

Exh. JDW-24CT_r
Dockets UE-240006/UG-240007
Witness: John D. Wilson
REDACTED

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION,

Respondent

DOCKETS UE-240006 & UG-240007
(Consolidated)

REVISED CROSS-ANSWERING TESTIMONY OF

JOHN D. WILSON

ON BEHALF OF STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Power Costs

August 16, 2024

Revised August 29, 2024

CONFIDENTIAL PER PROTECTIVE ORDER – REDACTED VERSION

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LIST OF EXHIBITS

- Exh. JDW-25 Avista's Response to Staff DR No. 227 Supplemental 2
- Exh. JDW-26 Avista's Response to Staff DR No. 227 Supplemental Attach. A – 2024
WEIM Calcs
- Exh. JDW-27 ICE Futures Daily Market Report for Washington Carbon Allowance
Vintage 2025 Futures
- Exh. JDW-28C NPE Calculations
- Exh. JDW-29 Ecology Auction, December 2023
- Exh. JDW-30 Ecology Auction, March 2024
- Exh. JDW-31 Ecology Auction, June 2024
- Exh. JDW-32C Staff DR No. 227 Confidential Attachment A, Exh. CGK 2-6 DR 227
- Exh. JDW-33 Attachment A Comparison to File
- Exh. JDW-34 Attachment A Comparison to File
- Exh. JDW-35C Confidential Attachment A CGK 2-6

1 I. INTRODUCTION

2
3 Q. What is the purpose of your cross-answer testimony?

4 A. My cross-answer testimony responds to the response testimony of AWEC witness
5 Bradley G. Mullins in Exhibit BGM-1T and Public Counsel witness Robert L. Earle in
6 Exhibit RLE-1CT regarding Western Energy Imbalance Market (WEIM) costs. ~~I also~~
7 ~~address emissions pricing, cost recovery, and prudency review issues related to the~~
8 ~~Climate Commitment Act given that the policy statement released by the Commission is~~
9 ~~in tension with recommendations made in my opening testimony.~~

10 I conclude by providing Staff’s updated Net Power Expense (NPE)
11 recommendation for 2025 NPE of \$175,484 and a Washington NPE Revenue
12 Requirement from \$113,012. ~~If the Commission determines that it should use the~~
13 ~~SCGHG price for allowances, I recommend that Avista be directed to file a compliance~~
14 ~~filing providing an updated forecast using an emission price of \$96 per ton, and also~~
15 ~~including all the adjustments included in Table 2.~~

16
17 Q. Have you prepared exhibits in support of your testimony?

- 18 A. Yes. I sponsor Exh. JDW-25 through Exh. JDW-35C:
- 19 • Exh. JDW-25 Avista’s Response to Staff DR No. 227 Supp. 2
 - 20
 - 21 • Exh. JDW-26 Avista’s Response to Staff DR No. 227 Supp. Attach. A –
 - 22 2024 WEIM Calcs
 - 23
 - 24 • Exh. JDW-27 ICE Futures Daily Market Report for Washington Carbon
 - 25 Allowance Vintage 2025 Futures
 - 26
 - 27 • Exh. JDW-28C NPE Calculations

- 1 • Exh. JDW-29 Ecology Auction, December 2023
- 2
- 3 • Exh. JDW-30 Ecology Auction, March 2024
- 4
- 5 • Exh. JDW-31 Ecology Auction, June 2024
- 6
- 7 • Exh. JDW-32C Staff DR No. 227 Confidential Attachment A, Exh.
- 8 CGK 2-6 DR 227
- 9
- 10 • Exh. JDW-33 Attachment A Comparison to File
- 11
- 12 • Exh. JDW-34 Attachment A Comparison to File
- 13
- 14 • Exh. JDW-35C Confidential Attachment A CGK 2-6
- 15

16 The information contained in these exhibits is correct to the best of my knowledge and
17 belief.

18

19 **II. RESPONSE TO OTHER PARTIES' TESTIMONY ON WEIM**

20

21 **Q. Please summarize Public Counsel witness Earle's response testimony on the WEIM.**

22 A. Witness Earle alleges that Avista has underestimated EIM benefits, particularly the
23 benefit of participating in a 5-minute market as compared to an hourly market. To
24 establish the relevance of this, witness Earle states, "[t]he forecasted benefits from
25 participation in the EIM are part of the calculation of the ERM baseline."¹ Witness Earle
26 later concludes that "Avista's estimate of EIM benefits should be rejected."²

¹ Earle, Exh. RLE-1CT at 25:7-8.

² Earle, Exh. RLE-1CT at 29:15-16.

1 **Q. Are the forecasted benefits from participation in the WEIM part of the calculation**
2 **of the ERM baseline?**

3 A. No, in my review of Avista's net power expense (NPE) forecast, which is the ERM
4 baseline, I did not find that the WEIM benefits calculation referred to by witness Earle is
5 an input into the NPE forecast.

6

7 **Q. Why would that be?**

8 A. It is not necessary for Avista to calculate benefits from the WEIM and include them in
9 the NPE forecast, because Avista's modeling is designed to capture all market power
10 transaction opportunities as part of its production cost forecast. Aurora does not
11 differentiate between WEIM and other market platforms because it is unnecessary and
12 likely impossible to determine precisely on which market platform a given power
13 transaction might occur.

