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UTILITIES COMMISSION

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September 30, 2021

Jan Noriyuki, Secretary
Idaho Public Utilities Commission
11331 W. Chinden Blvd.
Bldg. 8, Suite 201-A
Boise, Idaho 83714

Re: Case No. AVU-E-21-___ - Avista Corporation Annual Colstrip Report per Order No. 34814

Dear Ms. Noriyuki:

Avista Corporation, dba Avista Utilities (Avista or the Company) provides this report on the status of its Colstrip ownership interest to the Idaho Public Utilities Commission (Commission) as required by Order No. 34818 in Case No. AVU-E-19-01, relating to the matter of Avista's 2020 Electric Integrated Resource Plan (IRP).

I. Background

On February 28, 2020, Avista filed its 2020 IRP, which was later acknowledged by the Commission via Order No. 34818 issued on October 15, 2020. During the review of the IRP by Commission Staff (Staff), Staff stated concerns about the Company's Colstrip analysis included in the 2020 IRP, noting the concerns dated back to the Company's 2017 IRP. Concerns noted by Staff included insufficient and unclear information related to Colstrip, treatment of Colstrip retirement between Washington and Idaho, decommissioning costs, and potential retirement dates modeled. As a result of the concerns raised, "*Staff recommended the Commission require Avista to file an annual report on Colstrip with updated economic analysis, estimated retirement dates, closure plans, a progress report on closing plans and activities, and an annual accounting for* *decommissioning and remediation. Id. Staff further recommended the Commission require Avista to notify the Commission within 30 days of partner decisions and plant issues that could materially affect Idaho customers.*"[1] In the Company's reply comments filed on September 2, 2020 the Company noted it supported Staff's recommendation. In the final Commission order acknowledging the 2020 IRP the Commission ordered Avista to "*file an annual update on its Colstrip ownership interest, as noted above, by October 1 of each year. Avista also shall notify the Commission within 30 days of Colstrip partner decisions and plant issues that may materially affect Idaho customers.*"[2]

II. Updated Colstrip Economic Analysis

Avista conducted a comprehensive economic and reliability analysis for the 2021 Electric IRP. This updated economic analysis determined Colstrip is best to shut down before 2025 even taking into account for Avista's resource adequacy metrics. The modeling assumptions included no longer serving Washington customers after 2025, in compliance with the Clean Energy Transformation Act, and when the plant was no longer economic for Idaho customers based on IPUC staff's preferred modeling methodology. However, there is not a clear path for how the plant may be shut down under the current ownership structure.

In the 2021, several alternative scenarios were modeled for serving Idaho customers: (1) cease all operations before 2025; (2) continue to serve Idaho customers with both or one of the units; and (3) continue to operate and serve some combination of Idaho customers or other non-Washington markets using one or both units. Any of these changes in operations may include changes to ownership structure which would be provided to the Commission as soon as details are available. Other scenarios modeled include the following:

- **Portfolio #15: Colstrip Exit in 2025:** Avista's PRiSM model allows the plant to exit the portfolio in any year to avoid future costs if it is economic to do so. This portfolio considers the cost if the Colstrip units remain on-line for different lengths of time. In this scenario, the 2025 date is used to coincide with the CETA requirement to remove coal from rates in Washington. This scenario requires the plant to maintain operation through 2025 before exiting the portfolio. Since the plant was determined by the model to be economic to exit in 2022, the cost of this scenario is higher. The levelized system cost increases 0.3 percent over the PRS and tail risk remains the same since the final resource mix is the same as the

[1] Order No. 34818 at page 9.
[2] Order No. 34818 at page 14.

PRS. From a PVRR cost perspective, Idaho's cost increases by $12 million (0.3 percent) compared to the PRS.

- **Portfolio #16: Colstrip Exit in 2035:** This scenario requires Colstrip to maintain operation, but increases the length of operations through 2035, before exiting the portfolio to understand the cost impacts of an additional 10 years of operating the Idaho share of the plant. This scenario assumes the former Washington portion of the plant's cost or benefit is borne by shareholders and is not included in this study. The cost of this scenario is higher as expected from the result of the PRS. The levelized system cost increases 0.3 percent above the PRS and tail risk is 1.2 percent less due to resource selection changes. From a PVRR cost perspective, Idaho's cost increase by $15 million (0.3 percent) compared to the PRS. These results show that the additional 10 years of Colstrip operation are only expected to increase Idaho's PVRR by $3 million.

- **Portfolio #17: Colstrip Exit in 2045:** This scenario requires Colstrip to maintain operation throughout the entire IRP. This scenario also assumes the Washington share of the plant's ongoing operational costs or benefits are borne by shareholders after 2025. As expected, the cost of this scenario is higher than the PRS. The levelized system cost increases by 0.4 percent above the PRS and the 2045 tail risk is 15.4 percent less due to a less variable generation and fuel supply. From a PVRR cost perspective, Idaho's cost increases by $24 million (0.5 percent) compared to the PRS. These results show the additional 20 years of operation compared to a 2025 exit increase Idaho's PVRR by $12 million.

