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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S ANNUAL POWER COST ADJUSTMENT (PCA) RATE APPLICATION	**CASE NO. AVU-E-20-07**
	COMMENTS OF THE COMMISSION STAFF

STAFF OF the Idaho Public Utilities Commission, by and through its Attorney of record, Dayn Hardie, Deputy Attorney General, submits the following comments.

BACKGROUND

On July 31, 2020, Avista Corporation ("Company") filed its annual Power Cost Adjustment ("PCA") Application. The PCA is an annual adjustment mechanism that tracks changes in the Company's hydroelectric generation, secondary prices, thermal fuel costs, and other changes in power contract revenues and expenses.

This year, the Company asks the Commission to approve a PCA surcharge rate of 0.015¢ per kilowatt-hour ("kWh"). Under the Company's proposal, the PCA surcharge rate for all customers, including residential customers, would increase rates from the current rebate of 0.058¢ per kWh to a proposed surcharge of 0.015¢ per kWh (a 0.073¢ per kWh increase in the customer rate). The Company requests an effective date of October 1, 2020.

The Company reports higher overall power supply expenses than are included in retail rates. The Company noted increased power supply expenses from changes in hydro generation, Palouse Wind power purchase agreement net expense, Colstrip and Kettle Falls generation and fuel expense, net power purchase expense, and change in retail load. The Company states these higher power supply, generation, fuel, and transmission expenses are partially offset by lower gas generation and natural gas prices, net transmission expenses, and miscellaneous expense.

Last year, the Company's PCA application resulted in a rebate to customers of 0.058¢ per kWh. The Company proposes a 0.015¢ PCA surcharge for all customers beginning October 1, 2020. The proposed rate adjustment would surcharge customers about $0.5 million. The net effect of the expiring rebate and the proposed surcharge is an overall increase in revenue of about $2.2 million. The Company states the new rate would increase the Company's revenue by about 0.9%. The Company asserts the resulting percentage increases will vary by customer rate schedule because the PCA rate changes are spread on a uniform cents-per kWh basis.

STAFF ANALYSIS

Staff has reviewed the Company's Application and direct testimony of Company witnesses Annette Brandon and Scott Reid, along with additional information received during the ensuing audit. Based on its review, Staff recommends approval of the Company's Application to update Schedule 66, Temporary Power Cost Adjustment – Idaho, which will increase the Company's revenue by $2.2 million. Details of Staff's conclusions are discussed in the comments below.[1]

Review of PCA Deferral

Staff performed a desk audit of the Company's Net Power Costs ("NPC") reviewing a sample of the Company's natural gas purchases, market purchases, transmission revenue and expenses, and other deferral items. Based on review of the transactions, Staff is reasonably assured that the various power cost transactions are reasonable and prudently incurred and comply with previous Commission orders and the Company's risk management policies.

[1] An onsite audit was not possible due to travel restrictions related to the COVID-19 public health emergency. Staff was unable to review risk management policies and had less contact with the Company personnel than previous PCA audits. These limitations do not materially affect Staff's assertions. Additional review will resume with the 2021 PCA filing.

The amount represents the under-recovery of Net Power Cost ("NPC") through base rates during the deferral period and thus is a surcharge to customers.

Under Avista's PCA, the Company and its ratepayers share the difference between actual NPC and the NPC embedded in base rates. The sharing percentage is 90% to ratepayers and 10% to the Company. When actual costs are higher than those recovered through base rates, Idaho customers pay 90% of the difference and the Company pays the remaining 10%. When actual costs are lower, customers are credited 90% of the difference allowing the Company to keep 10%. This provides an incentive for the Company to lower NPC by operating their system more efficiently. The current deferral balance is $197,466 as shown on Table No. 1 below.