14

15 **Q. Do you have a position on whether Avista or Public Counsel have more accurately**
16 **estimated WEIM benefits?**

17 A. No. While it is interesting to speculate on the magnitude of the benefits of participation in
18 the WEIM to Avista, the actual benefits estimate is immaterial to an NPE forecast and it
19 is unnecessary for such a calculation to be performed in the future.

20 As I understand Avista witness Kalich's testimony, he presented an estimate of
21 the benefits of WEIM participation in order to reassure the Commission and parties that
22 the updated Aurora modeling method adequately forecasts the impact of WEIM

1 participation on Avista's energy transactions.³ While I agree that the most reasonable
2 method for incorporating WEIM participation into the forecast is to use 5-minute
3 modeling, I did not investigate the benefits calculation presented by witness Kalich
4 because it would have been an unproductive use resources.

5
6 **Q. Please summarize AWEC witness Bradley G. Mullins' response testimony on the**
7 **WEIM.**

8 A. Witness Mullins' testimony does not contest that Avista's use of sub-hourly dispatch
9 captures the benefits of the WEIM – or at least that it captures those benefits described by
10 Avista witness Kalich. Witness Mullins does, however, testify that Avista has failed to
11 capture all WEIM benefits in its modelling. Witness Mullins determined that Avista's
12 modeling method excludes certain annual settlement charges from net power costs,
13 including revenue from California's greenhouse gas cap and trade program.⁴

14
15 **Q. Do you agree that revenue from California's greenhouse gas cap and trade program**
16 **should be included in forecast NPE?**

17 A. No. Based on information consultations with witness Kalich, I understand that Avista
18 does not currently participate in California's greenhouse gas cap and trade program.

19

³ Kalich, Exh. CGK-1T at 4:10-6:7.

⁴ Mullins, Exh. BGM-1T at 53:15-54:10.

1 **Q. Do you agree with witness Mullins that some other WEIM settlement charges are**
2 **inappropriately omitted from Avista’s forecast NPE?**

3 A. Yes. In my response testimony, I also found that Avista neglected to consider congestion
4 and other WEIM charges and revenues in its NPE forecast, which I estimated to total
5 about \$1.4 million per year in non-energy benefits. After excluding the greenhouse gas
6 revenue that should not be included in an adjustment, witness Mullins’ corresponding
7 estimate is \$0.9 million per year.⁵

8 While witness Mullins and I agree that Avista should include non-energy charges
9 that are not captured in Aurora’s modeling of production costs, our interpretation of the
10 accounting codes that should or should not be included differs. As for my interpretation,
11 the information provided by Avista prior to filing my response testimony provided less
12 explanation and interpretation than the more detailed review of WEIM settlement charges
13 provided by Avista in a more recent discovery response.⁶

14
15 **Q. What adjustment to Avista’s NPE forecast should be made to account for WEIM**
16 **settlement charges that are not captured in Aurora?**

17 A. In a data request response, Avista provided a more detailed review of WEIM settlement
18 charges. The resulting adjustment is an increase in forecast NPE of \$0.5 million.⁷ I have
19 reviewed the charge code assignments by Avista, and they appear reasonable.

⁵ Mullins, Exh. BGM-1T at 54, Table 8.
⁶ Wilson, Exh. JDW-25 (Avista’s Response to Staff DR No. 227 Supp. 2, Supplemental Response to (h)).
⁷ Wilson, Exh. JDW-26 (Avista’s Response to Staff DR No. 227 Supp. 2, Supplemental Attachment A).

1 **Q. Did witness Mullins raise any other material issues regarding forecast NPE that are**
2 **not addressed in your response testimony?**

3 A. Yes. Witness Mullins testified that Avista should include an adjustment to reflect power
4 market margins at the California-Oregon Border (COB) market that have historically
5 been reflected in Avista's costs. Witness Mullins estimates that this would reduce the
6 revenue requirement by \$0.1 million.⁸

7
8 **Q. Do you have a position on the COB market adjustment?**

9 A. No. I would like to review Avista's rebuttal testimony on this point before forming an
10 opinion.

11

12 ~~**III. POLICY STATEMENT ON CLIMATE COMMITMENT ACT**~~

13

14 ~~**Q. Please summarize the Commission's Policy Statement Addressing the Issues and**~~
15 ~~**Impacts of the Climate Commitment Act (CCA).**~~

16 ~~**A. On August 15, 2024, the Commission issued a policy statement on the CCA that has**~~
17 ~~**direct relevance to issues raised in my response testimony. The key statements made by**~~
18 ~~**the Commission of relevance to power costs are:**~~

⁸ Mullins, Exh. BGM-1T at 44:15-46:12.

