



NW Energy Coalition
for a clean and affordable energy future

August 1, 2023

Via Electronic Filing

Attn: Amanda Maxwell, Executive Director and Secretary
Washington Utilities and Transportation Commission
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Re: NW Energy Coalition's Comments on Avista 2023 Electric Integrated Resource Plan Progress Report (Docket UE-200301) and 2023 Gas Integrated Resource Plan (Docket UG-220244)

Dear Director Maxwell:

The NW Energy Coalition ("NWEC" or "Coalition") appreciates the opportunity to comment on Avista's 2023 Electric Integrated Resource Plan Progress Report and 2023 Gas Integrated Resource Plan ("IRP"), as provided by the Notice of Opportunity to File Written Comments issued June 27, 2023.

The Coalition is an alliance of over 100 environmental, civic, and human service organizations, progressive utilities, and businesses. Our mission is to advance clean, equitable, and affordable energy policies in Oregon, Washington, Idaho, Montana and British Columbia. We envision the Northwest comprised of communities that benefit from a carbon-free energy system that equitably meets the needs of people and preserves the region's natural resources.

We have filed multiple comments on Avista Utilities' 2021 Integrated Resource Plan (Dockets UE-200301/UG-190724), intervened in Avista's 2022 General Rate Case (UE-2200530/UG-220054), and NWEC staff participates as members of Avista's IRP Advisory Group, Energy Efficiency Advisory Group, and Low-income Advisory Group. These comments are in addition to feedback provided by NWEC staff at advisory group meetings.

We appreciate the work of Avista staff and the members of the advisory groups, who have committed a significant amount of time and effort into developing the 2023 IRP, and we look

forward to continuing to work with the Company, Commission staff, and other stakeholders to continue to make progress on the issues raised in stakeholder comments.

2023 Electric IRP Progress Report

We would first like to commend Avista for presenting a clear and detailed analysis, providing work products, and responding to stakeholder questions throughout the development of the Electric IRP, and are happy that Avista is using WRAP program metrics for resource adequacy and capacity planning.

We acknowledge that with Avista's existing resources and planning, the Company is well set up for the rest of this decade to meet its clean energy targets and to build out its toolbox for continued load growth and CCA compliance. While along this path and preparing for the path beyond 2030, we believe that Avista can better serve its customers by moving beyond reliance on alternative compliance, continuing to invest in energy efficiency (EE), and integrating electric and gas system planning. We further detail our suggestions in the comments below.

The electric IRP does not show that the 2030 CETA standard can be met primarily with renewable and non-emitting resources. Instead, Avista's preliminary targets from 2030 onward uses the maximum amount of alternative compliance options. Across its system, Avista has enough clean energy to meet the 2030 CETA standard. However, the Company's compliance strategy relies on using renewable energy credits ("RECs") from existing clean energy resources that do not directly serve its Washington customers. That is not the intent of the equitable clean energy standard that CETA sets for WA. **We recommend that Avista continue to consider how it can reduce projected reliance on alternative compliance starting in 2030 such that its clean energy resources directly benefit its Washington customers.**

A trend appearing across many of Washington's utilities is the expectation and preparation for reduced energy efficiency targets due to lower avoided costs and lower potential opportunities. Avista is no exception. We disagree with Avista's plan to back away from energy efficiency. The ACEEE State Energy Efficiency Report Card is clear that Washington (and Oregon) has some of the best energy efficiency programs in the country, but that there is more to do and that other states are starting to catch up.¹

ACEEE found that, although WA continues to have some of the strongest policies supporting energy efficiency, energy efficiency acquisition is falling. Of particular concern is the state's performance in the category of **"utility and public benefits programs and policies", where WA scored less than half of potential points.** The largest contributing factor to the downgrade

¹ <https://www.aceee.org/research-report/u2206>

was 2021 electricity sector savings. **Overall savings in WA represented only 0.76% of load, whereas the top states achieve savings in the range of 1.2% - 2.2% of load.** ^[1]

Many factors contribute to the reduction in savings, not the least of which is low market prices for renewable energy – a condition also discussed in the 2021 Power Plan and also frequently discussed by Avista’s planning staff. However, the NW Power and Conservation Council has acknowledged that its model does not easily capture all of the benefits of energy efficiency, and in particular, some risks that utilities in the region currently face are not easily captured:

1. **Some power system attributes, including adequacy, flexibility, and resilience.** These are supported under the Northwest Power and Conservation Act but are not readily valued in the Council’s portfolio model.
2. **Hedging against the risk that comparable resources, like utility scale wind, solar, or storage, may not be available and reliable within the time needed to meet power system needs.**
3. **Uncertainty about future sustained low market prices.** (During weeks when Mid-C prices are over \$400/MWh, we are sharply reminded that falling behind on our EE acquisition exposes customers to fuel price volatility.)
4. **Growing decarbonization goals for specific jurisdictions.** Particularly, with legislation focused on reducing utility customers’ reliance on the gas system, the role of EE in reducing electric system costs becomes even more important.
5. **Equity.** EE directly reduces energy burden, while supply-side resources do not.
6. **Value of maintaining a robust EE infrastructure.** Maintaining the ability for programs in the region to deliver energy efficiency is critical, even if savings temporarily become more expensive.

