

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF AVISTA’S ) CASE NO. AVU-E-23-04**  
**APPLICATION FOR AN ACCOUNTING )**  
**ORDER TO MODIFY ITS POWER COST ) ORDER NO. 36015**  
**ADJUSTMENT MECHANISM TO )**  
**ACCOUNT FOR COSTS ASSOCIATED )**  
**WITH WASHINGTON’S CLIMATE )**  
**COMMITMENT ACT ALLOWANCES )**  
**)**  
**)**

---

On March 31, 2023, Avista Corporation, d/b/a Avista Utilities (“Company”) applied for authority to modify its annual Power Cost Adjustment mechanism (“PCA”) to account for costs associated with Washington’s Climate Commitment Act (“CCA”) allowances. Application at 1. The Company proposed to include in the PCA the costs of: (1) purchasing carbon allowances due to the CCA to cover Idaho’s share of the Company’s Boulder Park natural gas generation plant (“Boulder Park”) located in Washington that is serving its Idaho customers; and (2) purchasing carbon allowances for Idaho’s share of surplus sales delivered to Mid-Columbia (“Mid-C”) trading hub that require a carbon allowance. *Id.*

On April 19, 2023, the Commission issued a Notice of Application, Notice of Suspension, and set a 21-day deadline for Intervention. Order No. 35747. No party intervened. On June 5, 2023, the Commission established deadlines for public comments and the Company’s reply. Order No. 35807. Commission Staff (“Staff”) filed comments and the Company filed reply comments. No other public comments were filed. On November 1, 2023, the Commission extended the suspension of the proposed effective date until December 1, 2023, unless the Commission issued an earlier order accepting, rejecting, or modifying the Company’s proposals set forth in the Application. Order 35983.

The Commission now issues this Order denying the Company’s requests.

**APPLICATION**

The Company represented that in 2021 the state of Washington enacted the CCA, which is a “cap-and-trade” program, with a goal to eliminate Washington economy-wide carbon emissions by 95% by 2050. Application at 2. The Company asserted that under the CCA it must secure

enough allowances to cover the carbon emissions of imported power and generation from Washington based sources emitting 25,000 metric tons or more annually. *Id.*

The Company asserted that its Idaho customers are affected because the CCA's carbon allowance requirement applies to the Boulder Park natural gas generation plant; imported carbon emitting thermal generation related to Colstrip, Lancaster, Rathdrum, and Coyote Springs 2 for surplus sales at the Mid-Columbia ("Mid-C") trading hub; and all non-specific electricity imported into Washington for surplus market sales at Mid-C. *Id.* at 3. The Company proposed to allocate 35% of the CCA's carbon allowance costs to Idaho customers based on the Company's Production/Transmission Ratio ("PT Ratio"). *Id.* The Company represented that the Washington State Department of Ecology ("Ecology") distributes CCA carbon allowance costs based on the PT Ratio and will grant allowances at "no cost" to carbon emissions already regulated by Washington's 2019 Clean Energy Transformation Act ("CETA"). *Id.* at 2-3.

The Company reported that while Idaho customers are allocated a share of carbon allowance expenses, they will benefit from "off-system revenues from power sales at Mid-C." *Id.* at 4. The Company indicated it is "pursuing additional methods to reduce costs for Idaho customers" including "wheel through transactions" and "resource netting calculation" to further offset Mid-C transaction costs. *Id.*

The Company requested authority to record the emission expenses related to Idaho's carbon allowance obligation to FERC Account 509.X, and include that account in the Company's PCA mechanism calculation. *Id.* The Company represented that expenses would be recorded in the period in which the corresponding off-system sales revenue, FERC account 447.X. (Sales for Resale), is also recorded, effectively syncing up the expense associated with the revenue. *Id.* at 5. The Company believed this was appropriate given that the obligation is an adder to generation costs that flow through the PCA. *Id.*

## COMMENTS

### 1. Staff Comments

Staff reviewed the Company's Application and recommended that costs of allowances attributed to Idaho be accounted for in FERC Account 509 and included in the Company's PCA. Staff noted that the additional CCA expenses would be reviewed annually for prudence. Staff Comments at 2. Staff recommended:

1. 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;
2. 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; and
3. The allowance expenses be based on the value of allowances retired.

