

Agenda Date: February 22, 2024  
Item Number: A2

**Docket:** UG-231044  
**Company:** Avista Corporation d/b/a Avista Utilities

**Staff:** Chris McGuire, Regulatory Analyst – Energy Rates and Services

### **Recommendation**

Staff recommends the Commission take no action, thereby allowing the revised tariff sheets, filed by Avista Corporation in Docket UG-231044 on December 22, 2023, to go into effect on March 1, 2024, by operation of law.

### **Summary of Filing**

On December 22, 2023, in Docket UG-231044, Avista Corporation d/b/a Avista Utilities (Avista or Company) filed with the Washington Utilities and Transportation Commission (Commission), proposed revisions to rates under natural gas Tariff WN U-29, Schedule 162, Climate Commitment Act (CCA) Temporary Schedule. The new tariff sheets bear an effective date of March 1, 2024.

With this filing, Avista seeks to establish a new, temporary tariff schedule to pass on to customers CCA compliance costs and auction proceeds that the Company recorded in calendar year 2023 and deferred as authorized per Order 01 of Docket UG-220803. Avista proposes that Schedule 162 expire on February 28, 2025, after the 12-month amortization of the 2023 deferral balances.

Avista’s proposed Schedule 162 would establish a “CCA charge” rate to collect \$47.4 million in deferred expenses related to allowance purchases and establish a “CCA credit” rate to return to customers \$37.2 million in deferred revenues related to proceeds from no-cost allowances consigned to auction. The net effect of the proposed revisions is a \$11.2 million increase in annual revenues, or 4.1 percent. A typical residential customer using 64 therms per month would see an increase of \$3.27 per month, or 3.5 percent.<sup>1</sup> Known low-income customers would receive a credit that fully offsets the increase in the CCA charge rate, resulting in a \$0.00 rate change.

### **Background**

***Climate Commitment Act.*** On April 24, 2021, the Washington State Legislature passed the CCA through Engrossed Second Substitute Senate Bill 5126, codified as RCW 70A.65. The CCA established a “cap and invest” program that sets a declining cap on greenhouse gas emissions (GHGs) from covered entities, including natural gas utilities, and is intended to reduce emissions in the state by 95 percent by 2050.<sup>2</sup> Under the CCA, in 2023 natural gas companies receive no-

---

<sup>1</sup> A typical residential customer with a premise connected to the system after July 25, 2021, and using 64 therms per month would see an increase of \$14.76 per month, or 15.8 percent.

<sup>2</sup> RCW 70A.45.020.

cost allowances equal to 93 percent of baseline emissions,<sup>3</sup> with 65 percent of those no-cost allowances required to be consigned auction.<sup>4</sup> Companies can purchase allowances through auctions sanctioned by the Department of Ecology or on the secondary market.

***Petition to Defer January-September 2023 Costs and Revenues.*** On November 1, 2022, in Docket UG-220803, Avista filed a petition for an accounting order authorizing the deferral of costs and revenues related to the CCA. On February 28, 2023, the Commission entered Order 01 granting Avista's petition, allowing Avista to begin deferring CCA costs and revenues beginning January 1, 2023.

***Initial Sch. 162 Tariff Filing (Current Filing).*** On December 22, 2023, in Docket UG-231044, Avista made the current filing in which the Company is proposing a new, temporary tariff Schedule 162 to pass through to customers the 2023 CCA compliance costs and auction proceeds the Company deferred pursuant to Order 01 of Docket UG-220803.

## **Discussion**

### ***Level-setting on this Filing***

The rates Avista proposes in this filing pertain to allowance costs and auction proceeds that the Company incurred (and deferred) in a prior period; namely, in calendar year 2023. As such, Avista's proposed Schedule 162 would serve as a temporary schedule with the sole purpose of enabling Avista to clear the deferral balances that accumulated during 2023. The purpose of this filing is not to establish a permanent tracking and true-up mechanism for going-forward CCA compliance costs and auction proceeds. Avista intends to make that filing later this year.

Given that the purpose of this filing is only to clear the deferral balances that accumulated over a prior period, the Commission need not at this time address the policy concerns pertaining to cost recovery mechanisms for going-forward CCA compliance costs and auction proceeds (such as establishing a risk-sharing mechanism, establishing a price signal for carbon, ensuring rates are set to match prospective CCA compliance costs, etc.).

### ***Costs and Revenues at Issue in this Filing***

In this filing, Avista seeks to recover \$47.4 million associated with allowance purchases and pass on to ratepayers \$37.2 million in proceeds from the sale of no-cost allowances. Staff has reviewed the workpapers Avista filed in support of its proposed rates, including the confidential

---

<sup>3</sup> WAC 173-446-210(1). Each company's allocation of no-cost allowances will decrease by 7 percent per year after 2023. Each allowance is equivalent to one metric ton of GHGs.