As Washington utilities implement recently passed clean energy policies, energy efficiency must be a central tool to reduce emissions and advance equity. We must step up our energy efficiency savings targets substantially in the very near term, while we also get to work on updating the cost-effectiveness methodology to capture these risks and benefits. We hope Avista will step up as a leader on this front.

The extended discussion of the market context and modeling analysis in Chapter 8 is clear and informative. However, we want to note that there is no discussion of the evolution of regional power markets. The two day-ahead market proposals on the table — SPP Markets+ and the CAISO Extended Day Ahead Market (EDAM) — are not discussed at all. Both of these proposals have advanced rapidly and tariff filings with the Federal Energy Regulatory Commission are anticipated within the next six months. Many utilities and other entities across the west are considering these developments, and many, including Avista, may proceed to join one of the day-ahead markets within the next year, well ahead of the next full IRP.

We also see the dilemma of trying to assess market designs in this fluid context, but clearly the forthcoming tariff filings and market choices will have a profound impact across the western grid, including on Avista and its customers, affecting many aspects of system operation and the choice of new resources going forward.

The IRP does refer to the anticipated positive impacts of the Western Resource Adequacy Program (a program, not a market), and Avista correctly identifies the complementary effects of the WRAP and day ahead market(s):

“With development of the Western Power Pool’s WRAP program and once operational with binding requirements, Avista will likely increase its market reliance threshold by adopting lower PRM values compared to those used today.” (IRP, page 4-17)

Decreasing the need to hold reserves is one of the key benefits of the evolving WRAP and day-ahead market, and that reverberates through all aspects of system operation and future resource selection, including customer side and storage resources. All of this is relevant to the present and future IRP filings.

We encourage Avista and the Commission to view future market development first and foremost through the lens of customer value, and as a key tool to achieve public policy including clean energy, climate, and equity goals.

The choice is not only of market structure but also scope. The available evidence indicates a strong preference for the largest possible day-ahead market in the west, for four reasons.

First, the widest possible day ahead market footprint, which would be accomplished with the EDAM, will build directly on the Western EIM. That will significantly decrease development costs and extend what has already achieved over \$4 billion in benefits and is especially important during conditions of system stress and high market prices.²

Second, a single western day ahead market will enable the greatest range of both load and resource diversity in meeting operational needs and constraints. The net regional benefits compared to multiple markets could be in the hundreds of million dollars per year.

² See "Western Energy Imbalance Market exceeds \$4 billion in total benefits Nearly \$800 million in benefits have been generated for entities since January" <https://www.westerneim.com/Documents/western-energy-imbalance-market-exceeds-4-billion-in-total-benefits.pdf>

Third, a single western market will also reduce or avoid complex and expensive seams agreements and ongoing operational issues.

Finally, a single day-ahead market will pave the way to develop a full-featured western regional transmission organization (RTO) which can add additional features and benefits to the core market structure.

Review of this IRP should take this broader market context into account, and Avista should review the specific market options in its next IRP. Just as the WRAP offers the opportunity to reduce PRM through broad western coordination, the energy, capacity and flexibility benefits of moving in steps from the EIM to EDAM to a full western RTO will reduce the constraints and increase the value of the resource strategy enabled in the Avista IRP.

The IRP follows traditional practice for projecting future natural gas wholesale prices (which then have a substantial effect on power markets, as described in depth in the IRP). However, as we have stated for many years, it is important to consider alternate scenarios that incorporate production decline trends in shale and similar gas formations (noting that these “unconventional” sources now provide the majority of domestic gas production). Furthermore, the domestic market is under growing supply and price pressure from rapidly increasing LNG exports, now running at 15% of domestic production, as well as significant near-future impacts of export of Canadian and Rockies gas from terminals in British Columbia to Asian markets, which will tighten the supply-demand balance for Northwest gas markets.³ Those factors are thoroughly reviewed in the Avista gas IRP but not incorporated here.

