

Avista's Consideration of CCA Costs in Decision Making

In the final order of the Company's 2024 General Rate Case, the Commission ordered the following:

Accordingly, the Commission finds that during Avista's annual submission of updates to its CCA tracker tariff, the Company shall submit and present information pertaining to where CCA costs are being included in decision making to include, but not limited to Integrated Resource Plans (IRPs), Clean Energy Implementation Plans (CEIPs), dispatch, power purchase, carbon market transactions, and capital projects. This annual report will be addressed and acknowledged through the Open Meeting process and will help the Commission assess a utility's progress and decision making leading up to the Commission's prudence determination at the conclusion of the compliance period.¹

Currently, multiple rulemakings and workshops pertaining to the CCA rules and implementation are underway at both the Commission and the Department of Ecology (Ecology, which Avista is actively engaged in. The conclusion of these proceedings will likely influence how Avista considers CCA costs in decision making.

Below is a summary of the policies and procedures currently in place that guide how and where Avista incorporates CCA costs into its decision-making processes.

Electric IRP

The 2025 Electric IRP integrates the implications of CCA across its long-term energy planning framework. As a cornerstone of the state's climate policy, the CCA introduces carbon pricing mechanisms that directly influence resource dispatch decisions, market forecasts, and portfolio selection. Avista's IRP reflects these impacts through detailed modeling assumptions, scenario analyses, and strategic planning actions that align with the state's clean energy and emissions reduction goals. By embedding CCA-related costs and compliance strategies into its resource optimization process, the IRP ensures that Avista's future energy portfolio remains economically viable, environmentally responsible, and resilient to evolving regulatory requirements.

- **Carbon Pricing and Dispatch Modeling.** The IRP incorporates the CCA by applying carbon pricing to Washington-based generation resources, influencing how Avista dispatches its power plants. Utility-controlled generation in Washington includes greenhouse gas (GHG) prices in dispatch decisions starting in 2031, while non-utility generation includes them beginning in 2026. Imports in Washington are also assigned a carbon price based on a default emissions intensity. These assumptions are based on the expectation that Washington's CCA market will link with California's cap-and-trade

¹ Dockets UE-240006 & UG-240007, Order 08, ¶83.

program, although this linkage remains uncertain. The carbon price forecast used in the IRP is derived from an independent consultant and is applied as a cost adder in Avista's modeling to reflect the economic impact of emissions compliance.

- **Wholesale Market Price Forecast.** The CCA significantly influences Avista's 20-year wholesale electric price forecast. The IRP models scenarios both with and without the CCA to understand its impact. With the CCA in place, wholesale prices are higher due to the added cost of carbon allowances, which affects the economic viability of clean energy investments and market transactions. In contrast, a scenario modeling the repeal of the CCA shows lower wholesale prices, which would reduce the value of selling excess clean energy and delay the cost-effectiveness of certain renewable projects, particularly wind.
- **Resource Optimization and Planning.** The Preferred Resource Strategy Model (PRiSM) used in the IRP integrates CCA-related costs into its optimization framework. For Washington, the model includes the cost of CCA allowances in the net present value (NPV) calculations, alongside the social cost of greenhouse gases and non-energy impacts. These costs influence the selection of resources, favoring clean energy and demand-side programs that reduce emissions. The model also accounts for upstream and operational emissions, ensuring that resource decisions align with both economic and environmental policy goals.

Natural Gas IRP

Avista's 2025 Natural Gas IRP places CCA at the core of its long-term strategic planning. The CCA directly informs Avista's resource selection, cost modeling, and compliance strategies. Through comprehensive scenario analysis and the development of a Preferred Resource Strategy (PRS), the IRP explores how carbon pricing, emissions allowances, and offset mechanisms will shape the future of natural gas service in Washington. The plan incorporates an expected allowance price derived from both fundamental market forecasts and historical auction data, anticipating Washington's linkage with the California and Quebec cap-and-trade programs. These allowances are treated as selectable resources within the IRP's optimization model. Avista's approach ensures that its resource portfolio remains cost-effective, reliable, and aligned with state climate goals.

