

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION

Complainant,

v.

AVISTA CORPORATION

d/b/a AVISTA UTILITIES,

Respondent.

DOCKET NOS. UE-240006 AND UG-  
240007

*(Consolidated)*

**CROSS-ANSWERING TESTIMONY OF**

**WILLIAM GEHRKE**

**ON BEHALF OF**

**NW ENERGY COALITION**

**August 16, 2024**

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## **EXHIBIT LIST**

Exh. WG-8T, Cross-Answering Testimony of William Gehrke

Exh. WG-9, Excerpt of SNS-1T, Response Testimony of Witness Shaylee Stokes of The  
Energy Project from Puget Sound Energy Rate Case, Docket No. UE 240004

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 **A.** My name is William Gehrke, and I am a Senior Technical Analyst at the NW Energy  
4 Coalition (“NVEC” or the “Coalition”). My business address is 811 1st Ave., Suite  
5 305, Seattle, WA 98104.

6 **Q. Are you the same William Gehrke who previously filed opening testimony on**  
7 **behalf of NVEC in this docket?**

8 **A.** Yes.

9 **Q. On whose behalf are you providing this cross-answering testimony?**

10 **A.** NVEC.

11 **Q. What is the purpose of this cross-answering testimony?**

12 **A.** My testimony responds to several recommendations made by witnesses Jim Dennison  
13 of the Sierra Club on gas decarbonization issues, Kristen Hillstead of Staff of  
14 Washington Utilities and Transportation Commission (“Staff”) on return on power  
15 purchase agreement, and Lance Kaufman of AWEC on the proposed Schedule 99 rate  
16 spread.

17 **II. RESPONSE TO TESTIMONY OF WITNESS DENNISON**

18 **A. TARGETED ELECTRIFICATION PILOT**

19 **Q. What are witness Dennison’s recommendations concerning an electrification**  
20 **pilot?**

21 **A.** Witness Dennison recommends that Avista conduct a Targeted Electrification Pilot  
22 program. His recommendations include four elements of Target Electrification Pilot  
23 program:

- 1 (1) Targets for the number of customers engaged through incentives and  
2 educational materials;
- 3 (2) Provisions to engage low-income customers and Named Communities through  
4 the pilot, enroll eligible participants in bill assistance programs, ensure that  
5 these customers benefit from the Pilot, and provide appropriate low-income  
6 customer protections.
- 7 (3) Provisions for publicly reporting the Pilot’s results and lessons learned to the  
8 Commission.
- 9 (4) Provisions to incorporate the Pilot into Avista’s broader decarbonization and  
10 Climate Commitment Act (“CCA”) compliance strategies.

11 **Q. Do you support Witness Dennison’s recommendation to offer a targeted  
12 electrification pilot program?**

13 **A.** Yes. NWECC supports witness Dennison's proposal to implement a targeted  
14 electrification pilot program. NWECC agrees that this initiative will provide Avista with  
15 valuable experience in integrating electrification into its CCA compliance strategy.  
16 The proposed pilot program, spanning eighteen months, would involve conducting  
17 electrification assessments for 5,000 homes and offering 1,000 rebates for  
18 electrification equipment. This proposal is modeled after Puget Sound Energy’s  
19 (“PSE”) electrification pilot program in their 2022 general rate case.

20 **Q. Why should Avista conduct a targeted electrification pilot program?**

21 **A.** Implementing a targeted electrification pilot program will allow Avista to gain  
22 valuable insights into how electrification can effectively contribute to Avista's  
23 decarbonization efforts in alignment with the goals set forth in the CCA. The potential

1 benefits of this pilot program are significant, offering Avista the opportunity to  
2 develop and enhance its internal expertise and capabilities in electrification, which will  
3 be essential in meeting the emission goals outlined in the CCA. Further, such a pilot  
4 would advance equity by enabling Avista to provide direct benefits to Named  
5 Communities and low-income households.

6 **Q. What did witness Dennison recommend around low-income programing for the**  
7 **targeted electrification program?**

8 **A.** Witness Dennison stated that “it may be appropriate to set a target for the number of  
9 electrification retrofits performed in low-income households and Named Communities  
10 through the Pilot. This and other aspects of the Pilot related to low-income and Named  
11 Community participation could be informed by input from the Company and other  
12 parties.”<sup>1</sup>

13 **Q. What is your response to Dennison’s testimony?**

14 **A.** NWECC recognizes the importance of setting specific targets for the number of  
15 electrification retrofits carried out in low-income and Named Communities. NWECC  
16 understands that customers in these communities have unique programming needs  
17 compared to higher-income customers included in general targeted electrification  
18 initiatives. Low-income and Named Communities face challenges when participating  
19 in electrification incentives. Many rebate programs require low-income customers to  
20 cover the initial purchase costs associated with electrification equipment or projects,  
21 which can be financially burdensome. Historically, utility demand-side resource  
22 programming has not equitably served low-income and Named Community customers.