<sup>4</sup> RCW 70A.65.130(2)(a). The amount required to be consigned to auction will increase by 5 percent per year after 2023.

workpapers that the Company filed on January 26, 2024, and believes that the proposed rates reasonably reflect the CCA compliance costs and revenues that the Company incurred in 2023.<sup>5</sup>

However, Staff wishes to make it clear to the Commission that Staff has not performed a comprehensive prudence examination of the CCA compliance costs or auction revenues at issue in this filing. As Staff has noted in previous CCA tariff filings,<sup>6</sup> Staff believes that the Commission should make a final prudence determination only after each four-year CCA compliance period has concluded. Furthermore, a portion of the allowance costs Avista identified in this filing were (and remain) estimates,<sup>7</sup> so the total allowance costs Avista presents for 2023 cannot be considered “final” at this time. Since the costs presented in this filing are not yet final, it would be premature to render a final prudence determination on those costs regardless.

### *Noteworthy Issues*

While Staff does not at this time contest Avista’s proposed Schedule 162 rates or the costs and revenues upon which those rates are based, there are a few noteworthy aspects to Avista’s filing that Staff wishes to call to the Commission’s attention. Those aspects are:

1. A nonvolumetric charge rate for Schedule 101 residential customers (but a volumetric charge rate for all other schedules),
2. A flat, non-seasonal nonvolumetric credit rate for Schedule 101 residential customers (but a seasonal credit rate for all other schedules),
3. A cap on the monthly CCA credit that is set at 75 percent of the monthly CCA charge, and
4. Identification of neither the CCA charge nor the CCA credit as line items on residential (Schedule 101) customer bills (but identification of both the CCA charge and the CCA credit as line items on customer bills for all other schedules).

I address each of these issues in turn, below.

1. Non-volumetric charge rate for Schedule 101 residential customers

In this filing, Avista proposes a *nonvolumetric* charge rate for Schedule 101 residential customers. That is, under Avista’s proposed Schedule 162, all residential customers would be charged the same flat amount each month, regardless of the amount of gas they consume (and, accordingly, regardless of the amount of carbon they emit).

---

<sup>5</sup> After accounting for Avista’s proposal to cap the CCA credit at 75 percent of the CCA charge, as discussed in further detail below.

<sup>6</sup> Docket UG-230756, Open Meeting Memorandum of Commission Staff at 3 (October 26, 2023).

<sup>7</sup> Specifically, in its initial filing Avista included an estimate for the allowance purchase costs the Company expected to incur in December 2023. Avista did not update its filing when actuals for December 2023 became known to the Company.

Staff is concerned that a nonvolumetric charge rate severs the link between a customer's carbon emissions and the cost that customer must pay for its carbon emissions. However, given that Avista's proposed rates concern CCA compliance costs from a prior period, the going-forward rates Avista proposes are not meant to reflect the CCA portion of Avista's cost of service in the rate-effective period and, further, cannot serve as a price signal to customers for customers' emissions during that same period. Therefore, Staff does not believe it is necessary in this docket to adjudicate the question of whether it is inappropriate for Avista to charge its residential customers a nonvolumetric charge rate.

However, as Avista considers its forthcoming proposal for a permanent tracking and true-up mechanism for going-forward CCA compliance costs and auction proceeds, Staff does wish to put Avista on notice that, if the Company proposes a nonvolumetric charge rate for residential customers, Staff is likely to recommend the tariff be suspended and set for hearing.

Staff's position at this time is that a nonvolumetric charge rate does not follow fundamental cost-of-service principles,<sup>8</sup> inappropriately eliminates the price signal each customer would experience for their carbon emissions, and unfairly requires lower-usage customers to subsidize the carbon emissions costs of higher-usage customers.

## 2. Non-seasonal, non-volumetric credit rate for Schedule 101 residential customers

In this filing, Avista proposes a *non-seasonal* credit rate for Schedule 101 residential customers. Ordinarily, a *seasonal* credit rate is appropriate as it provides customers with a larger credit during months of high usage. This is especially important if customers are charged a volumetric CCA charge rate because, during months of high usage, a customer's charge would be accordingly relatively high. Thus, a seasonal credit rate would allow for higher customer credits during months when volumetric CCA charges are relatively high.

While a seasonal credit rate should be paired with volumetric charge rate, a non-seasonal credit rate should be paired with a nonvolumetric charge rate, which is what Avista has proposed in this filing for its Schedule 101 residential customers. If customers are charged a flat amount each month (i.e., if the charge rate is nonvolumetric), there is no reason to impose a seasonal shape on the credit rate. Therefore, if the Commission accepts Staff's recommendation to allow Avista's proposed nonvolumetric charge rate to go into effect, the Commission should also allow Avista's proposed non-seasonal credit rate to go into effect.

---

<sup>8</sup> The CCA effectively established a price of carbon, so basic cost-of-service principles would imply that all customers (including Sch. 101 residential customers) should be charged according to the amount of carbon they generate through their consumption of natural gas. Given that the amount of carbon emitted is proportional to the amount of natural gas consumed, it follows that each customer's CCA charge should be based on that customer's volumetric gas usage (i.e., the Charge rate should be volumetric for all customers).

