

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA’S) CASE NO. AVU-E-20-01
APPLICATION FOR AN ORDER)
AUTHORIZING ACCOUNTING AND RATE) ORDER NO. 34606
MAKING TREATMENT OF COSTS)
ASSOCIATED WITH THE ENERGY)
IMBALANCE MARKET)

On January 10, 2020, Avista Corporation (“Company”) applied to the Commission for an order allowing the Company to defer its Idaho jurisdictional incremental operation and maintenance (“O&M”) costs associated with joining the California Independent System Operator’s (“CAISO”) Western Energy Imbalance Market (“EIM”). The Company seeks to defer those costs until they can be included in base rates through a general rate case proceeding. The Company signed an EIM implementation agreement with the CAISO on April 25, 2019. The Company requested that its Application be processed by Modified Procedure.

On February 7, 2020, the Commission issued a Notice of Application and Notice of Modified Procedure setting public comment and Company reply deadlines. Order No. 34550. Staff filed the only comments and supported the Company’s Application. The Company did not reply.

With this Order, we approve the Company’s Application.

BACKGROUND

An energy imbalance market pools generation of interconnected electricity providers within a region and dispatches those resources with the goal of more accurately matching actual production with actual demand. *See* Order No. 33706. An energy imbalance market operates on a nearly real-time basis with multiple participants, as opposed to more conventional long-term, bilateral contracts which deliver energy in hourly blocks.

In November 2014, the CAISO and PacifiCorp formed the EIM. The EIM is a five-minute market administered by the CAISO. The market utilizes an automatic model to identify the least-cost energy resources to serve real-time customer demand. EIM participants bid resources into the market, and the operator dispatches those resources based on the marginal price for energy imbalances factoring in load and available generation. The Company has been actively monitoring the operation and expansion of the EIM. The Company also regularly participates in regional

meetings and dialogue associated with the EIM, including the potential expansion of the EIM to a day ahead market.

THE APPLICATION

The Company expects to “go live” with the EIM by April 1, 2022. The Company’s decision stems from the risk associated with being a non-EIM participant¹ and the changing resource portfolio in its Balancing Authority Area (“BAA”).

The Company recently signed two renewable energy power purchase agreements² and expects to integrate more projects as state clean energy policies evolve and renewables prices continue to drop.³ The Company stated that the ability to balance and regulate load and renewable resources by leveraging EIM resources, instead of relying solely on Company resources for regulation and flexible ramping, provides operational benefits.

According to the Company’s Application, over 75 percent of the western interconnection’s load has committed to joining the EIM by 2022, and non-participation will cause growing liquidity risk, forcing those non-participating utilities to hold more reserves to minimize in-hour fluctuations.⁴

Based on a third-party consultant’s assessment, the Company estimates it will cost \$21.4 million to \$26.7 million, on a system basis, to prepare for market entry. These costs, which the Company seeks to defer for later recovery in rates, are primarily related to developing the network model per the CAISO’s requirements, including EMS/SCADA integration, developing a generation resource bid strategy and master file for the population of the generation resource, requesting proposals and selecting new market related software applications completing modeling into the CAISO test environment, and employee training.

The Company expects to incur \$3.5 million to \$4.0 million in system costs per year to operate in the EIM. These ongoing, annual costs will include maintenance costs for software

¹ Recently, Idaho Power and Powerex have integrated into the EIM. In addition, Seattle City Light, Northwestern Energy, and Bonneville Power Administration will all join the market in the next two years.

² The Company has recently signed power purchase agreements for 20 Megawatts (“MW”) of Solar that came online in December 2018 and 145 MWs of wind that will come online in late 2020.

³ As additional variable resources are integrated into the Company’s BAA and the EIM grows, it will become more efficient and cost-effective for the Company to rely on the EIM to help meet the in-hour variability, instead of holding back and dispatching Company-owned resources to meet the flexible ramping requirements, according to the Company’s Application.

⁴ The Company cites “EIM participants are less likely to conduct bilateral transactions close to the operating hour, due to the need to pass EIM sufficiency and flexible ramping tests and meet other market transactions closing times that occur well before the operating hour. Holding additional reserves will lead to higher overall power supply costs since excess available resources can’t be fully optimized or additional resources may need to be purchased,” according to the Company.

licenses and communication networks, adding about 12 new employees to facilitate market operations and settlements, a new five-person 24x7 hour EIM operating desk, and CAISO EIM fees.

The Company retained a different third-party consultant to assess potential EIM benefits. The assessment estimated the Company could see \$2 million to \$12 million in annual system benefits. The assessment used four main assumptions: (1) the amount of flexible hydro bid into the market; (2) the amount of transmission that is made available for market transactions; (3) the amount of renewable generation integrated into the Company's BAA, and (4) data sources from other EIM participants estimated benefits. The assessment produced 24 scenarios that the Company used to estimate annual benefits of \$5.8 million.

Using the cost and benefit assessments, the Company performed a breakeven analysis. To break even in ten years with integration costs of \$21.4 million, the Company must realize annual system benefits averaging about \$5.0 million. If the integration costs increase to \$26.7 million, the Company must realize annual system benefits averaging about \$6.0 million.

THE COMMENTS

Staff reviewed the Company's Application, Attachments, workpapers, and responses to Staff's production requests. Staff's review focused on (1) analyses of the estimated costs and benefits associated with joining the EIM, and (2) the Company's proposed accounting treatment. Based on its review, Staff recommends the Commission approve the Company's Application.

