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IDAHO PUBLIC
UTILITIES COMMISSION

VIA ELECTRONIC & OVERNIGHT MAIL

December 13, 2017

Commission Secretary
Idaho Public Utilities Commission
472 W. Washington Street
Boise, ID 83702

Re: Tariff I.P.U.C. No. 28 (Electric) and Tariff I.P.U.C. No. 27 (Natural Gas)
Docket Nos. AVU-E-17-01 and AVU-G-17-01

Enclosed for filing with the Commission in the above-referenced docket are the original and nine copies of the Post-Hearing Brief of Avista.

Please direct any questions related to the transmittal of this filing to Liz Andrews at 509-495-8601.

Sincerely,

A handwritten signature in blue ink, appearing to read "D. J. Meyer", with a horizontal line extending to the right.

David J. Meyer
Vice President, Chief Counsel for Regulatory
& Governmental Affairs

Enclosures

c: Service List

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11
12
13 **BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**
14

IN THE MATTER OF THE APPLICATION OF
AVISTA CORPORATION DBA AVISTA
UTILITIES FOR AUTHORITY TO INCREASE
ITS RATES AND CHARGES FOR ELECTRIC
AND NATURAL GAS SERVICE IN IDAHO

CASE NOS. AVU-E-17-01
AVU-G-17-01

POST-HEARING BRIEF OF
AVISTA CORPORATION

15
16
17 **I. INTRODUCTION**

18 Hearings were conducted on December 8, 2017, in connection with the approval of a
19 Settlement Stipulation filed on October 20, 2017. Company witness Ms. Andrews sponsored
20 Exhibit No. 17, which is a copy of the Stipulation and Settlement ("Settlement Stipulation") in this
21 case. The Settlement Stipulation was entered into by and among Avista, the Staff of the Idaho
22 Public Utilities Commission ("Staff"), Clearwater Paper Corporation ("Clearwater"), Idaho Forest
23 Group, LLC ("Idaho Forest"), and the Community Action Partnership Association of Idaho
24 ("CAPAI"). The Idaho Conservation League ("ICL") and the Sierra Club did not join in the
25 Settlement Stipulation, taking issue not with the Settlement, per se, nor with the revenue
26 requirement set forth in the Settlement, but with the Company's investment in SmartBurn
27 technology at Colstrip. SmartBurn uses air staging technology to reduce the amount of NOx that

1 is formed by reducing flame temperatures and improving the efficiency of the combustion of coal.
2 The NOx emissions data received from Colstrip Units 3 and 4 after SmartBurn was installed will
3 be used to determine the appropriate size of the technology needed to address the next expected
4 step in NOx reduction - Selective Catalytic Reduction (SCR).¹ In support of the Settlement, Ms.
5 Andrews and Mr. Ehrbar filed testimony for Avista, Mr. Lobb filed testimony on behalf of Staff,
6 and Ms. Zamora filed testimony on behalf of CAPAI. Dr. Hausman and Mr. Otto filed testimony
7 related to Colstrip on behalf of the Sierra Club and ICL, respectively. Finally, Mr. Thackston and
8 Ms. Andrews filed rebuttal testimony related to the testimony of Sierra Club and ICL.

10 II. THE ISSUES THAT REMAIN

11 As discussed below, the Company's investment in SmartBurn technology is questioned by
12 the Sierra Club and the Idaho Conservation League in this case. The total cost to Avista, based on
13 its 15% ownership share, for the 2016 and 2017 SmartBurn projects at Colstrip, is approximately
14 \$1,994,000 and \$1,047,000 respectively. Idaho's share, therefore, for the 2016 and 2017 capital
15 projects, is approximately \$685,000 and \$359,000, respectively, for a total of \$1,044,000.² The
16 annual revenue requirement already included in customers' rates (approved in Case No. AVU-E-
17 16-03 and effective January 1, 2017), related to the June 2016 completed SmartBurn project at
18 Colstrip Unit 4, is approximately \$74,000. The incremental revenue requirement amount included

¹ SCR is a post-combustion control technology based on the chemical reduction of NOx into molecular nitrogen (N2) and water vapor (H2O).