We are not asking for a complete overhaul of the gas price forecast in the IRP, but rather taking a more balanced view of the multi-analyst blended forecast (“expected”) and the alternate “high” forecast (see Figure 4.4). **More attention should be devoted to differences between these two trajectories in model runs and other analysis, and the impact on a wide range of issues including power market prices, effects on market dispatch, the value of customer side and storage resources, and more.**

Furthermore, the extended natural gas wholesale price break of November 2022-January 2023 and should be reviewed for lessons learned. While this episode primarily involved price surges at west coast trading hubs from Sumas to SoCal Citygate, and the impacts on interior pricing points were more muted, it is possible that these scarcity effects could re-emerge on short notice and at multiple points across the year. These short-term effects are intertwined with the broader market trends noted above – eventual plateau and terminal decline of shale gas

³ <https://www.eia.gov/naturalgas/weekly/#tabs-supply-2>

production, LNG export effects, and increasing interregional competition for gas supply across North America.

2023 Gas IRP Report

The 2023 Natural Gas IRP is Avista’s first IRP conducted since the passage of the 2021 Climate Commitment Act (“CCA”). CCA created a cap-and-invest program, administered by the department of Ecology through an economy-wide emissions trading system. This program imposes a new compliance obligation on natural gas utilities, which they must consider in all aspects of their business, including integrated resource planning.

NWEC’s comments on Avista’s 2023 Natural Gas IRP are informed by NWEC’s Resolution on Gas Utility Decarbonization, which was adopted by a consensus vote of our membership on May 18th.⁴

We are happy to see that climate change predictions have been included into Avista’s resource and load modeling, that Inflation Reduction Act incentives are included in customer-side and supply-side resource costs, and that the greenhouse gas pricing and the Climate Commitment Act have been included in analyses that developed the 2023 Natural Gas IRP. We are also pleased that Avista incorporated building electrification forecasts into the modeling of customer growth and some of the resource portfolio scenarios.

Despite electrification forecasts being included in various modeling, electrification does not appear to be a strong consideration as a tool for compliance with the Climate Commitment Act. The IRP primarily discusses the use of offsets, allowances, and renewable natural gas as CCA compliance mechanisms. We are concerned that Avista will rely exclusively on the purchase of allowances or use of offsets to meet CCA obligations. These compliance pathways do not provide the same direct benefits to customers as other decarbonization measures, such as electrification, deep energy retrofits, and customer-side resources.

As customers electrify heating loads, it will be important for dual-fuel utilities like Avista to better integrate gas and electric system planning and consolidate some planning processes. Regular feedback from the Commission will likely lead to better results. It is necessary for a dual-fuel utility like Avista to integrate electric and gas planning to fully capture decarbonization options and optimize resources to achieve the lowest reasonable cost and risk. An integrated system plan should consider loads and resources across both systems down to the distribution and customer level. The planning model should solve for the optimal decarbonization pathway across both systems that also addresses needs for reliability, equity, and statutory requirements. To accomplish this, it may be necessary to completely rethink the way Avista conducts

⁴ <https://nwenergy.org/wp-content/uploads/2023/05/NW-Energy-Coalition-Resolution-Regarding-Gas-Utility-Decarbonization-May-18-2023.pdf>

integrated resource planning. We urge a coordinated process to reimagine Avista’s planning paradigm for the 2025 planning cycle to better address the evolving policy and market landscape for decarbonization in Washington.

As a first step, Avista should incorporate its electrification assumptions into both its gas and electric demand forecasts. We see that this was done in the electric IRP (Avista 2023 Electric IRP, Chapter 2: Economic & Load Forecast, pg. 2-15) but are confused as to why the gas IRP “does not include fuel switching in the demand forecast, but rather includes specific fuel use electrification as a resource option for both commercial and residential customers.” (Avista 2023 Natural Gas IRP, Chapter 3: Demand-Side Resources, pg. 3-14)

We recommend that gas utilities incorporate decarbonization pathways into all planning, with the goal of identifying the lowest reasonable cost pathways to decarbonize the overall energy system including the gas system, in accordance with the timelines required by science, and consistent with Washington’s statutory greenhouse gas limits. Gas utilities should also continually examine their business model, and proactively propose and adopt business model reforms to adapt to the changing regulatory environment.