Table No. 1: Summary of Power Supply and Deferrals for Current PCA Year - Idaho

Description	**Amount**
LCAR[1] – Idaho Sales Adjustment	$ 471,080
Net Power Supply – Actual Minus Authorized	1,088,477
REC[2] Revenues	(159,661)
Schedule 25P Net Cost	(245,956)
Total Cost (Subject to Company Sharing)	1,153,940
Sharing Percentage over Authorized	90%
Total Idaho Power Cost	**1,038,548**
RPS[3] Compliance (REC Retirement Benefit)	(857,010)
Interest[4]	15,928
Total Idaho Deferral Balance	**197,466**

[1] Load Change Adjustment Rate
[2] Renewable Energy Credit
[3] Renewable Portfolio Standards – Washington WA I-937
[4] Calculated using the Authorized Customer Deposit Rate of 2% over a 12-month period

LCAR – Idaho Sales Adjustment

The Idaho Load Change Adjustment captures the over or under recovery of net power supply expense through base rates attributable to the difference between actual sales and sales used to set base rates. During the deferral period, the Company experienced less in sales than was used to set base rates. This adjustment adds $471,080 to the Idaho deferral balance. The Company used the correct LCAR of $24.84/Megawatt-hour ("MWh"), for the months of July 2019 through November 2019, and $22.00/MWh, for December 2019 to June 2020.

Net Power Supply – Actual Minus Authorized

The net power supply deferral captures the difference between actual NPC and NPC embedded in base rates for the 12 months ending June 30, 2020. The deferral includes costs and revenues for the following Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts; 555 – Purchased Power, 447 – Sale for Resale, 501 – Thermal Fuel, 547 – CT Fuel, 456 – Transmission Revenue, 565 – Transmission Expense, 557 – Resource Optimization, 537 – MT Invasive Species Expense, and 557 – Expense Broker Fees.

Purchased power costs made up the largest share of the difference between actual costs and costs authorized in base rates in calculation of the deferral. During the PCA year, Idaho's jurisdictional share of purchased power was $1,088,477 greater than purchased power authorized in base rates.

Expenses for the Palouse Wind project are included in the Purchased Power costs. In the most recent general rate case (Case No. AVU-E-19-04), Palouse Wind was not included in base rates, so the expenses continue to be recovered through the PCA. This expense treatment requires Avista shareholders to cover 10% of the Idaho jurisdictional costs of Palouse Wind. During the PCA year, Palouse Wind was curtailed for a total of 42 hours in June 2020. The Company clarified that of the 42 hours, 19 hours were at no cost to the Company based on the curtailment provisions in the contract. The other 23 hours the Company compensated Palouse Wind $119,000 (system) for taking the power out of service. The Company purchased power on the market for less than the contract price, therefore providing benefits to customers.

Due to a base rate change that occurred in December 2019, Staff confirmed two sets of authorized NPCs used in the deferral calculation: NPC authorized in Case No. AVU-E-17-01 for July 2019 to November 2019, and NPC authorized in Case No. AVU-E-19-04 for December 2019 to June 2020. Additional review is provided in the Prudency of NPC section.

REC Revenue

The Company books REC revenue in FERC Account No. 557. Based on Order No. 33605, the Company has separately reported actual and authorized REC revenue and expenses in its PCA filing. The revenue generated from Avista's sales of RECs was more than the amounts authorized in base rates. Idaho customers are credited $159,661 for REC revenues which offset the deferral balance.

Schedule 25P Net Cost - Idaho

In Order No. 34252, the Commission authorized a Power Purchase and Sale Agreement between the Company and Clearwater Paper Corporation ("Clearwater"). Clearwater owns and operates four thermal electric generating units rated at 132.2 MW. The units are cogeneration qualifying facilities ("QF") under the Public Utility Regulatory Policies Act of 1978 ("PURPA"). The agreement allows the Company to purchase the energy and capacity from Clearwater and directly assign it to the Idaho jurisdiction. Any monthly difference between the actual Clearwater power purchase expense and the amount embedded in the base retail rates developed in AVU-E-19-04 general rate case, is tracked at 100% through the PCA. Parties and ratepayers benefit from the Company selling bundled RECs under the new agreement. Bundled RECs generally command a higher price than unbundled REC's. Idaho customers received a benefit of $245,956 from the agreement during the PCA year which helped offset the deferral balance.

