 41,304,093**

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

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 it's $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

[4] Ibid.

annual ERM filing. The overall ERM surcharge balance owed from customers[5] 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, 2023, the surcharge balance currently being amortized was approximately $25,478,296, as illustrated above in Table No. 2.

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

Q. The provisions in Order 03 in Docket UE-060181 require 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 2023?

A. No. As noted in Mr. Kinney's testimony, the equivalent availability factors for 2023 were 91% for Coyote Springs II and 90% 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

[5] 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.

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. 3 below summarizes the activity in the new Solar Select general ledger account since origination of the program.

Table No. 3 – 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
Prior Years Solar Select Balances (excluding interest) Approved	$	2,238,721
Calendar 2023 Solar Select Balance (excluding interest) Subject to Prudency Review	$	1,241,395
Total Solar Select Balance Excluding Interest	$	3,480,116
Total Interest	$	185,018
Total Solar Select Balance Including Interest	$	3,665,134

Q. What was the net benefit or loss associated with the Solar Select program for 2023?

A. For 2023, the net benefit associated with the Solar Select program was a credit balance of $1,241,395, excluding interest, as shown in Table No. 3 above. Expenses, which include the power purchase agreement, transmission, distribution and communication interconnection costs, integration costs etc. were $2,836,695 versus revenues of $4,078,090. 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. Kinney'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 2023.

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 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 MONTHLY AND ANNUAL REPORTS

Q. Would you please describe the monthly reports that the Company submits to the Commission?

A. Yes. The Company submits monthly reports to the Commission that include the monthly power cost deferral journal entries together with backup workpapers and other supporting documentation. The cover letter for each monthly 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. The monthly reports also include any new power supply contracts of one-year or longer, entered into during the month. The December 2023 report is attached for informational purposes as Exh. KJS-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 also 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 2023 ERM calculations and accounting entries been made in a manner consistent with the ERM methodology approved by the Commission?

A. Yes, they have.

VI. EQUITY CONSIDERATIONS

Q. How has the Company considered Equity in this rate filing?

A. The Company recognizes the importance of equity and is committed to evaluating and considering the four tenets of energy justice including recognition, procedural, distribution and restorative justice in its operational processes. The Company is still in the process of compiling the information necessary to formalize its Equitable Business Planning compliance filing, as discussed in the Company's 2024 general rate case (Dockets UE-240006 and UG-240007). Work is currently underway to develop a framework which ensures systems, programs and processes are designed to enable fair access and opportunity for customers to access the energy needed for them to reach their full potential. Specific focus is on equitable access to affordable, safe, sustainable energy and opportunity to participate in and have meaningful impact on decision-making processes. While the Company is not proposing any modification to rates at this time, steps will be taken to promote the tenets of energy justice in the following manner:

- **Recognition Justice.** The "Named Community" (comprised of Highly Impacted Communities and Vulnerable Populations) Maps are currently being evaluated by the Equity Advisory Group (EAG) to identify socioeconomic and demographic characteristics within Avista's service territory that may act as barriers to fair access or opportunity. These factors often intersect and act as determinants of equity for which future resources or decisions may be allocated in a such a manner to mitigate disparities in these communities. Discussions will be ongoing including consideration for historical and ongoing policies or procedures which may have unintentionally resulted in these disproportional outcomes.

- **Procedural Justice.** The Company has prioritized an effort to make the rate-making process more transparent for customers. Avista has hired an additional Outreach Engagement Manager to facilitate the implementation of the Public Participation Plan originally filed as part of the Clean Energy Implementation Plan. This will promote access to the planning process through intentional engagement strategies that promotes meaningful engagement. The ERM will be discussed with the EAG as an additional learning opportunity, building off the discussions in December 2023 on Ratemaking.

- **Distribution Justice**. While there is no "distribution" of costs associated with this filing, there may be in the future when and if the $30 million trigger is met. As such, the Company will continue to work with the variety of advisory groups to ensure that steps are taken to address the disproportional impacts such an increase (or decrease) may have in communities with certain vulnerabilities.

- **Restorative Justice.** Restorative equity is concerned with both the reparation of harms as well as the prevention of harm in the future. Through the focus on recognition, procedural and distribution equity, the Company will continue to work with the EAG as well as other Advisory groups to determine the most optimal methods for developing policies going forward, which will not result in disproportional outcomes.

As previously mentioned, this work is currently underway in several other avenues.

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

A. Yes, it does.