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NW Energy Coalition
for a clean and affordable energy future

January 6, 2023

Ms. Amanda Maxwell
Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

Re: NW Energy Coalition's comments in: Docket UE-220770, Petition of Avista Corporation d/b/a Avista Utilities for an Order Approving Its Four-Year Demand and Resource Supply Forecast Pursuant to the Climate Commitment Act; Docket UE-220789, PacifiCorp's d/b/a Pacific Power & Light Company Petition Requesting Approval of Forecasts Pursuant to RCW 70A.65.120; and Docket UE-220797, Petition of Puget Sound Energy, Inc., for an Order Approving PSE's Forecasts Pursuant to RCW 70A.65.120.

Dear Ms. Maxwell:

The NW Energy Coalition ("NWEC" or "Coalition") appreciates the opportunity to provide comments on the utility-specific demand and resource supply forecasts for Avista Corporation (Avista), PacifiCorp, and Puget Sound Energy (PSE). The Washington Utilities and Transportation Commission ("UTC" or "Commission") issued a notice to utilities requiring them to file utility-specific demand and resource supply forecasts (forecasts) on September 30, 2022. The notice was made publicly available on November 16, 2022. The forecasts, which must be consistent with WAC 173-446-230, present one of the first opportunities for the Commission to both assess initial electric utility plans for compliance with provisions of the Climate Commitment Act Program, and to consider broader implications of the Climate Commitment Act on the electric utility sector.[1] NWEC's comments address each utility-specific forecast as well as relevant policy considerations, as detailed below.

I) Utility-Specific Demand and Resource Supply Forecasts

The resource mix for Avista, PacifiCorp, and PSE show the removal of coal resources from their respective resource mix starting in 2026, as required by the Clean Energy Transformation Act (CETA). However, each utility is choosing to meet the demand forecasted in 2026 differently. For example:

- Avista's resource supply forecast indicates an almost fourfold increase in unspecified market purchases between 2025 and 2026 while renewable resources marginally increase throughout the forecast period, and natural gas emissions decrease. While

[1] https://ecology.wa.gov/Regulations-Permits/Laws-rules-rulemaking/Rulemaking/WAC-173-446

Avista's forecast appears to be consistent with its approved CEIP, we question whether it reflects the lowest reasonable cost pathway for compliance with the CCA.

- PacifiCorp's resource supply forecast estimates unspecified market purchases tripling in 2026 and a steady increase in renewable resources throughout the forecast period. Given that PacifiCorp's CEIP is still under consideration by the Commission, and the Company has agreed to a settlement that would result in refiling its CEIP with different assumptions, we do not have sufficient information to comment on its CCA forecast filing.
- PSE's resource supply forecast projects a significant decrease in the use of clean energy, while market purchases more than triple in 2026. We understand that this anomaly is due to the expiration of the Centralia Coal Transition Power contract. We recommend that these resources be accounted for separately in the forecast. We also note a large discrepancy between the emissions forecast that PSE filed in docket UE-220797 and the emissions forecast it submitted with its power cost compliance filing in docket UE-220066 / UG-220067.

While each utility demonstrates a different response to the removal of coal resources, one similarity is the significant increase and reliance on unspecified market purchases. This proposed approach to serve load with increased market purchases comes with added risk that warrants additional attention from the Commission.[2] We recommend the Commission assess the potential risks associated with increasingly relying on market purchases.

II) Impacts of Allowance Price on Resource Dispatch

In both resource planning and real-time operations, it is essential that the price effect of the CCA (based either on a projection or current allowance prices) be reflected in market dispatch. This is important for ensuring that the program has its intended effect on reducing emissions, and also to ensure that the economy-wide policy is implemented fairly across all sectors and for all covered and opt-in entities. From our review of the forecasts, it is not clear that the price effect of a carbon price has been transparently incorporated into economic dispatch models; nor is it possible to ascertain whether and how utilities intend to incorporate a carbon price into resource dispatch in their actual operations.[3]

While utilities receive allowances for a share of their compliance obligation at no cost to mitigate the cost burden of CCA compliance on utility customers, allowances inherently have a value in the market, and an opportunity cost exists if emissions are not reduced beyond a

[2] The Commission's most recent IRP acknowledgement letter to PSE included significant discussion of the Commission's concerns with PSE's continued reliance on market purchases to meet peak capacity needs. See UTC docket UE-160918 / UG-160919. Revised Acknowledgement Letter. June 19, 2018.

