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VIA – Commission Web-Portal

Mark L. Johnson
Executive Director and Secretary
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive S. W.
P.O. Box 47250
Olympia, Washington 98504-7250

Re: Avista Response Comments - Docket UE-161024

Dear Mr. Johnson,

Avista Corporation, dba Avista Utilities (Avista or Company), submits the following comments in accordance with the Washington Utilities and Transportation Commission's ("Commission") Notice of Opportunity to Submit Written Comments ("Notice") issued in Docket U-161024 on April 17, 2018 regarding Rulemaking for Integrated Resource Planning (IRP), WAC 480-100-238, WAC 480-90-238 and WAC 480-107.

I. INTRODUCTION

Avista has followed this docket with interest since its inception and has been an active participant in the related discussions and the workshops. As explained below, our Company believes the long-term success of our business is founded on identifying and meeting our customers' evolving energy services needs at what we refer to as the "edge of the grid," or "Grid Edge." The Commission's interest in promoting the consideration of alternative, non-wires solutions in electric distribution planning is aligned with Avista's perspective on the direction our industry must move in order to remain relevant into the future. We appreciate the opportunity to

provide comments on the draft rules related to electric system planning, and to share our perspectives on key differences between electric and natural gas systems, their planning needs and respective opportunities.

II. AVISTA'S PERSPECTIVES ON THE FUTURE OF ELECTRIC DISTRIBUTION SYSTEM PLANNING

A host of new technologies is dramatically changing the way electricity will be generated, delivered, and used by our customers. These technologies, accompanied by parallel changes in the retail regulation of electricity, are responsive to the desire of customers to be more empowered and to assert more control of their own energy future. Avista believes its own success depends on our ability to not only embrace this change but to incorporate these new realities into a more-customer-and-technology-centric business model. To be successful, this model must be accompanied by regulatory changes that facilitate a rapid transition while at the same time shielding those customers who may not choose to participate from bearing unreasonable societal costs required to support this transformation. Simply ignoring the changing role of the electric distribution system to that of a more transactional network may also expose our shareholders to an unreasonable risk. This could occur by sticking with a conventional approach to distribution system planning and investments that could miss the mark from a customer-needs perspective, and consequently, increase the risk that a portion of our shareholders' investment could be stranded from recovery.

Avista has taken a number of steps over more than a decade to help position our Company to better meet the changing needs and interests of our customers through the deployment of a range of new technology solutions. These technologies have helped us better optimize our utilization of the electric distribution system, to lower electricity costs for our customers, to maintain and uphold our system reliability in high-density service areas, to promote the development of electric transportation, and to learn more about how to effectively integrate, utilize, and optimize distributed energy resources. We have quickened our pace in recent years in anticipation of the time when the per-kWh-cost of customer-owned electric generation, particularly solar, will fall below that of the embedded cost of Avista's own generating portfolio. This development, more than any other, will enable our customers to drive wide ranging commercial changes at the grid

edge. We don't want to just be ready for that change, it's our desire to facilitate and lead it in ways that help drive cost-effective added value for our customers and a range of stakeholders.

III. REGULATION OF DISTRIBUTION SYSTEM PLANNING

While our Company is very supportive of the Commission's intent to foster a more holistic, inclusive and transparent approach to electric distribution system planning, we do have reservations about the proposal to embed these rules into the existing requirements for integrated resources planning. From a near-term resource planning perspective, Avista does not believe the shifting role of the distribution grid will immediately produce measurable resource gains in new distributed generation. In the long term, we view distribution planning as focusing more on customer choice and empowerment, and about developing a distribution system that is both responsive and efficient in delivering the capabilities necessary to meet these needs. While we agree that a regulatory focus on distribution planning can help kick-start the development of a more proactive stance toward the integration of distributed resources, we believe that technology-enabled customer choice and the resulting forces of this new market are what will ultimately shape and drive the future role and design of the electric distribution system. In the Company's view, a rule focused more on developing and enabling customer choice at the grid edge might do more to facilitate this change than an integrated infrastructure planning approach by itself. Accordingly, Avista believes it makes sense to slightly restructure and place the draft rules into their own section, separate and apart from the existing rules governing Integrated Resource Planning.

That said, we do expect that over time there will be meaningful outputs from the electric distribution planning effort that could provide relevant inputs into the IRP process. Accordingly, the IRP document could be augmented to include a more robust discussion of these analyses and results of our work in distribution planning and the significance of the resource gains achieved in this area of our business.

