Avista Corp.
1411 East Mission P.O. Box 3727
Spokane, Washington 99220-0500
Telephone 509-489-0500
Toll Free 800-727-9170

Via: UTC Web Portal

February 28, 2020

Mark L. Johnson
Executive Director and Secretary
Washington Utilities & Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

Re: Docket No. UE-191023 – Comments of Avista Utilities

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 File Written Comments ("Notice") issued in Docket UE-191023 on January 15, 2020 regarding the implementation of Chapter 19.405 RCW and revisions to Chapter 80.28 RCW, Relating to Clean Energy Implementation Plans and Compliance with the Clean Energy Transformation Act, Docket UE-191023. Pursuant to the Notice, Avista provides comments to the questions posed in the Notice:

Clean Energy Implementation Plans (CEIP)

1. CETA stresses the need to maintain system reliability and resource adequacy.[1] RCW 19.405.060(1)((a)(iii) requires that the specific actions taken in a CEIP be consistent with the utility's resource adequacy requirements. What information should utilities include about their system reliability and resource adequacy in the CEIP? For example, should the utilities include detailed information about the resource mix it plans to use to meet system reliability and resource adequacy and how each resource type contributes?

[1] See RCW 19.405.010(2).

Avista Response: The CEIP evolves from a utility's Integrated Resource Plan, which, under CETA, must include a clean energy action plan (CEAP). A CEAP must "identify renewable resources, nonemitting electric generation, and distributed energy resources that may be acquired and evaluate how each identified resource may be expected to contribute to meetings the utility's resources adequacy requirement." Thus, the CEIP should address how the utility will meet the its reliability targets by either using existing resources or acquiring new resources. The utility may show how it complies with reliability targets, for example, showing a loss of load probability (LOLP) analysis or other analysis with the proposed resources from the CEIP (and other new resources) meeting the reliability criteria. The utility should conduct these studies for each of the 4-year CEIP compliance periods. Further, where the utility is relying on future market purchases to meet a portion of its needs, such reliance should be supported by analyses or studies demonstrating how the market is reasonably expected to contain adequate surplus to support the broader region, as well as the utility needs when, and only if, the region is short capacity as determined by the Northwest Power and Conservation Council (or other regional entity), or company sponsored analysis. Where the Company uses a LOLP approach and also includes a market reliance- the utility shall demonstrate how the level of market reliance is justified by either regional diversity, market depth, or due to balancing cost and risk (i.e. difference in added cost vs cost of curtailment). In the event the utility joins an organized market or a regional resource adequacy program with a prescribed reliability metric requirement, the utility's compliance with this market should satisfy this obligation.

CEIP Targets

2. RCW 19.405.060(1) requires that by January 1, 2022, and every four years thereafter, each electric investor-owned utility must develop and submit to the Commission a four-year CEIP for the standards established under RCW 19.405.040(1) and 19.405.050(1). The plan must propose specific targets for energy efficiency, demand response, and renewable energy. The plan must also propose interim targets for meeting the standard in RCW 19.405.040(1) prior to 2030 and between 2030 and 2045.
    a. Should the rules provide that specific targets must be defined cumulatively for each four year period, or identified annually, within the four year compliance period?
    b. Should the Commission require utilities to identify interim targets by resource type or some other metric(s), such as percentage of sales to customers from nonemitting generation and renewable resources?
    c. Should the Commission require that interim targets be defined cumulatively or annually for the years prior to 2030? For the years between 2030 and 2045?

Avista Response:

a. For renewable energy, the nonemitting electric generation, and alternative compliance portions of the CEIP, the rules should only define the full four-year compliance period

clean energy target. This will ensure utilities have the maximum flexibility to manage their portfolios to minimize customers' costs.

For demand response, the rules should specify an annual target, measured by the utility's capability rather than actual dispatch of programs.

