

**Avista Corporation**

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December 22, 2023

Received
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Kathy Hunter
Acting Executive Director and Secretary
Washington Utilities & Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

**RE: Avista Utilities Natural Gas Tariff Schedule 162 – Climate Commitment Act –
Temporary Schedule**

Dear Ms. Hunter:

Attached for electronic filing with the Washington Utilities and Transportation Commission (Commission) is the proposed tariff of Avista Corporation, dba Avista Utilities (Avista or the Company), related to the Climate Commitment Act (CCA), WN U-29 – Natural Gas Service:

Original Sheet 162
Original Sheet 162A
Original Sheet 162B

I. PURPOSE

The purpose of this filing is to introduce Avista's proposed tariff Schedule 162, which outlines the cost recovery related to 2023 compliance with Washington's CCA, described in the next section. Avista is requesting approval with an effective date of March 1, 2024.

II. BACKGROUND

Engrossed Substitute Senate Bill 5126 (SB 5126), passed by the Washington State Legislature in 2021, directed the Washington State Department of Ecology (Ecology) to develop and implement rules for a cap-and-invest program designed to meet emission reduction targets and reduce emissions by 95 percent of 1990 levels by 2050. On September 29, 2022, Ecology issued their final rules to implement the CCA, with the program set to begin January 1, 2023.

Natural gas utilities must meet declining targets for greenhouse gas emissions (GHG) as compared to a baseline, which is the average emissions from 2015-2019. Beginning in 2023, natural gas utilities received no-cost allowances to cover 93% of their GHG baseline, declining 7% per year through 2030; from 2031-2042 no-cost allowances decrease by 1.8% per year and from 2043-2049 no-cost allowances decrease by 2.6% per year; in 2050, natural gas utilities will not receive any no-cost allowances. Of the no-cost allowances received in 2023, 65% must be consigned to auction, increasing by 5% per year until 100% of no-cost allowances are consigned to auction in 2030.

No-cost allowances consigned to auction result in revenues back to the utility, which shall be used for the benefit of customers as determined by the Commission, including at minimum, eliminating any additional cost burden to low-income customers due to the implementation of the CCA. Revenues from allowances must be returned by providing nonvolumetric credits on ratepayer utility bills, prioritizing low-income customers, or used to minimize cost impacts on low-income, residential, and small business customers through actions that include, but are not limited to, weatherization, decarbonization, conservation and efficiency services, and bill assistance. Customer benefits provided from allowances consigned to auction by natural gas utilities must be in addition to existing requirements in statute, rule, or other legal requirements.

On November 1, 2021, the Company filed a petition for an accounting order authorizing the deferral of costs and revenues related to the CCA, which the Commission approved by way of Order 01 on February 28, 2023.¹ The Commission directed the Company to “1) track the costs in FERC account 182.3 and the revenues in FERC account 254, and 2) separately track the carrying costs associated with those costs and revenues using the approved cost of debt.”² The Company has adhered to the Commission’s order and now seeks to recover actual costs and pass back actual revenues received in calendar year 2023.

III. PROPOSED RECOVERY MECHANISM

As mentioned above, Avista’s proposed Schedule 162 is designed to recover the actual costs of compliance with the CCA for 2023 that were prudently incurred, and to pass back revenues from the consignment of no-cost allowances.³ These revenues will first be used to hold all known low-income customers harmless from any CCA cost burden. Any revenues not used to eliminate the cost burden of known low-income customers will be allocated to all other customers that were connected to Avista’s natural gas system on or before July 25, 2021.⁴

¹ Docket UG-220803.

² Docket UG-220803, Order 01 ¶25.

³ At the time of filing, because the emissions liability was not yet known for the month of December 2023, the Company included actual costs associated with the emissions liability through November and estimated the month of December. Actual revenues from the consignment of no-cost allowances were known for the entire year. Any delta in actual costs will be trued up in a future filing.

⁴ RCW 70A.65.130(2)(c).

Schedule 162 is proposed to be temporary in nature, such that it will expire on February 28, 2025, after a 12-month amortization period (assuming the filed tariff goes into effect on March 1, 2024, as proposed). Avista intends to file a permanent CCA cost recovery tariff in mid-2024 with a proposed November 1st effective date to align with the annual Purchase Gas Cost adjustment filing. This permanent tariff would include actual costs and revenues up to a date as close as possible at the time of filing for 2024 and a forecast of costs and revenues for the remainder of the calendar year. Annually on or about September 1st, the Company would then file to true up the filing for the upcoming year. This permanent filing would be similar in nature to those approved for Puget Sound Energy and Northwest Natural.