IV. AVISTA'S RESPONSE TO QUESTIONS FOR CONSIDERATION

1. **Should the Commission propose parallel natural gas distribution planning rule language, similar to the draft rules in WAC 480-100-238 for electric utilities, with the exception of subsection (3)(c) "Distributed energy resource integration"?**

Avista's Response: Avista does not see a need at this time for such changes to the IRP rule for natural gas because criteria for distribution projects differ fundamentally for electric and natural gas systems. In addition to system reinforcements required to meet customer demand during cold weather events, many of our natural gas distribution projects are constructed for safety or integrity management purposes, and as such, are not related to supply-side dynamics. Natural gas distribution projects necessary to provide reliable service to our customers are based on firm transportation natural gas requirements on the interstate pipelines delivered into these distribution areas. These investment needs arise primarily from growth in demand where sufficient natural gas supply is already available at the city gate.

a. **How should distribution system planning rule requirements for WAC 480-90-238 be similar to that of the electric utilities?**

   Avista's Response: In the context of this rulemaking, Avista believes it is important to note the significant differences between electric and natural gas distribution systems. Electric system needs can be met through the deployment of customer or utility-owned distributed generation, demand response, or system optimization by integrated volt-var compensation, as examples. By contrast, natural gas utilities can only rely on their firm resources to meet demand, and with few exceptions, do not have alternatives to supply natural gas to meet its customers' needs in a specific service area. Accordingly, the Company believes that the IRP for natural gas utilities should not be modified to be more similar to that of electric utilities.

b. **How should the requirements be different?**

   Avista's Response: Avista typically invests in numerous small distribution projects on its natural gas system each year for the purpose of maintaining the service reliability of its system. These include, as examples, the addition of short sections of main pipe to loop two systems together, or replacing short sections of small-diameter pipe with larger piping to overcome capacity bottlenecks in the system. Analyzing each of these types of projects for alternative options (beyond the range of options already evaluated by the utility) would be impractical and unnecessarily increase our cost to customers. By contrast, larger distribution projects for system reliability are already presented to our technical advisory committee and described in our IRP report. As noted above in part (a), Avista does not believe there is a need to modify the IRP rule for natural gas utilities in the context of this rulemaking.

2. **In the draft rule, electric utilities would be required to form a separate advisory group to assist the utility as it develops its distribution system plan, in addition to the usual IRP advisory group. Regarding the distribution system advisory group:**

   a. **Should the distribution system advisory group be required, or should it be optional?**

Avista's Response: Avista believes it shares the perspective of the Commission that any such advisory group should only be established once it becomes clear what need it would fulfill, what role it would play, and what expertise advisory group members could provide that would be helpful, and that is not already embedded in the utility's highly-trained and professional workforce. Within the distribution planning process envisioned at this time, the Company does not see a useful role for an advisory group. But as distribution plans are developed, and as Avista and the Commission gain more experience and perspective in these processes, it makes sense to revisit the potential needs and value of chartering some form of advisory group in the future.

b. What should be the extent and scope of the distribution system advisory group?

Avista's Response: As explained above in part (a), Avista does not believe it's productive to attempt to resolve these questions prior to completing the rule and working together for a period of time through the processes of developing and evaluating draft distribution plans.

c. Should the advisory group review the modeling methods, inputs, economic assumptions, cost estimates, and other factors that affect the selection of best options, or just review the results of transmission and distribution analysis?

Avista's Response: Though we believe, as explained in our responses to parts (a) and (b), above, that it's too early to effectively determine what needs an advisory group might fill, such a group might be best employed in the review and discussion of distribution resource plan methodologies and performance metrics, and not in the review of specific analyses and plans.

d. Is the draft description of the distribution planning advisory group's membership appropriate?

Avista's Response: For the reasons described in part (a), above, Avista believes attempting to formulate and establish membership in an advisory group at this point is premature and could be counterproductive. While the technical advisory group established for the Company's integrated resource planning process is more policy based (and that makes sense), distribution planning is necessarily more technical and engineering centered. Based on what we can know today, Avista expects an advisory group composed of expert technical participants[1] could be more helpful than those participating from a policy perspective. However, any need for such an advisory group, and its ultimate composition, should be based on a future assessment of the needs of the distribution planning process and resulting plans, and an identified contribution that such group would make to enable us to be more effective.