Overall, the three Colstrip portfolios above show the 76 MW Idaho share of Colstrip Units 3 & 4 modestly increase costs with the plant continually operating compared to it exiting the portfolio. Due to the small change in costs and the unknown future of both the market and operating costs, it is clear continuing the plant operation or exiting the plant has similar cost when considering this uncertainty. Avista also recognizes other utilities with ownership shares may reach different outcomes for the facility depending on whether an immediate replacement for the resource is needed. For example, if Avista were not currently long on capacity at an almost similar level of capacity as Avista's share of Colstrip, it is likely the plant would be economic to continue operations through 2025. The 2021 IRP analysis shows Colstrip's removal from Avista's portfolio earlier than 2025 is more economic for the whole system, while retaining the plant through 2025 reduces power supply cost risk.

Avista considered coal supply and environmental issues for the IRP analyses. These issues were also covered in detail in the 2021 IRP and discussed with the IRP's Technical Advisory Committee. The coal supply comes from the adjacent Rosebud mine and is under contract through the end of 2025, with extension options available through December 31, 2029. Such an extension would be at a rate that would need to be negotiated by the parties. Colstrip is a zero-discharge facility for water, recycling water for plant use and only replacing water lost through evaporation. Colstrip is in the process of converting to dry ash storage in 2022. The master plan for site wide ash management is filed with the MDEQ-AOC and additional information on coal combustion residuals (CCRs) is available at Talen's website.[3] This plan includes removing Boron, Chloride and Sulfate from groundwater, closure of the existing ash storage ponds, and installation of a new water treatment system along with a dry ash storage facility. Each of the new facilities are required, regardless of the length of the plant's continuing operations.

III. Estimated Colstrip Retirement Dates

In IRP filings and other communications, Avista has conveyed that it intends to exit Colstrip by the end of 2025 due to the changing economic factors related to the power plant's ownership and operation, as well as other factors. As part of that exit, Avista has expressed the importance of developing a smooth transition plan for the plant that addresses the interests and needs of the co-owners, employees, the community, and customers. In exploring options related to an exit, Avista has engaged in multiple conversations with the other owners and with other potentially interested parties to understand whether a proposed venture could contribute to these objectives. Avista continues to explore those and other options and will update the Commission when and if a firm solution is identified. In the meantime, Avista will continue to support operational plans to ensure that the plant remains safe, reliable, and compliant.

IV. Colstrip Closure Plans and Activities

Avista is not aware of any current closure plans. On February 9, 2021, NorthWestern Energy initiated arbitration to, among other things, arbitrate whether unanimous consent of all owners is required to close some or all of Colstrip.[4] At around the same time, the State of Montana enacted legislation that purports to (i) invalidate the arbitration provision of the Ownership and Operating Agreement[5] and (ii) makes an owner's failure to fund its share of the operating costs of

[3] https://www.talenenergy.com/ccr-colstrip/

[4] On February 9, 2021, NorthWestern Energy initiated arbitration by sending the other owners of Colstrip a notice of controversy pursuant to Section 18 of the Ownership and Operation Agreement. NorthWestern submitted its initial arbitration demand to the other owners on March 12, 2021 and an amended arbitration demand on April 2, 2021.

[5] Montana SB 265.

Colstrip or any conduct to bring about permanent closure of a unit of Colstrip a violation of the Montana Unfair Trade Practices and Consumer Protection Act.[6] Challenges to SB 265 and SB 266 are currently pending in United States District Court, District of Montana. As a result of SB 265 and SB 266, to date the owners of Colstrip have not been able to agree on a process for conducting arbitration and arbitration to resolve the issue of whether unanimous consent of all owners is required to close some or all of Colstrip has not progressed.

V. Colstrip Decommissioning and Remediation

The Company's Plant Accounting department estimates future decommissioning costs for Colstrip and records a liability at the present value of those future payments. Asset Retirement Obligation (ARO) accounting is used to increase this liability in order to have the full amount recoded when the liabilities come due. The Company's Plant Accounting and Generation departments work with the operator (Talen) to get the most current estimates of these costs. This review is done annually and an adjustment to the ARO accounting balances is recorded, if material. In each Idaho general rate case, the Company builds the ARO accounting into our request for recovery and includes the most current estimates of future decommissioning/ARO costs for Colstrip. This review in each general rate case will continue throughout the 30+ years as necessary, which is the time frame that Avista is recovering these costs from customers. The Company also pays for these costs as the work is performed, which reduces the liability. The future liability included in the most recent general rate case was Idaho's share of the total liability of approximately $37 million.

VI. Conclusion

Avista plans to begin the 2023 IRP process in November 2021 and plans to continue to update its IRP Technical Advisory Group with Colstrip analyses during IRP process. With the next Colstrip annual report due on October 1, 2022, it is likely that the report will include similar information to what will be included in the 2023 IRP, which is set to be filed on January 2, 2023. A draft of the 2023 IRP will be filed around the same time as the annual report is due. Due to the

[6] Montana SB 266.

timing of the two-year IRP cycle, it would be best to provide these Colstrip reports every two years, due December 31st of odd numbered years.

For questions about this report please contact James Gall at 509-495-2189 or james.gall@avistacorp.com or myself at 509-495-2782 or shawn.bonfield@avistacorp.com.

Sincerely,

/s/Shawn Bonfield

Shawn Bonfield
Sr. Manager of Regulatory Policy & Strategy
Avista Utilities