² Andrews Reb., pp. 6:24-7:8. (References in this Brief are to the prefiled testimony which inadvertently was not incorporated into the transcript as ordered; accordingly, there are no specific page references to the transcript concerning such prefiled testimony).

1 in this case for Colstrip Unit 3, and included in the Settlement Stipulation, is approximately
2 \$39,000.³

3 What parts of the Settlement Stipulation are contested?:

- 4 1) Not the Revenue Requirement – Dr. Hausman, representing the Sierra Club, does not
5 recommend a change to the proposed revenue requirement or rates in this proceeding,
6 stating “The majority of issues included in the Settlement Agreement have nothing to
7 do with Colstrip, and therefore I hesitate to disturb a revenue requirement agreement
8 that reflects a balance among the interests of a diverse group of stakeholders.”⁴ For his
9 part, Mr. Otto on behalf of the Idaho Conservation League, also supports the overall
10 revenue requirement.⁵
- 11 2) Not the revenue requirement associated with the investment in SmartBurn in Units 3 &
12 4 at Colstrip – Only future rate base recovery. (see discussion below)
- 13 3) Not the depreciation rates for Colstrip – No studies are before the Commission.
- 14 4) What remains is only the suggestion that future capital investment in SmartBurn should
15 be disallowed. Dr. Hausman does propose that the Commission “require Avista to
16 remove the outstanding cost of SmartBurn at both Colstrip units from rate base for
17 purposes of all future proceedings.”⁶ Likewise, Mr. Otto, on behalf of ICL,
18 recommends that the Commission “order the Company to remove the [SmartBurn] cost
19 from Avista’s rate base going forward.”⁷ That poses troubling questions, as discussed
20 below.

21

³ Andrews Reb., p. 7, ll. 11-18.

⁴ Hausman Di., p. 5, ll. 17-20.

⁵ Otto Di., p. 2, l. 15.

⁶ Hausman, Di, p. 6, ll. 2-3.

⁷ Otto Di., p. 11, ll. 18-20.

1 What relief, then, are Sierra Club and ICL requesting in this docket?

2 They have already conceded that they are not seeking to disturb the revenue requirement
3 in this case, that includes all of the Colstrip Unit 3 SmartBurn capital investment, or otherwise
4 upset the revenue requirement established in the prior 2016 case that already captures the Colstrip
5 Unit 4 capital investment. As testified to by Ms. Andrews, the project completed in 2016 is already
6 built into rates as used and useful plant in the prior rate case (Case No. AVU-E-16-03). Indeed,
7 no party objected to this plant item in the prior case, after reviewing discovery responses related
8 to Colstrip. (Tr. p. 40, ll. 5-10, p. 51, l. 12 – p. 52, l. 10). Essentially, the Sierra Club is seeking to
9 revisit a prior Commission determination approving rates as just and reasonable, as to the
10 SmartBurn installed on Unit 4. (See Order No. 33682 at Case No. AVU-E-16-03.) The SmartBurn
11 technology was installed on one unit (Unit 4) in 2016; the same rationale supported the installation
12 on the other (Unit 3) in 2017. As noted, this Commission previously included in rates the capital
13 expenditures on SmartBurn for Unit 4 in Case No. AVU-E-16-03, with no party taking issue with
14 this investment.⁸ Nor was this issue overlooked in either case; in both the 2016 case and in this
15 case, specific information related to SmartBurn was provided through discovery to all parties.

16 If Dr. Hausman or Mr. Otto are suggesting the existing rate base already embedded (or to
17 be embedded) in rates be subsequently removed, that would effectively cause Avista to “write off”
18 these two SmartBurn projects at this time.⁹ It also amounts to an attack on a prior Commission
19 Order, with reference to Colstrip Unit 4 (Order No. 33682), and a direct attack on the Settlement
20 and the revenue requirement here at issue – something the Sierra Club and ICL said they did not
21 want to disturb. It challenges the very revenue requirement in this case that has embedded in it,

⁸ Andrews, Reb., p. 5, ll. 10-16.

⁹ Andrews Reb., p. 4, ll. 11-14.

1 the recovery of the remaining SmartBurn investment in Colstrip Unit 3 – even though both ICL
2 and the Sierra Club profess not to want to disturb that revenue requirement.