[1] Avista also understands that such technical experts would expect to be compensated for their time and participation, and that such an expense could represent a substantial additional cost for our customers.

e. Is a distribution advisory group necessary for the natural gas utilities? If yes, what should be the extent and scope of the advisory group?

Avista's Response: No. Please see the Company's response to section 1 (a & b), above.

3. The draft rule uses a new term, "major distribution capital investment," which is not tightly defined by a dollar value or otherwise. This definition is intended to provide separation of routine traditional maintenance of poles and other components from more significant capital expenditures that often have the potential for more than one solution. In those cases, a major distribution capital investment would call for analysis of all potential distributed energy resource options that satisfy the identified distribution need.

a. Would it be useful to include a dollar limit in the definition of "Major Distribution Capital Investment?" For instance, the rule could state a cutoff using an estimated capital cost of over $1 million. Are there other, better, criteria that the Commission should consider?

Avista's Response: Avista believes the opportunities and application of distributed energy resources, both within and among utilities, will likely be highly varied and may not be identified easily based on the size of the capital investment in a project. The Company agrees with the concept of the separation of asset maintenance programs, like wood pole management and Avista's grid modernization program, however, there may still be opportunities for the application of non-wires solutions even in these more programmatic replacements. Accordingly, the Company believes that each utility should define its own internal processes, subject to Commission review, for evaluating non-wires distributed energy resource alternatives, and integrate these into its own unique processes for evaluating, prioritizing and ranking capital projects. Each utility should be able to demonstrate across of range of distribution capital investments, including a range in the size of the investments, how it has evaluated the opportunities to apply non-wire alternatives in meeting its distribution planning needs.

b. Is there a need to define a major distribution capital investment for natural gas utilities? If yes, should the criteria be the same as for electric utilities? How should it be different?

Avista's Response: Avista does not believe there is a need for such a designation at this time. Please see the Company's response to section 1 (b), above.

4. Distributed energy resources include a broad suite of evolving technologies. Electric utilities are learning through experience and experimentation how to efficiently integrate and value these resources. In recognition of this changing landscape, the Commission wants to encourage significant and creative progress in the prudent adoption and implementation of distributed resources without being too prescriptive in rule. Given that context:

a. Is there a recommended structure for organizing the distribution system plan that allows future flexibility as well as engendering significant near-term progress?

Avista's Response: Avista believes the distribution system plan could evaluate two planning horizons as contemplated in the draft rule: the shorter-term plan would anticipate system needs within the range of ten years, and the longer-term plan would assess system needs in the range of 10 to 20 years. The shorter-term plan would address existing or imminent operational and reliability issues organized by geographic area across our system. These would include those issues for which we have some clarity and understanding today, as well as emerging developments that have the potential to impact our planning within the 10-year horizon. The longer-term plan would rely on various methodologies to forecast load growth and other anticipated plans for development, and would focus on infrastructure projects that have broader system implications like substation placement, network architecture and new facility requirements. Opportunities for the application of non-wire alternatives could be identified through the Company's internal processes, noted in section 3 (a), above, in both of these planning horizons.

b. Is there specific language that would optimize the combined goals of flexibility and timely implementation?

Avista's Response: Avista does not have any language suggestions for the draft rule at this point, though we believe the Commission could evaluate the likely effectiveness of the utility's internal planning processes for achieving both objectives around each planning horizon.

c. How should pilot and demonstration projects be encouraged in rule?

Avista's Response: As defined above in section 3 (a), above, each utility should develop internal processes for identifying and evaluating potential non-wire alternatives to investments in conventional distribution infrastructure. Consistent with the goals of this rule and the utility's own objectives, the prudence of these alternative projects should be considered from both a conventional least-cost planning perspective as well as a plan framework that identifies capabilities that need to be developed, implemented and evaluated in order for the state of the integrated grid to be advanced. Avista believes its internal processes should identify areas of need in the advancement of the integrated grid, and consistent with this assessment, should propose projects for consideration by the Commission.

d. What criteria should the utility use to evaluate when there is a need for a pilot or demonstration project as opposed to programs ready for full-scale implementation?