IV. PROPOSED TARIFF COMPONENTS

There are two primary components of the proposed Schedule 162, a “CCA Charge” and a “CCA Credit”. For purposes of the CCA Charge the following apply:

1. The total charge was allocated to all rate classes on a per therm basis to determine each rate schedule’s responsibility.
2. The charge was calculated to be the same for each month over the 12-month amortization period.
3. For customers on Schedule 101, the Company has proposed a nonvolumetric charge for multiple reasons. First, Schedule 101 is the Company’s general service natural gas schedule that serves residential, including low-income residential, and small commercial customers. Second, because of the customer billing complexities regarding the requirement that CCA credits be passed back as a nonvolumetric credit and having multiple customer groups on the same schedule, a nonvolumetric charge is the easiest to administer for this schedule. Third, a nonvolumetric charge for this group is appropriate as the CCA is designed to send a price signal to large emitters, which customers on Schedule 101 are not. Fourth, for purposes of bill presentment, as later discussed, a nonvolumetric charge is easiest to present and understand when combined with the CCA credit. Fifth, Avista is the first of the utilities to propose a nonvolumetric charge for any class of customers, which allows all stakeholders to understand how different pricing structures work and are received by customers.
4. For all rate schedules, with the exception of Schedule 101, the Company has proposed a volumetric charge that is equal for all rate classes.

As it relates to the CCA Credit, the Company has proposed the following:

1. For customers eligible to receive a CCA Credit (i.e., only customers with locations connected to the system on or before July 25, 2021), they will receive a nonvolumetric credit as prescribed in RCW 70A.65.130(2).
2. For all known low-income customers on Schedule 101, the CCA Credit is equal to the CCA Charge, such that the net effect is they will experience no cost burden from the CCA, in strict compliance with the law.
3. After first using the revenues from consigned allowances to mitigate the cost burden for all known low-income customers, the remaining revenues were allocated on a per therm basis for eligible customers.
4. For all rate schedules, with the exception of Schedule 111, the credit is calculated to be the same each month over the 12-month amortization period. For Schedule 111 customers, the Company has proposed a seasonal credit, such that the amount of the credit will be different during the summer months (i.e., March through September) and winter months (i.e., October through February). A seasonal credit is appropriate for this schedule as many of the Schedule 111 customers use natural gas for space and water heating that are highly correlated to the winter months.⁵ Because the CCA Charge for Schedule 111 is volumetric and the CCA Credit is nonvolumetric, the benefit of the seasonal CCA Credit is that the amount of the credit more closely aligns with the seasonal fluctuation of usage and CCA Charge that customers will face.
5. For all schedules that have a volumetric CCA Charge (i.e., all but Schedule 101), Avista is proposing a cap on the amount of the monthly CCA Credit at 75% of the CCA Charge. A 75% cap was chosen as the revenues from consigned allowances to the commercial and industrial rate schedules is approximately 75% of the costs assigned to these schedules. The cap will ensure all commercial and industrial customers are receiving a benefit, such that they are paying an equitable share of the CCA costs resulting from their individual emissions.

For Schedule 111 and 146 customers in particular, due to the significant variability of customer size on the schedules,⁶ if the CCA Credit were to be capped at 100% of the

⁵ Because the Company has proposed a nonvolumetric charge and nonvolumetric credit for Schedule 101 customers, there is no need for a seasonal credit as the charge will not fluctuate due to the seasonality of usage. For larger rate schedules, a seasonal credit is not needed as these customers use natural gas for purposes beyond space and water heating.

⁶ For Schedule 111, customers use an average of at least 200 therm per month 2,400 therms per year. Schedule 111 includes customers that use close to the minimum all the way up to customers that use several hundred thousand of therms per year. For Schedule 146, the minimum usage requirement to take service on the schedule is 250,000 therms

CCA Charge instead of 75%, smaller customers on the schedules will would fully have the CCA Charge offset by the CCA Credit, thereby eliminating any cost burden from the CCA. The only customer group that is intended to have the CCA cost burden fully eliminated is low-income customers. If certain commercial and industrial customers had the CCA cost burden fully eliminated it would be inequitable to other commercial and industrial customers.