For energy efficiency, utilities are already required to set a goal for the next two years; the rules should continue this approach by having both two- and four-year goals.

b. No, the Commission should not require utilities to identify interim targets by resource type or some other metric(s). Utilities need flexibility to add renewable generation economically from both a reliability and integration point of view. The overall targets, and the consequences of not meeting them, provide adequate discipline to ensure overall compliance with the law for the four-year period. Further, the acquisition of resources will likely be different than planned due to actual prices from request for proposals (RFP) s rather than expected cost from Integrated Resource Plans (IRP)s/ Clean Energy Action Plan (CEAP).

c. Prior to 2030, there should be no specific interim requirements as each utility's ability to integrate and contract for renewables is different. The utility should plan within the CEIP to meet the 2030-33 goal prior to 2030 and have the flexibility to acquire and recover resources prior to 2030. Between 2030 and 2045, the Commission should use the following schedule for interim compliance:

   1) 2030-33: 80 percent combination of renewable and nonemitting electric generation
   2) 2034-37: 80 percent combination of renewable and nonemitting electric generation
   3) 2038-41: 90 percent combination of renewable and nonemitting electric generation
   4) 2042-44: 90 percent combination of renewable and nonemitting electric generation

3. RCW 19.405.060(1)(c) requires the Commission to approve, reject, or approve with conditions the CEIP and associated targets after a hearing. With conditional approval, the Commission may recommend or require more stringent targets. Are there circumstances in which the Commission can and should recommend, rather than require, more stringent targets? If so, when should the Commission recommend more stringent targets and on what basis could and should the Commission not require more stringent targets?

Avista Response: At this point in time there are no specific areas where the Company believes the Commission should recommend rather than require more stringent targets.

4. RCW 19.405.060(1)(c) allows the Commission to periodically adjust or expedite timelines when considering a utility's CEIP or interim targets. A common Commission practice is to respond to a motion to adjust timelines from any party with standing in a proceeding at any time or after hearing a compliance item at an open meeting.
   a. What criteria should the Commission take into account in making changes to

timelines?

b. When should the Commission consider adjusting or expediting the timeline? How should the Commission interpret the term "periodically?"

c. Who bears the burden of demonstrating that adjusting or expediting the timeline can or cannot be achieved in a manner consistent with RCW 19.405.060(1)(c)(i)- (iv)?

Avista Response:

a. The Commission should only modify timelines if a clear technological or economic circumstance different from what had been the predicate for the utility's proposed CEIP or interim targets warrants acceleration.

b. The Commission should avoid adjustments to the timelines in between four-year cycles of the CEIP to ensure the utilities have the certainty and flexibility to act. The debate over targets and timelines should occur during the public processes and Commission consideration of the CEIP. If the Commission must include a mid-point adjustment time period in rule, the only time to entertain requests to adjust or expedite a timeline in a utility's CEIP would be after the utility files its IRP progress report. The IRP progress report could include an update on how the utility is progressing toward achieving its CEIP targets. At that time, the utility or a party with standing could request an update to the targets. Requests to update the timelines for an already approved CEIP should only be considered by the Commission for major changes caused by unforeseen circumstances. The process for adjusting targets and/or timelines should be very fast - no more than a month, beginning within two weeks of when the utility's IRP progress report is filed. If the Commission must include a provision in rule, then the Company proposes that changes could be made during a limited window of time after the utility files its IRP progress report to address major, unforeseen circumstances.

c. The party proposing to adjust or expedite the timeline should bear the burden of demonstrating that adjusting or expediting the timeline can or cannot be achieved in a manner consistent with RCW 19.405.060(1)(c)(i)-(iv).

5. What level of additional detail, if any, should the specific CEIP targets include beyond the statutory language?

a. For energy efficiency, the target required by the Energy Independence Act, RCW 19.285.040(1)(a), follows methods consistent with those of the Pacific Northwest Power and Conservation Council and only considers first year savings. Should the energy efficiency target in the CEIP be based on cumulative savings, savings projected over the lifetimes of measures implemented in a given program year, or capacity savings?

b. For demand response (DR):

i. How should the Commission develop a cost test to identify cost-effective demand response, as referenced in the Commission's *draft* rules under WAC 480-100-610(12)(e) (*See Integrated Resource Plan Rulemaking*, Docket UE-

190698, Staff Discussion Draft Rules (Nov. 20, 2019))?

ii. Should demand response potential be considered only within a utility's service territory or encompass the utility's entire balancing authority?

c. For renewable energy:

i. How should the utility calculate its target? Should it be a glide path to 2030, glide path to 2045, or both?

ii. How should the utility consider and account for the Energy Independence Act renewable targets, as referenced in RCW 19.285.040, and nonemitting resources, as referenced in RCW 19.405.040(1)(a)(ii), when calculating the utility's renewable target under CETA?