Given Washington’s climate policies, it is not reasonable for gas utilities to assume that historic customer growth rates will continue, nor is it reasonable *not* to plan for a substantial reduction in traditional natural gas use. Avista is wisely planning for no new customer growth. However, when describing its Washington preferred resource strategy in Chapter 6, the Company states that it “does not expect a significant reduction in traditional gas use with the CCA prices assumed” through 2045. Figure 6.22 shows that instead of reducing its natural gas use, Avista plans to maintain its current level of use by purchasing increasingly more allowances. Avista’s planned over-reliance on allowances, and thus failure to reduce emissions, could be alleviated with more thoughtful consideration of demand-side management— a resource option with shockingly minimal allocation as shown in the Washington preferred resource strategy. **We recommend that Avista look for more opportunities to use demand-side management (energy efficiency, demand response, flexible load) as a tool to decrease reliance on allowances and reduce emissions.**

Gas utilities should consider a wide variety of decarbonization programs and measures that are available to customers and that maintain affordable energy services, and compare them on a level playing field, supporting fair competition and without bias, to develop a lowest reasonable cost and risk approach to decarbonization. We don’t believe Avista has achieved this goal in its 2023 Natural Gas IRP.

Avista should pursue more energy efficiency, demand response, and electrification beyond what is deemed cost-effective in order to mitigate fuel price and allowance price risk. Going

forward, the Commission should not accept any gas utility plan that simply passes allowance costs on to customers without reducing emissions. Such a strategy would be inconsistent with the principles of lowest reasonable cost planning and prudent utility practice, as it exposes customers to increasing compliance cost risk, and is likely costlier in the long-term than strategies that actually reduce gas system emissions. Based on our review of Avista's 2023 Natural Gas IRP, we believe that the Electrification - Expected Conversion Costs Alternative Scenario should be Avista's preferred portfolio, as it is a more reasonable solution for reducing greenhouse gas emissions at the pace necessary to meet the state's greenhouse gas limits, which are based on the most recent climate science.

Under this logic, it would be prudent for the utility to pursue customer-side resources beyond the levels dictated by the Commission's current cost-effectiveness methodology to ensure that Avista will meet its proportional share of statewide greenhouse gas reductions, and to prudently manage risks to customers.

Avista should include assumptions around Inflation Reduction Act (IRA) incentives for other home appliances (e.g., induction cooktops, ranges, heat pump dryers) in its Electrification Scenario Customer Forecast. In the Electrification Scenario Customer Forecast (Figure 2.2), Avista illustrates the electrification impact of the Washington Building Code Council's code changes for new commercial and residential construction. We agree that revisions to building code policy, which requires heat pumps for space and water heating, will be the significant driver in building electrification within the state. As the IRA makes new electrification incentives available for the first time in an IRP cycle, they should be included as an assumption in electrification forecasts as these incentives will undoubtedly contribute to the electrification of Avista's natural gas customers.

We further note the gas transition requirements detailed in section twenty-one of Avista's 2022 general rate case (GRC) settlement that pertain to Avista's 2023 Natural Gas IRP:

- GRC requirement 21(A). Avista has met this requirement.
- GRC requirement 21(B). Avista integrated consideration of non-pipe alternatives into the distribution planning process in Chapter 8. However, while the single paragraph under the "None-Pipe Alternatives" section (pg. 8-9) checks the box, it lacks a thoughtful consideration that summarizes for readers how Avista could use demand-side management measures in its gas distribution planning process. A summary would be more helpful to the reader than having to search through every chapter to understand the bigger picture of how each measure fits together with each other and in the larger plan.

- GRC requirement 21(B). We look forward to discussing how demand-side management measures or programs may be best used as a non-pipe alternative in a future discussion with the Energy Efficiency Advisory Group.
- GRC requirement 21(C). Avista is meeting this requirement.
- GRC requirement 21(D). No decarbonization plan was found in the IRP or accompanying documents.
- GRC requirement 21(D)(i). Supply curves are found in the workpapers and supporting documents filed on 5/2/23. The decarbonization resources that Avista's supply curves show include green hydrogen, synthetic methane, RNG, and community climate investment (CCI) credits. Avista should also consider a supply curve for energy efficiency or electrification measures. While not required, these curves would enable further consideration of these resources in Avista's decarbonization strategy.
- GRC Order. We recommend that Chapter 5 (Policy Issues) include a summary of the 2022 GRC order and settlement agreement (UG-220053, et. al) as they pertain to Avista's 2023 Electric IRP Update and Natural Gas IRP. As this GRC drives changes in the 2023 IRPs, it is an important context for any reader to know about, and for the Commission to consider in its review of the IRP.

Finally, we acknowledge that Avista plans to explore methods for using non-energy impact values in future IRP analysis to ensure equitable outcomes for the actions planned for and described in this IRP. We encourage the company to advance and incorporate this work into the current planning process to the extent that it is possible now.

Thank you for considering our comments.

Respectfully submitted,

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