Lastly, if there is no cap on the CCA Credit, it will result in some customers receiving a credit some months that may be greater than the total billed charges in those months. If that were to happen, the customer would receive a bill showing they have a credit owing. Negative bills could have implications relating to the collection of taxes and franchise fees.

There are additional Special Terms and Conditions proposed with Schedule 162 beyond those relating to the CCA Charge and CCA Credit described above. Regarding the protection of low-income customers, the Company proposes the following definition:

For purposes of this schedule, a low-income customer is a Customer, known to Avista, that has received any form of low-income energy assistance in the last 24 months, including enrollment in the Bill Discount program or other assistance options described in tariff Schedule 192, a Low Income Home Energy Assistance Program (LIHEAP) grant, housing or rental assistance, Project Share, or any other miscellaneous form of energy assistance.

This proposed definition is more expansive than that found in RCW 19.405.020, which the Company believes is appropriate to protect as many potential low-income customers as possible from any cost burden associated with the CCA. The main difference between the Company's definition and that found in the referenced RCW is that not all form of energy assistance requires income verification, including Project Share or other miscellaneous forms of energy assistance (i.e., COVID energy assistance, donations from churches or other organizations, etc.). While there may be some limited cases where a customer who receives these forms of energy assistance has household income that is greater than eighty percent of area median household income or two hundred percent of the federal poverty level, adjusted for household size, this is a small risk to take to ensure a greater number of likely low-income customers as are protected from any CCA cost burden. Using this definition, as of December 15, 2023, 14,158 customers are currently identified as low-income and would be protected from any CCA cost burden. Of these customers 12,507 are enrolled in Avista's bill discount program.

per year. There are many customers on this schedule who use close to the minimum with some customers using millions of therms per year.

As a result of the cap on CCA Credits described above for large commercial and industrial schedules, a residual balance of revenues from consigned allowances for these schedules will accrue. For Schedule 111, the Company proposes to retain the residual balance within the schedule to thereby be included in the calculation of the following year’s CCA Credit calculation. For Schedules 112, 116, 131, 132 and 146, the Company proposes that on an annual basis, deferred CCA Credits from residual balances not provided through the monthly CCA Credit will be determined for individual customers, as well as for customers that switch to or from any of these schedules to another schedule. The deferred CCA Credits for these Customers will be based on monthly entries into a CCA Balancing Account. This means that monthly, customers on these schedules will receive the CCA Credit as described above. Following the 12-month amortization period of Schedule 162, the Company will then use the residual balance of the revenues assigned to each of these schedules to determine an additional amount of CCA Credit to provide to individual customers based on their actual usage during the amortization period.

Lastly, the Company has included a provision that describes the customers who are exempt from Schedule 162, including: 1) customers with emissions from facilities with North American industry classification code 928110 (National Security); 2) customers that are designated as covered entities by the Washington State Department of Ecology (Ecology) as subject to RCW 70A.65.060 through 70A.65.210 as noted in RCW 70A.010(23); and 3) customers identified by Ecology as an Emissions-Intensive Trade-Exposed (EITE) under RCW 70A.65.110. It is the responsibility of the Customer to ensure that the Company has received such evidence of the Customer’s status as an EITE. As of the time of this filing, only six customers meet these criteria, and will be exempt from Schedule 162.

V. CUSTOMER IMPACTS

The proposed Schedule 162 will increase the Company’s annual Washington revenues by approximately \$11.2, or about 4.1%. The average Schedule 101 customer with a premise connected to the system on or before July 25, 2021, that is not identified as low-income, using 64 therms would see an increase of \$3.27 per month. As noted above known low-income customers would see no increase. The average Schedule 101 customer with a premise connected to the system after July 25, 2021, using 64 therms, would see an increase of \$14.76 per month. For all other rate schedules, the following chart includes the estimate monthly bill impact for each customer class based on average use of the customers on each schedule.