Avista Response:

a. For energy efficiency, Avista does not advocate for changes that would cause a departure from the methodology consistent with RCW 19.285.040(1)(a). That stated, given the CEIP is a four-year plan rather than two for energy efficiency under the EIA, the CEIP target should consider the additional two year period. Avista is supportive of discussions around how a new methodology would impact efficiency programs.

b. For demand response (DR):

i. Demand response analysis relies on evaluation conducted in the integrated resource planning process to identify programs, costs, and needs specific to a utility's capacity constraints. Once the DR value and timing of DR is established in the IRP, program planning and analysis could utilize the Total Resource Cost (TRC) test to evaluate cost-effectiveness using IRP inputs. The Program Administrator (Utility Cost Test) could also be a reasonable test to determine cost-effectiveness as an alternative.

ii. The utility should define whether DR programs should encompass the entire balancing authority (BA) or not. This said, the targets for CETA should be required only to apply to utility customers within the state of Washington. This flexibility will be important to the extent CETA makes DR more valuable due to the law's costs placed on certain carbon-emitting resources (e.g., natural gas). Other jurisdictions served by the utility might not agree that these incremental costs should be included in a DR program, which is why the programs should be applicable just to Washington.

c. For renewable energy:

i. The target should first be calculated by the utility's forecast (from its IRP) of Washington retail sales, minus the 5-year historical production of exempt load from qualifying facilities (QFs), and its voluntary renewable programs. In the interest of meeting CETA requirements at least cost, the utility should have the flexibility to

identify its own glide path and rational to meet both its 2030 requirement and 4-year period glide path between 2030 and 2045 as stated in question 2c.

ii. The CEIP does not specifically address the Energy Independence Act (EIA) for this purpose, although it should be part of the utility's IRP. Since SB-5116 includes modifications to the EIA if the utility meets 100% of its average retail sales with nonemitting generation, it is deemed compliant with the EIA requirements. Therefore, in the event the utility does not expect to reach the 100 percent goal, the EIA must still be met and the utility should show its plans for meeting the EIA in the IRP and may use its discretion to include this in the CEIP/CEAP. Further, any qualifying clean resource meeting both the requirements of the EIA and CETA should qualify for both state regulations as long as the renewable attribute is retired by the utility.

6. Should the CEIP contain time ranges for the acquisition of capacity resources, or deadlines for acquisition?

Avista Response: As discussed above, utilities require flexibility to acquire resources earlier than, or at the time of need, depending on economic factors to keep customer costs low.

Public Process

7. What guidance (content and form) should the Commission provide to ensure utilities employ robust, equitable, and inclusive public involvement in drafting CEIPs?

Avista Response: The Commission could provide a policy statement defining public involvement. However, Avista believes that a separate public meetings in addition to those scheduled as part of the IRP/CEAP work plan would be duplicative since the public is invited to all technical advisory committee meetings in order to provide public input on the IRP/CEAP, where a draft of the CEIP could be included. This would give the public an opportunity get a preview of the CEIP while not compromising future planning in the IRP.

8. Given the need for utilities to integrate their integrated resource plan (IRP), clean energy action plan (CEAP), and CEIP, what procedural outline should utilities' public involvement follow and what components (e.g., advisory groups, workshops, comment periods, etc.) should be included? How should a CEIP public engagement and public involvement process emulate or differ from the proposed rules in the IRP rulemaking (See Integrated Resource Plan Rulemaking, Docket UE-190698, Staff Discussion Draft Rules at 17 (Nov. 20, 2019)) or the conservation planning process in WAC 480-109-110 and WAC 480-109-120? Please describe in detail.