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<sup>1</sup> JAD-1T at 38:13-17.

1 Further, as electrification levels increase on Avista's system and able customers move  
2 away from natural gas, low-income and Named Communities that do not electrify will  
3 be financially responsible for a larger proportion of Avista's gas system's fixed costs.  
4 Therefore, it is crucial to implement a specialized program tailored to meet the specific  
5 needs of these customers.

6 **Q. What is your initial proposal?**

7 **A.** NWEC recommends that the program target 40% of its customers from low-income or  
8 Named Communities, in alignment with the federal Justice40 initiative. This initiative  
9 seeks to ensure that 40% of the benefits of specific federal investments are delivered to  
10 designated communities. This would also ensure that Avista's program keeps pace  
11 with a similar offering from PSE, which has made over 30% of its home electrification  
12 assessment in Named Communities or with low-income customers.<sup>2</sup>

13  
14 NWEC further recommends that the Commission require Avista to offer a minimum of  
15 25 no-cost, high-efficiency electric-only heat pump installations to low-income and  
16 Named Community customers during the pilot period. This number is based on PSE's  
17 program goal of 50 no-cost installations from its previous pilot program. These  
18 initiatives aim to ensure that the transition to cleaner energy technologies benefits a  
19 broader spectrum of individuals, not solely those with the financial capacity to cover  
20 the initial costs of new technologies. These program guidelines are expected to foster a  
21 more inclusive approach to energy policy. Additionally, NWEC recommends this

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<sup>2</sup> JAD-1T at 34:4-5.

1 approach to allow Avista to acquire operational experience in conducting electric-only  
2 heat pump installations for its customers.

3 **Q. What is your alternative recommendation?**

4 **A.** Should the Commission not adopt the primary recommendation, NWECC's alternative  
5 recommendation is that Avista consult with its Energy Assistance Advisory Group  
6 (EAAG) and Conservation Resources Advisory Group (CRAAG) concerning low-  
7 income electrification programming. Considering various stakeholders' perspectives  
8 and principles may be appropriate to ensure restorative justice when establishing a  
9 low-income and Named Communities program. NWECC proposes that consultation  
10 occurs on timeline that would enable the low-income and Named Communities  
11 electrification programming to be in effect in alignment with other targeted  
12 electrification programming. This timeline would enable the simultaneous  
13 establishment of a low-income program and the targeted electrification pilot launch.

14 **B. NON-PIPE ALTERNATIVES**

15 **Q. What are witness Dennison's recommendations concerning non-pipe alternatives**  
16 **guidance?**

17 **A.** Sierra Club witness Dennison recommends that the Commission require Avista to  
18 implement the Oregon Public Utility Commission's non-pipe alternatives ("NPA")  
19 framework in Washington with modifications. According to Witness Dennison, the  
20 adoption of this framework is crucial in guiding Avista's operations towards more  
21 sustainable and cost-effective methods to meet energy demand while also conforming to  
22 regulatory requirements and mitigating risks associated with the natural gas system.

23 **Q. Do you agree that Avista should evaluate non-pipe alternatives?**

1 A. Yes. Non-pipe alternatives are utility projects that can reduce greenhouse gas  
2 emissions and provide system benefits to the natural gas system. The adoption of non-  
3 pipe alternatives in gas utility projects can assist in maintaining existing infrastructure,  
4 expanding capacity, and establishing new customer connections on the natural gas  
5 system. The evaluation of non-pipe alternatives allows gas utilities to consider more  
6 sustainable and cost-effective methods to meet energy demand while also conforming  
7 to regulatory requirements and mitigating risks associated with the natural gas system.

8 **Q. Are you familiar with Avista’s NPA framework in Oregon?**

9 A. Yes.

10 **Q. Do you agree with Sierra Club's modifications to the NPA framework in Oregon?**

11 A. NWEC agrees with the following modifications:

12 (1) References to Oregon's Climate Protection Program should be replaced with  
13 references to Washington's Climate Commitment Act and other relevant  
14 Washington policies.

15 (2) The project cost threshold should be set to a \$500,000 threshold.

