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UG-220244

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Kathy Hunter
Acting Executive Director and Secretary
Washington Utilities & Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

**RE: UG-220244 - Avista Utilities 2023 Natural Gas Integrated Resource Plan Reply Comments**

Dear Ms. Hunter:

Avista Corporation, dba Avista Utilities (Avista or the Company), provides the following reply comments in response to the comments filed by the Washington Utilities & Transportation Commission (Commission) Staff (Staff), Public Counsel, the Northwest Energy Coalition (NWEC), and Sierra Club regarding the Company's 2023 Natural Gas Integrated Resource Plan (IRP). These comments also address the discussion of Avista's 2023 IRP at the Commission's Recessed Open Meeting held on August 11, 2023, when Avista presented both its 2023 Electric and Natural Gas IRPs to the Commission.

Avista appreciates the comments offered on its IRP by the parties above. Avista's 2023 IRP was developed over the course of more than a year, beginning in February 2022, up to the filing of the IRP on March 31, 2023. During the development of the IRP, Avista held five Technical Advisory Committee (TAC) meetings and a public meeting. Avista's goal in developing the IRP is to maintain a transparent and open process whereby stakeholders and TAC members can offer questions, comments, and suggestions on the analyses and contents within the IRP. Avista reminds commenters of their opportunity to engage in the development of the IRP and asks for continued and deeper engagement in future IRPs to address concerns with the IRP in advance of its publication.

One area of concern within the written comments that Avista would like to provide clarity on relates to the commitment from the Company's 2022 General Rate Case (GRC) to include a decarbonization plan for how it will comply with the Climate Commitment Act (CCA).[1]

Avista considered 14 scenarios in the 2023 IRP, each providing a decarbonization plan, with the Preferred Resource Strategy (PRS) being the least cost pathway for CCA compliance. Each of these scenarios were constrained to meet energy demand and emissions targets through resource options including alternative fuels, electrification, energy efficiency, and demand response. Cost estimates of these resources included those from consultants, third parties, and government agencies. Emissions constraints in Washington were sourced directly from the CCA rules with program compliance considered in the form of allowances. The CCA rules were directly modeled by Avista and specifically state an entity cannot procure more than 10 percent[2] of the allowances available in an auction or yearly available auction amounts.

Importantly, to meet emissions targets, the Washington Department of Ecology (DOE) is valuing allowances and offsets through the cap-and-invest program, while offering market-based options for least cost compliance decisions:

> Cap-and-invest uses the powers of supply and demand to incentivize businesses to cut their emissions, using whatever strategy they think is best.[3]

An offset project, once certified, will directly remove allowances from the auctions, showing an allowance is equal to an offset.

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[1] Dockets UE-220053, UG-220054, and UE-210854 (Consolidated. See Appendix A to Final Order 10/04 at page 12.
[2] WAC 173-446-330 (1).
[3] [Climate Commitment Act - Washington State Department of Ecology]

Regarding the “invest” portion of the cap-and-invest program, Avista does not control what the State does with allowance revenues, but per the CCA, expects the State to use the revenues to invest in projects to help Washington transition to a low-carbon economy, per the following:

> Among other things, these proceeds will be used to increase climate resiliency, fund alternative-transportation grant programs, and help Washington transition to a low-carbon economy.[4]

Investments must consider environmental justice and tribal investments as a pathway to consider Avista’s low-income populations. This investment will help our most vulnerable customers[5] directly through projects as administered through the program:

> (a) A minimum of not less than 35 percent and a goal of 40 percent of total investments that provide direct and meaningful benefits to vulnerable populations within the boundaries of overburdened communities identified under chapter 70A.02 RCW; and
> (b) In addition to the requirements of (a) of this subsection, a minimum of not less than 10 percent of total investments that are used for programs, activities, or projects formally supported by a resolution of an Indian tribe, with priority given to otherwise qualifying projects directly administered or proposed by an Indian tribe. An investment that meets the requirements of both this subsection (1)(b) and (a) of this subsection may count toward the minimum percentage targets for both subsections.[6]

This discussion is pertinent as it is not up to covered entities, including Avista, for how the “invest” portion of the CCA will be achieved. Some commenters have a misperception that Avista must invest the revenues it receives from no-cost allowances in decarbonization efforts, which is not the case. Rather, those revenues can be passed back to customers to reduce the cost burden of the CCA. Avista looks forward to future engagement and discussion on this topic with the Commission, interested stakeholders, and its various advisory groups.

