

Agenda Date: January 23, 2023

Item Number: A1, A2, and A3

Docket and

Company Name: UE-220770 – Avista Corporation d/b/a Avista Utilities
UE-220789 – PacifiCorp d/b/a Pacific Power & Light Company
UE-220797 – Puget Sound Energy

Staff: Heather Moline, Deputy Assistant Director
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Recommendation

Issue an order approving the demand and supply forecasts submitted by Avista Corporation d/b/a Avista Utilities (Avista) in UE-220770, PacifiCorp d/b/a Pacific Power & Light Company (PacifiCorp) in UE-220789, and Puget Sound Energy (PSE) in UE-220797, pursuant to RCW 70A.65.120, for the first compliance period of the Climate Commitment Act, with a condition that requires a company to refile by June 15 every year of the compliance period, starting in 2023, if substantive changes to emissions estimated by these forecasts are expected by that time.

Background

In 2021, the Washington State Legislature passed the Climate Commitment Act (CCA) through Engrossed Second Substitute Senate Bill 5126 into law, codified as RCW 70A.65, to reduce greenhouse gas (GHG) emissions. Also referred to as “Cap and Invest,” the law establishes a declining cap on GHG emissions from covered entities, and is intended to reduce emissions in the state by 95 percent by 2050.¹ The CCA allows electric utilities, which are subject to the Clean Energy Transformation Act (CETA), to receive no-cost allowances to mitigate the cost burden of the Cap and Invest Program on electric customers.² The CCA required the Department of Ecology (Ecology) to adopt rules, in consultation with the Washington Utilities and Transportation Commission (Commission) establishing the methods and procedures for allocating allowances for investor-owned electric utilities (IOU).³

On September 29, 2022, Ecology published final rules under Chapter 173-446 of the Washington Administrative Code, the “Climate Commitment Act Program.” In these rules Ecology specifies that it will use utility-specific four-year demand and resource supply forecasts⁴ to determine the cost-burden effect and the allocation of no-cost allowances to each electric utility.

¹ See [Climate Commitment Act - Washington State Department of Ecology](#).

² WAC 173-446-230(1)

³ RCW 70A.65.120

⁴ 173-446-230

The rules also provide that the initial allocation of allowances will be adjusted as necessary to account for any differential between actual GHG emissions and forecasted GHG emissions.⁵ Commission staff (Staff) and other parties refer to this informally as the true-up mechanism (true-up). Ecology clarifies that it will not subtract allowances if actuals are less than forecasted emissions, but rather it would give the utility proportionately fewer allowances the next year.

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, 2022.⁶ 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)⁷ 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.

On November 10, 2022, the Commission issued a Notice of Opportunity to File Written Comments and Notice of Recessed Open Meeting,⁸ providing an opportunity for interested parties to provide input on the forecasts filed by the three electric IOUs. These notices were filed under each utility's respective forecast docket.

Table 1

Resource Supply Category	Forecasted Annual MWh			
	2023	2024	2025	2026
Avista				
Non-Emitting Plants	4,100,070	4,360,319	4,535,389	4,649,652
Coal Plants	1,001,454	960,184	923,576	-
Gas Plants	2,623,206	2,466,722	2,147,304	1,949,415
Market Purchases (unspecified)	26,876	45,623	85,051	337,593
Market Sales	(1,661,700)	(1,718,613)	(1,553,225)	(766,746)
Total (WA only)	6,089,906	6,114,235	6,138,095	6,169,914
PacifiCorp				
Non-Emitting Plants	1,278,917	1,474,791	2,037,273	2,349,470
Coal Plants	1,625,876	1,271,702	1,242,741	-

⁵ WAC 173-446-230(2)(g)

⁶ Notice Requiring Petitions Requesting Approval of Forecasts Pursuant to RCW 70A.65.120, filed November 16, 2023, in Dockets UE-220770, 220789, & 220797.

⁷ The compliance period for the utilities' CEIPs is 2022-2025, which differs by one year from the 2023-2026 compliance period.

⁸ Filed November 11, 2022.