16 (3) Avista should perform NPA analyses for at least five gas infrastructure  
17 projects in the next IRP, even if not all of these projects exceed a \$500,000  
18 threshold.

19 **Q. Do you support the Sierra Club’s recommendation to adopt the OPUC NPA  
20 framework to be modified to reference Washington policy for Avista?**

21 A. Yes. It is logical to adapt the OPUC framework to be Washington-specific so that it  
22 can apply to Avista’s Washington operations. The OPUC NPA framework is a solid



1 foundation that will provide benefits to Avista's Washington customers during this  
2 period of marked transformation.

3 **Q. When proposing adoption of the OPUC NPA framework to Avista's Washington**  
4 **operations, did Sierra Club indicate how to assess the risk of allowance-based**  
5 **compliance strategies when evaluating an NPA's avoided CCA compliance costs?**

6 **A.** Yes. Sierra Club asks that avoided CCA compliance costs of an NPA be modeled  
7 assuming all CCA allowance will be purchased at the ceiling price. In 2021,  
8 Washington passed the CCA, establishing statewide emission limits. Over the next  
9 thirty years, Washington's statewide carbon baseline will significantly decline due to  
10 the CCA. Covered entities such as the Avista Corporation's natural gas operations in  
11 Washington must decrease emissions or obtain compliance instruments to cover  
12 emissions to comply with the CCA. Suppose Avista's natural gas system does not  
13 reduce emissions over time, and the compliance instruments decline. In that case, it  
14 may need to purchase price ceiling units at the end of each compliance period to  
15 comply with the CCA. This will expose customers to significant cost pressure and risk.  
16 To account for this risk, the Sierra Club recommends that the CCA allowance costs be  
17 modeled at the ceiling price when assessing NPAs.

18 **Q. What is your response to the Sierra Club's recommendation around the modeling**  
19 **CCA costs at the ceiling price?**

20 **A.** I understand the Sierra Club's concern about Avista relying on compliance instruments  
21 as a long-term response to the CCA. However, as an alternative recommendation,  
22 NWECC suggests that Avista consider using the best estimates of CCA compliance  
23 costs when modeling to avoid NPA compliance costs, which can be determined in the

1 IRP process. This would be a more accurate way to estimate CCA compliance cost  
2 when evaluating NPA projects.

3 **C. GAS EQUIPMENT INCENTIVES**

4 **Q. What are witness Dennison's recommendations concerning gas equipment**  
5 **incentives?**

6 **A.** Witness Dennison explained that constructing new buildings with natural gas and  
7 installing new natural gas equipment will make it harder and more expensive to meet  
8 Washington's decarbonization goals. Sierra Club witness Dennison has three  
9 recommendations for gas equipment incentives:

10 (1) Eliminate its incentives for installing gas equipment in newly constructed  
11 residential buildings.

12 (2) Shift 20% of funds budgeted for residential gas equipment in its current  
13 Biennial Conservation Plan to incentives for residential building envelope and  
14 electrification readiness measures.

15 (3) Include information about available utility, local, state, and federal incentives  
16 for efficient electric equipment in any materials informing customers about  
17 incentives for gas equipment and in responses to residential gas customers that  
18 request incentives for gas equipment.

19 **Q. Do you support witness Dennison's proposal to eliminate conservation incentives**  
20 **for installing new gas equipment in newly constructed residential buildings?**

21 **A.** Yes. NWECC supports Sierra Club's recommendation on this issue. Avista's provision  
22 of gas equipment incentives to newly constructed residential buildings conflicts with

1 Washington's climate and energy policy and would be inconsistent with the  
2 Commission's decisions on related issues, as witness Dennison notes.<sup>3</sup>

3 **Q. Do you support witness Dennison's proposal to have Avista provide information**  
4 **about incentives for electrification when informing customers about incentives for**  
5 **gas equipment?**

6 **A.** Yes. Incorporating information regarding incentives for electrification in conjunction  
7 with those for gas equipment is crucial for providing customers with comprehensive  
8 insight into their available alternatives. This approach facilitates informed decision-  
9 making, enabling customers to make choices aligned with overarching environmental,  
10 economic, and regulatory developments. Notably, customers may prefer electrification  
11 options due to environmental considerations or a preference for newer technology.

12 **Q. Do you support Witness Dennison's proposal to shift conservation funds to**  
13 **residential building envelope and electrification readiness measures in this**  
14 **proceeding?**

15 **A.** Not at this time. Avista's natural gas conservation program budgets for 2024 and 2025  
16 are in UG-230898. The Commission approved these programs' budgets in January  
17 2024. NWECC prefers to avoid making ad hoc changes to the gas biennial conservation  
18 plans for 2024-2025 and would instead assess any future adjustments in an upcoming  
19 Biennial Conservation Plan.

