Agenda Date: July 27, 2023
Item Number: A1

Docket: **UE-220770**
Company: Avista Corporation d/b/a Avista Utilities

Staff: Heather Moline, Section Manager, Energy Planning
Wesley Franks, Regulatory Analyst

Recommendation

Issue an amended order approving Avista Corporation's (Avista or Company) revised four-year demand and resource supply forecast pursuant to the Climate Commitment Act.

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 forecasts[4] to determine the cost-burden effect and the allocation of no-cost allowances to each electric utility, including Avista.

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 clarified 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. Based on Staff's reading of the rules and discussions with Ecology, Staff also assumes that if an

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[1] See Climate Commitment Act - Washington State Department of Ecology.
[2] WAC 173-446-230(1)
[3] RCW 70A.65.120
[4] WAC 173-446-230
[5] WAC 173-446-230(2)(g)

electric IOU receives too few allowances based on its forecast, Ecology would issue additional allowances to a company in the following year.

On January 24, 2023, the Commission issued Order 01, granting approval of Avista's Four-Year Demand and Resource Supply Forecast, pursuant to RCW 70A.65.120.

On June 22, 2023, Avista filed a Petition for an Amended Order Approving its Revised Four-Year Demand and Resource Supply Forecast, to clarify the portion of resources that will be used to serve the Company's retail load.

The rationale for this petition was in part due to discussions between Avista and Ecology after Order 01 was issued. Ecology clarified that an electric IOU will receive no-cost allowances corresponding to its retail load, rather than its entire portfolio. Avista had included its entire portfolio emissions in its original approved forecast and had not disaggregated the resources that it projects will serve demand from the resources that it projects will be used for other purposes, such as balancing the bulk electric system and selling to the market. As such, Ecology applied the emissions factor from rule[6] corresponding to market *purchases*, to market *sales*, and then subtracted that number from total allowances. This incorrectly accounts for which resources are projected to serve retail load, and resulted in the Company filing this petition, in order to clarify which resources are projected to serve retail load.

Summary of Filing

As shown in **Table 1**, the proposed revision to Avista's four-year demand and resource supply forecast will clarify retail load through the removal of market-sales. The left side of **Table 1** reflects the approved supply used to meet customer demand for years 2023-2026, which includes what is needed to be sold on the market. The right side of **Table 1** reflects the removal of market sales, which is what the Company is currently attending to clarify.

The removal of market sales has the net effect of decreasing the overall percentage of each resource used to meet retail load (except for market purchases), as the amount of that resource reserved to be sold on the market is no longer represented. As an example, in year 2023, 67.33 percent for non-emitting resources is now 47.5 percent. Critically, the percent of energy resources from non-emitting plants does not fall below the threshold included in Avista's approved CEIP.[7]

Avista's proposed numbers for approval start with meeting the Company's approved CEIP targets, multiplying retail load each year by the Company's CEIP clean energy requirement for that year. Coal and gas are allocated proportionately, and market purchases have stayed the same. This methodology relies on hourly dispatch data, but aggregates it in order to remove market sales. The effect of this change in methodology results in net increases in the number of allowances the Company will receive in each compliance year. The proposed revision to Avista's

[6] WAC 173-446-230(2)(d).
[7] See Avista CEIP Plan.

four-year demand and resource supply forecast would result in a projected increases of allocated allowances of 30.17 percent for compliance year 2023, 22.80 percent for compliance year 2024, 11.47 percent for compliance year 2025, 38.21 percent for compliance year 2026.

Table 1: Comparison of Approved versus Proposed Resources Supplied to Meet Retail Load in Washington State for Compliance Years 2023-2026, in Megawatt Hours

	Approved MWh from Order 01 (Operations-based Load)	**Percent of Total Supply Used to Meet Retail Load**	**Proposed MWh (Retail Load)**	**Percent of Total Supply Used to Meet Retail Load**
Annual MWh, Year 2023				
Resource Supply Category				
Non-emitting Plants	4,100,070	67.33%	2,892,705	47.50%
Coal	1,001,454	16.44%	875,926	14.38%
Gas	2,623,206	43.07%	2,294,399	37.68%
Market Purchases	26,876	0.44%	26,876	0.44%
Retail load	*6,089,906*	*N/A*	*6,089,906*	*N/A*
Operations-based load	*7,751,606*	*N/A*	*N/A*	*N/A*
Annual MWh, Year 2024				
Resource Supply Category				
Non-emitting Plants	4,360,319	71.31%	3,362,829	55.00%
Coal	960,184	15.70%	758,133	12.40%
Gas	2,466,722	40.34%	1,947,650	31.85%
Market Purchases	45,623	0.75%	45,623	0.75%
Retail load	*6,114,235*	*N/A*	*6,114,235*	*N/A*
Operations-based load	*7,832,848*	*N/A*	*N/A*	*N/A*
Annual MWh, Year 2025				
Resource Supply Category				
Non-emitting Plants	4,535,389	73.89%	3,836,309	62.50%
Coal	923,576	15.05%	666,690	10.86%
Gas	2,147,304	34.98%	1,550,045	25.25%
Market Purchases	85,051	1.39%	85,051	1.39%
Retail load	*6,138,095*	*N/A*	*6,138,095*	*N/A*

Operations-based load	*7,691,320*	*N/A*	*N/A*	*N/A*
Annual MWh, Year 2026				
Resource Supply Category				
Non-emitting Plants	4,649,652	75.36%	4,072,143	66.00%
Coal	0	0.00%	0	0.00%
Gas	1,949,415	31.60%	1,760,177	28.53%
Market Purchases	337,593	5.47%	337,593	5.47%
Retail load	*6,169,914*	*N/A*	*6,169,914*	*N/A*
Operations-based load	*6,936,660*	*N/A*	*N/A*	*N/A*

Discussion

Given the forecast's consistency with its approved numbers from January 2023, which were in turn consistent with the Company's CEIP, Staff is comfortable recommended approval of this petition.

Staff reached out to parties that had commented on Avista's approved 2023 forecast and did not receive any comments on this petition.

Staff notes that this forecast reflects using only the minimum (i.e., CEIP target) non-emitting energy to serve retail load, and selling the rest. In reality, more than the minimum CEIP non-emitting target may be used to serve retail load. Accordingly, Staff expects companies will be prepared to explain discrepancies between approved CEIPs, CEIP reports showing renewable energy credit (REC) retirement, and forecast filings.

Conclusion

Staff appreciates Avista's initiative to file a petition for a revised order more than 30 days in advance of the July 30 date by which Ecology is requiring the Commission's approval. Staff has reviewed the new methodology used to remove market sales and clarify which resources are intended to serve retail load. As the data Avista is using is the same as what was approved in January 2023, Staff recommends approval of Avista's petition for an amended order.