Avista Response: The Company believes that the CEAP will benefit from and be integral to an IRP and therefore the present public involvement process (e.g., for Avista our Technical Advisory Committee and DSM Advisory Group, and draft documents review) provides opportunity for input. The public will have ample opportunity to comment in the IRP/CEAP and Energy Efficiency processes that influence the CEIP information.

9. Would a requirement for a utility to file a draft CEIP for public input be useful or problematic if the plan were to be litigated? Please explain why or why not.

Avista Response: The IRP acknowledgement process already consumes significant time given the process generally lasts many months. The IRP acknowledgment process can take many months of a 24-month IRP cycle. Adding mandatory draft reviews could add many additional months and could compromise time necessary to integrate the new information and requirements for inclusion in our next IRP/CEAP. As importantly, such overlapping or extensive efforts could delay implementation of resource decisions. One option to consider would be to include a draft CEIP within the IRP/CEAP. This would give the public an opportunity to see a preview of the CEIP while not compromising future planning in the IRP.

Demonstration of Compliance with RCW 19.405.030, 040, and 050.

10. The Commission uses a planning and reporting cycle for conservation under the Energy Independence Act described in WAC 480-109-120. Should Commission rules similarly describe the level and frequency of reporting for demonstrating compliance with RCW 19.405.030, 040, and 050?

Avista Response: Yes. The level and frequency of reporting requirements should be known, referenceable, and clearly stated so that the utility and the UTC have clear expectations for reporting requirements. It is also requested that any details on reporting requirements be provided and housed within the same document or source as the Commission rules. Consolidation of reporting requirements to the degree possible would be beneficial. This insures that any changes made are known to each utility as well as other stakeholders.

11. Regarding the frequency of filings:
    a. Should utilities regularly file reports on their progress toward meeting compliance metrics?
    b. Does or should the frequency of the filings depend on the existence of a rate plan?

Avista Response:

a. Yes. However, with the reporting requirements within I-937, there is the risk of reporting to be duplicative and overly administratively burdensome. Avista suggests that efficiencies between the reporting for I-937 and CETA be explored. Inter-agency reporting consolidation would be beneficial to all parties.

b. No. Most reporting exists without the existence of a rate plan.

12. How must a utility demonstrate to the Commission that the utility has eliminated coal-fired resources from its allocation of electricity beginning in 2026, as required in RCW 19.405.030?

Avista Response: The utility shall be required within a general rate case (or other proceeding) to remove direct deliveries of coal-fired resources from its power supply expense calculation. Further, the utility will remove from collection of customers all other coal-related expense items related to O&M not part of the allowable costs under CETA. For capital-related collections these should already be scheduled to end by 2026. These requirements do not preclude the utility from purchasing coal on the wholesale market either directly or indirectly to serve customers on a day-to-day basis after 2026 and receiving rate recovery either in authorized power supply expense or a power supply recovery mechanisms.

13. If the Commission has four years of investment information from a utility when approving its CEIP:
    a. How often should the Commission require the utility to update the investment plans to reflect changing information?
    b. May the updates be informational filings, or should they be formal filings subject to Commission approval?

Avista Response:

a. Investment plans should be updated no more than annually. Every two years may be appropriate if there are only minor adjustments.

b. Updates, if any, should be informational filings.

Deferral of Major Projects under RCW 80.28.410

14. RCW 80.28.410 allows utilities to defer costs incurred in connection with major projects in the CEAP or that are identified in bids for resource acquisition. How should the Commission interpret "major projects" in this context? What metric should the utility use to identify major projects? How should these projects be included in the CEIP?

Avista Response: The Commission should utilize existing practice to interpret "major projects" in the context of cost deferrals pursuant to RCW 80.28.410. Under existing practice, the Commission does not impose a threshold or bright line rule for determining which costs

might be allowed for deferred accounting. Instead, the Commission determines whether to grant a request for deferred accounting based on the facts and circumstances of each individual request.

This approach seems particularly appropriate at the outset of CETA implementation efforts as utilities and the Commission are in the process of understanding the appropriate ratemaking treatment for the significant investments that utilities will need to make in order to comply with the statute.

