

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of

AVISTA CORPORATION, d/b/a
AVISTA UTILITIES, Revises Tariff
WN U-28, Power Cost Rate Adjustment
Schedule 93

DOCKET UE-170484

ANSWER OF AVISTA CORPORATION TO
ALTERNATIVE MOTIONS TO EITHER
DISMISS OR CONSOLIDATE WITH
GENERAL RATE FILING

¹ On June 16, 2017, the Industrial Customers of Northwest Utilities (“ICNU”) filed a “Petition for Rules Exemption and a Motion to Dismiss or to Consolidate with General Rate Case Filing” (hereinafter “Motion”). By letter dated June 19, 2017, the Commission provided an opportunity for Staff and other parties to file a response to the Motions of ICNU, doing so on or before June 27, 2017. The following is Avista’s Answer.

I. INTRODUCTION

² Avista, for its part, objects to the Motion to Dismiss and the alternative request for consolidation with Avista’s pending rate case. Avista’s filing was designed to provide for the timely update and recovery of commonly-accepted power cost components that no party has yet to contest in this docket. ICNU’s Motions do everything but address the merits of Avista’s power cost updates. Instead, ICNU seeks to characterize Avista’s filing as the creation of a new “mechanism” without the benefit of extensive collaboration and discussion among the parties.

(Motions at ¶25) It argues that Avista is attempting to “usher in a new PCRA regime.” That is not the case at all. Avista’s Power Cost Rate Adjustment Schedule 93 simply makes use of an existing vehicle (Schedule 93) that has been previously used for purposes of implementing either power cost surcharges or rebates. As discussed below, the Company is updating the same power supply cost components that have been updated, almost on a routine basis, in prior filings: (1) update the three-month average of forward natural gas electricity market prices for the pro forma; (2) include new short-term contracts for gas and electric; and (3) update or correct power and transmission service contracts for the rate year.

3 The Commission, on several occasions, has expressed its interest in having the most current information available. For example, in Docket No. UE-100467, in its Order 07, at ¶21, the Commission recognized the importance of updating power supply costs:

4 In a rate case, Avista’s power costs are fully forecasted. To provide the most accurate cost forecast at the time of setting rates, companies have incorporated the most current energy pricing information into their forecasts. We do this to ensure that rates are set using the most accurate projection of future market conditions. We believe that ratepayers and the Company are best served by this practice, and this case is no exception. (Emphasis added)

5 In its Motion to Dismiss, ICNU contends: that Avista has failed to state a claim upon which relief can be granted; that Avista is not a candidate for what it characterizes as emergency or “interim” rate relief; and that Avista’s filing lacks evidentiary support. In its alternative Motion to Consolidate, ICNU argues that any power cost updates can be addressed in the pending general rate case and resolved as part of new rates to become effective on or before May 1, 2018. Avista disagrees. Given the staleness of present base power supply costs, the Commission should

recognize the most recent information concerning updated power supply costs at this time, rather than wait until May of 2018.

6 Moreover, updated power supply costs are necessary in order to properly “reset” the ERM base, for purposes of calculating surcharges or rebates under the existing ERM mechanism. Accordingly, it is important that that ERM “base” reflect current information, rather than “stale” information that will be nearly two and one-half years old from when it was last “reset” on January 11, 2016, if the Commission were to wait until May 1, 2018 to again reset the ERM “base.”

7 Finally, with respect to the expired Portland General Electric contract, unless the power supply contracts are updated at this time, nearly 16 months will have passed since the contract expired and new rates on May 1 of 2018 will be implemented. During this time, nearly \$10 million of PGE contract net benefits will have been passed through to ratepayers at the expense of Company shareholders. As to that, there are no questions of fact to be resolved. It is a certainty.

