



STATE OF WASHINGTON

UTILITIES AND TRANSPORTATION COMMISSION

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February 20, 2018

Scott L. Morris
Chairman of the Board, President, and Chief Executive Officer
Avista Utilities
1411 East Mission
Post Office Box 3727
Spokane, Washington 99220

**Re: Avista Corporation dba Avista Utilities
2018 Natural Gas Integrated Resource Plan (Docket UG-170940)**

Dear Mr. Morris:

The Washington Utilities and Transportation Commission (Commission) has reviewed the 2018 Natural Gas Integrated Resource Plan (IRP) filed by Avista Corporation dba Avista Utilities (Avista or Company) on August 31, 2018, and finds that it meets the requirements of Washington Administrative Code (WAC) 480-90-238.

By acknowledging compliance with WAC 480-90-238, the Commission does not signal pre-approval for ratemaking purposes of any course of action identified in the IRP. The Commission will review the prudence of the Company's actions at the time of any future request to recover costs of resources in customer rates. The Commission will reach a prudence determination after giving due weight to the information, analyses, and strategies contained in the Company's IRP along with other relevant evidence.

Because an IRP cannot pinpoint precisely the future actions that will minimize a utility's costs and risks, we expect that the Company will regularly update the assumptions that underlie the analysis within the IRP and adjust its investment strategies accordingly.

The Commission supports the direction and efforts the Company has committed to taking in its next IRP and calls out the following actions as particularly important:

- 1) Include the cost of risk of future greenhouse gas regulation in addition to the cost of existing regulations.
- 2) Include dynamic selection of demand-side management (DSM) measures to enable each portfolio to have the ability to select conservation measures to meet unserved demand.
- 3) Re-examine future peak demand and the weather parameters that drive peak demand.

The Commission commends the Company for addressing the issues raised in the Company's 2016 Natural Gas IRP Acknowledgment Letter. The Commission agrees with Commission Staff's recommendation that the Company distinguish and account for the DSM savings that may reduce peak demand. In its next IRP the Commission expects the Company to:

- Identify individual conservation measures that reduce peak demand and quantify their reduction in demand, and the value of their reduction in demand including any role in pushing out the date of Avista's peak resource need.

Avista should file its next Natural Gas IRP work plan on or before August 31, 2019, and its final 2020 Natural Gas IRP on or before August 31, 2020.

Sincerely,

MARK L. JOHNSON
Executive Director and Secretary

Attachment

Attachment

Avista Corporation's 2018 Natural Gas Integrated Resource Plan Docket UG-170940

I. Introduction

Every two years, Avista is required to prepare a natural gas integrated resource plan pursuant to Washington Administrative Code (WAC) 480-90-238. As required by rule, Avista has the responsibility to manage risks and opportunities associated with acquiring and delivering natural gas and demand-side resources, including conservation savings, on behalf of its customers. The rule also directs investor-owned utilities (IOUs) to describe in detail the mix of natural gas supply resources and conservation that will meet current and future needs at the lowest reasonable cost to the utility and its ratepayers.

In its 2018 IRP, Avista presents analysis of its current and future portfolio resource needs for the next 20 years to meet system demand, with the least cost mix of natural gas supply and conservation to the utility and its ratepayers. The Company considers such factors as resource cost, market-volatility risks, public policies regarding resource preference and the cost of risks associated with environmental effects, including but not limited to the emissions of carbon dioxide.¹ The planning requirements set forth in the IRP rules ensure each utility develops a strategic approach to meet future resource needs.

On August 31, 2018, Avista filed with the Commission its 2018 Natural Gas Integrated Resource Plan. The Company conducted a comprehensive analysis of the costs and benefits, including risk mitigation benefits, of various approaches for meeting future resource needs using the best available information. The Commission recognizes the significant improvements that Avista has made in the modeling and analyses in the IRP, as well as in engaging with Commission Staff and other stakeholders. The following sections provide specific comments and requests for improvement in Avista's next IRP.

II. Summary of 2018 Integrated Resource Plan

Avista projects its Washington/Idaho demand to grow at 0.02 percent annually over the 20-year planning period, net of projected conservation savings.² Peak day requirements are projected to grow at 0.71 percent per year, net of projected conservation savings.³

As shown in Avista's Figure 5, the Expected Case has no resource deficiency during the 20-year planning horizon.⁴