- 1 • ~~“The Commission expects IOUs to include the social cost of greenhouse gases~~
2 ~~(SCGHG) and CCA costs in both real-time dispatch and long-term IRP~~
3 ~~modeling.”⁹~~
- 4 • ~~“For the transition to be equitable, more accurately reflecting the entire cost of~~
5 ~~emitting resources, SCGHG and allowance costs should be included in dispatch~~
6 ~~decisions.”¹⁰~~
- 7 • ~~“Including the SCGHG in dispatch decisions captures a more accurate and~~
8 ~~measurable impact of these externalities. The Commission intends to amend its~~
9 ~~adoption order in consolidated dockets UE 191023 and UE 190968 to reflect this,~~
10 ~~and until the Commission does so, IOUs should follow the Commission’s finding~~
11 ~~in this policy statement rather than prior rules that allow IOUs full discretion on~~
12 ~~how to incorporate the SCGHG.”¹¹~~
- 13 • ~~“Until it develops further rules or provides direction in separate proceedings, the~~
14 ~~Commission provides guidance to IOUs and interested parties that CCA~~
15 ~~allowance costs should continue to be addressed through individual tariffs, for~~
16 ~~now, with the remaining administrative and program implementation costs~~
17 ~~included in the IOUs’ GRCs.”¹²~~
- 18 • ~~“In the future, either through rulemaking or order in an adjudication, the~~
19 ~~Commission may set a threshold for costs over which IOUs would need to move~~

⁹ *In the Matter of the Proceeding to Develop a Policy Statement Addressing the Impacts of the Climate Commitment Act*, Docket U 230161, Policy Statement Addressing the Issue and Impacts of the Climate Commitment Act at 6, ¶ 18 (Aug. 15, 2024) (CCA Policy Statement).

¹⁰ *Id.* at 6, ¶ 20.

¹¹ *Id.*

¹² *Id.* at 9, ¶ 27.

1 their CCA costs into their GRC, rather than maintaining the use of separate
2 trackers.”¹³

3
4 **Q.—Are the recommendations in your response testimony consistent with the**
5 **Commission’s policy statement?**

6 A.—Yes, for the most part. In my response testimony, I recommended that the Commission
7 direct Avista to include carbon allowance costs in dispatch decisions.¹⁴ I also provided an
8 “alternative approach” for reviewing the prudence of some portion of CCA transactions
9 to the end of the four-year compliance period.¹⁵

10 However, my recommendations diverge in two respects. First, I recommended
11 that Avista’s dispatch decisions be based on CCA allowance prices, and I did not
12 consider whether dispatch should consider the higher SCGHG price.¹⁶ Second, I
13 recommended that CCA allowance costs be considered in annual fuel cost prudency
14 review, which would usually mean that those costs would be considered within the scope
15 of Avista’s GRC. I address both of these points below.

16
17 **A.—Impact of SCGHG Price in Dispatch Decisions**

18

¹³ *Id.* at 9, ¶ 28.

¹⁴ Wilson, JDW ICT at 4:15–17.

¹⁵ Wilson, JDW ICT at 26:12–27:3.

¹⁶ I assume that the Commission’s statement that “SCGHG and allowance costs should be included in dispatch decisions” means that Avista should include the higher value. Currently, the SCGHG for 2025 is \$96 per ton, which is more than double the cost of CCA allowances. *In the Matter of Investigation to Consider the Effect of Inflation on the Cost of Greenhouse Gas Emissions*, Docket U-190730, Order 05 at 2, Table 1 (Jul. 25, 2024).

1 ~~Q.— Please explain how using a SCGHG price in dispatch decisions could affect~~
2 ~~consumers as compared to using a CCA allowance price.~~

3 ~~A.— There would be two effects on consumers. First, Avista would dispatch fewer emitting~~
4 ~~resources and purchase more clean energy when serving load. This effect is clearly~~
5 ~~understood by the Commission as fulfilling the “intention and statutory language of both~~
6 ~~the CCA and CETA.”¹⁷ This would come at an additional cost, which the Commission~~
7 ~~finds is justified as being “statutorily required.”¹⁸~~

8 ~~Second, Avista’s emitting resources would become less competitive in the~~
9 ~~wholesale market, reducing net revenues from its generation. Those revenues benefit~~
10 ~~Avista’s retail customers by reducing NPE, so the lost revenue would increase Avista’s~~
11 ~~NPE, and thus customer’s bills. This is because when competing with a similar, but~~
12 ~~independent gas fueled generator in Washington whose dispatch decisions include CCA~~
13 ~~allowance costs, Avista would probably find that it could not sell power from its gas-~~
14 ~~fueled generation except in periods of extreme demand.~~

15 ~~Considering the impact of including a SCGHG price in dispatch on wholesale~~
16 ~~sales only, the net effect could be an increase in emissions. This could occur if relatively~~
17 ~~less efficient gas fueled units are dispatched at a higher rate while Avista’s units are not~~
18 ~~dispatched due to the higher SCGHG price.~~

¹⁷ CCA Policy Statement at 6, ¶ 19.

¹⁸ *Id.*

1 ~~Q.— Are your points relevant to the Commission’s decision to use the SCGHG in long-~~
2 ~~term planning decisions?~~

3 ~~A.— No. While long term IRP matters are outside the scope of my testimony, it should be~~
4 ~~recognized that it is reasonable to use different costs in operational dispatch and long-~~
5 ~~term planning if the expectation is that costs will change. Even if the CCA allowance~~
6 ~~price is used for operational dispatch, the use of the higher SCGHG price in long-term~~
7 ~~IRP modeling could be appropriate if, as appears to be the case, the expectation is that~~
8 ~~CCA allowance prices will rise to the level of the SCGHG or that an equivalent result~~
9 ~~will occur through the combined effect of the CCA and the CETA.~~

11 ~~Q.— Can you estimate the cost impact on Avista’s retail customers in Washington if the~~
12 ~~SCGHG is used in dispatch decisions?~~