3. Monthly CCA Credit Capped at 75 percent of the Monthly CCA Charge

In this filing, Avista proposes to cap the amount of the monthly CCA Credit at 75 percent of the CCA Charge for all schedules that would have a volumetric CCA Charge (i.e., for all customers except residential Schedule 101 customers). Avista proposes to set the cap at 75 percent because, for the Company's commercial and industrial customers, the revenues from consigned allowances assigned to those schedules was approximately 75 percent of the allowance costs assigned to these schedules. Avista argues that capping the credit is necessary given the significant variability of customer size on certain schedules (particularly Schedules 111 and 146). Avista claims that if the CCA Credit were not capped, it is possible that for smaller customers on those schedules the CCA credit would fully offset the CCA charge, leaving only the larger customers on those schedules to bear the full CCA cost burden for the entire customer class.

Staff agrees with Avista that it would be an inequitable outcome if only the larger customers on certain schedules were required to bear the cost of CCA compliance allocated to those schedules. Staff also finds Avista's rationale for capping the credit at 75 percent of the monthly CCA charge to be reasonable. Therefore, Staff supports Avista's proposal to cap the monthly credit at 75 percent of the monthly charge for the Company's commercial and industrial customers.

4. CCA Line Items on Customer Bills

In this filing, Avista proposes to identify *neither* the CCA charge *nor* the CCA credit as line items on residential (Schedule 101) customer bills. However, for all other schedules, Avista proposes to identify *both* the CCA charge and the CCA credit as line items on customer bills.

Avista's proposal to identify neither the CCA charge nor the CCA credit as line items on residential customer bills, but to identify both the CCA charge and the CCA credit as line items on all other customers' bills, could be considered inconsistent with prior Commission direction on this issue. In its August 3, 2023, order allowing PSE's CCA tariff rates to become effective subject to conditions, the Commission required PSE to identify the CCA credit – but not the CCA charge – as a line item on customer bills.<sup>9</sup> In this filing, Avista proposes to not identify the CCA credit (or the CCA charge) as a line item on residential customer bills.

While Staff is concerned that Avista's proposal appears to be at odds with the Commission's direction on this issue, Staff notes that the circumstances here are somewhat different than those present when the Commission entered Order 01 of Docket UG-230470. In PSE Docket UG-230470 the Commission was considering proposed rates that were calculated to recover the costs PSE forecasted for the rate-effective period. With rates and emissions costs matched to the same period, theoretically customers experience a price signal that is a real-time reflection of the costs the utility must pay for its emissions. So, with rates set to recover prospective costs, the question of how (or whether) to make that price signal clearer by calling it out on customer bills is particularly salient.

---

<sup>9</sup> *WUTC v. Puget Sound Energy*, Docket UG-230470, Order 01 at 5, ¶19 (August 3, 2023).

In the current filing, Avista's proposed rates pertain only to deferral balances that the Company accumulated in 2023. Avista's proposed rates do not concern CCA compliance costs that the Company will incur during the rate-effective period and, as such, the proposed rates cannot serve as a direct price signal for those costs. Therefore, Staff does not believe it is necessary to address this issue in this filing and, accordingly, does not at this time contest Avista's proposals to identify neither the CCA charge nor the CCA credit as line items on residential customer bills, and identify both the CCA charge and the CCA credit as line items on all other customers' bills.

### **Comments of Interested Parties**

On February 8, 2024, Northwest Energy Coalition (NVEC) filed comments in this docket. In its comments, NVEC expresses its opposition to Avista's proposal to collect CCA compliance costs from Schedule 101 residential customers through a fixed charge (i.e., through a nonvolumetric charge rate) on the basis that a nonvolumetric charge rate is inconsistent with cost-of-service principles.

While Staff agrees with NVEC that, as a general matter, a nonvolumetric charge rate is inconsistent with cost of service principles, as I discuss in more detail above, the rates Avista proposes in this docket are to clear the deferral balances that the Company recorded in 2023 and, thus, are not intended to reflect the utility's cost of service (in this case, the utility's cost of CCA compliance) during the rate-effective period. Staff's position is that a volumetric charge rate for residential customers should be established as part of Avista's permanent, forward-looking cost recovery mechanism (which the Company plans to file later this year).

In its comments, NVEC also recommends that the Commission ask Avista to work with interested parties to establish a risk-sharing mechanism before filing a permanent cost recovery mechanism for CCA costs in 2024. Staff supports NVEC's recommendation and believes there would be value in the Commission offering its expectation on the record at the Open Meeting.

### **Customer Comments**

As of February 15, Staff has not received any comments from the public on this filing.

### **Conclusion**

While Staff has concerns with certain aspects of Avista's proposed Schedule 162 rates Staff believes that those concerns are more appropriately addressed at a later date when Avista seeks to establish a permanent cost recovery mechanism for going-forward CCA compliance costs and auction proceeds.

Staff has reviewed Avista's filing and finds the 2023 deferral balances to be reasonable bases for the proposed CCA charge and credit rates. Staff therefore recommends the Commission take no

**Docket UG-231044**

**February 22, 2024**

**Page 7**

action on this item, thereby allowing the revised tariff sheets, filed by Avista Corporation on December 22, 2023, to go into effect on March 1, 2024, by operation of law.