[3] While it does not appear as though a price on carbon has been incorporated into economic dispatch models and resource dispatch in order to inform the proposed utility-specific forecasts, we understand PSE is proposing to do both. We are unaware of Avista and PacifiCorp's plans to address this. See slide 22 of PSE's March 22, 2022 presentation for the 2023 Electric IRP Progress Report, available at https://www.pse.com/IRP/Get-involved

utility's allowance allocation. Given these considerations, regulatory guidance will likely be necessary in order to incorporate this price effect into planning and real-time operations. In the absence of an organized market, it is unclear how this price effect will be realized, unless it is operationalized in-house by the utilities themselves. We recommend the Commission direct the Washington investor-owned utilities to include the current market price of allowances in all trading of emitting fuels and dispatch of emitting resources after a specific date.

III) Adjustments to Electric Utility Allowance Allocations

WAC 173-446-230 (2)(g) creates a true-up mechanism for no cost allowances allocated to electric utilities. As a result, initial allowances allocated to electric utilities will be adjusted to account for any differential between the applicable reported greenhouse gas emissions for the prior years and the number of allowances that were allocated based on the approved forecasts. We want to note that while this mechanism will help reduce the risk of over- or under-allocating allowances, it will also reduce incentives for early emissions reductions, from generation and customer-side resources. We encourage the UTC to monitor allowance allocations and allowance adjustments to ensure this mechanism does not negatively impact customers. Unless there is a substantive change to a source used to determine the forecast, we do not believe it is necessary for the Commission to require annual forecast adjustments, given that the Department of Ecology will be implementing an annual true-up.

IV) Emissions Leakage

The CCA is intended to be designed to reduce leakage which is defined as "a reduction in emissions of greenhouse gases within the state that is offset by a directly attributable increase in greenhouse gas emissions outside the state and outside the geography of another jurisdiction with a linkage agreement with Washington."[4] While the issue of leakage is not specifically addressed in the Department of Ecology's rules regarding electric utilities, it is appropriate to review the utility-specific forecasts with this definition in mind.

As the utilities remove coal from Washington rates, it is possible (and, in fact, it seems likely) that coal plants currently included in Washington rates, such as Colstrip, will continue to operate. Despite unfavorable market conditions, the bankruptcy of the plant operator, and ongoing legal and financial risks, Colstrip owners have been unable to reach an agreement for the shutdown of Colstrip units 3 and 4. While we understand that PSE has sold its ownership share in Colstrip and associated voting rights, Avista and PacifiCorp have not disclosed a plan for their ownership post-2025. Therefore, it is only reasonable to assume that the reallocation of coal resource will result in a reduction of emission attributed to Washington, but an increase in emission attributed outside the state. Given that the vast majority of emissions reductions forecasted to be achieved by the electricity sector in the first forecast period are associated

[4] RCW 70A.65.010

with utilities' planned reallocation of coal resources under CETA, the Commission must assess whether this approach aligns with the intent of the CCA.

V) Clean Energy Implementation Plans and Integrated Resource Plans

Another area of consideration when reviewing the forecasts is the sources used to determine the forecasts. Ecology has listed, in rank order, five potential sources to inform the utility-specific forecasts, outlined in WAC 173-446-230 (2)(c). Two of those sources, Clean Energy Implementation Plans (CEIP) and Integrated Resource Plans (IRP), are used by Avista, PacifiCorp, and PSE to develop their forecasts. However, only Avista's CEIP has been approved and none of the 2021 electric utility IRPs have been acknowledged by the Commission.[5] This means that the forecasts are based on sources that have not been fully vetted by the Commission.