<u>Schedule No.</u>	<u>Rate Schedule</u>	Total Net Monthly Bill Amount	% Change in Billed Revenue
101	Low-Income Residential	\$0.00	0.0%
101	General Service, connected to system on or before July 25, 2021	\$3.27	3.5%

101	General Service, connected to system after July 25, 2021	\$14.76	15.8%
111	Large General Service, connected to system on or before July 25, 2021 (Mar - Sep)	\$47.30	4.4%
111	Large General Service, connected to system on or before July 25, 2021 (Oct - Feb)	\$123.15	
111	Large General Service, connected to system after July 25, 2021	\$337.68	18.6%
112/116	Large General Service, connected to system after July 25, 2021	\$2,658.39	23.5%
131/132	Interruptible Service, connected to system on or before July 25, 2021	\$2,808.40	7.9%
146	Transport Service, connected to system on or before July 25, 2021	\$3,277.92	38.3%
146	Transport Service, connected to system after July 25, 2021	\$7,566.66	102.2%

Relating to including the CCA Charge and CCA Credit as individual line items on customers' bills, the Company proposes the following:

1. For Schedule 101 customers, which account for roughly 98% of the customers affected by Schedule 162, the Company proposes to include both the CCA Charge and CCA Credit within billing rates, such that neither component will be displayed as a separate line item on customers' bills (just like no other tariff riders are shown on customer bills). This is appropriate for low-income customers specifically, as if only the CCA Credit is displayed on their bills as was directed for Puget Sound Energy, they will be led to believe they are getting a financial benefit from the CCA, rather than transparently seeing that their CCA Charge and CCA Credit equal each other.
2. For all other schedules, which account for roughly 2% or 3,400 customers, the Company proposes to include both the CCA Charge and CCA Credit as separate line items on customers' bills. For all non-Schedule 101 customers, it is appropriate to include the charge and credit as separate line items on customers' bills as long term, the net CCA costs will likely be quite substantial, and the intent of the CCA is to provide a price signal to large emitters. Without a clear understanding of the net costs of the CCA, large emitters would be blind to their overall cost of compliance with the program. Further, because of the statutory requirement to provide a nonvolumetric credit, which would be paired with a volumetric charge as described above, the only potential billing rate where the credit could be included if not allowed to be displayed on the bill, is as a part of the fixed charge. For example, the monthly CCA Credits for Schedule 146 customers is \$9,848.94. It does not seem appropriate to add such a large amount as a component of the fixed charge, which is currently \$700.00 per month.

VI. ADVISORY GROUP INPUT

On October 19, 2023, the Company presented an update to its Energy Efficiency Advisory Group and Energy Assistance Advisory Group regarding its activities associated with the CCA to date, including its proposal for the tariff filing described herein. This presentation continued to fulfill the Company's obligation to "consult with its applicable advisory groups concerning plans for complying with the CCA and the terms of any future tariff filing..."⁷

During the presentation the Company discussed the relevant components of its proposed tariff filing, including its plan for protecting low-income customers from any cost burden associated with the CCA. The presentation appeared well received with only two considerations suggested, 1) how the Company will expand the pool of known low-income customers that will face no cost burden, and 2) a concern that some stakeholders may take issue with the proposed nonvolumetric CCA Charge for all Schedule 101 customers.

Regarding the low-income consideration, one reason the Company proposed an effective date of March 1, 2024, is to allow for a full five months since its bill discount program took effect, in order to protect an increased number of customers. Also, the Company has included an expanded definition for "low-income" in an effort to protect as many customers as possible from any CCA cost burden, as described above. For purposes of this filing, Avista forecasts that 30,000 customers will be identified as known low-income using this definition. As of December 15, 2023, 26,180 customers were enrolled in Avista's bill discount program, with 12,507 or 48% of those having natural gas service. With an estimated 129,000 total households (electric and natural gas) identified as potentially low-income within Avista's service territory, applying the 48% equates to approximately 62,000 low-income households that may have natural gas service and, therefore, be eligible for protection from the costs of the CCA. Based on the Company's estimate of reaching 30,000 low-income natural gas customers, Avista would be protecting nearly half of all eligible customers (i.e., approaching a 50% saturation rate) by that time. Avista continuously strives to increase this number as much and as soon as possible.

Regarding the potential concern that some stakeholders may take issue with the nonvolumetric charge proposed for Schedule 101 customers, Avista considered this concern and believes its proposal has merit as described above.

VII. CONCLUSION

As outlined in the attached Schedule 162, Avista hereby requests that the tariff proposed becomes effective March 1, 2024. Also included with this filing is a draft of the customer notice that will be sent to customers beginning in January. If you have any questions regarding this filing,

⁷ Dockets UE-220053, UG-220054, and UE-210854 (*Consolidated*), Final Order 10/04, Appendix A, settlement term 25.

please contact me at (509) 495-2782 or shawn.bonfield@avistacorp.com.

Sincerely,

/s/ Shawn Bonfield

Shawn Bonfield

Sr. Manager of Regulatory Policy & Strategy