13 ~~A.— Avista’s NPE for 2025 could increase by more than 30 percent if the SCGHG price is~~
14 ~~used instead of the CCA allowance price. Emissions reductions could come at an average~~
15 ~~cost of about \$67 per ton, which is roughly midway between the market CCA allowance~~
16 ~~price and the SCGHG price. This estimate is not exact because Avista has not provided~~
17 ~~an estimate of NPE using the SCGHG price.~~

18 ~~Avista has provided three estimates of NPE, as shown in Table 1. In reviewing~~
19 ~~Table 1, the Commission should note that (a) the price difference between the Avista~~
20 ~~Proposal and the other two cases also includes significant adjustments, including~~
21 ~~removing Avista’s “portfolio forecast error” cost proposal, and (b) the Avista Proposal~~
22 ~~only applied the emissions price to two gas combustion turbine units in Idaho.~~

1 Notwithstanding those important differences, the three model runs give an idea of the
2 sensitivity of emissions to dispatch prices.

3 **Table 1: 2025 System NPE Forecast Using Varying Emissions Dispatch Prices¹⁹**

Case	Emissions Price per Ton	Forecast System NPE	Forecast Emissions (tons)	Emissions Relative to Proposal
Avista Proposal	\$25.33	\$175.1 million	3.8 million	n/a
CCA Allowance Market	\$38.09	\$175.5 million	3.1 million	-18%
Ecology CCA Allowance Forecast	\$71.15	\$228.8 million	2.3 million	-39%
SCGHG	\$96.00	not available		

4 The \$38.09 per ton CCA allowance market price is a recent forward market price
5 for CCA allowances, which traded at about \$38 per ton according to the ICE forward for
6 December 2025 from August 1, 2024.²⁰

7 If Avista dispatches its system using a market price for CCA allowances, its 2025
8 emissions are forecast to be reduced by 18% relative to its proposal. Using a SCGHG
9 price, 2025 emissions would be reduced by significantly more than the 39% reduction
10 shown in Table 1, but since Avista has not produced these data, I cannot provide an
11 estimate.

¹⁹ Wilson, Exhs. JDW-28C (Tab Comparison); JDW-32C; JDW-33; JDW-34; and JDW-35C.

²⁰ Wilson, Exh. JDW-27.

1 **Q. — Is the use of a CCA allowance market price economically sound?**

2 ~~A. — Yes, considering the basic economics, it is cost efficient for Avista and other Washington~~
3 ~~utilities to include the cost of CCA allowances in their dispatch decisions. If Avista can~~
4 ~~sell a carbon allowance for \$40 per ton, and it costs Avista \$39 per ton to reduce its~~
5 ~~emissions, then the net benefit to Avista’s customers is \$1 per ton. For this basic reason,~~
6 ~~economic principles argue in favor of using the market price for CCA allowances in~~
7 ~~operational dispatch decisions.~~

8 ~~In contrast, if Avista dispatches as if it can sell a carbon allowance for \$96 per~~
9 ~~ton, but it can only sell a carbon allowance for \$40 per ton, the \$56 per ton difference~~
10 ~~represents a loss of revenue that will increase Avista’s NPE. The Commission may find~~
11 ~~this difference justified, but it should consider the implications of this market inefficiency~~
12 ~~in its decision.~~

13 ~~I will also note that from a strict economics point of view, the quantity of no cost~~
14 ~~carbon allowances provided by Ecology to Avista should be irrelevant to Avista’s~~
15 ~~dispatch decisions. As illustrated in the example above, decisions to dispatch can create~~
16 ~~costs or value in the form of carbon allowance revenue just as surely as they can also~~
17 ~~create costs or value in the form of market power transactions. However, this “strict~~
18 ~~economics” point of view does not consider risks associated with the lack of foresight of~~
19 ~~carbon allowance supply, demand, and prices.~~

20
21 **Q. — Should the Commission require Avista to use the SCGHG price in dispatch**
22 **beginning in 2025?**
23

1 ~~A. In my opinion, the Commission should consider the cost burden on retail customers and~~
2 ~~implement its policy statement on a more gradual basis. The CCA includes provisions to~~
3 ~~mitigate the cost burden on retail customers. Requiring use of the SCGHG price rather~~
4 ~~than a CCA allowance price could increase NPE by around \$40 million.~~

5 ~~Applying the CCA allowance price to customers will increase NPE and customer~~
6 ~~rates. It seems consistent with the intent of the CCA and the CETA that these cost~~
7 ~~impacts develop more gradually and that the SCGHG price be considered a target for~~
8 ~~future dispatch pricing rather than implemented immediately.~~

9
10 ~~**Q. What do you recommend with regard to dispatch costs?**~~

11 ~~A. I recommend that the Commission direct Avista to include the price of CCA allowances~~
12 ~~in its cost of dispatch for emitting units. Avista should adjust that price to reflect its~~
13 ~~expectation of the marginal cost of CCA allowances over the four year compliance~~
14 ~~period, and it will be reasonable for that price to fluctuate over time as market conditions~~
15 ~~change.~~

16
17 ~~**B. Cost Recovery and Prudency Review**~~

18
19 ~~**Q. Please summarize recommendations on cost recovery and prudency review related**~~
20 ~~**to CCA compliance presented in your response testimony.**~~

21 ~~A. In my response testimony, I criticized Avista for incorrectly assuming that its no cost~~
22 ~~allowances would be used both for emissions associated with serving retail load and for~~

1 emissions associated with wholesale sales whose revenues benefit its retail customers.²⁴
2 Avista essentially assumed that it would have no costs, so there was no discussion of cost
3 recovery in its testimony or discovery.