II. ICNU’S MOTION TO DISMISS SHOULD BE DENIED

A. Avista Has Stated a Claim Upon Which Relief Can be Granted.

8 In its Motion to Dismiss, ICNU employs language frequently used in motions to dismiss a complaint in the courts – i.e., “failure to state a claim upon which relief can be granted.” (*See* Motion at ¶4) Adopting the parlance of the courts, Avista has, in fact, made a “claim for relief” in order to reflect updated power supply costs, in the same manner as it has done on nearly an annual basis for the past several years, in order to properly reflect its costs to serve (whether such costs are going up or down). This is nothing unique or unusual; indeed, it reflects current practice before the Commission, for not just for Avista, but for others as well (*see* PSE’s PCORC) and for purchase

gas cost adjustments (PGA's). Not only has Avista made a "claim for relief," but it is the kind of "relief" this Commission can – and repeatedly has – granted.¹

B. Ample Evidentiary Support Has Been Provided by Avista in Support of Its Power Cost Update.

9 ICNU contends that the Company "failed to provide necessary evidentiary support for the power cost update." (Motion at ¶17) And yet, nowhere in ICNU's Petition does it describe any such deficiencies in the evidentiary support. Indeed, it has yet to raise in this docket any material question of fact based on its review of what has already been provided.

10 ICNU appears to argue that, unless the information provided takes the actual form of pre-filed testimony (in a Q & A format), the information will not suffice as evidentiary support. (*See* Motion at ¶17) ICNU, of course, knows that evidentiary support does not have to be in the form of Q & A testimony. Indeed, much of the information the Commission routinely acts on is not drawn from Q & A testimony – *e.g.*, PGA adjustments; DSM tariff rider adjustments. (ICNU has participated often enough through the years in Commission proceedings to understand this.)

11 More importantly, one should examine the type of supporting documentation that was attached to the filing and verified under oath. It was consistent with information provided in prior power cost updates, and it was extensive:

12 A. Attachment A – Page 1 provides the comparison of authorized power supply expense to the proposed level. Pages 2-3 provide a detailed listing of the revenue and expense items related to power purchases and sales, fuel expenses, and other miscellaneous power supply expenses and revenues. The items on Pages 2-3 that are boxed are those items that have been changed due to updated electric and natural gas pricing, or are related to short-term contracts. The items that are highlighted in gray are those items related to updated

¹ There are no genuine issues of material fact that otherwise need to be set aside for hearing at some later date. Thus far, in this docket, no parties have raised the specter of any contested issues of fact, after having had the opportunity to review supporting documentation provided in Avista's filing.

contracts, as discussed later. Page 4 provides the new Energy Recovery Mechanism base and Retail Revenue Adjustment.

- B. Confidential Attachment B – Excerpt from the agreement with Portland General Electric.²
- C. Confidential Attachment C – Excerpt from the agreement with Public Utility District No. 1 of Chelan County, Washington.³
- D. Confidential Attachment D – Excerpt from the agreement with Palouse Wind, LLC.⁴
- E. Attachment E – Natural Gas Transportation Expense for Coyote Springs 2 and Lancaster.
- F. Attachment F – Rate Spread Summary.
- G. Attachment G – Decoupling Base.
- H. Confidential Attachment H – Electronic file containing Confidential AURORA_{XMP} files.

¹³ Finally, contrary to ICNU’s assertion, Avista is not seeking to shift the burden of proof (*see* Motion at ¶18); rather, it has accepted that burden and has met that burden with substantial evidence.

¹⁴ ICNU otherwise argues that references to PSE’s PCORC are “inapt.” (Motion at ¶25) It contends that PSE’s PCORC was the result of extensive process and collaboration. As mentioned earlier however, ICNU is mischaracterizing this power supply adjustment as a new “mechanism” that would otherwise require an extensive process to develop. (Motion at ¶28) That is not the case. As made clear in its filing, Avista has prepared this update in the same manner as prior updates in the last several years, and done so in a manner previously supported by the parties, by focusing on

² Full text of the agreement is provided in the Company’s confidential workpapers.

³ *Ibid.*

⁴ *Ibid.*

only previously agreed-upon certain cost categories (e.g., gas and electric prices; contract changes). There is nothing new or novel in Avista’s approach. This is not a quest for a “new mechanism” that departs from past practice; rather, it assiduously follows past practice.