RPS Compliance

The $857,010 credit for REC Retirement Benefit to the renewable energy credits retired to meet Washington's RPS. The RECs used to meet Washington RPS are tracked 100% in the PCA. The credit is based on REC market prices and the Idaho allocation of RECs that were retired to meet Washington RPS (WA I-937) that would have been otherwise sold.

Prudency of Net Power Cost

Staff believes that the Company's actual NPC during the PCA year (July 2019 through June 2020) is reasonable. For each of the accounts that make up NPC, Staff compared the actual amount of generation and unit cost to amounts used to determine base rates. Because the PCA deferral consists primarily of authorized versus actual NPC, the analysis also explains reasons for this year's surcharge. Based on the analysis, Staff believes that the Company dispatched its available resources, purchased power from the wholesale market, and transacted off-system sales to serve customer load in a prudent manner. A summary of the analysis is provided in the Table No. 2 below:

Table No. 2: Actual versus Authorized Net Power Supply Expense Difference

Expense Category	MWh Change	MWh % Change	$/MWh Change	$/MWh % change
Avista Hydro	(408,345)	-10.70%	n/a	n/a
Acct 555 Purchases	1,405,909	87.00%	($9.27)	-19.00%
Acct 447 Sales	673,048	31.00%	$6.67	32.00%
Acct 501 Thermal Fuel (Coal & Wood)	(48,512)	-3.00%	$1.79	12.00%
Acct 547 CT Fuel (Natural Gas)	289,745	8.00%	($2.65)	-15.00%

The two major drivers affecting NPC in this year's PCA were lower amounts of available hydro generation, and lower natural gas prices when compared to amounts assumed in base rates.

The Company generated 408,345 MWhs or 10.7% less with its Hydro resources during the past PCA year as compared to authorized amounts. Since hydro generation accounts for about 50% of Company-owned generation and has zero fuel cost, the reduction in hydro was a major driver increasing net power costs. The reduction in hydro is mostly due to a lower than normal water year, but a small portion is also due to Unit 1 of the Cabinet Gorge hydro facility being down for approximately 3 months.

To make up for reduced hydro generation to meet customer load, the Company had to increase the amount of electricity it purchased and increase the amount of generation from its natural gas plants. Lower gas prices moderated the reduction in hydro generations effect on the Company's NPC in two ways. First, it put downward pressure on wholesale electricity prices reducing the price the Company paid for purchased electricity by 19% below prices assumed in base rates. As a result, the Company sourced 87% more electricity from purchases to serve customer load. Second, lower gas prices also reduced the cost of generation from the Company's gas-fired units. This allowed the Company to increase the amount of generation from its gas-fired units by 8% and allowed the Company to sell 673,048 MWh into the wholesale market receiving approximately $6.67 per MWh more than authorized amounts.

Analysis of PCA Rates

Reviewing the Company's calculation of its proposed PCA rate, Staff verified that the result is accurate and will reasonably charge customers for under-collection of actual NPC. Using the Company's proposed PCA rate of 0.015¢ per kWh, residential customers with monthly average energy usage of 898 kWh would see their monthly bills increase $0.66 (0.80%) per month from $86.27 to $86.93. Table No. 3 provides a summary of the PCA rate calculation to be effective October 1, 2020. Table No. 4 provides the percent increase by rate schedule to show the impact to each schedule.