Additionally, the CCA does not mandate the reduction of natural gas usage outside of the financial disincentive to use the fuel. From a customer base, Avista assumes limited growth and only from providing back-up heat to heat pumps, in compliance with the direction of the building codes at

[4] Auction proceeds - Washington State Department of Ecology
[5] Overburdened communities - Washington State Department of Ecology
[6] RCW 70A.65.220(1).

the time of the analysis. These assumptions alone do not point toward a future of significant electrification and Avista believes it to prematurely assume this outside of a scenario analysis, as was done in the IRP.

Avista will further address the specific aspects of its GRC commitment following its response to Staff's recommendations for the Company's 2025 IRP.

**Table No. 1 - Commission Staff's Summary of Recommendations on Avista's 2025 IRP and Avista's Response**

| No. | Recommendations | Avista Response |
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| 1 | Review the Cascade Natural Gas general rate case final order with the TAC and the EAG together, consider how the core tenets of energy justice apply to Avista's planning processes, and prepare to implement the order's equity framework. Dedicate time in the work plan for this topic. | Avista will consider this recommendation in the 2025 IRP. |
| 2 | Staff recommends that Avista consult with its equity advisory group to develop equity criteria for the siting of distribution projects and reinforcements. | Avista will consider this recommendation in the 2025 IRP, although the equity advisory group is an electric only group and does not represent the full natural gas customer base. Avista seeks clarification if the current equity group should be expected to include gas only customer representation or a new advisory group be formed |
| 3 | Include full accounting of the IRA in the 2025 IRP and provide sufficient time in the work plan for discussion within advisory groups. | Avista considered the benefits of the IRA in its 2023 IRP and will continue to include the benefits in its 2025 IRP. |
| 4 | Work with the Department of Ecology, Staff, and advisory groups, to discuss the implication of this "cap" and how it is likely to be achieved. | The "cap" is per law and rules from the DOE. It is unclear what benefit there would be in consulting with the DOE on implications of the "cap". If Avista fails to meet its CCA compliance obligations, it would incur penalties as specified in law and rule. The market allowance availability, linkage with California and Quebec, and other program elements will be considered in the 2025 IRP and |

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| | | discussed with the TAC in the development of the IRP. |
| 5 | Provide a robust discussion of the “invest” portion of the “cap-and-invest” and discussion of the downstream impacts of CCA investments. | Avista will consider this recommendation in its 2025 IRP. Although, discussion will be limited until the legislature and the Environmental Justice Council develop investments the CCA revenues can be used for. |
| 6 | Account for and provide a narrative discussion regarding electrification driven by the CCA and discuss the CCA within its advisory group early in the IRP development process. | Avista provided a robust CCA set of assumptions and methodologies within its 2023 IRP and will continue this work in its 2025 IRP. |
| 7 | Adopt representative concentration pathway (RCP) 8.5. | Avista is concerned with the significant variation in future temperatures global climate models, by moving to an 8.5 RCP could place customers at undue risk of cold winter events. Since Avista does not need new pipeline capacity, Avista sees no risk avoidance by assuming a warmer future then the 4.5 RCP. The only change would be the number of allowances or alternative fuel purchases which will be weather dependent regardless of the climate future. Ultimately, the climate future assumptions will be presented to the TAC and feedback from all members will be incorporated in the final direction for climate futures as it was in the 2023 IRP with no objections. |
| 8 | For greater clarity, for tables like Table 2.3, replace with time series graphs with appropriate box and whisker plots. | Avista will consider the best chart format for the data including box and whisker plots in its 2025 IRP. |
| 9 | Revisit and update the winter peaking climate data and methodology as evidence and climate models improve. | Avista will revisit its climate forecast techniques in its 2025 IRP. |
| 10 | Where the specifics of future energy codes are unknown, project a forecast trend that accords with statutory goals and mandates. | Avista disagrees with including speculative changes to energy codes. Avista suggest using scenario analysis to address these concerns. |
| 11 | Develop a building stock attrition rate to represent the loss of customers due to buildings being demolished, remodeled without gas service due to incompatible use cases, or otherwise leaving gas service | Avista will consider this concept as a scenario for its 2025 IRP as it did in its 2023 IRP. |