15 Interestingly enough, ICNU’s own expert witness Deen in Avista’s 2012 rate case (UE-120436) argued in his responsive testimony (Exh. No. MCD-4T at p.5) for the use of the most recent information concerning gas and electric prices, as well as contract changes:

16 **Q: ARE THE MARKET ASSUMPTIONS UNDERLYING THE POWER COSTS INITIAL FILING STILL APPLICABLE?**

A: No. Since the Company’s initial filing in April, there has been significant movement in the natural gas and electricity markets for delivery in the upcoming rate year. Also, through the normal course of business, the Company has continued to enter into natural gas and electricity contracts for the rate year. This response is attached as Exhibit No. ____ (MCD-6). These updates affect both the dispatch of resources in the AURORAxmp simulation as well as outside calculations such as the mark-to-market value of the Company’s hedging transactions.

C. **No Genuine Questions of Material Fact Have Been Raised Otherwise Requiring an Evidentiary Hearing.**

17 Perhaps what is most telling in ICNU’s 27-page Motion, is the total absence of any argument that there are “genuine, material questions of fact” associated with any of the elements in the Company’s filing – questions that would require an adjudicative proceeding to resolve and that would otherwise prevent the Commission from updating power supply costs as of September 1, 2017. As it has in the past, Avista prepared this update in the same manner as it has done in each of the last several updates. The following table identifies recent power supply cost updates that have been previously provided to the Commission either as required by settlement terms or as otherwise ordered by the Commission in a litigated case:

WA Power Supply Update		
Docket #	Date Filed	Effective Date
UE-140188 ¹	11/12/2014	1/1/2015
UE-150204 ¹	10/29/2015	1/1/2016
UE-160228 ¹	11/1/2016	-
UE-170484 ¹	5/26/2017	9/1/2017 (Proposed)
¹ In each of the Power Supply Updates only the following were updated: 1) update the three-month average of natural gas and electricity market prices; 2) include new short-term contracts for gas and electric; and 3) update or correct power and transmission service contracts for the rate year.		

¹⁸ In this filing, Avista has provided all necessary factual support (*see* attachments identified above, together with supporting workpapers). All of the information is in the form and substance consistent with the type of information that the parties are very familiar with, having been provided in multiple prior power cost updates. There are no surprises, no twists and no turns. This factual information was verified under oath by Mr. Kelly Norwood, Vice President. Indeed, the Company has invited the parties to request any additional information they may require or to otherwise discuss the material contained within the Petition. Avista has yet to hear from ICNU with respect to any deficiencies in documentation.⁵

¹⁹ Instead, ICNU has decided to devote its time, not to understanding the filing, but to draft a lengthy pleading in opposition to any updates. What we see is almost a reflexive response of “no,” instead of an attempt to understand or raise genuine issues of fact. By design, the Company requested a September 1, 2017 implementation date for this request, in order to allow nearly four

⁵ Unlike prior power cost updates, Avista has provided four (4) months of time for the parties to review and comment to this Commission; this is in contrast to the approximately thirty 45-60 day period for review in prior Avista power cost updates. (*See* Table above)

months for the parties to raise and address any concerns. We have yet to see any material factual issues identified by ICNU.⁶

D. Approval of Power Cost Changes Does Not Require a Showing of Financial Distress.

20 ICNU contends that Avista’s request is in the nature of “interim” rate relief that requires a showing of financial exigency. (*See* Motion at ¶¶ 3-7) ICNU contends that the Avista’s filing is “strikingly reminiscent” of a 2001 effort by PSE to receive interim or expedited rate relief for power costs. (*See* Motion at ¶5) ICNU misapprehends the purpose of Avista’s filing. Avista has made no such claim of financial exigency here, nor has the Commission, in requesting and incorporating power costs updates in other recent Avista proceedings, demanded a showing of financial distress. ICNU, for its part, has wrenched this prior EECAP proposal in 2001 by PSE entirely out of context, and used it to “bootstrap” its arguments here. Contrary to ICNU’s assertions (*see* Motion at ¶8), this filing is decidedly not a request for interim general rate relief any more than a PGA adjustment is a request for interim rate relief.

