BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of Avista Corporation, d/b/a Avista Utilities For an Accounting Order Authorizing Deferral of Electric Costs Related to Compliance with the Climate Commitment Act and Including FERC Account 509 in the Energy Recovery Mechanism	))))))))	Docket No. UE-23______ PETITION OF AVISTA CORPORATION

I. INTRODUCTION

1 In accordance with WAC 480-100-203(3) and WAC 480-90-203(3), Avista Corporation, doing business as Avista Utilities ("Avista" or "the Company"), at 1411 East Mission Avenue, Spokane, Washington, hereby petitions the Washington Utilities and Transportation Commission ("Commission") for an order authorizing the Company to (1) defer certain electric costs associated with the Company's compliance with the Washington Climate Commitment Act ("CCA"), and (2) to include in its Energy Recovery Mechanism ("ERM") FERC Account 509, *Allowances*, due to uncertainty if Avista must purchase carbon allowances to cover Washington's share of surplus sales delivered to the Mid-Columbia ("Mid-C") trading hub that require an associated carbon allowance per the CCA.

2 Avista is a utility that provides service to approximately 406,000 retail electric customers and 373,000 retail natural gas customers in a 30,000 square-mile service territory covering portions of Washington, Idaho, and Oregon. The largest community served by Avista is Spokane, Washington, which is the location of its corporate headquarters.

3 The Company requests that all correspondence related to this Petition be sent to the following:

David J. Meyer, Esq.
Vice President and Chief Counsel for
Regulatory & Governmental Affairs
P. O. Box 3727
1411 E. Mission Avenue, MSC 27
Spokane, Washington 99220-3727
Telephone: (509) 495-4316
E-mail: david.meyer@avistacorp.com

Patrick Ehrbar
Director of Regulatory Affairs
Avista Corp.
P. O. Box 3727
1411 E. Mission Avenue, MSC 27
Spokane, Washington 99220-3727
Telephone: (509) 495-8620
E-mail: patrick.ehrbar@avistacorp.com

Avista Dockets (Electronic Only) - AvistaDockets@avistacorp.com

4 Rules and statutes that may be brought at issue in this Petition include RCW 80.01.040, RCW 80.28.020, WAC 480-07-370(3)(b), and WAC 173-446.

II. BACKGROUND

5 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, referred as the CCA, 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 starting on January 1, 2023. All Washington-based electric utilities, including multijurisdictional utilities such as Avista, must secure enough allowances to cover the carbon emissions of imported power and generation from Washington based sources emitting 25,000 metric tons or more annually. Specific to Avista, the new law covers carbon emissions generated by the following:

- Boulder Park natural gas generating plant located in Washington (Kettle Falls Generating Station and Northeast Combustion Turbine are exempt from the CCA as they emit fewer than 25,000 metric tonnes of carbon equivalent annually);
- Washington's jurisdictional share of thermal plants located outside of Washington State used to serve Washington customers;
- Carbon-emitting thermal generation imported into Washington with a final point of delivery in Washington, both for Washington retail load service and surplus market sales; and,

- All non-specified electricity imported into Washington with a final point of delivery in Washington, both for Washington retail load service and surplus market sales.

III. CCA ALLOWANCES

6 Per WAC 173-446-230, "Allowances will be allocated to qualifying electric utilities for the purposes of mitigating the cost burden of the program based on the cost burden effect of the program. Only electric utilities subject to chapter 19.405 RCW, the Washington Clean Energy Transformation Act, qualify for no cost allowances."[1] Avista is both a qualifying electric utility under the CCA and subject to the Washington Clean Energy Transformation Act ("CETA"). In order to determine the amount of no cost allowances provided to qualifying electric utilities, WAC 173-446-230(2) states the following:

> *(a) Ecology will use utility-specific demand forecasts that provide estimates of retail electric load. Demand forecasts should represent the best estimate of the most likely electricity demand scenario during the compliance period.*
>
> *(b) Ecology will use utility-specific resource supply forecasts to determine the resource fuel types that are forecasted to be used to provide the retail electric load predicted by the demand forecast for the utility. Resource supply forecasts should represent the best estimate of the most likely electricity resource mix scenario during the compliance period including, but not limited to, using an assumption of average hydroelectric conditions.*
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> *(c) These forecasts will be derived from the following sources, which will be relied upon in the rank order listed below as necessary to most accurately determine the supply and demand forecasts that best predict the manner in which each electric utility will comply with the Clean Energy Transformation Act, chapter 19.405 RCW:*
>
> > *(i) A forecast of supply or a forecast of demand, along with any supporting information, which has been approved by the utilities and transportation commission in the case of an investor-owned utility or approved by the governing board of a consumer-owned utility in the case of a consumer-owned utility. Any such forecast must also be consistent with the clean energy implementation plan that is submitted pursuant to the Clean Energy Transformation Act, chapter 19.405 RCW.*

[1] WAC 173-446-230(1).

7 As referenced in the above WAC, for investor-owned utilities, Ecology will use a forecast of supply and demand approved by the Commission. For this reason, "On September 30, 2022, the Commission served a Notice Requiring Petitions Requesting Approval of Forecasts Pursuant to RCW 70A.65.120 (Notice) to the electric IOUs, which asked each utility to file for approval its most likely four-year demand and resource supply forecast by October 31, 2022. The Notice indicated that the forecasts should be derived from sources that most accurately and best predict how each IOU will comply with CETA, which may include a Clean Energy Implementation Plan (CEIP) or Integrated Resource Plan (IRP). Further, the Notice asked the IOUs to address whether the Commission should permit annual updates to the four-year demand and resource supply forecasts."[2]

8 On October 20, 2022, Avista filed its forecast pursuant to the Notice. Within its filing, the Company provided the following table summarizing its supply and demand forecast and what it believed to be the amount of no cost allowances it should receive from Ecology.

Table No. 1 – Avista 2023-2026 Supply and Demand Forecast

	P/T	CO2e	Total CO2e	2023 (CEIP)			2024 (CEIP)		
Resource Category	Ratio	Rate	Allowances	Total MWh	WA MWh	CO2e	Total MWh	WA MWh	CO2e
Non-Emitting Plants	65.64%	-	-	6,246,298	4,100,070	-	6,642,778	4,360,319	-
Coal Plants	65.64%	1.0614	3,062,366	1,525,677	1,001,454	1,062,943	1,462,803	960,184	1,019,139
Gas Plants	65.64%	0.4354	3,999,866	3,996,353	2,623,206	1,142,144	3,757,956	2,466,722	1,074,011
Market Purchases (unspecified)	65.64%	0.4370	216,377	40,944	26,876	11,745	69,505	45,623	19,937
Market Sales	65.64%	-	-	(2,531,535)	(1,661,700)	-	(2,618,240)	(1,718,613)	-
Total			**7,278,609**	**9,277,736**	**6,089,906**	**2,216,832**	**9,314,801**	**6,114,235**	**2,113,087**

	2025 (CEIP)			2026 (2021 IRP)		
Resource Category	Total MWh	WA MWh	CO2e	Total MWh	WA MWh	CO2e
Non-Emitting Plants	6,909,490	4,535,389	-	7,083,565	4,649,652	-
Coal Plants	1,407,033	923,576	980,284	-	-	-
Gas Plants	3,271,334	2,147,304	934,936	2,969,858	1,949,415	848,775
Market Purchases (unspecified)	129,571	85,051	37,167	514,310	337,593	147,528
Market Sales	(2,366,279)	(1,553,225)	-	(1,168,108)	(766,746)	-
Total	**9,351,150**	**6,138,095**	**1,952,387**	**9,399,625**	**6,169,914**	**996,303**

[2] Docket UE-220770, Order 01 ¶4. (footnotes omitted)

On January 23, 2023, the Commission issued Order 01 approving of Avista's supply and demand forecast. As approved by the Commission, "Avista forecasts a total Washington load of 6,089,906 MWh in 2023; 6,114,235 MWh in 2024; 6,138,095 MWh in 2025; and 6,169,914 MWh in 2026."[3]

