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August 15, 2023

Jan Noriyuki, Secretary
Idaho Public Utilities Commission
11331 W. Chinden Blvd. Bldg. 8, Ste. 201-A
Boise, Idaho 83714

RE: Case No. AVU-E-23-04 - Avista's Reply Comments Regarding Its Application for an Accounting Order to Modify Its Power Cost Adjustment Mechanism to Account for Costs Associated with Washington's Climate Commitment Act Allowances

Dear Ms. Noriyuki:

Avista Corporation dba Avista Utilities (Avista or the Company) hereby provides these Reply Comments in accordance with Commission Order No. 35807, Notice of Modified Procedure, which established a reply comment deadline for the Company of August 15, 2023. These Reply Comments address the comments of Commission Staff (Staff), who was the only party who submitted comments on this matter.

First and foremost, the Company appreciates the thorough review of this matter conducted by Staff, including the questions posed and conversations between Staff and the Company to understand the complexities of Washington's Climate Commitment Act (CCA). Ultimately, Staff has recommended that Avista's request for FERC Account 509 to be included in the Company Power Cost Adjustment Mechanism (PCA), with ongoing annual reviews, be approved. Avista appreciates Staff's acceptance that "*Idaho's portion of emissions expenses that are prudently incurred to Idaho ratepayers*"[1] are a cost of doing business for the Company.

Staff made three recommendations regarding expenses that may be included in Account 509. For clarification purposes, the Company provides the following responses to Staff's recommendations.

[1] Case No. AVU-E-23-04, Comments of the Commission Staff at page 2.

1. **Staff Recommendation:** The Commission accept Idaho's portion of emission expenses associated with surplus thermal generation imported into Washington and subsequently sold to the market as off-system sales, contingent on the overall sales remaining cost effective

   Avista Response: The Company agrees with Staff's recommendation to include the emission expense in Account 509 when off-system sales sourced from imported thermal generation into Washington is cost-effective. Importantly, the approved "Lesser Of" scheduling methodology[2] by the Washington Department of Ecology provides an approved methodology to reduce the emissions obligations associated with off-system[3] surplus sales, thereby reducing the potential amount of emission expense Idaho customers may incur.

2. **Staff Recommendation:** The cost of allowances for Idaho's share of Boulder Park generation not be included in the PCA deferral for recovery and not be included in Boulder Park's dispatch price used in the PCA, when dispatching Boulder Park will benefit Washington ratepayers, the Company's system, or both at the expense of Idaho ratepayers. For the cost of allowances to be included in Idaho customer's rates the Company must show that dispatching Boulder Park will result in overall net benefits from Boulder Park generation to Idaho ratepayers.

   Avista Response: Staff recommends that costs be included in Account 509 only when dispatching Boulder Park results in <u>**net benefits**</u> to Idaho ratepayers. The Company proposes a <u>slight modification</u> that will meet the intent of Staff's proposal: Boulder Park can operate for Idaho customers to the extent they are held harmless, meaning Idaho customers will pay the <u>lower of</u> a) actual operation costs, including allowance costs, or b) the market price of power. [4] To the extent the Company runs Boulder Park in a given hour,

[2] "Lesser Of" scheduling is a practice whereby total wholesale sales in an hour are summed and compared to in-Washington generation. Only wholesale sales exceeding in-Washington generation is then defined as "unspecified power" and subject to the requirement of retiring 0.437 allowance per MWh.
[3] The term "off-system" is in reference to market sales that incur a CCA emissions obligation.
[4] To the extent Boulder runs to meet reliability requirements, the cost associated with such dispatch should flow through the PCA as part of normal operations. In this circumstance, the Company will perform the calculation as

and where such hourly operations are uneconomic to Idaho customers because of CCA allowance costs, Avista agrees Idaho customers will pay no more for Boulder Park generation than the market price of power during that hour. This slight modification to Staff's recommendation ensures Avista can operate its system without great conflict in its Washington jurisdiction.

3. **Staff Recommendation:** The allowance expenses be based on the value of allowances retired.

   Avista Response: Staff recommends that the price used for recorded expense in Account 509 be based on the value of allowances retired. Expense recognition and allowance retirement are two entirely different transactions. Expenses in Account 509 must be recognized in the same period as revenues. Simply put, generally accepted accounting principles (GAAP) requires a matching of revenue and expense in the same period (i.e., monthly) when the emissions obligations occur. For example, when the Company makes an off-system sale that has an associated emissions expense, it must record the emissions expense in the same period the revenues are received. The expense is calculated using the known weighted average cost for allowances available multiplied by the number of allowances needed to cover the emissions obligation. However, there may be circumstances where the obligation exceeds the available inventory of purchased allowances. If there are not enough allowances in inventory to cover the emissions obligation, the Company estimates the additional cost using the fair value (i.e., then-current market price) of allowances to calculate the emissions expense as required under GAAP.[5] This estimate is trued up monthly, or as soon as the actual price of allowances is known and will continue throughout the compliance period until ultimately all allowances are procured to satisfy the associated emissions obligation. If the Company's petition is approved, recognized allowance expense would be included in the PCA and ultimately

written above and an additional calculation will be performed to determine if dispatch was for reliability purposes. This cost will be separately identified and transparent for ease of prudency determination in annual PCA evaluation.

[5]ASC 820 – *Fair Value Measurement*, defines fair value as the "price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". Quoted market prices are an acceptable method of valuation.

deferred for later recovery. In addition, because of the true-up described above, over each compliance period the total amount of expense recognized and included in the PCA will be equal to the amount of cash spent to procure the emission allowances.

Regarding allowance retirement, that action is simply a balance sheet entry to remove the allowances at the weighted average purchase price at the time of retirement from the inventory account, effectively recognizing they can no longer be used to meet other compliance obligations, with an offsetting entry to relieve the associated obligation liability; there will be no expense impact or entry to Account 509 when allowances held in inventory are retired. Additionally, CCA allowances may not be retired until up to four years after an emission liability is incurred. Calculating allowance expense based on the value of allowances retired would create a significant accounting mismatch as to when revenue and the corresponded expense is recorded.

In summary, the Company requests that the Commission not adopt Staff's recommendation, rather require that expenses recorded in Account 509 be based on the accounting described above.

Again, the Company thanks Staff for their review of its request in the above referenced matter. The Company request the Commission approve its application with the modifications to Staff's three recommendations discussed above, and importantly, accepts the inclusion of Account 509 in the PCA dating back to January 1, 2023, when the CCA went into effect. Please direct any questions regarding these comments to me at shawn.bonfield@avistacorp.com or 509-495-2782.

Sincerely,

/s/ Shawn Bonfield

Shawn Bonfield
Sr. Manager of Regulatory Policy & Strategy