*Id.*

Staff believed the Commission should accept Idaho's portion of the expenses related to the CCA as the Company's cost of doing business if the Company can show these costs were prudently incurred. *Id.* at 3. Staff believed that the incentives with off-system sales are aligned between Idaho and Washington and as a result the Company will minimize the cost impact of these allowances in the Company's system to ensure overall net power costs ("NPC") are prudently incurred. *Id.* Staff also reported that Ecology will not provide no-cost allowances for off-system sales, leaving Washington and Idaho ratepayers responsible for the emission expenses. *Id.* Staff asserted that for the Company to obtain recovery of prudently incurred system NPC, the Company's actions related to dispatching its plants and purchasing and selling power would be no different from either state's perspective. *Id.*

Staff asserted that dispatching Boulder Park and allowing recovery of allowance expenses may disadvantage Idaho ratepayers compared to Washington ratepayers. Staff also stated that it is possible for dispatching Boulder Park to be a benefit to both. *Id.* Staff first noted that the cost of thermal generation for Washington in-state thermal generation over 25,000 tons is not always aligned between Idaho and Washington. For example, if Washington provides no-cost allowances to serve Washington's load from its share of Boulder Park generation while requiring the Company to purchase allowances for Idaho's share. Because of this potential misalignment, Staff believed that Boulder Park can be dispatched benefiting Washington ratepayers, or the Company's system, or both, at the expense of Idaho ratepayers. *Id.* at 3-4. However, Staff stated that disallowing Boulder Park's allowance expenses in all circumstances without considering the all-in cost and benefits may affect Idaho's opportunity to receive least-cost generation if a higher-cost resource is dispatched for Idaho by the Company. *Id.* at 4.

To ensure that the incentives to optimize the dispatch of Boulder Park are aligned for both states, and that Idaho ratepayers are not unfairly disadvantaged, Staff recommended that 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 in the PCA, when dispatching Boulder Park would only benefit Washington ratepayers, the Company's system, or both at the expense of Idaho ratepayers. *Id.* For the cost of allowances to be included in Idaho customer's rates, the Company must show that dispatching Boulder Park would result in overall net benefits to Idaho ratepayers. *Id.*

Staff also identified disadvantages in Washington providing no-cost allowances for Boulder Park generation for Washington customers, but not for Idaho customers. Washington's subsidization of Washington customer's allowances means that the states have a different threshold for an optimal dispatch price. *Id.* Staff does not want Idaho customers at an economic disadvantage, and Staff provided several hypothetical scenarios on how the dispatch price affects each state differently. *Id.* at 4-6. Staff identified scenarios in which both states benefit and insisted that if the Company wished to include the costs of the required allowances in rates, the Company must show that dispatching Boulder Park results in overall net benefits to Idaho ratepayers. *Id.* at 6. Staff recommended that Idaho's cost of allowances for Boulder Park generation be separate from the PCA deferral for recovery and not included in Boulder Park's dispatch price used in the PCA when this dispatch comes at the expense of Idaho ratepayers.

Staff agreed with the Company that FERC Account 509 is the proper account for recording expenses associated with the emissions allowances. *Id.* Staff stated that FERC Account 509 should include only prudently incurred known and measurable CCA expenses. *Id.* Staff stated the Company is tracking overall CCA expenses using four components: (1) value of allowances purchased; (2) value of allowances to be purchased; (3) the value of allowances retired; and (4) an adjustment not captured by the first three components. *Id.* at 6-7. Of those components, Staff believed that the third component, the value of allowances retired, should be allowed in the PCA if Idaho customers benefit from the dispatch. *Id.* at 7.

## **2. Company Reply**

The Company agreed with Staff's recommendation to include the emission expenses in FERC Account 509 if off-system sales sourced from imported thermal generation into Washington are cost-effective, and the Company reassured Staff that Ecology has an approved methodology to

reduce emissions obligations from off-system surplus sales which reduces potential expenses to Idaho customers. Company Reply at 2.

The Company recognized that Staff recommended that costs be included in Account 509 only when dispatching Boulder Park results in net benefits to Idaho ratepayers. The Company proposed a slight modification consistent with the intent of Staff's proposal. *Id.* The Company proposed that Boulder Park can operate for Idaho customers to the extent they are held harmless, meaning Idaho customers will pay the lower of a) actual operation costs, including allowance costs, or b) the market price of power. *Id.* at 2-3. For the value of allowances retired, the Company asked that the Commission not adopt Staff's recommendation on recording expenses in FERC Account 509, because "expense recognition and allowance retirement are two entirely different transactions." *Id.* at 3. The Company stated that "[e]xpenses in Account 509 must be recognized in the same period as revenues[,] [as] generally accepted accounting principles (GAAP) requires a matching of revenue and expense in the same period (i.e., monthly) when the emissions obligations occur." *Id.*

### COMMISSION DECISION

The Company is an electric corporation and public utility, and the Commission has jurisdiction over it and the issues in this case under Title 61 of the Idaho Code, and more specifically, *Idaho Code* §§ 61-119, 61-129, 61-307, 61-501, and 61-502. The Commission has express statutory authority to investigate rates, charges, rules, regulations, practices, and contracts of public utilities and to determine whether they are just, reasonable, preferential or discriminatory, or in violation of any provision of law, and may fix the same by Order. *Idaho Code* §§ 61-502 and 61-503.

