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Andy Hayes
Department of Ecology
Cap and Invest Policy Section Manager
P.O. Box 47600
Olympia, WA 98504-7600

Re: No-Cost Allowance Allocation for Electric Utilities

Dear Mr. Hayes,

Avista Corporation, dba Avista Utilities (Avista or the Company), submits the following comments in response to the Department of Ecology (Ecology) workshop held on October 16, 2024. Avista appreciates the opportunity to provide input on the allocation of no-cost allowances and values Ecology's engagement through these comments, as well as other electric industry forums and utility-specific discussions. This level of engagement is crucial for understanding the CCA's implications for the electric utility sector and ensuring its provisions are properly executed.

The treatment of electric utilities under the CCA was carefully negotiated and crafted to align with the previously enacted Clean Energy Transformation Act (CETA), preserving CETA as the clean energy path for Washington electric utilities. The CCA intentionally designed to prevent duplicative carbon reduction requirements and costs while establishing a carbon trading program that could be linked to external markets. The provision of no-cost allowances, intended to mitigate the cost burden of the program for electric utilities, was fundamental to this objective. Including consideration of administrative costs in the cost burden calculation, although relatively minor compared to the entire program, signaled an intent to consider all costs of the program, not only retail load service.¹

¹ It is important to recognize that for multi-jurisdictional utilities such as Avista, the Company is incurring administrative costs in its jurisdiction outside of Washington. The statute and rules are unclear if Avista may seek additional allowances for all administrative costs it incurs due to implementation of the CCA. As such, Avista suggests that it be allowed to receive allowances to cover all administrative costs it incurs, regardless of which jurisdiction the costs are attributed to.

In rule, however, Ecology did not take this broad approach. Instead, Ecology developed rules for the allocation of no-cost allowances that was based on a narrow definition of retail load service in WAC 173-446, rather than relying on a broader and more clearly defined requirement reflected in WAC 173-441. Most significantly, WAC 173-446 ignores allowance needs for emissions incurred from the sale of surplus power generated by rate-based assets. This distinction is critical as WAC 173-446 is the rule by which Avista is held accountable. Through this narrow interpretation in rule, Ecology is effectively increasing, rather than mitigating, the cost burden of the program for customers by not allowing the inclusion of surplus sales and biasing outcomes to rely on the use of the true-up discussed below. These sales historically have lowered Avista customer rates by tens of millions of dollars annually and would be severely reduced by the CCA, absent allowance grants to cover the sales. Avista urges Ecology to revisit its allowance need forecasting methods to ensure accurate allocations reflecting actual conditions and operational needs that drive total electric utility emissions regulated under WAC 173-441, including wholesale sales of electric power.

Irrespective of whether Ecology revisits its forecasting, WAC 174-446-230(2)(g) requires a true-up of allowances between the forecast and actual allowance needs, stating:

(g) The initial allocation of allowances will be adjusted as necessary to account for any differential between the applicable reported greenhouse gas emissions for the prior years for which reporting data are available and verified in accordance with chapter 173-441 WAC and the number of allowances that were allocated for the prior year through this process.

Subsection (2)(j) sets forth a process for Ecology to adjust by updating the schedule of allowances by October 1 of each year. The specifics of this process are not provided in rule, lacking clarity and reducing transparency, ultimately impacting a utility's ability to effectively make resource decisions. The rules set forth one process for triggering an adjustment if a revised forecast of supply and demand is approved by July 30th, but the rule does not clearly state how and when Ecology would adjust its allocation of no-cost allowances based on the utilities actual emissions as reported under chapter WAC 173-441. This distinction is critical in operationalizing the law as intended and for electric utilities to prudently achieve their compliance obligations. Adjusting allowance grant levels is necessary to fulfill Ecology's statutory obligation "to mitigate the cost burden of the program on electricity customers." The Company looks forward to working with Ecology to identify proper methodologies and perform utility-specific calculations ensuring accurate and appropriate allocations based on all actual costs that deviate from initial forecasts.

Because CCA administrative costs are a burden that otherwise get passed through into customer rates, Avista appreciates Ecology's efforts to ensure the allowance allocation to electric utilities accurately mitigates cost burdens associated with administrative costs. To that end, we offer the following responses to Ecology's questions:

1. Can administrative costs of the program be demonstrated from audited financial statements from utilities?

Response: No, administrative costs of the program cannot be demonstrated from audited financial statements. Audits are performed by independent auditors to verify that financial statements are accurate and free from material misstatements. This process ensures that companies adhere to regulatory standards and accounting principles which are in compliance with Generally Accepted Accounting Principles (GAAP), and the Federal Energy Regulatory Commission. The audit opinion is at the financial statement level and evaluation with this level of specificity is outside of the scope of the audit itself. As directed in WAC 173-446-230(2)(h), Avista supports Ecology

consulting with the Utilities and Transportation Commission to validate CCA administrative costs of regulated utilities.

2. What documentation do utilities have, consistent with program rule, that indicate administrative program costs?

Response: Avista follows GAAP and FERC guidelines for accounting purposes and has separately tracked labor expenses associated with CCA compliance. The Accounting entries can be provided demonstrating these expenses. As noted above, additional discussion is necessary with Ecology, the WUTC, and utilities to determine the appropriate methodology for documentation and determination of administrative costs.

3. How should utilities submit requests for recovery of administrative costs? What supporting documentation should be submitted?

Response: Given the WUTC's role is to only approve the supply and demand forecast, which is then submitted to Ecology for purposes of no-cost allowance determination, it seems administrative costs should be included within the forecast submitted to the WUTC. This then allows the WUTC to review all forecasted administrative costs, which they then could approve with the supply and demand forecast. These costs can be translated into the number of allowances necessary to cover the costs based on the methods set forth by Ecology in rule. Ecology can then grant allowances corresponding to what the WUTC has approved.

4. How can Ecology promote consistent and predictable treatment across utilities in implementing WAC 173-446-230(2)(h)?

Response: While consistent and predictable treatment across utilities is a useful goal, there are several conditions which may be unique to a given utility. It is important to recognize that utilities are very different in the way and extent to which they are impacted by the CCA. Administrative work and costs will vary accordingly, as will project tracking mechanisms. For example, Avista is a covered entity while many electric utilities are not. Avista's administrative work is also compounded by complexities that come with being a multi-jurisdictional utility. Allocation of emitting assets and transaction for power to serve customers across multiple jurisdictions requires Avista to devote more time and effort to administrative tasks. Especially in the early years of the program as CCA implementation methods and calculations are clarified with third-party verifiers and Ecology staff, an even higher level of administrative costs is incurred.

Importantly, until such time as administrative allowances are received, any current and future delays result in cost burdens to customers. Administrative costs are increasing customers rates

today because no means yet exists to mitigate the costs. To relieve this rate pressure, Avista believes that administrative costs should immediately be included as an adjustment to the WAC 173-446 forecast of no-cost allowances. The true-up exists to adjust for any over- or under-estimation of allowances for administrative burden found necessary once the final methodology is established by Ecology.

Thank you for the opportunity to provide input regarding the allowance allocation process and we look forward to further discussions to ensure effective implementation of the CCA.

Sincerely,

/s/ Kevin Holland

Kevin Holland
Director of Energy Supply
Avista Corp