15. RCW 80.28.410 provides for the deferral of both the capital and the variable costs for new resources. Through the power cost adjustment mechanisms (PCAM), utilities recover only the variable power costs of resources. How should costs for new resources be treated in the PCAM in light of the additional deferral allowed under RCW 80.28.410?
    a. Should the Commission require changes to the utilities' power cost adjustment mechanisms to match the cost of new resources with the benefits in compliance with the statute?
    b. During the period of deferral allowed under Chapter RCW 80.28.410(1) for a new energy resource, should the Commission provide deferral within the power cost adjustment mechanism for the difference between the hourly marginal costs of power production (or purchases) used to set the authorized power cost in effect during the deferral and the variable costs of the new energy resource not deferred under RCW 80.28.410(2)? If not, please explain why not? If so, should this change be requested as part of the CEIP, or through a separate proceeding?
    c. During the period of deferral allowed under Chapter RCW 80.28.410(1) for a capacity resource, should the Commission provide an adjustment to the deferral within the power cost adjustment mechanism for the lower power costs resulting from the addition of a lower heat rate generation unit to the utility's portfolio? If not, please explain why not? If so, should this change be requested as part of the CEIP, or through a separate proceeding?

Avista Response:

Avista believes that it is important to clarify that the question discusses "variable power costs" and "variable costs", which are not the same thing. To be clear, we believe that any costs that are not presently tracked and accounted for in Avista's Energy Recovery Mechanism (ERM) should NOT be otherwise tracked / deferred in the ERM, but rather should be tracked and deferred in a manner similar to other utility deferrals. Those deferred amounts (fixed costs and variable costs not tracked in the ERM) could include costs associated with resource acquisition, depreciation expense, property taxes, and O&M. The deferred balance would be reviewed in a general rate case and amortized over a period of time as requested by the utility.

As it relates to "variable power costs", for simplicity purposes let's assume that Avista entered into a PPA after a general rate case where an authorized power supply base was set. Actual "variable power costs" of fuel and transportation flow through the ERM. A deferral entry

made up of the "variable power costs" would be included in the monthly ERM true-up calculation as a power cost. Deferred ERM costs would then be credited by the market price of power used to determine the base level of power supply. The two entries result in Net Deferred ERM Costs. The deferral would be the difference between the PPA price, for example, and the currently market price, which would flow through the ERM. The market price would be the hourly Powerdex price for each our using the actual hourly delivered MWhs. This approach is based on the same logic that is used when new resources are acquired and put into rates – the baseline rate is increased by the "variable power costs" for the new resource and reduced by avoided market purchases. This procedure provides the customer an offset to the deferred variable costs in the amount of the market power purchases built into current rates that will be replaced by the generation from the new resource during the deferral period.

Compliance, Enforcement, and Penalties

16. RCW 19.405.090 provides that upon its own motion or at the request of the utility, and after a hearing, the Commission may issue an order relieving the utility of its administrative penalty obligation, if certain conditions are met. Does the Commission need to provide more guidance on the application of penalties and waivers of penalties in rule? If yes, please describe what additional guidance should the Commission provide.

Avista Response: Avista prefers no guidance at this time because the potential issues in complying with this law are not well understood.

Equitable Distribution of Benefits

17. RCW 19.405.040(8) states:

> In complying with this section, an electric utility must, consistent with the requirements of RCW 19.280.030 and 19.405.140, ensure that all customers are benefiting from the transition to clean energy: Through the equitable distribution of energy and nonenergy benefits and reduction of burdens to vulnerable populations and highly impacted communities; long-term and short-term public health and environmental benefits and reduction of costs and risks; and energy security and resiliency.

a. Please provide a list of costs and benefits (e.g., public health, pollution) that the Commission should consider when determining a utility's compliance with RCW 19.405.040(8).
b. Please provide a list of which geographic areas, populations, customer demographics, or other factors the Commission should consider when determining a utility's compliance with RCW 19.405.040(8).

