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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-21-09**
	COMMENTS OF THE COMMISSION STAFF

The Staff of the Idaho Public Utilities Commission submits the following comments regarding the above referenced case.

BACKGROUND

On July 30, 2021, 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.

The Company reports higher overall actual power supply expense than amounts included in retail rates. The Company noted increased power supply expense driven primarily by increased thermal generation costs and issues with gas-fired generation of about $12.5 million that was offset by $4.7 million in favorable net purchases and transmission expense. Direct Testimony of Annette M. Brandon at p. 9. The Company states this results in a proposed net surcharge for Idaho.

Last year, the Company's PCA application resulted in a surcharge to customers of 0.015¢ per kilowatt hour ("kWh"). *Application* at 6. The Company proposes a 0.251¢ PCA surcharge for all customers beginning October 1, 2021. *Id.* The proposed rate adjustment would surcharge customers about $7.6 million. *Id.* at 5. The net effect of the expiring surcharge and the proposed surcharge is an overall increase in revenue of about $7.2 million. *Id.* The Company states the new rate would increase the Company's revenue by about 2.8%. *Id.* 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. *Id.*

STAFF ANALYSIS

Staff reviewed the Company's Application and direct testimony of Company witnesses Annette Brandon and Kaylene Schultz, along with additional information received during the ensuing audit[1] and production requests. Based on its review, Staff recommends approval of the Company's Application updating Schedule 66, Temporary Power Cost Adjustment – Idaho, which will increase the Company's revenue by $7.2 million. Staff's conclusions and rationale are discussed in further detail below.

<u>Review of PCA Deferral</u>

Staff performed an audit of the Company's Net Power Costs ("NPC") reviewing 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.

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% for ratepayers and 10% for the Company. When actual costs are higher than those recovered through base rates, Idaho customers pay 90% of the difference. When actual costs are lower, customers are credited

[1] An onsite audit was not possible due to 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 2022 PCA filing.

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 $7,469,770 as shown on Table No. 1 below. This amount represents the under recovery of NPC through base rates during the deferral period and thus is a surcharge to customers.

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

Description	Amount
LCAR[1] – Idaho Sales Adjustment	$ (933,482)
Net Power Supply – Actual Minus Authorized	10,848,821
REC[2] Revenues	(970,811)
Schedule 25P Net Cost	(166,974)
Total Cost (Subject to Company Sharing)	**8,777,554**
Sharing Percentage over Authorized	90%
Total Idaho Power Cost	**7,899,798**
RPS[3] Compliance (REC Retirement Benefit)	(446,075)
Interest[4]	16,047
Total Idaho Deferral Balance	**7,469,770**

[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

Load Change Adjustment Rate – Idaho Sales Adjustment

The Idaho Load Change Adjustment Rate ("LCAR") 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 more sales than was used to set base rates. This adjustment is a credit of $933,482 to the Idaho deferral balance. The Company used the correct LCAR of $22.00/Megawatt-hour ("MWh"), for the months of July 2020 through June 2021.

Net Power Supply – Actual Minus Authorized

The net power supply deferral captures the difference between actual NPC and the NPC embedded in base rates for the twelve months ending June 30, 2021. The deferral includes 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 reflect most of the Idaho jurisdictional share of the difference in costs the Company incurred for power purchases during the deferral period and the authorized power costs included in base rates. During the PCA year, Avista incurred additional NPC greater than what was included in base rates. The Idaho jurisdictional share of the excess NPC is $10,848,821. Expenses for the Palouse Wind and Rattlesnake Wind projects are included in the Purchased Power costs. In Case No. AVU-E-19-04, Palouse Wind and Rattlesnake Wind was not included in base rates and 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 and Rattlesnake Wind.

Staff confirmed the authorized amounts used to calculate the deferral were the same used to determine base rates that were authorized in Case No. AVU-E-19-04 for July 2020 to June 2021. Additional review is provided in the section, "Prudency of Net Power Cost" below.

Renewable Energy Credit Revenue

The Company books Renewable Energy Credit ("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 $970,811 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 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 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 $166,974 from the agreement during the PCA year which helped offset the deferral balance.

Renewable Portfolio Standard (Washington) Compliance

The $446,075 credit for REC Retirement Benefit to the renewable energy credits retired to meet Washington's Renewable Portfolio Standard ("RPS"). The RECs used to meet Washington RPS are tracked 100% in the PCA. The credit is based on the Idaho allocation of RECs that were retired to meet Washington RPS (WA I-937) that otherwise, would have been sold.

Prudency of Net Power Cost

Staff believes that the Company's actual NPC during the PCA year (July 2020 through June 2021) 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 differences between authorized and 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	(33,746)	-0.90%	n/a	n/a
Acct 555 Purchases	1,608,269	95.00%	($4.30)	-9.00%
Acct 447 Sales	(35,840)	-1.00%	$9.10	46.00%
Acct 501 Thermal Fuel (Coal & Wood)	(160,011)	-8.00%	$1.12	8.00%
Acct 547 CT Fuel (Natural Gas)	(61,338)	-2.00%	$0.01	0.00%

The three major drivers affecting NPC in this year's PCA were: (1) planned maintenance downtime for Coyote Springs 2 from March 2021 through June 2021; (2) an increase in market purchases and a reduction in off-system sales; and (3) an increase in thermal fuel costs when compared to amounts assumed in base rates.