3 If what they mean to suggest is that they want the Commission to order a “write-off” of the
4 existing investment of approximately \$685,000 (Idaho share) of SmartBurn capital investment that
5 is already in rates (Colstrip Unit 4 in 2016), or soon to become so as a part of the revenue
6 requirement in this case (capital of \$359,000 for Colstrip Unit 3 in 2017), then this becomes quite
7 a different case. Avista clearly would not have joined in this Settlement Agreement here at issue
8 if it had to expense an approximate \$1 million write-off related to the SmartBurn investment. That
9 most certainly would re-open discussions around revenue requirement in the Stipulation; the
10 revenue requirement settlement would, in fact, be “disturbed.”

11
12 **III. REVIEW OF THE EVIDENTIARY RECORD CONCERNING SMARTBURN**

13 The owners of Colstrip installed SmartBurn technology in 2016 for Unit 4, and 2017 for
14 Unit 3. SmartBurn reduces a significant amount of the target NOx reduction for a significantly
15 lower cost than a full control modification approach. The early installation of SmartBurn also
16 provides several years of operational boiler data that allows for the design and eventual installation
17 of the appropriately sized SCR or other control technology.¹⁰ There were other benefits for the
18 timing of installing SmartBurn as well. The SmartBurn technology was installed on Units 3 and 4
19 during previously scheduled outages, thereby reducing implementation costs. If the SmartBurn
20 needed to be added at a later date for more near-term compliance needs, a separate outage might

¹⁰ Thackston, Reb., pp. 10:19-11:3.

1 be required in consecutive years – the first outage to install the SmartBurn technology, and a
2 second outage to install additional plant controls.¹¹

3 SmartBurn technology uses air staging technology to reduce the amount of NOx that is
4 formed by reducing flame temperatures and improving the efficiency of the combustion of coal.
5 The NOx emissions data received from Colstrip Units 3 and 4 after SmartBurn was installed will
6 be used to determine the appropriate size of the technology needed to address the next expected
7 step in NOx reduction - SCR. The size, scope and amount of ammonia used by the SCR is directly
8 related to the amount of NOx created during the earlier combustion process. Less NOx produced
9 during the combustion phase results in the need for a smaller, and less costly SCR, and less
10 chemicals to operate it.¹² Mr. Thackston testifies that a smaller SCR requires less chemicals to
11 operate, so a smaller amount of injected ammonia is needed, resulting in lower future operating
12 costs. SmartBurn technology saves future capital expenditures, reduces future O&M expenditures,
13 and provides an earlier environmental benefit by reducing the production of NOx.¹³ As discussed
14 by Mr. Thackston, these projects were done in an effort to proactively install SmartBurn as the last
15 available, low cost, NOx pollution prevention emission control prior to the expected installation
16 of a very expensive emission post-combustion control technology called Selective Catalytic
17 Reduction (SCR) in future years.

18 The prudence of decisions to invest in plant are reviewed based on what was known at the
19 time the discussion was made. In the 2012 decision timeframe, when the determination was made
20 to install SmartBurn, SCRs were being ordered in many surrounding states, and the Sierra Club

¹¹ Thackston, Reb., p. 11, ll. 8-16.

¹² Thackston, Reb., pp. 3:18-4:4.

¹³ Thackston, Reb., p. 6, ll. 2-8

1 was, itself, litigating against Colstrip to require SCR for alleged “New Source Review” violations.
2 The Colstrip owners, therefore, chose to install SmartBurn in an effort to manage a future
3 regulatory obligation in a “strategic and cost-effective manner.”¹⁴ Mr. Thackston explained what
4 was known at the time in 2012:

5 In the 2012 decision timeframe, SCRs were being ordered in many surrounding states and
6 the Sierra Club was also in litigation against Colstrip to require SCR for alleged “New
7 Source Review” violations. The owners, therefore, proactively decided to install
8 SmartBurn in an effort to manage a future regulatory obligation, doing so in a strategic and
9 cost-effective manner. Furthermore, SmartBurn was the last available, low cost, NOx
10 pollution prevention emission control prior to the expected installation of a very expensive
11 emission control (e.g., SCR). (emphasis in original)¹⁵