Having reviewed the Application, the arguments of the parties, and all submitted materials, the Commission denies the Application. While the Company only requests authorization to account for the costs associated with the CCA, and not for any prudence determination for cost recovery, the Commission believes that the primary question raised by the Application, and the CCA in general, is whether the costs associated with the CCA should be borne by Idaho ratepayers; the Commission finds they should not.

Washington's CCA establishes regulatory requirements to reduce greenhouse gas ("GHG") emissions from generating plants in Washington and creates a comprehensive cap-and-invest program. RCW 70A.65.005 through 70A.65.901. As part of its findings and enumerated

intent of the CCA, the Washington legislature states: “that climate change is one of the greatest challenges facing [the] state and the world today, an existential crisis with major negative impacts on environmental and human health.” RCW 70A.65.005(1).

The legislature further finds that by exercising a leadership role in addressing climate change, Washington will position its economy, technology centers, financial institutions, and manufacturers to benefit from national and international efforts that must occur to reduce greenhouse gases.

RCW 70A.65.005(6).

The CCA is designed to ensure that Washington meets GHG targets by instituting a declining cap on emissions for covered and opt-in emitters. *See* RCW 70A.65.060, 70A.65.070. In the cap-and-invest system, covered emitters are responsible for buying allowances for the GHG they emit, and the CCA establishes an auction through which allowances may be purchased, and a system for selling and trading allowances. *See* RCW 70A.65.100. Notably,

The quarterly auctions that are the linchpin of Washington’s cap-and-invest program will generate substantial revenue that must, by law, be invested in critical climate projects throughout the state.

Dep’t of Ecology State of Wash., <https://ecology.wa.gov/air-climate/climate-commitment-act/auction-proceeds> (last visited Nov. 24, 2023); *see also* RCW 70A.65.100, 70A.65.230, 70A.65.240, 70A.65.250, 70A.65.260, 70A.65.270, 70A.65.280.

However, as part of the program Ecology distributes no-cost allowances, to covered entities that are subject to the Clean Energy Transformation Act (“CETA”), which may only be allocated to Washington customers. *See* RCW 70A.65.110, 70A.65.120, 70A.65.130.

Based upon a review of the CCA, the Commission finds that it is not fair, just, or reasonable to include the costs associated with CCA compliance in Idaho rates. *Idaho Code* §§ 61-301, 61-502. The CCA is a Washington specific policy initiative for which Washington has established a revenue generating market through the creation and distribution of allowances for Washington GHG emissions. Washington then requires Idaho customers to pay the costs associated with complying with the CCA while at the same time mitigating the costs of that compliance for Washington customers through no-cost allowances.

The Commission is asked to weigh the interests of Washington’s social and environmental policies, and its revenue generating market, against the interests of Idaho customers in having just and reasonable rates. The Commission finds that the interests of Idaho customers outweigh Washington’s policy interests.

The current application of the CCA provides for disparate treatment between Idaho and Washington ratepayers, and creates in essence, or perhaps in fact, a one-sided tax upon Idaho ratepayers to pay for Washington's social and environmental policies. The Commission cannot find it fair, just, or reasonable for Idaho customers to fund Washington's policy initiatives when none of the alleged benefits will flow to Idaho customers. At this time the Commission rejects the costs associated with the CCA in its entirety.<sup>1</sup>

**ORDER**

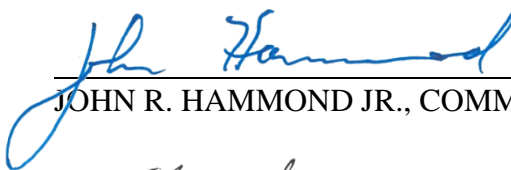
IT IS HEREBY ORDERED that the Company's Application is denied.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date upon this Order regarding any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *Idaho Code* §§ 61-626 and 62-619.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho, this 1<sup>st</sup> day of December 2023.



ERIC ANDERSON, PRESIDENT



JOHN R. HAMMOND JR., COMMISSIONER



EDWARD LODGE, COMMISSIONER

ATTEST:



Monica Barrios-Sanchez  
Interim Commission Secretary

I:\Legal\ELECTRIC\AVU-E-23-04 CCA\orders\AVUE2304\_FO\_cb.docx

<sup>1</sup> The Commission appreciates the Company and Staff's efforts to find pathways to mitigate the impacts of the CCA on Idaho customers, and the Commission recognizes that the CCA places the Company in a difficult situation as a multijurisdictional public utility. The Commission is confident the Company will continue working toward solutions that provide its Idaho customers with fair, just, and reasonable rates for utility services.