9 In late April, Ecology issued an Auction Notice titled "Allowance Allocation to Electric Utilities for the First Compliance Period" where it provided "The initial allowance allocation for the "cost burden effect" for electric utilities…"[4] In this Auction Notice, Ecology noted Avista would receive allowances for the first compliance period as follows: 1,490,669 in 2023, 1,362,053 in 2024, 1,273,628 in 2025, and 661,235 in 2026. Avista has pursued discussion with Ecology on this matter as the amount of no cost allowances Avista may receive is lower than what it expected. As of the time of filing of this Petition, Avista has not resolved its concerns with Ecology, and it is uncertain what the final outcome will be regarding the number of no cost allowances it receives. Due to the uncertainty over the amount of no cost allowances Avista will receive for its Washington generation, particularly for surplus sales that are made to lower power supply costs for its customers, Avista may need to procure allowances to cover its surplus sales based on Ecology's position, which would result in a cost to its Washington electric customers.

10 In addition, Avista and other regional market participants are actively engaged in conversations with the Ecology to obtain clarification on two key approaches potentially providing a pathway to reduce CCA compliance costs for surplus sales. These methods center around: (1) wheel-through transactions that don't result in energy delivery in the State of Washington, and (2) a resource netting calculation based on a common practice to offset purchases and sales made at the Mid-C. The results of these efforts may reduce the

[3] Docket UE-220770, Order 01 ¶5.
[4] https://apps.ecology.wa.gov/publications/summarypages/2302031.html

carbon obligation allocated to Washington customers if Avista does not receive the amount of no cost allowances it calculated in the table shown above.

IV. IMPACTS OF PROPOSED ACCOUNTING ON ERM

11 Avista respectfully requests, rather than recording to an expense account, which ultimately is deferred through the ERM (after accounting for sharing bands), that the impact from any carbon allowance expense incurred is deferred to account 182.3, dating back January 1, 2023, when the CCA program began, through June 30, 2023, or until such time as the Commission issues an order on this matter. This would allow the Company time to work through many outstanding issues associated with the implementation of the CCA, resulting in an accurate estimate of expense.

12 In addition to the deferral, Avista respectfully requests to record the emission expenses related to Washington's carbon allowance obligation to account 509.X and include that account in the Company's ERM calculation. Once account 509.X is approved, the deferral will no longer be utilized. The balance in the deferral account would transfer into the 509.X account and be included as part of the annual ERM prudence review. Use of the 509.X emission expense account is the appropriate FERC account because in July 2022, FERC issued a "Notice of Public Rulemaking" (Docket No. RM21-11-000)[5] which provided preliminary accounting guidance for renewable energy credits and emission allowances. In the guidance, 509.X was the recommended expense FERC account. While account 509.X was originally intended to capture expense associated with sulfur dioxide emissions, the Notice of Public Rulemaking indicates the FERC's intention for that account to be used for all emission allowance expense, not just those associated with sulfur

[5] https://www.ferc.gov/media/e-3-rm21-11-000

dioxide.

13 Expenses would be recorded in the period in which the corresponding off-system sales revenue, FERC account 447.X. (*Sales for Resale*), is also recorded, effectively syncing up the expense associated with the revenue. Avista believes this is appropriate given the obligation is an adder to other generation costs which currently flow through the ERM. These expenses are similar to any other power supply cost incurred while serving Avista's customers. The monthly accounting associated with recording the ERM deferral would remain consistent, albeit including this additional expense account. These expenses would be reviewed for prudency in the Company's annual ERM filing.

V. REQUEST FOR RELIEF

14 WHEREFORE, Avista respectfully requests that the Commission issue an Order authorizing the Company to account for CCA carbon allowances as described above, including the use of FERC Account 509 in the Company's ERM, for all expenses incurred in 2023 and going forward. The Company is not seeking a prudence determination of any costs allowed to be included in the ERM, rather approval of the Company's application is needed to properly account for Washington's share of costs associated with the CCA that the Commission can ultimately later determine if they are appropriate to be recovered in customer rates.

DATED this 10th day of May 2023.

By: ______________________________
Patrick D. Ehrbar
Director of Regulatory Affairs