Table No. 3: Summary of Proposed Surcharge Rate

Description	Amount
Total Idaho Deferral Balance	**$ 197,466**
Remaining Amortization Balance – Prior PCA Year	(151,386)
July 2020 – September 2021 Amortization Balance	413,311
Total Summation of Balance for Deferral and Amortization	$ 459,391
Applied Conversion Factor[1]	.994549
Surcharge Balance Effective October 1, 2020	**$ 461,909**[2]
Forecasted kWh's – October 1, 2020 to September 30, 2021	3,020,811,000
Proposed Surcharge Rate	0.015¢

[1] Set in AVU-E-19-04
[2] Total Balance for Deferral and Amortization divided by Conversion Factor

Because the PCA rate adjustments are spread on a uniform cents-per-kWh basis, the resulting percentage increase varies by customer class. Table No. 4 provides the percentage change of billed revenue for each customer group.

Table No. 4: Proposed Percentage Increase by Rate Schedule

Rate Schedule Description	Schedule Number	Proposed Percent Change
Residential	1	0.80%
General Service	11, 12	0.80%
Large General Service	21, 22	0.90%
Extra Large General Service	25	1.40%
Clearwater	25P	1.30%
Pumping Service	31, 32	0.70%
Street and Area Lights	41 – 49	0.20%
Overall Total		**0.9%**

Overall Impact of three filings Effective October 1, 2020

The Company proposed two other rate adjustments, also effective October 1, 2020. The Company's proposed Fixed Cost Adjustment ("FCA") filing, AVU-E-20-06, if approved, will decrease electric revenues by about $3.0 million (1.2% decrease). The second proposed filing, Bonneville Power Administration Residential ("BPA") and Small Farm Energy Rate Adjustment, AVU-E-20-08, if approved, will increase electric revenues by $0.6 million (0.2% increase). The $2.2 million increase in electric revenues from the proposed PCA filing represents a 0.9% revenue increase. The net effect of Company's three filings (FCA, BPA, and PCA credit) will decrease electric revenues by $0.2 million (0.1% decrease). The average residential electric customer's monthly bill will decrease by $0.06. Table No. 5 summarizes the overall impact to electric revenues of the three filings.

Table No. 5: Summary of Overall Impact to Electric Customers

Filing	2019	2020	Net Effect	% Change
FCA	3,422,280	450,589	(2,971,691)	-1.20%
BPA	(4,769,359)	(4,188,620)	580,739	0.20%
PCA	$ (1,735,996)	$ 459,391	$ 2,195,387	0.90%
Total	**(3,083,075)**	**(3,278,640)**	**(195,565)**	**-0.10%**

CUSTOMER NOTICE AND PRESS RELEASE

The Company's press release and customer notice were included with its Application. Each document addresses two cases: this case (AVU-E-20-07) and BPA Residential and Small Farm credit (AVU-E-20-08). Staff reviewed the documents and determined both meet the requirements of Rule 125 of the Commission's Rules of Procedure. See IDAPA 31.01.01.125.

The Commission set a comment deadline of September 15, 2020. Because customer notices were inserted into bills beginning August 3, 2020 through September 1, 2020, some customers in the last billing cycle may not have adequate time to submit comments before the deadline. Customers should have the opportunity to file comments and have those comments considered by the Commission. Staff recommends that the Commission accept late-filed comments from customers. As of September 15, 2020, no customer comments had been filed.

STAFF RECOMMENDATION

Based on its review of the Application and audit of the PCA components, Staff recommends that the Commission approve the Company's request to revise its tariff Schedule 66, Temporary Power Cost Adjustment – Idaho, as filed in Exhibit A of the Application, which will allow the Company to collect a surcharge of 0.015 cents per kWh. Additionally, Staff recommends that the Company continue to file monthly PCA expense reports. Lastly, Staff recommends the Commission accept late-filed comments from customers.

Respectfully submitted this 15th day of September 2020.

Dayn Hardie
Deputy Attorney General

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 15TH DAY OF SEPTEMBER 2020, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-E-20-07, BY E-MAILING A COPY THEREOF TO THE FOLLOWING:

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