Gas Plants	1,006,879	1,046,341	1,050,755	988,107
Market Purchases (unspecified)	(3,911,672)	(3,792,834)	(4,330,770)	(3,337,577)
Market Sales	-	-	-	-
Total (WA only)	4,656,030	4,710,640	4,730,240	4,760,890
Puget Sound Energy				
Zero-emissions Plants and Contracts	14,853,218	16,350,762	16,912,266	14,755,579
Coal Plants	2,092,743	2,157,468	2,172,594	0
Gas Plants	4,657,102	4,434,187	4,297,031	3,624,415
Unspecified Contracts and Exchange In	682,226	687,708	683,748	683,748
Market Purchases	2,190,905	1,608,594	1,546,635	4,844,055
Market Sales & Exchange Out	-2,316,115	-2,736,263	-2,911,347	-979,249
Total	22,160,079	22,502,456	22,700,927	22,928,549

Summary of Forecast Filings

Avista, PacifiCorp, and PSE each submitted a demand and resource supply forecast for the first compliance period of 2023-2026. Supply categories are shown in the first column of Table 1, and expected demand served, in MWh, through each supply category is shown under each year in the other columns.

Avista

Avista used its 2021 CEIP⁹ as the source for its forecast of years 2023-2025, and used its 2021 IRP as the source for 2026.

Table 1 shows that 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.

The Company used the Production/Transmission ratio of 65.54 percent from Docket UE-200900, its most recently approved general rate case as of the October 31 filing, to calculate the share of output serving Washington customers.

PacifiCorp

PacifiCorp used its 2021 CEIP as the source for its forecast of years 2023-2025 and its 2021 IRP for 2026. PacifiCorp's Final 2021 CEIP was filed in Docket UE-210829 on December 30, 2021, and is not yet approved, as there is an ongoing complaint investigation in Docket UE-220376. As

⁹ Avista's CEIP was approved by the Commission on June 23, 2022, in Order 01 of Docket UE-210628.

stated in the Notice, the outcome of this forecast docket will have no bearing on the ongoing CEIP and associated investigation.

Table 1 shows that PacifiCorp forecasts a total Washington load of 4,656,030 MWh in 2023, 4,710,640 MWh in 2024, 4,730,240 MWh in 2025, and 4,760,890 MWh in 2026.

Since PacifiCorp is a multijurisdictional utility, the Company used its most recently approved Washington Interjurisdictional Cost Allocation Method (WIJAM) from Docket UE-191024 to represent the portion of generation allocated to Washington ratepayers. The application of the 2019 WIJAM allocations for years 2024-2026 in this forecast is different than what PacifiCorp used for those same years in its 2021 CEIP, because the CEIP assumed a “tentative proposed future allocation methodology for resources added in 2024 and beyond.”¹⁰ Consistent with Ecology’s rules,¹¹ PacifiCorp extended the 2019 WIJAM methodology for the years 2024-2026.

Puget Sound Energy

Table 1 shows that PSE forecasts 22,160,079 MWh of total load in 2023, 22,502,456 MWh in 2024, 22,700,927 in 2025, and 22,928,549 in 2026.

PSE used its 2021 CEIP as the source for its forecast for all years, extending the modeling from its CEIP through 2026. PSE’s final 2021 CEIP was filed in Docket UE-210795 and the matter is set for an evidentiary hearing at the end of this month. As stated in the Notice, the outcome of this forecast docket should have no bearing on the ongoing CEIP adjudication.

Discussion

Forecast Sources

At this time, Staff considers CEIPs and IRPs to be the best basis for CCA forecasts, despite that WAC 173-446-230(2)(c)(i) says the preferred source for these forecasts should be a forecast “approved” by the Commission, and only Avista’s CEIP has been approved. In the past, Staff, the companies, and other parties had discussed using power cost forecasts as the basis for CCA forecasts, as these are typically also approved by the Commission. The following, however, informs Staff’s current thinking as to why CEIPs and IRPs are the best basis for the best estimate of the most likely demand scenario and resource mix, as required by the notice.

