

**Exh. BAE-7
Dockets UE-240006/UG-240007
Witness: Betty A. Erdahl**

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

AVISTA CORPORATION,

Respondent.

**DOCKETS UE-240006 & UG-240007
(Consolidated)**

EXHIBIT TO

TESTIMONY OF

BETTY A. ERDAHL

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Avista's Response to UTC Staff Data Request No. 32

July 3, 2024

**AVISTA CORP.
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	WASHINGTON	DATE PREPARED:	02/20/2024
CASE NO.:	UE-240006 & UG-240007	WITNESS:	Scott Kinney
REQUESTER:	UTC Staff	RESPONDER:	Clint Kalich
TYPE:	Data Request	DEPT:	Energy Supply
REQUEST NO.:	Staff – 032	TELEPHONE:	(509) 495-4532
		EMAIL:	clint.kalich@avistacorp.com

SUBJECT: CCA - Costs & Dispatch Decisions

REQUEST:

In Scott Kinney’s Testimony, SJK-1T, at 56:15-17, he states, “Depending on forthcoming Commission guidance, Avista may be required to include carbon costs in its plant dispatching decisions.”

- a. Is it true that Avista has not considered carbon costs in its plant dispatch decisions?
- b. Why doesn’t Avista include carbon costs in its plant dispatch decisions? Please provide documentation related to Avista’s analysis and decision-making process related to this.
- c. Has Avista included its Board of Directors in the decision to not include carbon costs in its plant dispatch decisions? Please provide Board of Director minutes for these discussions and decisions.
- d. How does Avista currently account for these carbon costs?
- e. Without taking these carbon costs into account when making dispatch decisions, how does Avista ensure customers receive power at the least-cost?
- f. Without taking these carbon costs into account when making dispatch decisions, how does Avista determine that it is actually profitable to ramp up thermal resources and sell excess power into the market?
- g. Has Avista reduced dispatch of its thermal fleet in response to CCA’s effective date and costs of carbon? If so, please describe these reductions.
- h. How does Avista plan to incorporate carbon costs in future plant dispatch decisions?
- i. What vulnerable populations and highly impacted communities live in close proximity to Avista-owned thermal resources?
- j. How does dispatch of Avista’s thermal fleet impact vulnerable populations and highly impacted communities?

RESPONSE:

- a. Yes, it is true that no carbon cost is included in plant dispatch decisions for daily operations.
- b. There are several reasons why carbon costs are not included in Company dispatch decisions. First, decarbonization of electric utility generation is effectuated through Washington’s Clean Energy Transformation Act (CETA). As provided in RCW 70A.65.120,

“The legislature intends by this section to allow all consumer-owned electric utilities and investor-owned electric utilities subject to the requirements of chapter 19.405 RCW, the Washington clean energy transformation act, to be eligible for allowance allocation as provided in this section in order to mitigate the cost burden of the program on electricity customers.”

The RCW goes on to discuss how no-cost allowance calculations will be determined and provided. In short, no-cost CCA allowances granted by Ecology are based on WUTC approved forecasts and include system resources dispatching without consideration of CCA allowance costs. Requiring CCA allowance costs to be included in system would make the CCA the primary driver of electric utility decarbonization (versus CETA), which is not the intent of the CCA.

In addition, as a multi-jurisdiction investor-owned utility, the Company must consider impacts of these decisions on both Washington and Idaho customers as well as Shareholders. The inclusion of allowance costs in dispatch decisions would result in thermal resources operating much less, limiting the Company's ability to optimize those assets when not needed to serve customer load. The result is less revenue (recorded to account 447) available to offset power supply expenses (recorded to account 555) effectively increasing costs.

Further, Idaho customers are impacted two-fold. Not only do they not receive no-cost allowances for their retail load, they also are required to purchase allowances to cover their share of approximately 35% of any natural gas generation located within the state of Washington. Consistent with the impact to Washington customers, including carbon costs in the dispatch decision would effectively increase Idaho customers' rates by limiting the ability to engage in wholesale transactions when economics are favorable to do so.

To recover the costs associated with Idaho's 35% Boulder carbon obligation, Avista filed a petition with the Idaho Public Utilities Commission requesting authority to modify the Power Cost Adjustment (PCA) to account for the costs associated with the CCA. The Idaho Commission denied this petition and Shareholders absorbed approximately \$700,000 in expense for 2023.

In 2023 the Commission held a series of workshops regarding implementation rules for CCA in Docket U-230161. In this Docket, the Commission requested comments on several issues, among them was "Should the Commission require utility to include GHG costs in their dispatch modeling." Avista provided response consistent to the comments above. Avista continues to support not including carbon costs in dispatch decisions for all the reasons described above.

- c. Avista's Board of Directors is not involved in the day-to-day operations of the Company. Senior Leadership is updated regularly on CCA activity, as well as monthly in Avista's Risk Management Committee Meetings. The Board is updated on Climate Change legislation, including CCA and CETA periodically as needed. Please see Staff-DR-032 Attachment A for a copy of the RMC agendas for 2023.
- d. Avista tracks its carbon costs using an internally developed forecast model. Avista follows guidance provided by FERC Uniform Chart of Accounts as well as Generally Accepted Accounted Principles.
- e. By definition, excluding allowance costs in dispatch is least-cost operations. CCA no-cost allowance grants are intended to offset emissions obligations created by thermal plant dispatch used to serve retail load in WA. For excess thermal generation dispatched to create additional revenue to reduce customer rates, there are multiple opportunities for Avista to eliminate or reduce the associated allowance costs. For generation located outside of Washington, Avista can sell the energy at the generator busbar which eliminates the need to purchase allowances. If Avista sells the excess thermal output at a location in the state of Washington but the energy is not used to serve retail load in the state of Washington, then this is considered a "wheel through" transaction which does not have a CCA carbon allowance requirement. Finally, Avista can utilize the "lesser of" methodology approved by the Department of Ecology to minimize any allowance requirement associated with

sales made at the Mid-C. With the granting of no-cost allowances for Washington retail load and the multiple options to reduce or eliminate allowance costs associated with excess thermal sales, least cost operations for Avista customers is to not include carbon costs in generation dispatch and maximize the value of its generation fleet.

- f. Please see answers b and e. Additionally, the bulk of the Avista thermal fleet that supports surplus sales is located outside of Washington state and thus not subject to CCA allowance cost to the extent the surplus sales from those facilities is not delivered into WA and used for retail load service by another reporting entity.
- g. No, it has not.
- h. We do not intend to incorporate carbon costs in future plant dispatch decisions. Please see response to questions b and e.
- i. Boulder Park and Northeast Combustion Turbine are located within Vulnerable Population census areas. The Kettle Falls Biomass Facility is located within a Highly Impacted Community primarily due to socioeconomic indicators such as income and housing conditions.
- j. As previously discussed, adding the carbon cost to the dispatch decisions would likely reduce the amount of generation particularly at the three plants described in part (i) (all other thermal resources are located out of the state and therefore do not have direct carbon emission requirements). Theoretically this would decrease the environmental factors associated with emissions. However, what must also be considered is the negative impact on energy burden associated with less optimization revenue which helps to reduce cost burden. It is important to note that the Company monitors outdoor air quality emissions and always maintains compliance with all regulations.

As part of the Clean Energy Implementation Plan, the Company monitors Avista's overall plant emissions vs. regional plant emissions as part of its Customer Benefit Indicators. In addition, the Company tracks energy burden and has Customer Benefit Indicators in place with a focus on increasing participation in programs such as energy assistance and weatherization to positively impact energy burden and housing conditions to increase efficiency.