12
13 There was a continuing expectation that future additional NOx reductions would be
14 required for Colstrip Units 3 and 4. Avista’s 2013 Electric IRP estimated SCR installation on
15 Colstrip Units 3 and 4 could be required in 2027, and the Company ran scenarios to understand
16 the implications of the SCR investment at that time.¹⁶ Again, as stated in the Company’s 2015
17 Electric IRP, “... modeling assumes that a default control system of a selective catalytic reduction
18 (SCR) will be required by the end of 2026, but the specific target date or control type is unknown
19 at this time.” Avista’s 2017 Electric IRP also plans for SCR on Colstrip Units 3 and 4 in 2028.¹⁷
20 In the final analysis, SmartBurn technology was installed in the ordinary course of managing costs
21 and planning for the future, taking into account reasonable expectations surrounding possible SCR
22 implementation and the need to develop a cost-mitigation strategy – all the while immediately
23 realizing a substantial reduction in NOx emissions. It was prudent based on what was known at
24 the time – including the spectre of possible SCR investment in the future.

¹⁴ Andrews Reb., p. 5, ll. 3-8

¹⁵ Thackston, Reb., pp. 8:18-19:6

¹⁶ Thackston Reb., p. 9, ll. 10-15

¹⁷ Thackston Reb., p. 10, ll. 5-10.

1 **IV. SMARTBURN HAS PERFORMED AS EXPECTED AND HAS DELIVERED**
2 **IMMEDIATE AND CONTINUING ENVIRONMENTAL BENEFITS**
3 **AND WAS NOT MEANT TO EXTEND THE USEFUL LIFE OF PLANT**
4

5 The installation of SmartBurn has met the guaranteed emission rate reduction specified in
6 the contract for this capital investment. It has performed as advertised. The addition of SmartBurn
7 on Units 3 and 4 improved NOx removal from 80 percent to approximately 86 percent, or a 6
8 percent improvement.¹⁸ Mr. Thackston, while testifying, placed this into perspective: that
9 reduction equates to a reduction of over 3,000 tons of NOx each year – and that is equivalent to
10 removing 161,000 automobiles from the road each year.¹⁹ In short, it is performing as anticipated
11 and delivering a substantial reduction in NOx, with or without later SCR technology, and at a
12 reasonable price. (Avista’s Idaho share for the 2016 and 2017 capital projects is approximately
13 \$1,044,000).

14 Finally, contrary to the Sierra Club’s assertion, it is important to remember that SmartBurn
15 does not otherwise improve reliability or extend the life of the plant, so it has no bearing on the
16 useful life of the plant or the Colstrip owner’s decision to operate the plant, as argued by the Sierra
17 Club.²⁰ What it does do is provide immediate environmental benefits through NOx reduction now
18 and helps mitigate the cost of any later SCR additions.²¹ The Sierra Club’s concerns that this
19 investment will somehow cause the owners to keep the Colstrip plants in operation longer is
20 entirely misplaced.

18 Thackston Reb., p. 12, ll. 3-7.

19 Tr p. 79, ll.5-16.

20 Thackston Reb., p. 7:20 -8:2.

21 Thackston, Reb., pp. 7:20-8:4

1 **V. SIERRA CLUB PARTICIPATED IN PUGET SOUND ENERGY’S CURRENT**
2 **RATE CASE BUT DID NOT RAISE THE ISSUE OF SMARTBURN**
3

4 The Sierra Club intervened in the most recent general rate case for Puget Sound Energy
5 (PSE) before the Washington Utilities and Transportation Commission (“WUTC”) in Docket No.
6 UE-170033. Dr. Hausman also provided testimony in that case and did not take issue with the
7 installation of SmartBurn on Colstrip Units 3 and 4, in his 41 pages of testimony in that case, even
8 though PSE has a larger ownership share at 25 percent of both units and a larger associated cost
9 for SmartBurn on those units.²² This incongruity was not lost on Mr. Thackston, who testified:

10 There is no mention in the Sierra Club’s testimony in this Avista proceeding
11 explaining why it was acceptable to them for PSE to spend capital on SmartBurn
12 for Units 3 and 4, but why they now take issue with Avista including these costs.²³
13