- **Preferred Resource Strategy (PRS) for Washington.** The Washington PRS reflects the influence of the CCA by prioritizing conventional natural gas and energy efficiency as primary resources through 2045. Small amounts of Renewable Natural Gas (RNG) are included when cost-effective. Natural gas usage above the CCA emissions cap requires offsets or purchased allowances. Energy efficiency is projected to offset 11% of Washington demand by 2045, and all resource decisions are evaluated against allowance prices to ensure least-cost compliance.
- **Carbon Pricing and Compliance Instruments.** The IRP models CCA compliance costs using projected allowance prices. These costs are applied to all natural gas consumption above the cost cap. Avista receives a mix of free and allocated allowances and may purchase additional allowances or offsets through state auctions or the open market.
- **Scenario Analysis and Sensitivities.** Avista's IRP includes multiple scenarios to assess the impact of CCA pricing on resource selection. One sensitivity models high CCA allowance prices using the 95th percentile of Monte Carlo simulations. These scenarios

help evaluate risk and cost variability, guiding decisions on RNG, carbon capture, and other compliance resources. The IRP also includes a “No Climate Programs” scenario to compare outcomes without the CCA, highlighting its influence on emissions reductions and resource costs.

- **Action Plan and Implementation.** Avista’s action plan includes purchasing allowances or offsets for CCA compliance through 2028 and issuing annual RFPs to acquire RNG volumes identified in the PRS. The company also plans to investigate liquefied natural gas (LNG) storage for resiliency and explore carbon capture technologies. These actions support Avista’s commitment to meeting CCA requirements while maintaining system reliability and affordability.
- **Policy and Regulatory Integration.** The IRP integrates CCA policy developments into planning assumptions and resource modeling. Avista monitors potential linkage with California and Quebec’s cap-and-trade programs and evaluates the impact of new covered entities, such as Spokane’s Waste-to-Energy plant. The IRP also addresses regulatory guidance from the Commission, including requirements for Non-Pipe Alternatives (NPAs) to consider CCA impacts without assuming ceiling prices.

CEIP

Avista’s draft 2025 CEIP, anticipated to be by October 1, 2025, integrates the CCA as a key regulatory framework alongside the Clean Energy Transformation Act (CETA). The CCA is included throughout the plan in relation to greenhouse gas emissions accounting, renewable energy credit (REC) valuation, and compliance cost modeling. Avista uses CCA methodologies to ensure consistency with Washington’s climate policy and to optimize its clean energy transition strategy.

- **Greenhouse Gas Emissions Reporting:** Avista adopts the CCA’s calculation methodology for its Customer Benefit Indicator (CBI) on greenhouse gas emissions (GHG), ensuring alignment with state-level emissions tracking and regulatory expectations.
- **REC Valuation and Opportunity Cost:** The CEIP uses CCA carbon allowance price forecasts to calculate the opportunity cost of retiring RECs for CETA compliance instead of selling them under the CCA, which informs the incremental cost analysis.
- **Incremental Cost Modeling:** The CCA’s emissions conversion factor is used to estimate the financial impact of REC retirements, helping compare the Reasonably Available portfolio with the Alternative Lowest Reasonable Cost portfolio.
- **Aspirational Emissions Reduction Goal:** One of Avista’s six aspirational CBI goals is to reduce greenhouse gas emissions by 2029, benchmarked against 2023 emissions reported under the CCA framework.

Resource Acquisition

Avista includes a CCA pricing scenario on any new resources evaluated within the Request for Proposal (RFP) process, where applicable. As previously discussed, Avista incorporates the CCA carbon adder into its resource acquisition and power purchase agreements (PPAs) through its CEIP

and IRP modeling. This approach ensures that carbon compliance costs under the CCA are internalized in the evaluation of resource options, guiding the utility toward lower-emission and renewable energy sources.

- **Power Purchase Agreements.** When evaluating power purchase agreements, Avista includes the CCA carbon adder in its cost assessments, particularly for contracts involving fossil-fuel generation. This ensures that the full cost of carbon compliance is considered, aligning resource selection with state policy goals.
- **Incremental Cost Analysis.** In its incremental cost analysis, Avista compares a Reasonably Available Portfolio, including CCA compliance costs, with an Alternative Lowest Reasonable Cost Portfolio that assumes no CETA compliance. The difference in cost reflects the impact of the CCA carbon adder, particularly through foregone REC sales and the cost of carbon allowances. This analysis helps Avista quantify the financial implications of its clean energy strategy and ensures transparency in its regulatory filings.

Unit Dispatch and Power Purchase Decisions

Although the costs associated with the CCA are applicable to Avista's Washington retail customers, they also have implications for the company's natural gas supply used in electric generation. Avista is uniquely positioned as a multi-jurisdictional utility with shared generation resources and customer loads both inside and outside of Washington. This structure introduces complexities in how carbon compliance costs are managed, particularly in the context of real-time dispatch decisions. Given these complexities, Avista has determined that it is not prudent to include the cost of CCA allowances in its dispatch modeling.

One of the primary reasons for this decision is that the CCA does not require utilities to include carbon prices in dispatch decisions. The law is structured to influence long-term planning and resource acquisition, not operational dispatch. Including carbon costs in dispatch would be an operational decision, and neither the Ecology nor the Commission WUTC has issued policy or precedent requiring such inclusion. As previously stated, Avista has and does participate in multiple workshops and filings where it has consistently explained this approach, and no regulatory directive has been issued to the contrary.