4 With respect to prudence review, my opinion is that the Commission will find it
5 most efficient to review the prudence of Avista's CCA allowance use and transactions in
6 annual NPE review proceedings. Avista's decisions to buy, sell, hold, or use allowances
7 are intertwined with its unit dispatch and power purchase decisions. I also explained my
8 opinion that it would be reasonable for the Commission to review the prudence of
9 Avista's carbon allowance transactions (or lack thereof) in either the annual NPE
10 proceeding or a post CCA compliance period proceeding, or some combination of the
11 two.

12
13 **Q. Please discuss the Commission's policy statement that "CCA allowance costs should**
14 **continue to be addressed through individual tariffs."**

15 **A.** I am unsure what individual tariffs are being referred to, at least with respect to Avista's
16 electric operations. However, I believe there are some practical challenges to separating
17 the Commission's oversight of allowance costs from its oversight of fuel costs. If that is
18 the intent of the Policy Statement, then the Commission should provide direction to
19 parties as to how that separation should work.

20 From a strictly accounting perspective, the tracking of CCA allowance costs and
21 related administrative costs can easily be separated from fuel costs. However, from a

²⁴ Wilson, JDW-1CT at 17:7-10.

1 ~~prudence review perspective, it is not practical to determine prudence of Avista's fuel~~
2 ~~expenses without also considering whether Avista's dispatch price used a reasonable~~
3 ~~estimate of the marginal price of CCA allowances.²²~~

4 ~~As an example, in my response testimony I found that Avista improperly relied on~~
5 ~~the average price, rather than the marginal price, in its forecast of Colstrip dispatch. For~~
6 ~~the most part, Avista correctly relies on marginal price dispatch in its NPE forecast and~~
7 ~~operations, but the Colstrip fuel contract introduced complications that Avista was not~~
8 ~~considering properly.~~

9 ~~Similarly, in future NPE forecasts and annual NPE reviews, the Commission~~
10 ~~should review Avista's marginal price(s) of CCA allowances and verify that those prices~~
11 ~~result(ed) in least cost dispatch, consistent with the intent of the energy recovery~~
12 ~~mechanism to incentivize Avista to minimize customer costs.~~

13 ~~If Avista were to use improperly high (or low) CCA allowance prices, this would~~
14 ~~result in under (or over) dispatch of emitting units and would fail to optimize total costs.~~
15 ~~Just as the Commission would not review the prudence of short term power market~~
16 ~~transaction costs in a different proceeding from fuel costs, nor should it review the use of~~
17 ~~CCA allowances in a separate proceeding.~~

²² ~~If the Commission directs Avista to dispatch at the SCGHG price, then this review would be a straightforward compliance check.~~

1 ~~Q.— Please explain why your response testimony stated that it would be reasonable to~~
2 ~~review all or some portion of the prudence of Avista’s carbon allowance~~
3 ~~transactions (or lack thereof) in a post-CCA compliance period proceeding.~~

4 ~~A.— While a review of the prudence of unit dispatch needs to consider the marginal price of~~
5 ~~CCA allowances, the Commission could separate the question of carbon allowance~~
6 ~~transactions and review the prudence of those transactions in a separate proceeding. If~~
7 ~~this is the Commission’s intent in its Policy Statement on cost recovery, further details on~~
8 ~~how that review should be conducted would be helpful.~~

9 ~~For example, as I discussed in my response testimony, Avista’s decisions on~~
10 ~~whether or not to transact in the carbon market and carbon auctions depends on whether~~
11 ~~its carbon price estimate, carbon price forecast, and emissions forecast (including need~~
12 ~~for allowances) are reasonable. As the connections are many, it seems very difficult to~~
13 ~~identify the bright line that could separate CCA allowance costs considered in this GRC~~
14 ~~and the subsequent NPE review/true up proceedings from a CCA allowance tariff~~
15 ~~proceeding.~~

16
17 ~~Q.— Does the Commission’s policy statement provide that CCA costs may be included in~~
18 ~~utilities’ GRCs?~~

19 ~~A.— Yes, the Commission states that there is a “threshold for costs over which IOUs would~~
20 ~~need to move their CCA costs into their GRC.”²³ One option for the threshold is referred~~
21 ~~to as the “major cost” threshold.~~

²³ CCA Policy Statement at 9, ¶ 28.

1 ~~Q.— Does the cost of emissions allowances meet the Commission’s “major cost”~~
2 ~~threshold test described in its policy statement?~~

3 ~~A.— I believe it should. I understand that the Commission has applied a major project or~~
4 ~~materiality threshold to identify major projects in relation to rate base, but that it does not~~
5 ~~currently have a bright line definition for this threshold.~~

6 ~~Nonetheless, I estimate that the cost of allowances required as a result of~~
7 ~~wholesale sales could be around \$43–44 million in 2025. As this is about 38 percent of~~
8 ~~total NPE, I think this should meet a “major cost” threshold test.~~

9
10 ~~Q.— How did you estimate the cost of emissions allowances required for emissions~~
11 ~~obligations resulting from wholesale sales?~~

