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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S ANNUAL POWER COST ADJUSTMENT (PCA) APPLICATION	)	**CASE NO. AVU-E-22-11**
	)	**COMMENTS OF THE COMMISSION STAFF**

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

BACKGROUND

On July 29, 2022, 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 changes in power contract revenues and expenses." Application at 2. The Company requested the Commission approve a PCA surcharge rate of 0.150¢ per kWh to be effective from October 1, 2022, to September 30, 2023. The Company noted that the proposed PCA surcharge is a decrease from the 0.251¢ per kWh currently approved per Order No. 35184. If approved, the new PCA surcharge would represent an overall decrease in revenue of $3.1 million or 1.2% in Company revenues when accounting for the expiration of the existing surcharge. The Company requested that this matter be processed by modified procedure, and that the proposed rates take effect on October 1, 2022.

STAFF REVIEW

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 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 decrease the Company's revenue by $3.1 million. Staff's conclusions and rationale are discussed in further detail below.

Review of PCA Deferral

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, 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 90% of the difference allowing the Company to keep 10%. This provides an incentive for the Company to lower NPC by operating its system more efficiently. The current deferral balance is $4,237,309 as shown on Table No. 1 below.

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

Description	Amount
LCA[1] – Idaho Sales Adjustment	$ (2,801,334)
Net Power Supply – Actual Minus Authorized	10,128,202
REC[2] Revenues	(1,945,805)
Schedule 25P Net Cost	(214,681)
EIM Incremental O&M	285,963
Total Cost (Subject to Company Sharing)	5,452,345
Sharing Percentage over Authorized	90%
Total Idaho Power Cost	**4,907,111**
RPS[3] Compliance (REC Retirement Benefit)	(712,187)
Interest[4]	42,385
Total Idaho Deferral Balance	**4,237,309**

[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 1% over a 12-month period

Load Change Adjustment ("LCA") - Idaho Sales Adjustment

The Idaho LCA 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 expected when base rates were set, resulting in a credit of $2,801,334 to the Idaho deferral balance. The Company used the correct Load Change Adjustment Rate ("LCAR") of $22.00/Megawatt-hour ("MWh") for the months of July 2021 through August 2021, and an LCAR of $24.89/MWh for the months of September 2021 to June 2022 as directed in Order No. 35156.

Net Power Supply Deferral- 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, 2022. 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 $10,128,202. Expenses for the Palouse Wind and Rattlesnake Flat ("Rattlesnake") projects are included in the Purchased Power costs. In Case No. AVU-E-21-01, Palouse Wind and Rattlesnake were not included in base rates and the expenses continue to be recovered through the PCA. This requires Avista shareholders to cover 10% of the Idaho jurisdictional costs of Palouse Wind and Rattlesnake.

Staff confirmed the authorized amounts used to calculate the deferral were the same used to determine base rates that were authorized in Case Nos. AVU-E-19-04 and AVU-E-21-01 for July 2021 to June 2022. Additional review is provided in the section, "Prudence 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. Idaho customers are credited $1,945,805 for REC revenues which reduce 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-21-01 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 $214,681 from the agreement during the PCA year which helped offset the deferral balance.

Renewable Portfolio Standard (Washington) Compliance

The $712,187 of REC credits were retired for the REC Retirement Benefit to meet Washington's Renewable Portfolio Standard ("RPS"). 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. The RECs used to meet Washington RPS are tracked 100% in the PCA.

Energy Imbalance Market

Staff recommends that the Commission authorize EIM incremental expenses to be included in the PCA up to the benefits realized from the EIM until the Company's next rate case when these costs can be reviewed and included in base rates. In addition, Staff recommends the Commission order the Company to provide Staff an explanation of the Company's method for measuring EIM benefits and how it differs from the California Independent System Operator (CAISO) method.

In March of 2022, the Company went live in the EIM. Staff reviewed the Company's EIM procedures and controls, which included the process and controls on bidding in its resources, dispatching, and reviewing invoices. Staff believes these processes and procedures are adequate but expects its processes and procedures will evolve and improve over time.

The Company included $258K in incremental EIM O&M expenditures for recovery in the PCA. Order No. 34606 authorized the Company to defer the costs for implementation of the EIM until the go-live date but was silent on expenses after that time. Normally these expenses are operation and maintenance (O&M) costs and therefore not included in the PCA. In the past the Commission has authorized some non-net power costs in the PCA. In Case No. IPC-E-16-19, the Commission authorized Idaho Power to include EIM costs in their PCA up to the EIM benefits received. Also, in Cases Nos. PAC-E-17-06 and PAC-E-17-07, the Commission authorized PacifiCorp to include costs for new wind plants, repowered wind plants, and transmission into the Energy Costs Adjustment Mechanism up to the amount of benefits received. The principle for these authorizations was to match the benefits with the timing of costs.

CAISO estimates that the Company has received $7.11 million in benefits from the March 2022 EIM go-live. The Company believes that CAISO has overstated the benefits the Company has received. The Company is still developing their own method for measuring EIM benefits received. Staff agrees that the amount CAISO had estimated is likely overstated, but also believes that the benefits are higher than the $258K included in the PCA.