Coyote Springs 2 was down from March to June 2021 for maintenance to replace the three-phase transformer which failed in 2018. Brandon, Di at 10. The Company scheduled planned plant downtime in advance during a period that the system normally experiences lower demand and surplus hydro capacity. However, this year during this period, the Company's service area and most of the Northwest experienced higher than normal temperatures along with drought leading to increased demand and lower hydro availability. These factors resulted in the Company having to rely on market purchases and its fueled resources to replace Coyote Springs 2 and zero-fuel cost hydro generation.

The Company purchased 95% more market purchases (1.6 million MWhs) during the past PCA year as compared to amounts reflected in base rates. However, power purchases were approximately $4.30 less than authorized amounts, which helped offset some of the losses due to Coyote Springs 2 downtime and poor hydro conditions. In addition, losses were also mitigated by off-system sales prices being approximately $9.10 more than the authorized amounts. Staff believes that selling more into the market could have further mitigated losses; however, reduced hydro generation and the loss of Coyote Springs 2 capacity limited the amount the Company could sell into the market.

Colstrip fuel costs increased in 2020 because of a new coal contract that was finalized after current base rates were set in Case No. AVU-E-19-04. This change in fuel cost was a major driver increasing the cost of thermal generation by about 8%. Although Staff believes the Company appropriately reduced the amount of thermal generation due to higher fuel costs, needing to maintain generation from Colstrip to meet load was a contributor to higher NPC during the PCA year.

Analysis of PCA Rates

Based on its review of the Company's proposed PCA rate, Staff verified that the result is accurate and will reasonably charge customers for under-collection of actual net power costs. Using the Company proposed PCA rate of 0.251¢ per kWh, residential customers with monthly average energy usage of 892 kWh would see their monthly bills increase $2.11 per month from $85.63 to $87.74, an increase of 2.5%. Table No. 3 provides a summary of the PCA rate calculation to be effective October 1, 2021, if authorized and 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	**$ 7,469,770**
Remaining Amortization Balance – Prior PCA Year	233,102
July 2021 – September 2021 Amortization Balance	(89,362)
Total Summation of Balance for Deferral and Amortization	$ **7,613,510**
Applied Conversion Factor[1]	.995646
Surcharge Balance Effective October 1, 2020	**$ 7,646,804**[2]
Forecasted kWh's – October 1, 2021 to September 30, 2022	**3,048,421,000**
Proposed Surcharge Rate	0.251¢

[1] Set in AVU-E-21-01
[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 rate schedule.

Table No. 4: Proposed Percentage Increase by Rate Schedule

Rate Schedule Description	**Schedule Number**	**Proposed Percent Change**
Residential	1	2.4%
General Service	11, 12	2.4%
Large General Service	21, 22	2.8%
Extra Large General Service	25	4.6%
Clearwater	25P	4.7%
Pumping Service	31, 32	2.6%
Street and Area Lights	41 – 49	0.6%
Overall Total		**2.8%**

Overall Impact of three filings Effective October 1, 2020

The Company has proposed two other rate adjustments, also effective October 1, 2021. The Company's proposed Fixed Cost Adjustment ("FCA") filing, AVU-E-21-08, if approved, will decrease electric revenues by about $0.7 million (0.2% decrease). The second proposed filing, Bonneville Power Administration Residential ("BPA") and Small Farm Energy Rate Adjustment , AVU-E-21-10, if approved, will increase electric revenues by $0.1 million (0.1% increase). The $7.2 million increase in electric revenues from the proposed PCA filing represents a 2.8% revenue increase. The net effect of Company's three filings (FCA, PCA, and BPA) will increase electric revenues, in total, by $6.6 million (2.7% increase). Table No. 5 summarizes the overall impact to electric revenues of the three filings.

Table No. 5: Summary of Overall Impact to Electric Customers[2]

Filing	**2020**	**2021**	**Net Effect**	**% Change**
PCA	$ 459,391	$ 7,646,804	$ 7,187,413	2.8%
BPA	(4,188,620)	(4,057,098)	131,522	0.1%
FCA	458,638	(274,078)	(732,716)	-0.2%
Total	**(3,270,591)**	**3,315,628**	**6,586,219**	**2.7%**

CUSTOMER NOTICE AND PRESS RELEASE

The Company's press release and customer notice were included with its Application. Each document addresses the following cases: this case (AVU-E-21-09), the natural gas Fixed Cost Adjustment (AVU-G-21-06), the electric Fixed Cost Adjustment (AVU-E-21-08), the BPA Residential and Small Farm credit (AVU-E-21-10), and the Electric Energy Efficiency Adjustment (AVU-E-21-11).[3] 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 notice was included with bills mailed to customers beginning August 12, 2021 and ending September 9, 2021.

The Commission set a comment deadline of September 9, 2021. Some customers in the last billing cycles will not have received/and or had adequate time to submit comments before the deadline. Customers must 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 8, 2021, no customer comments had been filed.

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[2] The amounts in the column labeled "2020" are revenues being replaced by revenues in the column labeled "2021" as a result of the three cases.

[3] On August 19, 2021, Avista filed a request to withdraw its Application for Case No. AVE-E-21-11 (Electric Energy Efficiency Adjustment).

STAFF RECOMMENDATION

Based on its review of the Application and an 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 0.251 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 9th day of September 2021.

John R. Hammond, Jr.
Deputy Attorney General

Technical Staff: Michael Eldred
Travis Culbertson
Curtis Thaden

i:umisc/comments/avue21.9jhmetncct comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 9TH DAY OF SEPTEMBER 2021, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-E-21-09, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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