Staff indicated the Company's estimated costs were reasonable. Staff cited the Company's selection of an experienced consultant to prepare its estimated EIM entry costs, and comparisons to Portland General Electric ("PGE") and Idaho Power Company's actual EIM entry costs, as reasons for supporting the Company's estimates. Staff inquired about the differences between the Company's estimated costs to enter the EIM and PGE and Idaho Power's actual costs. Staff noted the Company's estimated costs primarily differed from the other companies' costs because the Company must upgrade its infrastructure. Staff also supported the Company's estimated costs because the Company's estimates included certain costs that other utilities incurred but realized after implementation. Staff believed that the Company and its consultant provided a reasonably accurate estimate of the Company's expected costs. Staff mentioned it was concerned with the amount of operational labor in the estimate, but noted it plans to investigate the amount's accuracy after the Company files a rate case.

Staff reviewed the Company's estimated benefits from joining the EIM and indicated the estimates were also reasonable. Staff suggested the estimates were reasonable in part due to the experience of the consultant selected to perform the analysis. Staff mentioned that the consultant had performed this analysis for other utilities before they joined the EIM and could refine its model for calculating estimated benefits. With the selected consultant's experience and the ability incorporate actual market conditions into its assumptions, Staff believed the estimates were reasonably accurate.

Staff supported the Company's request to defer its Idaho jurisdictional incremental O&M costs associated with joining the EIM. Staff noted that while it is not a common accounting practice to defer O&M costs beyond the year they are incurred, deferring those costs would help better align costs and benefits because the benefits would not begin flowing to customers until the Company begins operating in the EIM in 2022.

Finally, Staff observed that the Company did not have to notify customers about this case because the Company's Application would not affect rates. Staff mentioned the Company created a webpage to provide general information about joining the EIM, including information about the Company's ultimate decision to join, relevant dates, and how the Company will balance its resources going forward.

COMMISSION DECISION AND DISCUSSION

The Commission has jurisdiction over this matter under Title 61 of the *Idaho Code*. Specifically, *Idaho Code* § 61-501 gives the Commission the power to "supervise and regulate public utilities in the state." The Company is an electrical corporation under *Idaho Code* § 61-119 and a public utility under *Idaho Code* § 61-129. After reviewing the record, including the Application, Attachments, Staff's comments, and the Company's production responses we approve the Company's Application.

The formation and expansion of the EIM has garnered a great deal of attention. As the EIM has expanded and more utilities in the west have joined it is certainly no surprise to see the Company begin the process of joining the EIM. Based on the assessments provided by various consulting firms, we are confident the Company has done adequate due diligence as a basis for its decision—sufficiently studying the question of whether to join the EIM or not under both operational and cost-benefit lenses. We recognize that much work must still be done and investments must be made to comply with the CAISO's requirements. We believe that the

Company's use of reputable and experienced consultants to estimate costs will ensure the actual deferred expenses reconcile with estimates when the Company begins to make its investments. Our confidence in the estimates provided in the Application only increases because the Company and its consultants had data available from similarly situated utilities already operating in the EIM.

It is reasonable to permit the Company to defer the Idaho jurisdictional share of its incremental O&M costs. We find it proper, where the Company expects a stream of future benefits based on its present investment, to defer recovery of the present investment costs until later. Deferral allows the costs and future benefits to be more aligned and helps minimize the potential impacts to rates before benefits can be realized. While the Company may defer its O&M expenses associated with joining the EIM, this deferral will end on its go-live date. A prudency review of the deferred expenses will occur before the Company is allowed to recover any Idaho jurisdictional incremental O&M costs associated with joining the EIM. Further, we find it appropriate to require the Company to file, after one year of its operation in the EIM, a report detailing any additional expenditure and informing the Commission of ongoing costs and benefits derived from EIM participation.

ORDER

IT IS HEREBY ORDERED that the Company is authorized to track its Idaho jurisdictional incremental O&M expenses associated with joining the EIM in a deferral account, with no carrying charge. The Company is directed to cease booking costs to the deferral account at the go-live date.


IT IS FURTHER ORDERED that the Commission will conduct a prudency review after the Company's go-live date to determine the reasonableness of recovering the deferred expenses associated with joining the EIM from the Company's Idaho electric customers.

IT IS FURTHER ORDERED that after the Company has participated in the EIM for one-year, it will file a report with the Commission describing the costs and benefits of participation as of the date, in addition to any other relevant information. The Company is directed to include in this report any available benefit and cost information, including but not limited to the CAISO's quarterly *Western EIM Benefits Report*.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any

matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

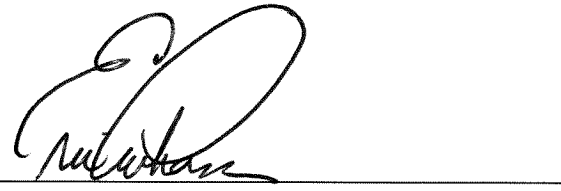
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 23rd day of March 2020.



PAUL KJELLANDER, PRESIDENT

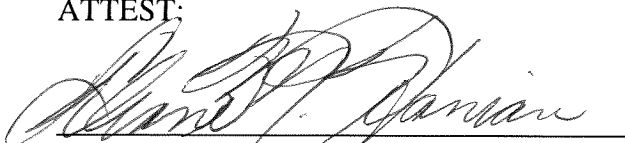


KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Diane M. Hanian
Commission Secretary

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