20  
21 Due to federal appliance standards, state building energy codes, the CCA, and future  
22 policy direction to reduce greenhouse gas emissions, NWECC agrees with the Sierra

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<sup>3</sup> JAD-1T at 16:5-7 fn. 35.

1 Club that it is appropriate to consider funding building envelope measures in Avista's  
2 Biennial Conservation Plan and increase electrification spending separately through  
3 pilot programs. NWECA agrees that building envelope measures are “no regrets”  
4 investments that provide energy saving and emission reductions whether a building is  
5 heated with gas or electric appliances. However, NWECA would prefer such a topic be  
6 addressed through the Biennial Conservation plan process.

7 **III. RESPONSE TO TESTIMONY OF WITNESS HILLSTEAD**

8 **Q. What are witness Hillstead’s recommendations concerning the Company’s Pro**  
9 **Forma Power Purchase Agreement (“PPA”) Interest adjustment?**

10 **A.** Witness Hillstead did not agree to the Company’s proposal to use its proposed rate of  
11 return (“ROR”) of 7.61 percent for calculating interest for its PPA adjustments.

12 Witness Hillstead recommended that interest rate for this adjustment be at Avista’s  
13 cost of long-term debt 4.93 as calculated by Staff witness Parcell. Witness Hillstead  
14 states that the lower end of the range should be used absent adequate justification by  
15 the Company for use of the upper end of the range. In support of Hillstead’s  
16 recommendation, Staff referenced the language of RCW 80.28.410.<sup>4</sup>

17 **Q. Have you reviewed RCW 80.28.410 in association with this proceeding?**

18 **A.** Yes. I am not an attorney, but I have read RCW in conjunction with energy policy in  
19 Washington.

20 **Q. What is your response to Witness Hillstead’s testimony?**

21 **A.** In my opinion, as articulated in opening testimony, the law reserves Commission  
22 discretion to approve or deny the cost of capital incentive for PPA costs. Therefore, the

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<sup>4</sup> KHM-1T at 18.

1 Commission is not compelled to grant an incentive on CETA PPA costs and retains  
2 broad and flexible ratemaking authority. Further, it is worth noting that this issue is  
3 simultaneously being addressed in PSE's ongoing general rate case proceeding. There,  
4 The Energy Project indicated that it also believes RCW 80.28.410's language does not  
5 require the Commission approve a rate of return for PPAs filed under the statute.<sup>5</sup>  
6 NWEC concurs with the position taken by The Energy Project in that proceeding and  
7 will appropriately address this issue in further detail in legal briefing in this  
8 proceeding.

9 **IV. RESPONSE TO THE TESTIMONY OF WITNESS KAUFMAN**

10 **Q. What are witness Kaufman's recommendations concerning Colstrip Rate Spread?**

11 **A.** Witness Kaufman provided clarification on Avista's rate spread, which traditionally  
12 factored in the considerations of Colstrip costs and rate impacts. Owing to the  
13 uncertainty surrounding the closure and costs of Colstrip, these expenses were  
14 excluded from base rates and recovered through Schedule 99. Witness Kaufman  
15 contends that it is justified to incorporate Colstrip revenues when distributing revenue  
16 adjustments across Avista's service schedules.

17 **Q. What is NWEC's response to AWEC?**

18 **A.** To accurately spread decommissioning and remediation costs for Colstrip along with  
19 the associated revenue requirement in 2025 for Avista's customers, NWEC continues  
20 to advocate for the Commission to implement the rate spread for Schedule 99 outlined  
21 in Exhibit WG-3. It is imperative to emphasize that Schedule 99 pertains to generation

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<sup>5</sup> WG-9 – UE 240004 – The Energy Project - SNS-1T at 55-57.

1 costs and should thus be evenly distributed based on generation parameters in future  
2 proceedings. NWECC acknowledges AWEC's concerns and concurs that incorporating  
3 changes in revenue from Colstrip and other sources is justified when spreading  
4 Avista's revenue requirement to rate classes in this proceeding. However,  
5 decommissioning and remediation costs are a result of the electricity generated at  
6 Colstrip over the years, and therefore their costs should be allocated in line with  
7 generation function of the plant. Such an approach would align with the widely  
8 accepted ratemaking principles of cost causation.

9 **V. CONCLUSION**

10 **Q. Does this conclude your testimony?**

11 **A. Yes.**