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| | unrelated to changes in the price competitiveness of gas services. | |
| 12 | Adopt future building codes that are already imbedded in law as foundational assumptions for the primary demand forecast and not as a scenario. | Avista considered building codes in the base assumption of the 2023 IRP and will further consider impacts in the 2025 IRP. However, Avista will not speculate on future building codes; speculative building updates will only be handled as scenarios. |
| 13 | Analyze risks to customers and the distributional effects through the lens of equity, energy justice, and access to energy efficiency and electrification resources. | Avista will consider this recommendation in its 2025 IRP and expects engagement from TAC members and Staff to provide recommendations as there is no formal process such as the CEIP process in the electric business. |
| 14 | Dynamically model the anticipated comparative costs between its natural gas services and electric utility services into the future as well as the interplay of customers, by class, responding to changing comparative cost. | Avista's 2023 IRP electrification methodology addressed this concern. Avista will consider improving electrification modeling in its 2025 IRP. |
| 15 | Incorporate the distributional analysis discussed below into the comparative cost analysis. | Avista will consider this recommendation in its 2025 IRP. |
| 16 | Continue to refine the methods and approach of leveraging potential assessments for achieving equitable outcomes. | Avista will consider this recommendation in its 2025 IRP. |
| 17 | Segment customers with different levels of gas to electric conversion costs rather than modifying costs only by scenario. | Avista included this methodology in its 2023 IRP as a base assumption and will further consider impacts in its 2025 IRP. |
| 18 | Consider audits of specific transportation customer sites to better understand current equipment and practices to refine estimates of available potential for these customers. | Avista will consider this recommendation in its 2025 IRP. |
| 19 | Target outreach to the largest transportation customers to understand their likelihood of participating in future energy efficiency programs, including to what extent and on what timeline, when considering program design. | Avista will consider this recommendation in its 2025 IRP. Although this action should be conducted by the energy efficiency advisory group and its processes. |
| 20 | Explicitly note costs of greenhouse gas emissions established in RCW 80.28.395 when analyzing avoided costs. | Avista did this in its 2023 IRP and will increase the transparency in its 2025 IRP. |

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| 21 | Clearly account for emissions occurring in the gathering, transmission, and distribution of natural gas, providing itemization, a total value of these emissions, and the ratio of these emissions to throughput for the purposes of avoided cost calculations. | Avista's 2023 IRP accomplished this recommendation and will clarify these assumptions in its 2025 IRP. |
| 22 | Incorporate distribution system emissions data into Distribution Scenario Decision-Making Process criteria if applicable. | Avista's 2023 IRP accomplished this recommendation and will clarify these assumptions in its 2025 IRP. |
| 23 | Include both the cost of compliance with the CCA and the SCGHG for conservation in the base case in the 2025 IRP. | Avista's 2023 IRP accomplished this recommendation and will clarify these assumptions in its 2025 IRP. |
| 24 | When calculating the natural gas energy efficiency target for 2024-2025, use the avoided cost from the Social Cost of Carbon Case in Appendix 6.4. | Avista's 2023 IRP utilized the Social Cost of Carbon @ 2.5%. This methodology will be used in the 2025 IRP. |
| 25 | Consider hydrogen and landfill gas for the purposes of lowest reasonable cost analysis unless it can demonstrate a reason not to consider these fuels. | Avista will consider all resources to determine a least cost / least risk in its 2025 IRP, not just hydrogen and landfill gas, as hydrogen is volumetrically restricted and provides 1/3 the energy per volume of natural gas and RNG volumes are based on expected availability. Avista has provided a least cost and risk resource selection in its PRS scenario based on energy, volume, emission, and expected constraints |
| 26 | Convert figures similar to 4.16 through figure 4.21 to time series graphs featuring box and whisker plots. | Avista will consider the best chart format for the data including box and whisker plots in its 2025 IRP. |
| 27 | Highlight and offer appropriate cautions in its analysis wherever PLEXOS yields results or behaviors that would be unlikely to be anticipated or enacted by a human planner. | Avista will consider this recommendation in its 2025 IRP but did not see any instances of this assertion. |
| 28 | Highlight and offer appropriate caution in its analysis wherever PLEXOS uses resources in its portfolio in a manner that does not accord with current best practices or current technological means. | Avista will consider this recommendation in its 2025 IRP but did not see any instances of this assertion. |
| 29 | Rely upon human expertise to vet and verify all results generated by PLEXOS. | Avista currently vets and verifies its results and will continue to do so in future IRPs. |
| 30 | Consult with the TAC and parties to the GRC to discuss what a decarbonization plan should entail, submit a specific | See discussion above Table No. 1 and the discussion below regarding Avista's decarbonization plan. |

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| | workplan, and provide a decarbonization plan in the 2025 IRP. | |
| 31 | Refine the electrification analysis with input from interested persons. | Avista shared this analysis in its 2023 IRP with the TAC and interested parties and will consider again in its 2025 IRP. |
| 32 | Refine assumptions around electrifying loads and run additional sensitivities that illuminate a range of possible costs of electrification depending on how loads electrify. | Avista shared this analysis in its 2023 IRP with the TAC and interested parties and will consider again in its 2025 IRP. |

As noted above, Avista agreed to include in its 2023 IRP a decarbonization plan for how it will comply with the CCA. Avista offers the following responses for how it complied with each component of the decarbonization plan.