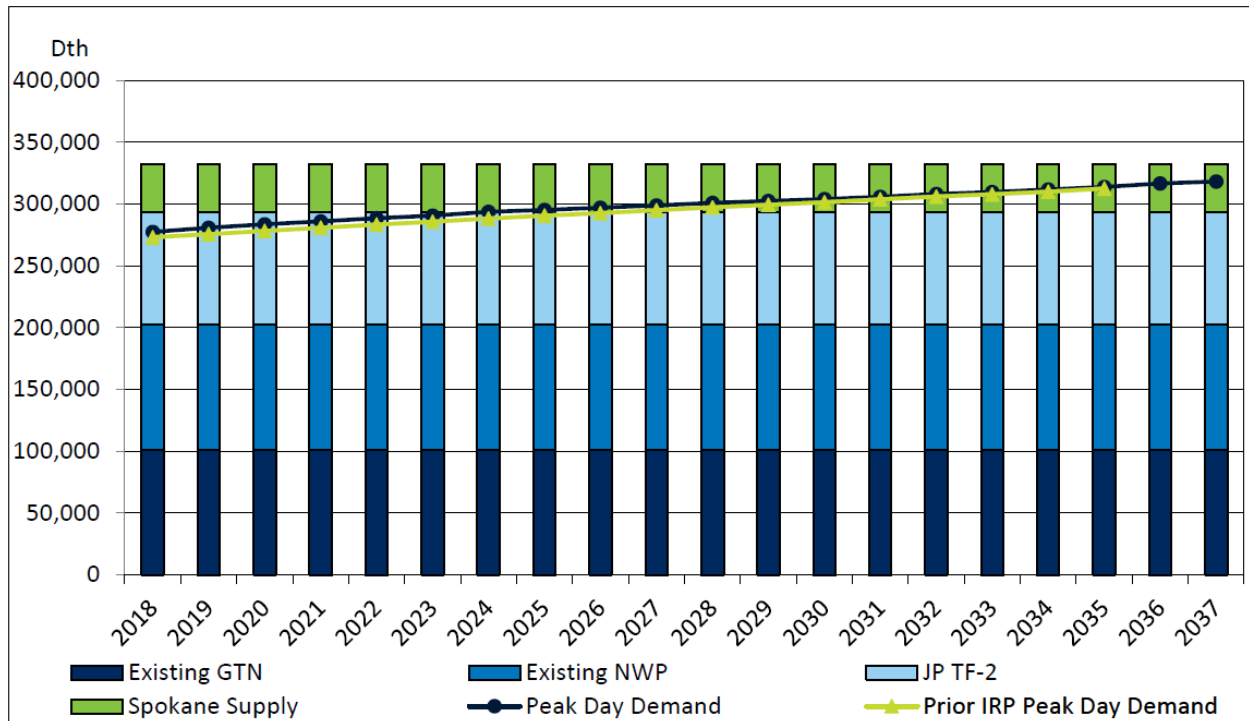
¹ WAC 480-90-238(2)(b).

² Avista's Natural Gas IRP, at 3.

³ Avista's Natural Gas IRP, at 4.

⁴ Avista's Natural Gas IRP, at 8. The Commission recognizes that, as with the 2016 Natural Gas IRP, Avista currently has firm rights to pipeline capacity sufficient to meet its demand through its 20-year planning horizon. The Commission notes that during the development of the 2016 IRP the GTN pipeline had surplus unsubscribed firm pipeline capacity but no longer does. The Commission understands that the

Figure 5: Expected Case – WA/ID Existing Resources vs. Peak Day Demand (Net of DSM)



Avista’s High Growth & Low Price demand scenario projects a peak day demand need in year 2033, at the 18th year of the 20-year planning horizon.⁵ Even though the projected demand for the Expected Case is net of the Plan’s current projected conservation and there is no resource gap in the 20-year planning horizon, the Commission expects the Company to pursue cost-effective conservation during the interceding years with the goal of pushing out in time the resource deficiency as the Company’s and customers’ conservation actions have done in the past.

III. Areas for Further Consideration

The Commission recognizes Avista’s responsiveness in its IRP to issues the Commission raised in the 2016 Acknowledgment Letter, including Avista’s work on:

- The Clean Air Rule,
- Explanations of its natural gas hedging strategy,
- Modeling conservation in Sendout,
- Conservation potential assessment, and
- The Northwest Energy Efficiency Alliance natural gas initiative.

newly subscribed capacity may not be committed to serving firm end-use demand but may instead be held by entities for natural gas marketing purposes. The Commission anticipates a discussion of this dynamic in Avista’s 2020 IRP.

⁵ Avista’s Natural Gas IRP, at 11, Figure 10.

Commission Staff's (Staff) comments highlight some additional actions the Company could pursue in its next IRP. These include additional modeling improvements to conservation, weather-related demand assessment, and the inclusion of the cost of risk of future greenhouse gas (GHG) regulation in IRP scenarios. We concur with these recommendations and expect the Company to pursue them in its 2020 Natural Gas IRP.

Conservation

The Company's ability to dynamically model the contribution of conservation as a resource on an equal footing with other resources has been limited by Sendout's ability to model granular conservation resources by service area. In its 2020 IRP, the Company plans to employ a different modeling tool to allow conservation to be dynamically selected as a resource in all portfolio runs. The Commission appreciates the Company's willingness to pursue this opportunity.

Weather-related demand assessment

Peak demand is weather driven and projected peak demand drives resource needs.⁶ The Commission recognizes Avista's focus on evaluating approaches to estimating weather-related peak demand parameters. We encourage Avista to continue to work to improve its ability to estimate its future peak demand.

Greenhouse gas costs

Avista added a new risk scenario to its IRP that achieves an emissions reduction of 80 percent below 1990 levels. This was a useful scenario to examine one possible future policy. As greenhouse gas policy continues to evolve, the Company must use its best judgment to pick a reasonable range of assumptions when it includes GHG costs in its 2020 Natural Gas IRP modeling. The Commission supports Avista's plan to include in its 2020 Natural Gas IRP the cost of risk of future greenhouse gas regulation in addition to the cost of existing regulations.

IV. Conclusion

The Commission acknowledges that Avista's 2018 Natural Gas Integrated Resource Plan complies with WAC 480-90-238.

⁶ The Company states that a "slight increase in weather expectations can alter the unserved timeframe, especially in areas with higher populations or those nearing their current resource limits." Avista's Natural Gas IRP, at 166.