14 This makes the Sierra Club’s professed concerns over SmartBurn, per se, far less credible.
15

16 **VI. THE FUTURE DEPRECIATION STUDY IS NOT AT ISSUE IN THIS CASE**
17

18 In this case, neither the Company nor the Sierra Club has presented a depreciation study.
19 No one has. Due to the length of time to complete a depreciation study, and the fact a utility
20 typically would not expect its assets to change so significantly to require a depreciation study
21 sooner, the Company typically completes its depreciation studies approximately every five years.
22 The timing of the planned depreciation study is consistent with that timeline: utilizing 2016 plant
23 balances, completion of a study in late 2017, with Commission filings and expected changes in

²² Thackston Reb., p. 12, ll. 10-18. He even admits in his testimony in that case (Docket No. UE-170033) that selective catalytic reduction or SCR will probably be required on Units 3 and 4 in the mid-2020s.

²³ Thackston Reb., p. 13, ll. 2-6.

1 rates in each of its jurisdictions in 2018.²⁴ There is no evidentiary basis on which to otherwise act
2 on the depreciable life of Colstrip Units 3 & 4 in this docket. It can be addressed in a subsequent
3 filing when evidence is presented.

4 When the Company files its depreciation study in the first quarter of 2018, the parties will
5 have the opportunity review the study, and the appropriate accounting of these changes can be
6 determined by the Commission.²⁵ The Company's current depreciation study for Colstrip assumes
7 a useful life extending out to 2034-2036. Based on preliminary discussions with the consultant
8 performing the Company's latest study, these dates will not materially change,²⁶ absent the
9 Commission ordering a shortened depreciable life for Colstrip. But that is not an issue in this case.

10
11 **VII. THERE IS NO EVIDENCE OF LACK OF OVERSIGHT BY AVISTA**
12 **CONCERNING THE COLSTRIP INVESTMENT IN SMARTBURN TECHNOLOGY –**
13 **ONLY CONJECTURE ON SIERRA CLUB'S PART**
14

15 As explained by Mr. Thackston, the Company actively exercises its ownership rights while
16 capital projects are being discussed. Each year Talen, the Project Operator, proposes a set of capital
17 projects for Units 3 and 4, as well as for the plant in common. These projects are reviewed by one
18 or more Avista representatives and as part of the Colstrip ownership group. Avista and other
19 Company representatives meet with Talen at least every other month to review plant operations,
20 including capital projects. Projects may be added or subtracted throughout the year as
21 appropriate.²⁷ The oversight is there, and the Sierra Club, while it may now disagree with the
22 SmartBurn decision, can point to no management neglect or lack of oversight.

²⁴ Andrews Reb., p. 8, ll. 9-20

²⁵ Andrews, Reb., pp. 8:23-9:4

²⁶ Andrews Reb., p. 9, ll. 14-17

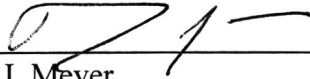
²⁷ Thackston Reb., p. 15, ll. 9-18.

1 Finally, it should be remembered that the plant operator (Talen) is an independent power
2 producer that relies on low plant costs to ensure the plant is competitive in the market, so there is
3 no financial incentive for them to spend needless capital. The plant operator's financial interests
4 also serve as a check to keep costs as low as possible. Their interests are aligned with all of the
5 Colstrip owners and their customers.²⁸

6 For the foregoing reasons, Avista respectfully requests that the Commission approve the
7 Settlement Stipulation in its entirety and reject any suggested disallowances by the Sierra Club
8 and ICL.

9 RESPECTFULLY SUBMITTED this 13th day of December, 2017.

10 AVISTA CORPORATION

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12
13 
14 _____
15 David J. Meyer
16 VP and Chief Counsel for Regulatory and
 Governmental Affairs

²⁸ Thackston Reb., p. 16, ll. 1-7.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this 13th day of December, 2017, served the foregoing Post-Hearing Brief of Avista in Docket No. AVU-E-17-01 and AVU-G-17-01, upon the following parties, by mailing a copy thereof, properly addressed with postage prepaid, to:

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