**d) Avista agrees to include in its 2023 Natural Gas IRP, a natural gas system decarbonization plan for complying with the Climate Commitment Act.**

**Response:** First, as discussed at the Recessed Open Meeting on August 11th, the PRS is the Company's decarbonization plan for how the Company will comply with the CCA. It is evident from comments that some parties had a different perspective of what the decarbonization plan would be or should look like. The settlement agreement did not specify or provide detail on the form the decarbonization plan would take. And it appears that some parties viewed the decarbonization plan as broader than just complying with the CCA.

Avista's PRS and supporting data and analyses to arrive at the PRS shows how it will decarbonize to comply with the CCA. In the near term (i.e. within the next five years), which is the most relevant time frame to focus on, the compliance strategy relies primarily on energy efficiency and the purchasing of allowances. There are some concerns around the adequacy of the selected resource's ability to decarbonize the system. Avista understands these concerns and notes that the IRP is updated every two years. The PRS in the Company's 2025 IRP will undoubtedly be different than its 2023 IRP, meaning that the PRS and decarbonization plan will change and evolve based on updated inputs, assumptions, and information at the time the IRP is developed.

The Commission has let utilities know that it will no longer acknowledge electric IRPs due to the requirement of approving or not Clean Energy Implementation Plans and that it is uncertain what it will do with natural gas IRPs going forward. As the Commission contemplates if or how it will acknowledge natural gas IRPs, the Company suggests it considers a similar process as electric IRPs, where an electric IRP provides the foundation for a near term action plan that is approved by the Commission. A near term action plan could focus on how a utility will meet its CCA compliance obligations and resource acquisitions it will make in the next four to five years.

**i. The Natural Gas IRP's decarbonization plan shall include a supply curve of decarbonization resources by price and availability, e.g. energy efficiency bundle 1 costs X$/ton of carbon dioxide equivalent (CO2e) reduction and can reduce Y tons of CO2e, dairy RNG costs A$/ton and can reduce B tons of CO2e.**

**Response:** Avista included supply curves as required in Appendix 5.1 of the IRP.

**ii. The decarbonization plan shall consider a comprehensive set of strategies, programs, incentives and other measures to encourage new and existing customers to adopt fully energy efficient appliances and equipment or other decarbonization measures, which could include electrification.**

**Response:** As discussed in Appendix 5.1, Chapter 3 includes a summary of the demand side resources considered in the 2023 IRP, including electrification. Chapter 6 discusses the Preferred Resource Strategy selected in the IRP to meet the CCA requirements, and ultimately the Company's decarbonization plan for this IRP. Additionally, the Appendix has all Conservation Potential Assessments (CPAs) included for a full analysis of considerations.

In sum, Avista met this obligation as the IRP, and decarbonization plan, considered a wide array of options, including energy efficiency, alternative fuels, and electrification, to comply with the CCA. Again, the PRS is the decarbonization plan selected as the lowest reasonable cost plan to meet current and future needs at the lowest reasonable cost to the utility and its customers, while complying with the CCA.

**iii. The decarbonization plan shall include targets for the ratio of new gas customers added relative to new electric customers added in future years.**

**Response:** As discussed in Appendix 5.1, Avista contemplated targets for the ratio of new gas customers relative to new electric customers. As stated in the Appendix, due to the phase out of natural gas line extensions allowances by 2025 for Avista, and building codes set to take effect in 2023 (this was the case at the time the IRP was submitted, which may now be changing), Avista does not anticipate any new gas customers added to the system beginning in 2025, and potentially earlier. If no new gas customers are added to the system, the ratio would be 0 as the numerator would be 0 in the following equation.

$$\text{Ratio of New Gas Customers to New Electric Customers} = \frac{\text{New Gas Customers}}{\text{New Electric Customers}}$$

Because the ratio of new gas customers relative to new electric customers is already expected to be 0, any such future target would also be 0.

The Sierra Club took issue with Avista's rationale for setting a target of 0 as it did not align with the customer growth forecast in the 2023 IRP. The reason for this is that the customer growth forecast was developed prior to the GRC settlement agreement being reached and approved. The 2023 forecast is based upon draft building codes allowing natural gas furnaces coupled with heat pumps for residential customers. Also, at the time of the forecast, and currently, there are no limitations on adding natural gas customers. In the Company's 2025 IRP, the customer growth forecast will consider the effect of phasing out line extension allowances, updated building codes, actual customer additions, and any additional rules and regulations that have been adopted. As such, Avista recognizes a need to revisit potential targets within its 2025 IRP.

Please contact Tom Pardee with any questions regarding these comments at 509-495-2159 or tom.pardee@avistacorp.com.

Sincerely,

*/s/Shawn Bonfield*

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