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September 29, 2022

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

Re: Case No. AVU-E-19-01 - Avista Corporation 2022 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 did not conduct any updated long-term retirement related economic studies since the 2021 Electric IRP. Avista is currently working on the 2023 IRP and working with IPUC Staff on the appropriate closure scenarios to model in the upcoming IRP. Since the filing of the 2021 IRP, the economics of continued operation of Colstrip Units 3 & 4, at least through 2025, have improved. The 2021 IRP analyses concluded Avista should exit the plant as soon as possible due to the then expected low wholesale market prices and increasing future operating costs at the plant. In the 2021 IRP, expected wholesale electric prices were low enough that Colstrip was struggling to recover operating costs in the IRP model compared to the forecasted wholesale electric market. Since completion of the 2021 IRP analysis, the realized wholesale electric prices have increased due to higher natural gas pricing, higher regional carbon allowance pricing, and regional resource adequacy challenges. These market changes altered the short-term economics of the Colstrip plant as compared to the 2021 Electric IRP and the plant is currently profitable for customers. Current forward electric prices are also expected to remain high for at least the next 18 months (forward prices are not liquid beyond this period).

Avista has conducted analysis regarding the economic value of the plant between 2023 and 2025 as it evaluates repairs of equipment. Specifically, Avista evaluated projects related to the Unit 3 exciter and the Unit 4 superheater. These analyses were conducted to evaluate specific project decisions on the most economic choice given options to maintain short-term unit

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

operations. A biproduct of the analysis is the economic position of the plant. For example, Avista's evaluation of the Unit 4 superheater includes an economic valuation of operating margin of the unit with recent forward market prices as shown in Table 1 below. The operating margin summary is for Unit 4 and is calculated by the wholesale market value net of fuel costs, variable O&M, and Washington State Climate Commitment Act (CCA) Allowances (WA share). Given the fixed operating cost for Unit 4 are approximately $7 to $8 million per year over this time period, the plant is economic for customers to operate through 2025. While this analysis was specifically for Unit 4, Unit 3 economic value is expected to be similar. Avista did not study plant economics beyond 2025 in this study.

Table 1: Unit 4 Operating Margin (System)

Year	Operating Margin (millions)
2023	$41.3
2024	$26.3
2025	$20.1

Climate Commitment Act Impacts on Idaho

Washington is implementing a greenhouse gas cap and trade program beginning on January 1, 2023. This cap-and-trade program was authorized in the CCA (Senate Bill 5126) was signed into law in May 2021. This act requires all emissions producing power generated within the state or imported for use in the state to surrender greenhouse gas allowances. Washington State is granting Avista free allowances for a period of eight years, but it is unknown how many allowances will be granted, nor does the Company know the price of allowances at this time. Allowances in 2023 have a minimum price of $19.70 and a maximum price of $72.30 per metric ton, then will increase by 5 percent per year plus the rate of inflation. The Washington State Department of Commerce estimates prices will be $58.31 per metric ton. Avista will not know the actual price of these allowance until the first auction in the first quarter of 2023. Given these allowances have economic value for customers, Avista will be incented to reduce its Colstrip dispatch (and other greenhouse gas emitting plants). Avista is concerned any reduction in dispatch due to CCA pricing could impact Idaho customers as a result of the current cost allocation methodology (production transmission ratio), along with heat rate impacts from reduced dispatch from other Washington owners at Colstrip requesting to lower its dispatch for their shares.

Further the CCA may have other impacts on Idaho customers due to market impacts from liquidity and trading requirements for imported power. Any thermal power purchased from Washington based sources to serve Avista load will be higher due to greenhouse gas pricing, but Idaho customers may benefit from high prices when selling excess clean resources.

III. Estimated Colstrip Exit Date

Avista intends to exit Colstrip by the end of 2025 due to the uncertainty of future economic factors related to the power plant's ownership and operation, future dispatch impacts due to the CCA, 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 continues to engage in conversations with the other owners and with other potentially interested parties to understand whether a proposed venture could contribute to these objectives. Avista remains committed to working with all our co-owners on a resolution of Colstrip that addresses everyone's needs. Avista will update the Commission when 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.[3] 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[4] and (ii) makes an owner's failure to fund its share of the operating costs of Colstrip or any conduct to bring about permanent closure of a unit of Colstrip a violation of the

[3] 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.
[4] Montana SB 265.

Montana Unfair Trade Practices and Consumer Protection Act.[5] Challenges to SB 265 and SB 266 are currently pending in United States District Court, District of Montana.

On May 9, 2022, Talen Energy Supply, LLC and certain affiliates of Talen Energy Supply, LLC, including Talen Montana, LLC filed voluntary petitions for relief under title 11 of the United States Code ("Talen Bankruptcy Filing"). As a result of SB 265 and SB 266 and the Talen Bankruptcy Filing, the arbitration initiated by NorthWestern Energy was not able to proceed. On August 25, 2022, the bankruptcy court entered an order and stipulation to, among other things, allow the arbitration to proceed. The order and stipulation also included a stipulation between the Colstrip owners on a process for conducting arbitration.

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. Note this may change in future rate cases.

VI. Conclusion

Avista is in the midst its 2023 IRP process with plans to file the IRP on June 1, 2023. Additional analysis on Colstrip will be included in the 2023 IRP.

[5] Montana SB 266.

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

Sincerely,

/s/ Shawn Bonfield

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