12 ~~A.— Using the three scenarios in Table 1, I estimate the cost of allowances to be \$4.0 million~~
13 ~~for Avista’s proposal,²⁴ \$43.1 million for the CCA allowance market price, and \$44.3~~
14 ~~million for the Ecology CCA allowance forecast price.²⁵ The emission allowance cost is~~
15 ~~similar under the two latter cases because the increase in emissions allowance price is~~
16 ~~balanced by a reduction in emissions.~~

17 ~~These emissions allowance cost forecasts do not include any costs associated with~~
18 ~~retail load, since Ecology allocates emissions allowances at no cost for retail load. To the~~
19 ~~extent that Ecology over- or under- allocates allowances relative to actual obligations for~~
20 ~~retail load, there could be an impact on allowance costs.~~

21

²⁴ ~~Avista did not include this cost in proposed NPE. I calculated it based on Avista’s emissions price and the~~
~~resulting emissions from the two Idaho combustion turbine units.~~

²⁵ ~~Wilson, Exh. JDW-28C (Tab Comparison).~~

1 ~~Q. For clarity, have you changed your position on how the Commission should~~
2 ~~determine the reasonableness of Avista's forecast of CCA-related costs or prudence~~
3 ~~of plant dispatch?~~

4 ~~A. No, but my cross answer testimony acknowledges that the Commission's Policy~~
5 ~~Statement calls for cost recovery in an individual tariff. Implementation of that Policy~~
6 ~~Statement will require making clear distinctions so that the prudence of Avista's dispatch~~
7 ~~and CCA allowance transactions are appropriately reviewed in one or two well-defined~~
8 ~~proceedings.~~

9
10 ~~IV.~~III. **STAFF POSITION ON POWER COST FORECAST**

11
12 **Q. Please summarize the development of Staff's position on the power cost forecast.**

13 A. The position described below is primarily based on issues raised in my response
14 testimony, Exhibit JDW-1CT. Because many of the positions in that testimony required
15 updated modeling by Avista, and Staff also wanted to consider the positions developed
16 by other witnesses before requesting that modeling, Staff filed Data Requests 227 and
17 230 to request Avista conduct further modeling after reviewing all parties' response
18 testimony.

19 Subsequent to filing Data Request 227, I consulted informally with Avista witness
20 Kalich regarding accounting data for WEIM costs. This consultation resulted in further
21 refinement of Staff's position.

1 **Q. Please summarize Staff’s position.**

2 A. Based on Avista’s modeling in response to Staff DR-227 and DR-230, Staff recommends
3 that Avista’s system NPE forecast be increased from \$175.1 million to \$175.5 million.
4 This \$0.4 million net adjustment is comprised of three large adjustments and several
5 small adjustments that happen to nearly balance out.

6 The recommended NPE includes the \$43.1 million cost of CCA allowances
7 associated with forecast wholesale sales. If the Commission determines that those costs
8 should not be included in NPE, then the system NPE forecast should be reduced to
9 \$132.4 million.

10 **Table-21: Staff-Recommended Adjustments to Avista’s System
Power Cost Forecast for 2025**

	Adjustment	Testimony Source Exh. JDW-1TC	Exh. JDW-28C²⁶ Source
Exclude portfolio error adjustment	(65,756,061)	14:15-15:3	B-12
BPA tariff update	215,064	37:18-19	B-13
Natural gas transportation rate update	935,267	37:21-22	B-14
Omitted financial contract	(450,000)	38:6-7	B-15
WEIM costs not in Aurora	302,855	38:16-24 JDW-25 at 2	B-16
Lancaster PPA	Not relevant in 2025	40:16-41:5	
Rattlesnake Flats Wind Project	Included below	41:8-15	
Correction to start fuel error in Aurora	Included below	38:1-4	
Dispatch Colstrip to marginal fuel cost	393,293	39:2-3:7	B-20
Include CCA allowance price in dispatch and market purchases	21,591,885	31:19-22	B-21
CCA allowance cost for market sales	43,128,017	31:19-22	B-22
Total System Adjustments	\$ 360,320		

²⁶ Tab Comparison.

1 As shown in Table 32, Avista's Washington NPE revenue requirement should be
2 increased from \$112.8 million to \$113.0 million.

3 **Table 32: Staff-Recommended Washington NPE
Revenue Requirement for 2025²⁷**

Account	System NPE
555 PURCHASED POWER	187,848
557 OTHER EXPENSES	43,728
501 THERMAL FUEL EXPENSE	32,051
547 OTHER FUEL EXPENSE	122,244
565 TRANSMISSION OF ELECTRICITY BY OTHERS	28,547
Total Expense	\$ 414,419
447 SALES FOR RESALE	224,560
456 OTHER ELECTRIC REVENUE	14,375
Total Revenue	\$ 238,934
Total Net Expense	\$ 175,484
Total Washington NPE Revenue Requirement	\$ 113,012

4 In addition to including CCA allowance costs for market sales in forecast power
5 costs, the other two largest changes are removing Avista's portfolio forecast error and
6 including the CCA allowance price in dispatch and market purchases. Removal of
7 Avista's portfolio forecast of \$65,756,061 from the net power cost forecast is the largest
8 single adjustment and the adjustment amount is unchanged from my response
9 testimony.²⁸

10
11 **Q. Please summarize your review of Avista's modeling that includes the CCA allowance**
12 **price in dispatch and market purchases.**

²⁷ Wilson, Exh. JDW-28C (Tab DR230 PC Accounts).