First, the interlocking, iterative, and robust public processes between CEIPs and IRPs attempt to ensure more transparency and continuous improvement, while power cost forecasts are typically

¹⁰ PacifiCorp’s 2021 CEIP, Docket UE-210829, Final CEIP at 13 (Dec. 30, 2021).

¹¹ WAC 173-446-230(2)(c)(v)

only used within the context of rate cases. Secondly, the ongoing discussions in the CEIPs make them more current than power-cost-based forecasts. Thirdly, CEIPs and IRPs contain a more holistic consideration of demand-side resources. Finally, at least one company has indicated in informal correspondence with Staff that CEIP and IRP portfolios use sensitivity analyses, such as to climate change, that have not necessarily been used in power cost forecasts.

Moreover, should the Commission require changes to targets or methodologies in CEIP or IRP discussions that substantially change emissions and allowance expectations, either an updated forecast, or the “true-up” process based in law described in more detail below, would likely resolve any discrepancies. For these reasons, Staff believes CEIPs and IRPs to be the best basis for CCA forecasts at this time.

Four-Year Forecasts and Discrepancies from Forecast Sources

Consistent with Ecology’s final rules and with the Notice, Staff believes that the Commission’s role in these dockets is to determine whether these forecasts represent the best estimate of the most likely electricity demand¹² and resource mix scenario during the compliance period.¹³ For the reasons outlined in the previous paragraph, Staff believes that consistency with a CEIP or IRP is currently the best method for determining the most likely scenario.

Staff finds that each utility’s forecast represents the most likely demand and resource supply scenario, and that each forecast is consistent with the utility’s respective filed CEIP.

Since Avista’s CEIP has been approved, Staff found that its forecast was grounded in data that has been vetted and approved by the Commission.

PSE and PacifiCorp’s CEIPs have not yet been approved, but Staff still finds these forecasts represent the best estimate of demand and supply. First, the companies have expressed openness to filing a new forecast if the outcomes of other processes change their targets. Second, in confidential workpapers and informal correspondence with Staff, the companies highlighted that the CCA forecasts have made some changes to resources and allocations since their CEIPs. In other words, their CCA forecasts are based on their CEIPs and IRPs, but do incorporate updates. For these reasons Staff is comfortable recommending approval.

Annual Updates and True-Up Mechanism

The utilities have provided different perspectives on the question the Notice posed about whether annual updates should be permitted. No utility has recommended that the Commission disallow

¹² WAC 173-446-230(2)(a)

¹³ WAC 173-446-230(2)(b)

annual updates, nor require them. Rather, each utility has recommended that the Commission permit, not require, an update to the forecast if the utility chooses to petition for one.

Avista recommends the Commission not require annual updates, but rather provide a means whereby utilities could propose to update their Commission approved forecasts when material deficiencies or surpluses are expected to occur and are outside the control of a utility. Avista estimates this could occur during 2026, the last year of the compliance period. PacifiCorp recommends the Commission allow the Company to update its forecasts as needed based on future Multistate Protocol (MSP) negotiations, as well as permit PacifiCorp to biennially update its four-year demand and resource forecasts consistent with the Company's IRP and CEIP filing and update cycles. PSE recommends that the Commission should allow, but not require, electric utilities to submit an update to the demand and resource supply forecasts if needed.

Since Ecology's final rules include the "true-up" mechanism, Staff does not recommend that the Commission should require annual updates to the forecasts in any case, because the "true-up" is intended to account for any differences between forecasted emissions and actuals, rendering an annual update unnecessary.

While Staff views the true-up as beneficial to this process, other parties have expressed concerns with the true-up. First, the true-up adjusts the following years allowances, based on the previous year's actual emissions; it does nothing to correct an allowance amount within a given year. Connectedly, Avista, NWECC and Climate Solutions raise a concern that the true-up mechanism eliminates any incentive for early GHG emission reductions. PSE has also informally indicated this possibility in informal conversations with Staff. Namely, if a utility emits less than it was forecasted to in a given year, it will receive proportionally less allowances the following year, which removes any impetus for the utility to emit less than forecasted. Staff has not raised this concern with the Commission because Staff believes CETA target-setting should be the driving force for determining the appropriate pace of an electric utility's emissions reductions. Since these forecasts closely match CETA targets, we expect the utilities will reduce emissions according to those targets. Concerns over emissions reductions for electric utilities should be brought to ongoing or future CEIP proceedings. As for incentivizing further GHG reductions beyond the requirements of CETA targets, Staff believes that this issue should be decided in future rate cases through performance mechanisms.

