

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	DOCKETS UE-160228 and
TRANSPORTATION COMMISSION)	UG-160229 (<i>Consolidated</i>)
)	
Complainant,)	
)	
v.)	
)	
AVISTA CORPORATION d/b/a)	
AVISTA UTILITIES)	
)	
Respondent.)	

EXHIBIT NO. BGM-8

OPEN ACCESS TRANSMISSION TARIFF ANCILLARY SERVICE FERC FILING

August 17, 2016



Transmission Services
Avista Corporation
1411 E Mission Avenue
Spokane, WA 99202

June 30, 2016

Via Electronic Filing

Hon. Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

RE: **Avista Corporation, Docket No. ER16-_____**
FERC Electric Tariff Volume No. 8 – Ancillary Service Schedules 3, 3A, 5 and 6

Dear Ms. Bose:

Pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d and Part 35 of the Federal Energy Regulatory Commission's ("Commission") regulations, 18 C.F.R. Part 35, Avista Corporation ("Avista") hereby submits revisions to its Open Access Transmission Tariff FERC Electric Tariff Volume No. 8 ("Tariff") – Schedules 3, 3A, 5, and 6 (collectively, the "Schedules"). The cost of capacity that Avista currently uses for its ancillary service rates in the Schedules was originally accepted by the Commission in 1996 in Docket No. OA96-162-000. Avista proposes to revise the ancillary services rates in the Schedules to reflect changes to Avista's resource portfolio and reflect actual costs of capacity. Avista respectfully requests that the Commission accept the revised Schedules for filing to be effective on September 1, 2016.

I. Communications

All communications regarding this filing should be directed to the following individuals:

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II. Background and Description of Filing

Avista is a corporation created and organized under the laws of the State of Washington, with its principal office in Spokane, Washington. Avista is an investor-owned utility engaged in, among other things, the business of generating, transmitting, and distributing electric power to its bundled retail native load customers and transmitting electric power on behalf of third parties.

The cost of capacity that Avista currently uses was originally accepted by the Commission in 1996 as part of Avista's original open access transmission tariff compliance filing in Docket No. OA96-162-000. Since that time, Avista has made significant investment in its long-standing resources and added a number of new resources that contribute to the provision of ancillary services, including Avista's Coyote Springs 2, Boulder Park, and Kettle Falls combustion turbine. As a result of these changes to Avista's resource portfolio, it is now appropriate to update Avista's ancillary services rates to reflect the actual costs of capacity.

Avista's generation facilities that are used for the provision of ancillary services for its transmission customers are included in rate base in retail rates in each of the states in which Avista provides retail electrical service. However, to the extent that these generation facilities are operating in a manner to support the use of the transmission system, appropriate costs associated with ancillary services provided by such generation should be borne by Avista's transmission customers. This filing updates Avista's ancillary service rates to more appropriately reflect Avista's cost of capacity and, therefore, appropriately allocate the cost of operating those generating facilities to the transmission customers for which the ancillary services are being provided. All revenue collected from transmission customers for ancillary services under Avista's Open Access Transmission Tariff is included as a credit to retail customers.

Avista currently has a single rate that applies to all of the Schedules. However, different resources are used to provide different types of ancillary services. Accordingly, to more accurately reflect the actual cost of providing the specific ancillary service, Avista is proposing two different rates. Specifically, Avista proposes a rate of \$12.83 per kW for providing Regulation and Frequency Response Service, Generator Regulation and Frequency Response Service, and Spinning Reserve Service under Schedules 3, 3A, and 5 respectively ("Rate 1"). This rate is based on the cost of capacity for units that are likely to be running and can provide either frequency response or intra-hour following (regulation) or are operated as Spinning Reserve. Avista proposes a rate of \$11.82 per kW for providing Supplemental (Non-Spinning) Reserve Service under Schedule 6 ("Rate 2"). This rate is based on the cost of capacity for those units that are included in Rate 1 with the addition of units that are normally available for non-spinning reserve.

The cost of capacity that Avista is proposing is based on (1) generating resources that are directly owned by the company and (2) contract purchases from the Mid-Columbia resources over which Avista has the ability to dispatch or operate under Automatic Generation Control ("AGC"). All of the capacity numbers used to calculate Avista's cost of capacity are from numbers published in Avista's 2015 Integrated Resource Plan. All unit costs that are used to calculate Avista's cost of capacity are from Avista's 2014 FERC Form 1. With the exception of

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excluding one resource that was sold and including three resources that have been acquired or constructed since Avista's original rate filing in OA96-162-000, the proposed ancillary services resource portfolio included in this filing is the same as the portfolio accepted by the Commission in Avista's original 1996 filing.