²⁸ Wilson, Exh. JDW-1TC at 14:15-15:3.

1 A. Avista’s modeling found that including a CCA allowance price of \$71.15 per ton
2 resulted in a net increase of \$73,333,559 in power costs.²⁹ While I did not identify
3 any results that cause me to question whether Avista modeled the CCA allowance
4 price as described, I identified some small problems with how Aurora committed
5 units.

6

7 **Q. Please explain why you believe there may be some problems with how Aurora**
8 **commits units when a CCA allowance price is included in dispatch decisions.**

9 A. Avista’s modeling (using \$71.15 per ton) includes [REDACTED] hours with negative net
10 wholesale sales revenue. It is problematic to see a so-called “perfect foresight”
11 production cost model include hours with negative revenue hours.

12 Wholesale sales revenue includes sales revenue (wholesale sales times Mid-C
13 price) and the cost of emissions allowances. For purposes of understanding model
14 performance, I used Avista’s allowance price of \$71.15 per ton. While the number of
15 hours with negative net wholesale sales revenue is significant, the total amount of
16 negative net revenue is relatively small, just [REDACTED] which is less than 1 percent
17 of the total net revenue of [REDACTED]. While it would be ideal to correct this
18 issue, from the perspective of whether or not the overall NPE forecast is reasonable,
19 I do not consider this to be such a material problem that it requires immediate action.

²⁹ Wilson, Exh. JDW-28C (Tab DR227CompRev Cell F103); Exh. JDW-25 (Avista’s Response to Staff DR No. 227 Supp. 2, Supp. Response 2 to (h)). I note that Avista may have done similar modeling in response to Staff DR No. 230, but the data provided appear to have been mislabeled, and I was unable to get clarification from Avista.

1 Aurora appears to have *committed* units even when revenues from those units
2 were negative. For example, during a 36-hour period from July 5 at 11 pm to July 8
3 at 11 am, Avista’s model shows net wholesale sales revenue losses of [REDACTED],
4 most of which were incurred during a 16-hour period in which [REDACTED]
5 [REDACTED]. It seems irregular that the model would commit units at a loss
6 for such an extended period of time.

7 I considered whether Aurora may have committed units based on fuel prices,
8 but dispatched units based on both fuel and CCA allowance prices. However, I
9 learned from Avista staff that the model settings were set to include CCA allowance
10 prices in unit commitment decisions. Unless there is a software bug, Avista should
11 investigate to identify whether there is another explanation for the problematic
12 dispatch results and correct the problem in future filings.

13
14 **Q. Is the \$71.15 per ton allowance price representative of recent market prices?**

15 **A.** No. In response to a data request, Avista acknowledges that recent market prices are
16 lower, but argues that its modeled price level reasonable reflects future costs
17 considering the following factors:

- 18 • “Ecology has substantially exhausted its APCR allowances by releasing them
19 ahead of schedule,”³⁰
- 20 • “[L]inkage to California is unlikely through 2025 or longer,”³¹

³⁰ Wilson, Exh. JDW-25 (Avista’s Response to Staff DR No. 227 Supp. 2, Supp. Response 2 to (h)).

³¹ *Id.*

- 1 • “Recent market prices are lower but based on limited volumes,”³² and
- 2 • “Recent auctions have lower prices, as well, but are biased lower in the
- 3 Company’s view due to the pending citizen’s initiative to repeal the law.”³³

4 For the most part, these arguments are not reasonable because this

5 information is available to the market and is “priced in” to the market and auction

6 prices.³⁴ The only exception is the consideration of the pending citizen’s initiative to

7 repeal the CCA. That adds an element of risk that Avista might reasonably consider

8 differently than the market in its evaluation of an appropriate CCA allowance price

9 forecast.

10 However, it is clearly not the case that Avista has considered any of this

11 information in deciding to use a CCA allowance price forecast generated in 2022,

12 when none of this information was available. This *post hoc* justification should be

13 disregarded by the Commission.

14 In the absence of a better proposal, it is reasonable to rely on published

15 market forward pricing for CCA allowance prices, a practice that is consistent with

16 other practices in Avista’s power cost forecast.

³² *Id.*

³³ *Id.*

³⁴ The weighted-average CCA allowance price for auctions 4 (December 2023), 5 (March 2024), and 6 (June 2024) is \$35.85 per ton. This value is reasonably close to the ICE forward of \$38.09, which likely includes a small premium for risk mitigation. I consider the use of market forwards preferable to historical actual costs where available, but both are reasonable and one or the other may be preferred due to the circumstances in which the price forecast is being used. Wilson, Exhs. JDW-29, JDW-30, and JDW 31.

1 **Q. How did you forecast CCA allowance costs?**

2 A. Using the three scenarios in Table 43, I forecast the cost of allowances to be \$4.0
3 million for Avista’s proposal,³⁵ \$43.1 million for the CCA allowance market price,
4 and \$44.3 million for the Ecology CCA allowance forecast price. The prices I used
5 are \$25.33, \$38.09, and \$71.15 per ton, respectively, as shown in Table 43.

6 In reviewing , the Commission should note that (a) the price difference
7 between the Avista Proposal and the other two cases also includes significant
8 adjustments, including removing Avista’s “portfolio forecast error” cost proposal,
9 and (b) the Avista Proposal only applied the emissions price to two gas combustion
10 turbine units in Idaho. Notwithstanding those important differences, the three model
11 runs give an idea of the sensitivity of emissions to dispatch prices.