Avista Response:

a. Avista suggests a continuation of collaborative workshops is the best approach to develop a list of costs and benefits. However, these lists need to consider what can be achieved/determined in the planning process where assumptions are generic and what can be achieved/determined in the acquisition process. Further, these costs and benefits need to be able to be measured as effective or ineffective based on a metric. Any measures or metrics should not be duplicative of current accounting for Social Cost of Carbon (SCC) or Total Resource Cost (TRC) metrics for energy efficiency.

b. The Commission should be mindful of how each utility varies in customer profiles, considering items such as urban and rural mix and the socioeconomic conditions of the service territory. Further, the Commission should consider the climate of the area. For example, Avista's customers reside in more extreme climates than other parts of the state and their customer's energy use is greater in the winter for heating, but also in the summer for cooling. Lastly, Avista's territory is also subject to wildfires or smoke and these factors should be considered.

18. In the Commission's IRP rulemaking in Docket UE-190698, many stakeholders commented that the Commission should determine compliance with RCW 19.405.040(8) as part of the CEIP process. If the Commission were to do so, what types of guidance on RCW 19.405.040(8) compliance should the Commission provide in its CEIP rules? If the Commission were to provide guidance on RCW 19.405.040(8) compliance in a form other than rules (e.g., an interpretive and policy statement), what type of guidance should the Commission provide? Please be as specific as possible in your responses.

Avista Response:
The Commission should determine compliance by means of an order to determine if the utility is compliant with the requirements of RCW 19.405.040(8). If the utility is not compliant, the utility should be given specific direction on changes or an opportunity to cure the deficiency.

19. Should a utility's demonstration of compliance with the requirements in RCW 19.405.040(8) include qualitative data, quantitative data, or both? Please explain your response. If you recommend qualitative data, which of the following approaches for approximating hard-to-quantify impacts are most appropriate: (a) service territory- specific studies; (b) studies from other service territories; (c) proxies; (d) alternative thresholds; or (e) or another approach? Does your response depend on a particular factual scenario? If so, please describe the scenario and explain why the approach you recommend is best suited for that scenario.

Avista Response:
After each CEIP period the utility should show quantitative data demonstrating how it met its objectives from the CEIP.

20. Please provide any existing data sources or methodologies of which you are aware for quantifying non-energy costs and benefits, and other equity-related impacts.

Avista Response: Avista currently includes non-energy benefits in its cost-effectiveness test when utilizing the TRC test. Typically, these values are quantified by the customer and verified by the utility and/or independent evaluator. Values are quantified based on specific data inputs such as O&M savings, avoided equipment purchases, increased productivity, etc. There are some quantifiable non-energy benefits, like those associated with reducing wood smoke particulates, included in regional datasets from the RTF (Northwest Power and Conservation Council's Regional Technical Forum). The TRC test notes difficulty to quantify externalities such as improved aesthetics, air quality, comfort, convenience, etc. Since these are difficult to quantify, guidance on deemed values that could be included in cost-effectiveness tests would be beneficial.

The SCC calculation from the Interagency Working Group on social cost of carbon includes many non-energy benefits. Any costs or benefits included in this analysis should not be duplicative of the costs already included.

21. How should the Commission interpret RCW 19.405.060(1)(c)(iii)? How are the requirements in that statute different than the requirements in RCW 19.405.040(8)?

Avista Response: The pertinent phraseology in the two subsections is identical, except for the inclusion of the word "the" in one of them. What does distinguish the two subsections is their respective context. Under RCW 19.405.060(1)(c)(iii), the Commission must "ensure" that adjusting or expediting interim targets in a CEIP would benefit all customers, as described in the subsection, and it must do this in the context of being part of several criteria. The interim targets are not subject to a compliance obligation. All the company is required to do is to "demonstrate progress" towards meeting the interim targets through "specific actions" identified in the CEIP. RCW 19.405.040(8), on the other hand, sets-forth a compliance obligation on the company, rather than the Commission, to "ensure" that "all customers are benefiting from the transition to clean energy," and it requires that ensuring that outcome must be consistent with the integrated resource plan (including clean energy action plans) and the cumulative impact analysis developed under RCW 19.405.140. In other words, the context differs for each and the burden for each rests with different parties. What this might portend is different analyses and conclusions being applied in each situation.