Prudence of Net Power Cost (NPC)

Staff believes that the Company's actual NPC during the PCA year (July 2021 through June 2022) 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. Summary of the analysis is provided in 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	(81,196)	-2.1%	n/a	n/a
Acct 555 Purchases	1,308,953	64.4%	$4.33	11.3%
Acct 447 Sales	59,463	2.0%	$27.09	172.2%
Acct 501 Thermal Fuel (Coal & Wood)	82,604	4.5%	$2.81	16.9%
Acct 547 CT Fuel (Natural Gas)	249,132	7.0%	$10.50	49.0%

The three major drivers affecting NPC in this year's PCA were: (1) an increase in thermal and natural gas fuel cost; (2) lower amounts of hydro generation; and (3) an increase in market purchases and off-system sales when compared to amounts assumed in base rates.

An increase in fuel cost for thermal and natural gas resources was a major driver increasing NPC. The Company paid 16.9% and 49% more for thermal fuel and natural gas resources respectively when compared to base rates. Normally with increased fuel cost, Staff would expect to see lower generation from these resources. Lower than normal hydro conditions forced the Company to rely more on its thermal and natural gas resources. In addition, higher than expected market prices allowed the Company to use these resources to sell into the Market when beneficial.

The Company generated 81,196 MWh or 2.1% less with its hydro resources during the past PCA year as compared to authorized amounts. Because hydro generation accounts for a large portion of Company-owned generation and has zero fuel cost, the reduction in hydro generation increases net power costs. The Company testified that the reduction in hydro was due to high temperatures and lower-than-normal precipitation, resulting in early seasonal runoff. Brandon Direct at 12. This reduction in hydro generation also forced the Company to rely on market purchases and fueled resources to replace it.

The Company purchased 64.4% more market purchases (1.3 million MWhs) during the past PCA year as compared to amounts reflected in base rates. However, these additional market purchases were offset by an increase in the amount and price of off-system sales. Off-system sales increased by 59,463 MWhs and the average sales price was $27.09 per MWh more than the authorized amount. Staff believes that selling more into the market could have further mitigated losses from additional market purchases; however, reduced hydro generation and increased fuel cost limited the amount the Company could sell into the market.

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 0.150¢ per kWh, residential customers with monthly average energy usage of 892 kWh would see their monthly bills decrease $0.90 per month from $86.29 to $85.39, a decrease of 1%. Table No. 3 provides a summary of the PCA rate calculation to be effective October 1, 2022, 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	$	**4,237,309**
Remaining Amortization Balance – Prior PCA Year		2,122,023
July 2022 – September 2022 Amortization Balance		(1,772,758)
Total Summation of Balance for Deferral and Amortization	$	**4,586,574**
Applied Conversion Factor[1]		.995646
Surcharge Balance Effective October 1, 2020	$	**4,606,631**[2]
Forecasted kWh's – October 1, 2021, to September 30, 2022		**3,069,449,000**
Proposed Surcharge Rate		0.150¢
[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	-1.1%
General Service	11, 12	-1.1%
Large General Service	21, 22	-1.0%
Extra Large General Service	25	-1.8%
Clearwater	25P	-2.0%
Pumping Service	31, 32	-1.0%
Street and Area Lights	41 – 49	-0.3%
Overall Total		**-1.2%**

Overall Impact of four filings Effective October 1, 2022

The Company proposed four electric rate adjustments effective October l, 2022. In this case, the PCA, if approved, will decrease the Company's electric revenues by $3.1 million (1.2%). The Company's proposed Fixed Cost Adjustment ("FCA") filing, AVU-E-22-12, if approved, will decrease electric revenues by about $5.1 million (2.0% decrease). The third proposed filing, Residential and Farm Energy Rate Adjustment or Residential Exchange Program ("ResEx"), AVU-E-22-10, if approved, will decrease electric revenues by $0.1 million (0.1% decrease). The final proposed filing, Schedule 91, Energy Efficiency Rider Adjustment ("EE

Rider"), AVU-E-22-09, if approved, will decrease electric revenues for participants by $3.6 million (1.4% decrease). The net effect of Company's four filings (PCA, FCA, ResEx, and EE Rider) will decrease electric revenues by about $12.0 million (4.7% decrease). The average residential electric customer's monthly bill may decrease by $4.10 or 4.8%. Table No. 5 summarizes the overall impact to electric revenues of the four filings:

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

Filing	Change in Revenues	% Change
PCA	($3,099,000)	-1.2%
FCA	($5,122,171)	-2.0%
ResEx Credit	($129,655)	-0.1%
EE Rider	($3,626,534)	-1.4%
Total	**($11,977,360)**	**-4.7%**

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-22-11), the natural gas Fixed Cost Adjustment (AVU-G-22-04), the electric Fixed Cost Adjustment (AVU-E-22-12), the BPA Residential and Small Farm credit (AVU-E-22-10), and the Electric Energy Efficiency Adjustment (AVU-E-22-09). 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 11, 2022, and ending September 9, 2022

The Commission set a comment deadline of September 7, 2022. Some customers in the last billing cycles will not have received 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 6, 2022, no customer comments had been filed.

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, reducing the Company's annual revenue by $3.1 million, with an effective date of October 1, 2022.
- Authorize the Company to recover EIM incremental expenses in the PCA up to the benefits realized from the EIM until its next general rate case where these costs can be reviewed and included in base rates.
- Order the Company to provide Staff an explanation of the Company's method for measuring EIM benefits and how it differs from CAISO's method.
- Accept late-filed comments from customers.

Respectfully submitted this 7th day of September 2022.

Claire Sharp

Claire Sharp
Deputy Attorney General

Technical Staff: Michael Eldred
Laura Conilogue
Travis Culbertson
Joseph Terry
Curtis Thaden

i:umisc/comments/avug22.11csme comments revised

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 13TH DAY OF SEPTEMER 2022, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-E-22-11, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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