12 **Table 3: 2025 System NPE Forecast Using Varying Emissions Dispatch Prices³⁶**

<u>Case</u>	<u>Emissions Price per Ton</u>	<u>Forecast System NPE</u>	<u>Forecast Emissions (tons)</u>	<u>Emissions Relative to Proposal</u>
<u>Avista Proposal</u>	<u>\$25.33</u>	<u>\$175.1 million</u>	<u>3.8 million</u>	<u>n/a</u>
<u>CCA Allowance Market</u>	<u>\$38.09</u>	<u>\$175.5 million</u>	<u>3.1 million</u>	<u>-18%</u>
<u>Ecology CCA Allowance Forecast</u>	<u>\$71.15</u>	<u>\$228.8 million</u>	<u>2.3 million</u>	<u>-39%</u>

³⁵ Avista did not include this cost in proposed NPE. I calculated it based on Avista’s emissions price and the resulting emissions from the two Idaho combustion turbine units.

³⁶ Wilson, Exhs. JDW-28C (Tab Comparison); JDW-32C; JDW-33; JDW-34; and JDW-35C.

1 The \$38.09 per ton CCA allowance market price is a recent forward market
2 price for CCA allowances, which traded at about \$38 per ton according to the ICE
3 forward for December 2025 from August 1, 2024.³⁷

4 If Avista dispatches its system using a market price for CCA allowances, its
5 2025 emissions are forecast to be reduced by 18% relative to its proposal.

6 Since Avista’s responses to Staff DR 227 and DR 230 did not include
7 calculations of allowance costs, as requested, my forecast calculates allowance costs
8 on an hourly basis using the following method.

- 9 1. Calculate load net of zero-emissions generation (hydro, wind, and solar). In
10 other words, all zero-emissions generation is allocated to load first.
- 11 2. If there is additional load, then load is served using the most carbon-intensive
12 generation dispatched during the hour, in the following order: Colstrip,
13 market purchases, gas units.
- 14 3. Remaining generation is allocated to wholesale market sales.³⁸
- 15 4. Emissions are calculated using Ecology-approved emissions factors
16 (tons/MWh).
- 17 5. Emissions costs are calculated as emissions times the allowance price (\$/ton).

18 This method is suggested because it maximizes the benefits of no-cost CCA
19 allowances to retail customers.

20
³⁷ Wilson, Exh. JDW-27.

³⁸ In the case of Avista’s proposal, if gas generation was allocated to wholesale market sales, allowances were calculated based on the minimum (a) gas generation allocated to wholesale market sales and (b) generation of the two Idaho gas combustion turbine units. This simplified method should be approved on if the Commission approves Avista’s proposal.

1 Q. Is the use of a CCA allowance market price economically sound?

2 A. Yes, considering the basic economics, it is cost-efficient for Avista and other
3 Washington utilities to include the cost of CCA allowances in their dispatch
4 decisions. If Avista can sell a carbon allowance for \$40 per ton, and it costs Avista
5 \$39 per ton to reduce its emissions, then the net benefit to Avista’s customers is \$1
6 per ton. For this basic reason, economic principles argue in favor of using the market
7 price for CCA allowances in operational dispatch decisions.

8 In contrast, if Avista dispatches as if it can sell a carbon allowance for \$96
9 per ton, but it can only sell a carbon allowance for \$40 per ton, the \$56 per ton
10 difference represents a loss of revenue that will increase Avista’s NPE. The
11 Commission may find this difference justified, but it should consider the
12 implications of this market inefficiency in its decision.

13 I will also note that from a strict economics point of view, the quantity of no-
14 cost carbon allowances provided by Ecology to Avista should be irrelevant to
15 Avista’s dispatch decisions. As illustrated in the example above, decisions to
16 dispatch can create costs or value in the form of carbon allowance revenue just as
17 surely as they can also create costs or value in the form of market power
18 transactions. However, this “strict economics” point of view does not consider risks
19 associated with the lack of foresight of carbon allowance supply, demand, and prices.

1 **Q. If Staff determines that AWEC witness Mullins' adjustment for the California-**
2 **Oregon Border (COB) market should be adopted, what effect would that have?**

3 A. The following adjustments would be made to Staff's position:³⁹

- 4 • Revise System Account 447 from \$224,560 to \$224,820;
- 5 • Revise System Total Revenue from \$238,934 to \$239,195;
- 6 • Revise System Total Net Expense from \$175,484 to \$175, 224; and
- 7 • Revise Washington NPE Revenue Requirement from \$113,012 to \$112,844.

8
9 **Q. What net power cost forecast are you supporting?**

10 A. I am supporting 2025 NPE of \$175,484, as summarized in Table 32 and a Washington
11 NPE Revenue Requirement from \$113,012, as summarized in Table 32. ~~If the~~
12 ~~Commission determines that it should use the SCGHG price for allowances, I~~
13 ~~recommend that Avista be directed to file a compliance filing providing an updated~~
14 ~~forecast using an emission price of \$96 per ton, and also including all the~~
15 ~~adjustments included in Table 2.~~

16
17 **Q. Does this conclude your cross-answer testimony?**

18 A. Yes.

³⁹ Wilson, JDW-28C (Tab DR 230 PC Accounts).