In developing the appropriate costs and units to be included in Rate 1, Avista included all of its hydro facilities that exist within its generation portfolio. All of these generation facilities (listed on Attachment A-1 and included in the Hydro Subtotal tabulation) are operated such that they respond to fluctuations in frequency and required generation output, allowing them to support system frequency and provide Regulation Response. These resources are also operated in a manner which makes them available to meet Avista's Spinning Reserve obligations. In the case of Avista's thermal resources, Avista has chosen to only include those units that are likely to be running and which will also respond to fluctuations in frequency and required generation output, allowing them to support system frequency and provide Regulation Response or used to provide Spinning Reserve. From Avista's full portfolio of thermal generation facilities (listed on Attachment A-2 and included in the Thermal Subtotal tabulation), a number of units have been excluded. Those thermal resources are normally not operating in a manner that can provide Regulation Service or are not available as Spinning Reserve.

In developing the appropriate costs and units to be included in Rate 2, Avista included all of its hydro facilities that exist within its generation portfolio consistent with the reasons those units were included in Rate 1 with the addition that these units can also be used as Supplemental (Non-Spinning) Reserve Service. In the case of Avista's thermal resources, it is appropriate to include Avista's full portfolio of thermal generation facilities (listed on Attachment A-2 and included in the Thermal Subtotal tabulation) as these units are all available to operate to meet Supplemental (Non-Spinning) Operating Reserve obligations. In addition to those resources included in Rate 1, the additional units are available to be used for Supplemental Reserve Service and are often key to Avista's ability to provide that service. The inclusion of these additional units in Rate 2 lead to a rate differential between Rate 1 and Rate 2.

In summary, the resources included in the development of Rate 1 and Rate 2 are the same resources as those accepted by the Commission in Avista's original filing in OA96-162-000, with the following changes:

Included in Current Rates; Excluded in Proposed Rates

Centralia Steam (sold – no longer a part of Avista's resource portfolio)

Not Included in Current Rates; Included in Proposed Rates

Coyote Springs II (acquired June 2003)

Boulder Park (in-service November 2002) – only available for non-spinning reserves

Kettle Falls CT (in-service August 2002) – only available for non-spinning reserves

While the calculation method submitted herein is the same as the method used in Avista's original filing in OA96-162-000, Avista is incorporating one significant change as a result of its pre-filing discussions with its primary transmission customer, the Bonneville Power Administration ("BPA"). In developing the applicable costs associated with the Mid-Columbia resources, Avista has agreed to only include an allocated portion of its Mid-Columbia purchase costs. Historically, and at the time Avista made its original filing, its Mid-Columbia purchase

contracts were based upon the actual annual costs of the Mid-Columbia resources (amortized investment and annual operating and maintenance expense), representing a true “ownership type share” of the projects. Following expiration of these original 50-year contracts, Avista’s follow-on purchase agreements, while giving similar operating rights, incorporate market-based pricing. While Avista respectfully asserts that it would be appropriate to include the full costs of its purchase contracts in determining its cost of capacity rates, Avista has agreed to submit only an allocated portion of its Mid-Columbia purchase costs as a result of its discussions with BPA. This revised approach reduces Avista’s proposed Rate 1 and Rate 2 by \$0.59 and \$0.52, respectively.

III. Effective Date, Waiver and Service

Avista has taken the time to work collaboratively with its affected customers, most notably BPA. While originally intending to make this filing in April, Avista shared the full detail of its filing with BPA and worked collaboratively over the course of several weeks with BPA to review and incorporate minor adjustments to the filing as well as the significant adjustment outlined above. Following this review and having no substantive issues raised by this or other customers, Avista respectfully requests that the Commission accept the proposed Schedules for filing with an effective date of September 1, 2016. Avista requests waiver of the requirements of Part 35 of the Commission’s regulations, including any notice requirements, to the extent necessary for the Commission to accept the revisions with the requested September 1, 2016 effective date. A copy of this filing is being provided to each of Avista’s affected transmission customers and will be posted on the Avista Open Access Same-time Information System (“OASIS”).