Avista's Response: As described just above, the utility's internal processes could identify what individual projects should be considered prudent on a pilot or

demonstration basis, and should establish a business case for each project. The applicable criteria, which would likely vary by the type of project recommended, would consist of an explanation of the Commission and utility's overall goals, where there are technological, cost, customer need or other gaps limiting the development of the plan, and an explanation of how results from the pilot or demonstration project will help fill that gap. The merits of each business case would be subject to the review and approval by the Commission.

5. **Recognizing that utilities are at various stages of modernizing their distribution systems, should the rule identify specific assumed fundamental requirements for enabling a modernized grid, such as:**

   a. **a two-way distribution communication system,**

      Avista's Response: Avista supports the Commission's recognition that achievement of the multiple operational objectives of grid modernization (including non-wire applications) is often dependent on a range of integrated technology platforms and systems. Our Company has been an industry leader in the successful deployment of these systems, and we concur that two-way communications, remote sensing and control, and software systems supporting operations optimization are foundational to achieving the full range of customer benefits. The only reservation the Company might have with the identification of specific technology systems in the rule has to do with the rapid and continuous evolution of these systems, such that specifics on technology or infrastructure platforms are susceptible to being outdated in three to five years. The proposed rule could focus on the utilities' responsibility to supervise, control, monitor and efficiently operate any distributed energy resources asset. Under that requirement the utility can design and implement the combination of grid modernization technologies that best meet these needs in an optimized and cost effective manner.

   b. **a distribution management system (DMS) that provides centralized and automated monitoring and control of the utility's distribution system,**

      Avista's Response: Please see the Company's response to part (a), above.

   c. **a distributed energy resources management system (DERMS) that aggregates, monitors and controls distributed energy resources as dispatchable resources, or,**

      Avista's Response: Please see the Company's response to part (a), above.

   d. **other physical infrastructure and software needed to manage and control a modernized grid?**

      Avista's Response: Please see the Company's response to part (a), above.

e. Are the fundamental requirements the same for electric and natural gas utilities? If no, what fundamental requirements should be used for natural gas utilities?

Avista's Response: The concept of "modernizing the distribution system" has very different implications for electric and natural gas distribution systems. Unlike electricity, natural gas is a primary fuel, and with few exceptions, neither the Company nor its customers are in a position to install distributed supplies of compatible alternative fuels into our natural gas distribution system. As a source of power, electricity can be produced by a variety of primary fuels introduced from a variety of sources on the system. Because of these characteristics and its physical properties, there are many opportunities to optimize the electric distribution system in the manner envisioned in this rulemaking. By contrast, the primary focus on the natural gas system is to *safely* deliver this primary fuel to customers economically and reliably.

6. When utilities submit biennial energy conservation reports to the Commission, they are required to provide an independent third-party evaluation of their conservation program achievements (See WAC 480-109-120(4)(b)(v)). Should a similar periodic independent review and evaluation of distribution plan results be required? If not, please explain why this should not apply.

Avista's Response: Avista does not believe a third-party evaluator role, as defined in this context, is either necessary or beneficial for our customers. Part of the rationale for this has to do with the unique features and characteristics of each utility's system, and the fact that, unlike energy conservation, there are no prescriptive requirements being uniformly applied across all of the utilities. If the Commission was interested in an independent evaluation of the utility's program, it might make sense to have the evaluation performed periodically on the internal planning and evaluation processes adopted by each company. But even in this instance, Avista would need to understand the potential benefit of such a review in light of its substantial cost for our customers.

7. Should the distribution plan conclude with an action plan? If so, what should be the time horizon for the action plan?

Avista's Response: Avista believes the distribution plan could include a five-year forecast of specific planned investments based on and the analysis contained in the plan, and the actual projects that are included in the utility's approved capital program. Each plan report could then provide an update on what work was accomplished in the prior plan period, explaining in particular, how the actual implementation of the plan differed from what was stated in the just-prior report. Each plan could also report out on related work currently underway, and projects planned in coming years.

8. For the organization of WAC 480-100-238, would it provide greater clarity to reorganize the rule into smaller sections, maintain the same organization and numbering structure, or add a new rule section?

Avista's Response: Please see the Company's comments above under the section III, "Regulation of Distribution System Planning."

V. CONCLUSION

Avista appreciates the opportunity to provide comments in the above referenced docket and look forward to the continued work on these proposed rules. Please direct any questions regarding this filing to me at 509-495-4975.

Sincerely,

/S/Linda Gervais

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