

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER RAPER
COMMISSIONER ANDERSON
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: DAYN HARDIE
DEPUTY ATTORNEY GENERAL

DATE: JANUARY 30, 2020

SUBJECT: IN THE MATTER OF AVISTA'S APPLICATION FOR AN ORDER
AUTHORIZING ACCOUNTING AND RATE MAKING TREATMENT OF
COSTS ASSOCIATED WITH THE ENERGY IMBALANCE MARKET;
AVU-E-20-01.

On January 10, 2020, Avista Corporation ("Company") applied to the Commission for an order allowing the Company to defer incremental operation and maintenance 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 CAISO on April 25, 2019. The Company requests that its Application be processed by Modified Procedure.

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").

Based on a third-party consultant's assessment, the Company estimates it will cost between \$21.4 million and \$26.7 million, on a system basis, to fully prepare for market entry. These costs would include costs of metering upgrades, generation control modifications, communication infrastructure, buying and integrating up to eight market-based software applications, hiring a System Integrator consultant, and internal Company labor.

¹ Recently Idaho Power and Powerex have integrated into the EIM. Application at 2. In addition, Seattle City Light, Northwestern Energy, and Bonneville Power Administration will all join the market in the next two years. *Id.* at 2-3.

The Company expects to incur \$3.5 million to \$4.0 million in system costs per year to operate in the market. These ongoing, annual costs will include maintenance costs for software licenses and communication networks, the addition of approximately 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 system annual benefits between \$2 million and \$12 million. The assessment used four main assumptions: the amount of flexible hydro bid into the market, the amount of transmission that is made available for market transactions, the amount of renewable generation that is integrated into the Company's BAA, and 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 assessment, the Company performed a breakeven analysis. In order to breakeven in ten years with integration costs of \$21.4 million, the Company must realize system annual benefits averaging about \$5.0 million. If the integration costs increase to \$26.7 million, the Company must realize system annual benefits averaging about \$6.0 million per year.

STAFF RECOMMENDATION

Staff recommends the Commission issue a Notice of Application and Notice of Modified Procedure setting a March 4, 2020 comment deadline for Staff and other interested persons and a March 11, 2020 Company reply comment deadline.

COMMISSION DECISION

Does the Commission wish to issue a Notice of Application and Notice of Modified Procedure that establishes a March 4, 2020 comment deadline for Staff and other interested persons and a March 11, 2020 reply comment deadline for the Company?


Dayn Hardie
Deputy Attorney General