Additionally, Avista's generation fleet is largely located outside of Washington. Under CCA rules, only the portion of energy generated by these plants that is used to serve Washington load or physically delivered into the state is subject to carbon compliance. This means that a significant share of Avista's generation portfolio is not directly impacted by CCA costs. Furthermore, approximately 35% of the output from Avista's entire generation fleet is allocated to serve customers in Idaho, who are not subject to CCA compliance. Including carbon costs in dispatch would effectively export Washington's carbon regulations to Idaho customers, resulting in higher rates for a jurisdiction not covered by the law.

From a market and operational standpoint, there is no liquid or transparent market for CCA allowances that would allow Avista to hedge or mitigate price risk in the same time frame as dispatch decisions are made. Without a reliable mechanism to forecast or lock in allowance prices, incorporating them into short-term operational decisions would introduce unnecessary volatility and uncertainty.

Avista has multiple strategies to mitigate its allowance obligations, including the use of no-cost allowances for retail load, executing wholesale transactions outside of Washington, and leveraging the “lesser-of” methodology to associate system sales with clean energy. These approaches reduce the need to purchase allowances and help manage compliance costs more effectively than embedding carbon prices into dispatch.

Finally, Avista must also consider the broader implications of its compliance strategy. Including carbon costs in dispatch could unfairly impact Idaho customers who are not subject to CCA regulations and could significantly increase Net Power Supply Expense.

Carbon Market and Auction Participation and Strategy

Avista’s approach to managing its obligations under the CCA reflects a deliberate, compliance-focused, and risk-aware strategy. This approach seeks to balance regulatory compliance, cost control, equity considerations, and operational prudence, while remaining flexible to adjust as the CCA framework continues to evolve. The company regularly participates in the Ecology-administered allowance auctions to meet its compliance obligations, using a bid strategy that carefully considers the cost of allowances and their potential impact on customer rates. This ensures that Avista remains compliant while also protecting customers from unnecessary financial burden.

At the same time, Avista currently has chosen not to engage in the secondary (open) market for buying or selling allowances. This decision is rooted in the uncertainty surrounding key aspects of the CCA, particularly the true-up mechanism and other unresolved allowance and compliance details. Without clear guidance from Ecology, Avista believes it would be imprudent to speculate in the secondary market, especially when the rules governing compliance and cost recovery are still evolving.

Avista maintains this is a conservative and measured approach that relies on no-cost allowances to cover retail load and mechanisms such as wheel-through transactions and busbar sales to minimize exposure to additional allowance obligations. The company continues to monitor market signals, including price trends and liquidity, but will only consider secondary market participation when it is clearly beneficial and aligned with regulatory clarity.

Capital Projects

To date, CCA costs have not been applicable in decision making surrounding capital projects. While Avista’s capital project decision making may not explicitly rely CCA allowance costs or CETA clean energy targets, these policy frameworks are inherently reflected in the company’s long-term planning and investment strategy. Avista is committed to transitioning to a clean energy future in accordance with CETA requirements, while meeting CCAs GHG emission standards. Capital projects including infrastructure upgrades and modernization, renewable energy integration, and system reliability upgrades, along with power purchase agreements (PPAs) and resource acquisitions, are all evaluated with these goals in mind.

Renewable Natural Gas (RNG) Purchases

Avista periodically issues Requests for Proposals (RFPs) for the procurement of RNG as part of its broader strategy to reduce greenhouse gas emissions and comply with state climate policies.

While the primary focus of these RFPs is to identify viable RNG supply options, Avista also evaluates each proposal through the lens of cost-effectiveness in meeting CCA compliance obligations. Specifically, the company compares the cost of RNG to the potential cost of purchasing CCA allowances that would otherwise be required to offset emissions from conventional natural gas use. This comparative analysis helps determine whether procuring RNG represents a cost-effective and environmentally beneficial resource. It is worth noting that CCA rules regarding how RNG can comply with the CCA are not clear. As such, this is an iterative process which will evolve as additional information is known.

Although RNG procurement is not mandated by the CCA, it can serve as a valuable compliance tool by reducing the volume of emissions subject to allowance requirements. In this way, Avista's RNG strategy complements its broader clean energy transition under the CETA, which requires utilities to eliminate carbon emissions from electricity generation over time. Together, RNG purchases, capital investments, and other resource acquisitions form an integrated approach to achieving both CCA and CETA goals - supporting a cleaner energy portfolio while managing costs and regulatory risk.