Staff recommends the Commission require a utility to file an update to its CCA forecast if a substantive change is expected in supply or demand. In such a case, the utility would need to file an update no later than June 15, starting in 2023, so that the Commission can review and approve such changes with ample time for Ecology to adjust the schedule of allowances for a given year, consistent with WAC 173-446-230(j). Staff defers to the Commission to determine what exactly constitutes a "substantive change" should a disagreement arise regarding this proposed condition, and trusts that the companies would open a dialogue with Staff regarding any arguable cases. Staff believes this approach strikes a balance that will ensure that the most updated forecast is

publicly available, and that the true-up mechanism can continue to work as more of an administrative buffer, rather than relying on it to “fix” large discrepancies.

Other Considerations from Interested Parties

Staff reviewed comments and partook in several discussions with interested parties regarding concerns connected to these forecasts. Staff summarizes these discussion and concerns below. While Staff is grateful parties continue to voice these concerns, some of which were originally voiced in other, larger proceedings, and believes that the Commission should address them, the CCA forecast dockets may not be the appropriate venue for these decisions, as they originate in and are affected by CEIP, IRP, rate case and other decisions and processes.¹⁴ As NWEC writes, “the forecasts...present one of the first opportunities...to consider broader implications of the Climate Commitment Act on the electric utility sector.”¹⁵ As such, some of these broader implications are likely best discussed elsewhere, such as at a Commission-hosted CCA workshop, rather than in individual utility planning processes.

- *Social Cost of Greenhouse Gas (SCGHG) in dispatch costs.* NWEC and Climate Solutions recommend the Commission order the companies to include the price effect of the CCA in market dispatch. Staff reviewed Order R-601 in Docket UE-191023 in which the Commission declined to prescribe a specific methodology for incorporating SCGHG costs, which allows those costs to be incorporated either as a planning adder or as a dispatch cost. This issue is presently being discussed in PSE’s CEIP docket UE-210795.
- *An increase in unspecified market purchases.* If SCGHG is not incorporated into the price of market dispatch, the quantity of unspecified market purchases may increase, which may increase emissions. Both NWEC and Climate Solutions raise this concern in their comments.
- *Leakage, as defined in RCW 70A.65.010(43).* NWEC and Climate Solutions raise concerns about emissions leakage within the forecasts. Leakage is a pivotal problem in the context of SCGHG policy and the Commission should offer clear guidelines around leakage prevention that will apply to CCA and CETA implementation broadly.
- *Mitigating impacts to ratepayers.* Commenters note that, per WAC 173-446-300, IOUs must use the revenue from the consignment of allowances to auction for the purpose of mitigating costs to ratepayers. Staff agrees further conversation is needed about how and who best to receive these benefits of that mitigation, including, per Public Counsel’s comments, whether IOUs should be required to report how revenues are used.¹⁶

¹⁴ Public Counsel echoes these concerns in its comments to these dockets submitted January 6, 2023.

¹⁵ NWEC comments on these forecasts.

¹⁶ Public Counsel comments, pg. 3.

Conclusion

Staff believes that these four-year forecasts are consistent with Ecology's rules in WAC-173-446-230 and the Commission's Notice. Staff recommends the Commission issue an order approving the petitions of forecasts submitted by Avista in UE-220770, PacifiCorp in UE-220789, and PSE in UE-220797, pursuant to RCW 70A.65.120, for the first compliance period of the Climate Commitment Act, with a condition that requires a company to refile by June 15 every year of the compliance period, starting in 2023, if substantive changes to emissions estimated by these forecasts are expected by that time.