Incremental Cost of Compliance

22. RCW 19.405.060(3) requires an electric investor-owned utility to use its weather- adjusted sales revenue to customers as reported in its most recent Commission basis report (CBR) as part of its incremental cost calculation. Each investor-owned utility is different in how it reports its weather-adjusted sales revenues and adjusts its sales for "weather."

a. Should the Commission standardize its CBR rules to be able to effectively implement the incremental cost calculation requirements in RCW 19.405.060(3)? If so, please describe how the Commission should revise those rules.
b. Can the Commission allow each utility to use a different weather normalization method and still create a consistent methodology for calculating incremental cost?

Avista Response:

a. Avista does not believe it is necessary for the Commission to standardize its CBR rules to effectively implement the incremental cost calculations requirements in RCW 19.405.060(3). While Avista's CBR methodologies vary slightly from the other utilities, having yet another proceeding to standardize rules does not make sense. To the extent the Commission and/or other interested parties find that these rules need to be changed, then perhaps at that future time such a proceeding may make sense.

b. Yes. The Commission should allow each utility to use its own weather normalization methodology consistent with the previously approved methodology in the utility's last general rate case. A rulemaking in this area would add additional process in amongst all of the other issues before this Commission. Further as the parties have seen in the Cost of Service workshops, it is highly likely that consensus will be hard to reach, which could lead to a very long, protracted proceeding.

23. RCW 19.405.060(3)(a) states that an electric investor-owned utility complies with its Clean Energy Implementation Plan if, over a four-year compliance period, the utility's average incremental cost to comply with RCW 19.405.040 and 19.405.050 increases by two percent over the utility's weather-adjusted sales revenue.
    a. If a utility relies on the incremental cost compliance option as detailed in RCW 19.405.060(3)(a), when should the Commission determine whether the utility has achieved the incremental cost threshold for compliance? For example, should the Commission determine the utility's compliance based on a forecast, at the time the utility files its Clean Energy Implementation Plan, based on actual data at the conclusion of the four-year period or through interim reporting, or a combination of these options?
    b. If the Commission allows a utility to forecast its reliance on the incremental cost of compliance option, and the utility's actual incremental costs increase more or less than two percent averaged over the four-year period, would a true-up mechanism be allowed and necessary to reconcile the differences between the actual and the forecasted incremental cost?

Avista Response:

a. Avista believes that compliance should occur with the approval of the CEIP. The utility's Plan will provide the actions that will be undertaken, and given that the Commission will approve the Plan, it likewise should approve the incremental cost for compliance purposes. Of course it would be on the utility to fully justify actual expenditures in future rate proceedings, but for purposes of the Plan it would be good for the utility, Commission, and interested parties to know that the CEIP approved by the Commission is all encompassing at the time of approval.

b. The Commission should require a true up mechanism to reconcile differences between the actual and forecasted incremental costs, such as that used for ERM, except the cost should be 100 percent pass-through if determined to be prudent.

24. When using the incremental cost compliance option, RCW 19.405.060(3)(a) requires all of a utility's costs to be directly attributable to the actions necessary to comply with RCW 19.405.040 and RCW 19.405.050. How should the Commission require a utility to demonstrate that such actions were "directly attributed and necessary" for the utility to take only to comply with CETA?

Avista Response: The statute does not say that all costs that must be "directly attributed and necessary" were incurred "only to comply with CETA." An investment in non-generation assets, for example, could serve purposes beyond "only" complying with CETA. Further resources identified as capacity resources if required to be included in the CEIP may not be due to CETA.

First, the burden is on the utility to demonstrate whether any cost is necessary, whether CETA related or not. That said, a utility will need to explain why costs in the Plan are "directly attributed." Perhaps by demonstrating that, absent CETA, such an expenditure or investment would not have otherwise been made. This can be shown on a forecast basis in the IRP process. The utility should show a portfolio complying with CETA and a portfolio not in compliance- this difference in cost can be used as the justification of meeting the requirement. This analysis will also be shown in the CEAP and can be included in the CEIP only if the utility plans on using this method of compliance.