21 Accordingly, ICNU’s argument that the Company has not shown an “urgent need for expedited or interim relief” (Motion at ¶19) is wide of the mark. There is no requirement that Avista show “dire, or emergency or extraordinary” need for rate relief. Instead, ICNU characterizes this as an “audacious” attempt to gain approval at an opening meeting. (Motion at ¶20) If that be the case, Avista in prior cases and with the support of the parties, has routinely

⁶ It will not do to suggest that ICNU or others somehow cannot request information until the matter has otherwise been set for an adjudicative proceeding. Avista has always been willing to provide responses to informal requests on a timely basis – responses which could be used as a basis for any written objection to the power cost update before the Commission acts on it.

engaged in “audacious attempts” to update power supply costs, as was otherwise encouraged by the Commission.⁷

22 As noted, power cost updates do not depend upon a showing of financial distress. Indeed, it has never been suggested that any of the last several power supply updates that were either agreed to by the parties (by settlement) or otherwise ordered by the Commission (in a litigated case) otherwise needed the prerequisite showing of “financial distress.”

23 Moreover, to require such a showing of financial distress would hobble any attempt to fashion a multi-year rate plan, in order to break the cycle of annual rate filings. Any such multi-year plan could not be sensibly proposed and implemented without the opportunity to adjust for power supply costs (or PGA costs, for that matter) throughout the term of the plan.⁸

E. Resolution of Issues in the 2016 Rate Case is Not Dispositive of Future Adjustments for Power Supply Cost Changes.

24 ICNU argues that the “end result” of the 2016 GRC rate case (UE-160228) should stand, and that it is somehow “disingenuous” for the Company to argue for the Commission’s consideration in this filing of an adjustment to reflect the recognition of the expiration of the PGE contract that is no longer in effect. (*See* Motion at ¶10) This ignores the obvious: nothing forecloses the Company from refileing for any necessary general rate relief (which it has done) or otherwise seeking to adjust for prospective changes in power supply costs. Ratemaking is not “static” in that regard.

⁷ Avista does not find ICNU’s use of terms such as “audacious,” “chutzpah” or “disingenuous” to be particularly constructive.

⁸ One can only imagine the state of affairs if, on the gas distribution side of the business, one could not adjust for variations in purchase gas costs, without a showing of financial distress.

25 Avista has made a new request to update its power supply costs, based on known changes to those costs. It is noteworthy that the time period covered by this power supply cost update is different from what was previously requested.⁹ In this filing, Avista has provided updated information for the period effective September 1, 2017 to May 1, 2018. Moreover, the Company has updated the contract rates with Chelan County PUD related to Rocky Reach/Rock Island as well as updated contract rates related to the Palouse Wind Power Purchase Agreement. Also, updated natural gas transportation contracts for Coyote Springs II and the Lancaster natural gas generating facilities have been provided. And, as discussed previously, the known expiration of net benefits previously derived from the Portland General Electric Agreement have been incorporated. At the time the record was closed in Docket UE-160228, the PGE contract had not yet expired. Since that time the contract has expired, and it is a known change. There was no mention whatsoever of the PGE contract termination in the Commission’s Final Order in UE-160228.

F. It is Premature to Suggest that Power Costs Should Be Otherwise Offset by Any Available ERM Balances.

26 ICNU contends that the \$15 million of unrecovered power costs could be offset by any ERM rebate balances on the Company’s books, and the parties should otherwise wait to explore this in the context of a settlement in the pending GRC, characterizing this as a “likely outcome.” (Motion at ¶21) Whether or not this would be the nature of any subsequent settlement is, of course, wholly speculative. No settlement conferences are imminent and it is much too early to speculate on whether a settlement can or will occur, or in what form it would take. The use of ERM balances to offset the increased power supply costs, if it were to be supported by the other parties and the

⁹ In Docket UE-160228, the power supply adjustment was for the period beginning January 1, 2017.

Commission, would represent a temporary “fix” to a long-term change in power supply costs. Given that the power supply cost changes are known changes for the indefinite future, it is more appropriate to reflect those changes in retail rates than to employ a temporary offset.