For example, PacifiCorp's petition states that their "2021 CEIP was filed consistent with RCW 19.405.060 and WAC 480-100-620" but the Commission has not taken action on PacifiCorp's CEIP, nor has it yet determined whether or not this statement is true. Given these current circumstances, we recommend the Commission explicitly state that approval of a utility-specific forecast does not act as approval or acknowledgement of a CEIP or IRP and if there are substantive changes to a source used to determine a utility-specific forecast, a utility should file an update to their forecast. Given that the IRPs and CEIPs have been granted heightened significance as a basis for allowance allocation under CCA, we urge the Commission to ensure a rigorous review of utility IRPs and CEIPs in the future. We also urge a more coordinated review of IRP/CEIP and power supply forecasts to ensure consistency and transparency, and ensure that investment and dispatch decisions prudently mitigate the impacts to power costs and customer rates.

VI) Recommended Criteria for Approval

In the absence of specific guidance from the Legislature to the Commission concerning the criteria for approval of the forecasts, we urge the Commission to consider whether the forecasts meet broad public interest criteria. In order to approve the forecasts, we recommend the Commission:

- Assess whether the market purchases accounted for in a utility-specific forecast demonstrate an appropriate level of reliance on market purchases, considering lowest reasonable costs and risks;
- Determine whether the resource mix included in a utility-specific forecast demonstrates an occurrence of emissions leakage, as defined in RCW 70A.65.010, and whether the utility has taken steps to mitigate this occurrence; and,

[5] See UTC docket UE-210628. Order 01 Approving Clean Energy Implementation Plan Subject to Conditions, June 23, 2022.

- As a condition of approval, direct the Washington investor-owned utilities to include the current market price of allowances in all trading of emitting fuels and dispatch of emitting resources after a specified date.

We request the Commission address these criteria, and offer complementary criteria as needed, in advance of approving a utility-specific forecast.

VII) Annual Updates to Forecasts

The Commission requested input on whether it should permit annual updates to the four-year demand and resource supply forecasts. While we do not believe permission to file a new petition is needed, we recommend requiring a utility to file an update if there is a substantive change to a source used to determine the forecast. For example, substantive changes to a source could include updates to resource costs and load forecasts to account for the effects of the Inflation Reduction Act, which are not reflected in utilities' 2021 IRPs or CEIPs. While the true-up mechanism will address any difference between forecasted and actual greenhouse gas emissions, an updated forecast will help ensure this information is publicly available. Additionally, if adjustments are made by the Department of Ecology to a utility's no cost allowance allocation, a utility should acknowledge and explain the adjustment in future demand and resource supply forecasts.

VIII) Benefits to Ratepayers

Lastly, RCW 70A.65.120 includes requirements for electric utilities to use the value of no cost allowances consigned to auction for the benefit of ratepayers. Additionally, WAC 173-446-230 (6) affirms that the UTC retains oversight over the use of revenues collected from an investor-owned utility through the consignment of no cost allowances. However, additional guidance is needed to determine the means for providing benefits to ratepayers as well as monitor and enforce the statutory requirements. We understand the UTC may be hosting a workshop to discuss outstanding issues related to and impacts of the CCA. We recommend the UTC seek input from stakeholders on this issue during a future workshop regarding the CCA.

IX) Interaction Between CCA and CETA

NWEC has long advocated that CETA is the primary emissions reduction policy for the electricity sector in Washington. However, since the Commission has not yet adopted final rules to implement CETA's compliance and reporting requirements, it is not clear to us whether the use of clean electricity supplied by Washington investor-owned utilities is primarily regulated by CETA or CCA. Clean energy investments will reduce the cost of CCA compliance, as long as they are actually used to serve load in Washington. If CETA is implemented for Washington investor-owned utilities as a planning and procurement standard, we are concerned that the CEIP forecasts may be insufficient for the purpose of CCA allowance allocation. Alternatively, if CCA is meant to be the primary emissions reduction policy covering electricity used in Washington, then the forecasts warrant far more scrutiny than contemplated in the Commission's November 16, 2022 Notice. Much more discussion is needed about the effects of CCA on power costs and the interaction between CCA and CETA. We've offered some criteria for the Commission's consideration, and are prepared to participate in further Commission policy discussions to clarify the interaction between CCA and CETA.

X) Conclusion

We appreciate the opportunity to provide input on the utility-specific demand and resource supply forecasts. NWEC plans to be in attendance at the January 23, 2023 open meeting and can respond to any questions on these comments at that time.

Respectfully submitted,

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