IV. Materials Submitted

Pursuant to the Commission’s regulations, Avista submits the following documents:

1. This transmittal letter
2. Tariff Section – Schedule 3 (clean and redline)
3. Tariff Section – Schedule 3A (clean and redline)
4. Tariff Section – Schedule 5 (clean and redline)
5. Tariff Section – Schedule 6 (clean and redline)
6. Supporting Documentation – Attachment A-1 (Schedule 3, 3A, and Schedule 5)
7. Supporting Documentation – Attachment A-2 (Schedule 6)
8. Supporting Documentation – Attachment B (Calculation of Fixed Charge Rate for 35-Year Term)
9. Supporting Documentation – Attachment C-1 (Total Plant Investment Costs)
10. Supporting Documentation – Attachment C-2 (Total Fixed O&M Costs)
11. Supporting Documentation – Attachment D (Allocation of Mid-Columbia Purchases)
12. Supporting Documentation – Attachment E (Allocation of Property Insurance Premium)
13. Supporting Documentation – Revised Cost of Capacity Rate Impact by Transmission Customer

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V. Conclusion

Based on the foregoing, Avista respectfully requests that the Commission accept the Schedules with an effective date of September 1, 2016.

Sincerely,

/s/ J. A. Schlect

Jeff Schlect
Senior Manager, Transmission Services

REVISED COST OF CAPACITY RATE IMPACT BY TRANSMISSION CUSTOMER

Revised Regulation and Frequency Response Rate =	Schedule 3	\$	8.94	\$	12.83	/kw-month
Revised Generation Regulation and Frequency Response Rate =	Schedule 3A	\$	8.94	\$	12.83	/kw-month
Revised Spinning Reserve Rate =	Schedule 5	\$	8.94	\$	12.83	/kw-month
Revised Supplemental Reserve Rate =	Schedule 6	\$	8.94	\$	11.82	/kw-month

CUSTOMER		2014 Charges	Revised Rate	Annual Change due to Cost of Capacity
BPA Network Service - 2015 sum of monthly demands (MW)		3568.997	3568.997	
Regulation and Frequency Response (2%)	Schedule 3	\$ 638,137	\$ 915,805	\$ 277,668
Spinning Reserve (1.5%)	Schedule 5	\$ 478,602	\$ 686,853	\$ 208,251
Supplemental Reserve (1.5%)	Schedule 6	\$ 478,602	\$ 632,783	\$ 154,181
				\$ 640,100
USBR - East Greenacres Irrigation - 2015 sum of monthly demands (MW)		10.580	10.580	
Regulation and Frequency Response (2%)	Schedule 3	\$ 1,892	\$ 2,715	\$ 823
Spinning Reserve (1.5%)	Schedule 5	\$ 1,419	\$ 2,036	\$ 617
Supplemental Reserve (1.5%)	Schedule 6	\$ 1,419	\$ 1,876	\$ 457
				\$ 1,898
Spokane Tribe (Irrigation) - 2015 sum of monthly demands (MW)		10.764	10.764	
Regulation and Frequency Response (2%)	Schedule 3	\$ 1,925	\$ 2,762	\$ 837
Spinning Reserve (1.5%)	Schedule 5	\$ 1,443	\$ 2,072	\$ 628
Supplemental Reserve (1.5%)	Schedule 6	\$ 1,443	\$ 1,908	\$ 465
				\$ 1,931
Consolidated Irrigation District - 2015 sum of monthly demands (MW)		36.000	36.000	
Regulation and Frequency Response (2%)	Schedule 3	\$ 6,437	\$ 9,238	\$ 2,801
Spinning Reserve (1.5%)	Schedule 5	\$ -	\$ -	\$ -
Supplemental Reserve (1.5%)	Schedule 6	\$ -	\$ -	\$ -
				\$ 2,801
Kootenai (Fighting Creek) - 2015 sum of monthly demands (MW)		36.000	36.000	
Regulation and Frequency Response (2%)	Schedule 3A	\$ 6,437	\$ 9,238	\$ 2,801
Spinning Reserve (1.5%)	Schedule 5	\$ 4,828	\$ 6,928	\$ 2,101
Supplemental Reserve (1.5%)	Schedule 6	\$ 4,828	\$ 6,383	\$ 1,555
				\$ 6,457
Total change due to Cost of Capacity revision				\$ 653,185