At this point Avista does not believe that the Commission should be prescriptive as to a "bright line" indicator of whether a cost is due to CETA or not. As the parties and Commission work through the first few CEIP filings, and if there are general issues that arise and pertain to some or all of the utilities, then perhaps a more rigorous discussion on "directly attributable" should happen. For now, we recommend flexibility on the Commission's part knowing that the burden of cost recovery is on the utility.

25. RCW 19.405.060(3)(b) states that if a utility relies on subsection (a) (incremental cost as a basis of compliance), the utility must demonstrate that it has "maximized investments in

renewable resources and nonemitting electric generation prior to using alternative compliance options." In what type of proceeding should the Commission require a utility to demonstrate that it has maximized investments in renewable resources and nonemitting electric generation? What documentation should the Commission require the utility to provide?

Avista Response: An analysis and determination that the company has "maximized investments in renewable resources and nonemitting electric generation prior to using alternative compliance options" applies only in the circumstance where the company elects to exercise the "cost cap" option. The statutory context for this requirement is the section of law that sets-forth the requirements for a CEIP. Thus, a company would likely seek approval for employing the cost cap as part of its CEIP filing. The proceeding used by the Commission should be the one provided for approving a CEIP. If a company proposes to "maximize" investments in renewable resources and/or nonemitting generation in its proposed CEIP, then the Commission could rely on supporting documentation (including the company's clean energy action plan), and upon finding that the CEIP was sufficient to approve the company's reliance on the cost cap.

That should occur in the CEIP, as that is where the utility will set forth its compliance plan, which may or may not rely on alternative compliance options. Avista does not believe that the Commission, at this time, should prescriptively set forth guidance on what forms of documentation should be provided as one can easily surmise that, at this time, we will not be able to know what documentation and support will even exist in future CEIPs.

Cost information within the CEIP

Conservation plans include an element describing program budgets and cost recovery approaches for different resources. (*See* WAC 480-109-120 and 130.) As an example, a utility must recover transmission and distribution investments through a general rate case, while the utility may recover program costs through a conservation tariff rider. Further, changes to RCW 80.04.250 allow the Commission to provide for rate changes up to 48-months after the initial rate effective date. Finally, the Commission must approve a utility's CEIP, in the context of which the Commission may approve new cost-recovery approaches.

26. How should the utility address investment planning and cost recovery in its CEIP?

Avista Response: Avista appreciates the opportunity to collaborate with the Commission and stakeholders on the implementation of CEIP, and looks forward to further discussion on these important questions.

27. How could a utility's CEIP be used to set rates prospectively? Would using a CEIP to set rates prospectively be in the public interest? Please explain your answer.

Avista Response: Avista appreciates the opportunity to collaborate with the Commission and stakeholders on the implementation of CEIP, and looks forward to further discussion on these important questions.

28. Which elements of a CEIP should a utility recover through general rate cases? Which elements of a CEIP are appropriate for a cost recovery mechanism?

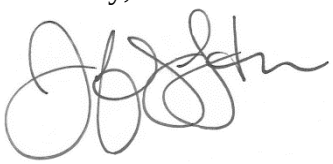
Avista Response: Avista appreciates the opportunity to collaborate with the Commission and stakeholders on the implementation of CEIP, and looks forward to further discussion on these important questions.

29. Should the Commission require a utility to provide in its CEIP (a) information on program budgets related to incremental programs for compliance with CETA; (b) descriptions of, and details about, capital budgeting for all investment; or (c) both?

Avista Response: Avista appreciates the opportunity to collaborate with the Commission and stakeholders on the implementation of CEIP, and looks forward to further discussion on these important questions.

Avista appreciates the opportunity to collaborate with the Commission, the Department, and interested stakeholders and we look forward to participating in further discussions on these important topics. Please direct any questions regarding these comments to me at 509-495-2098 or Jennifer.smith@avistacorp.com.

Sincerely,



Jennifer S. Smith
Manager, Regulatory Policy and Affairs
Avista Utilities