G. There are “Customer Benefits” to Otherwise Mitigating the Impact of Rate Relief Ordered in Avista’s Pending Rate Case.

27 ICNU argues that customers would not benefit, in any form, by this power cost update. (Motion at ¶31) It characterizes Avista’s claim of rate mitigation as “sheer nonsense.” (*Ibid.*) It is, however, no more “sheer nonsense” than other rate mitigation strategies employed by the Commission over time, when approving multi-year rate plans or rate “phase-ins” that spread the impact of a rate increase out over time. This avoids a singular, sudden impact by any one rate change.

28 To frame the question, as does ICNU, in terms of whether the adjustment would somehow “benefit” customers by increasing their rates does not answer the question. Any rate increase will, by definition, impact customers.¹⁰ Nevertheless, the Commission must provide for recovery of prudently incurred costs, doing so in a way that will be least impactful to customers over time. It should be remembered that these power supply costs at issue are being incurred now and will be prior to May 1, 2018; the Company should not have to wait to recover known cost changes, especially where ICNU has made no effort whatsoever to demonstrate that these power cost updates are unsupported or in error. Instead, ICNU simply chastises Avista for its “chutzpah” for its rate mitigation plan. (Motion at ¶34) ICNU need only remind itself of its own prior support for rate mitigation plans that serve to ease the one time impact of rate adjustments and allow for

¹⁰ In a broader sense, however, customers do “benefit” by the utility’s ability to recover prudently incurred costs over time, in order to provide for safe and reliable service.

planning and budgeting by the affected customers (including its own clientele). ICNU, in Docket UE-120436, supported a rate mitigation plan that mitigated the impact of rate relief. Indeed, it filed Joint Testimony in that case, along with other parties, and offered the following explanation of why it supported the settlement:

29 **Q: Why does ICNU support the proposed Settlement Stipulation?**

A: Avista's electric customers have faced annual rate increases while in the midst of the deepest recession in memory. Repeated rate cases and a dismal local economy have had large impacts on ratepayers. This Settlement provides a reasonable increase for Avista in 2013 and 2014, but precludes another general rate increase before January 1, 2015. The Settlement also staggers the allowed increase, providing that it will be phased in over two years, and this will mitigate the rate impacts.

The Settlement Stipulation provides rate stability. Rate certainty is very important for industrial customers. Electricity is a major cost component for the operation of ICNU's members. It is vital that they be able to plan using a stable, predictable price for this input. The Stipulation prevents Avista from filing for new rates that would be effective before January 1, 2015, and this provides price certainty at a time when budgets are being prepared for the coming two years. This certainty and stability are crucial for ICNU and are in the public interest, and are a key reason ICNU supports the settlement.

30 (Emphasis added) Joint Testimony in Support of Stipulation at page 32.

III. THE MOTION TO CONSOLIDATE SHOULD BE DENIED

31 ICNU argues that "economy and efficiency" would be served by consolidation of this filing with the Company's general rate filing. (Motion at ¶¶35-37) Again, ICNU seeks to infer that Avista's proposal to simply update power supply costs somehow plows new ground; it does not, it simply addresses common cost categories that have been routinely updated.

32 No party has contested the fact that nearly \$8 million of annual net benefits derived from
the expired PGE contract continue to flow through to ratepayers at the expense of Company
shareholders.

33 Prior to the Commission addressing this matter at its Open Meeting, parties should finish
their review of the information already provided and, if needed, request additional information
from Avista – something which the Company will promptly and fully answer (as has been its
practice).


34 As mentioned earlier, the supporting information provided by Avista to the parties should
be very familiar to the parties, because it is the same type of supporting information provided in
the past related to power supply updates.

IV. CONCLUSION

35 For the foregoing reasons, Avista respectfully requests that the Commission should deny
ICNU's Motion to Dismiss and should not consolidate, in the alternative, this filing with the
pending general rate case.

36 RESPECTFULLY SUBMITTED this 27⁺⁴ day of June, 2017.

AVISTA CORPORATION

By: 
David J. Meyer
WSBA No. 8717
Chief Counsel for Regulatory and Governmental Affairs
Avista Corporation