CLAIRE SHARP
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0357
IDAHO BAR NO. 8026

Street Address for Express Mail:
11331 W CHINDEN BLVD, BLDG 8, SUITE 201-A
BOISE, ID 83714

Attorney for the Commission Staff

RECEIVED
2023 AUG -1 PM 4:11
IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

COMMISSION STAFF ("STAFF") OF the Idaho Public Utilities Commission, by and through its Attorney of record, Claire Sharp, Deputy Attorney General, submits the following comments.

BACKGROUND

On March 31, 2023, Avista Corporation, d/b/a Avista Utilities ("Avista" or "Company") applied for authority to modify its power cost adjustment ("PCA") mechanism to account for costs associated with Washington's Climate Commitment Act ("CCA") allowances. Application at 1. The Company proposed to include (1) "the costs of purchasing carbon allowances pursuant to the [CCA] to cover Idaho's share of the Company's Boulder Park natural gas generation plant dedicated to serving its Idaho customers," and (2) "the costs of purchasing carbon allowances for Idaho's share of surplus sales delivered to Mid-Columbia ("Mid-C") trading hub that require an associated carbon allowance" in its PCA mechanism to be recorded in Federal Energy Regulatory Commission ("FERC") Account 509. *Id.*

STAFF ANALYSIS

The Washington CCA became effective on January 1, 2023. The Company has proposed that the cost of allowances attributed to Idaho necessary to comply with Washington's CCA be accounted for in FERC Account 509 and included in the Company's PCA. As a result of its review, Staff recommends FERC Account 509 be included in the PCA with an ongoing annual review. The PCA review will be utilized to determine the actual prudent recovery of each separate sub-account for FERC Account 509. For FERC Account 509, Staff recommends:

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.

CCA Expense Appropriate for Recovery

In general, Staff believes that its only recourse is to accept Idaho's portion of emission expenses that are prudently incurred to Idaho ratepayers as the Company's cost of doing business, unless the State of Idaho initiates legal procedures to challenge the legality of the CCA. The CCA requires electric utilities to have allowances to cover (1) carbon emissions associated with surplus thermal generation imported into Washington and subsequently sold in the market as off-system sales; and (2) carbon emissions generated by Washington situs-based thermal plants that emit over 25,000 metric tons of carbon annually. Kalich, Di, Case No. AVU-E-23-01 at 8-10.

Emission Cost of Imported Thermal Generation Sold into Market

Although the surplus thermal generation imported into Washington and subsequently sold into the market as off-system sales is a benefit to Idaho customers, the amount of these benefits will be reduced due to the cost of allowances required by the CCA. The Company proposes that Idaho ratepayers pay for Idaho's portion of these emission expenses based on the Production/Transmission Ratio ("PT Ratio"). *Id.* at 10. Staff believes that because the incentives with off-system sales are aligned between Idaho and Washington, 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 in both states.

The Washington Department of Ecology has indicated that no-cost allowances for Washington's portion of emission expenses associated with the off-system sales will not be provided. Response to Staff Production Request No. 11(d). Thus, both Washington ratepayers and Idaho ratepayers will need to pay for these emission expenses. In order for the Company to obtain full 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.

Emission Cost of Washington Thermal Plants

Allowance expenses associated with Boulder Park generation create a dilemma for Idaho ratepayers. Dispatching Boulder Park and allowing recovery of allowance expenses may disadvantage Idaho ratepayers compared to Washington ratepayers. It is also possible for it to be a benefit to both.

Unlike aligned incentives for emissions cost of off-system sales, the cost of thermal generation for Washington in-state thermal generation over 25,000 tons is not always aligned between Idaho and Washington. This is because the State of Washington is believed to provide no-cost allowances to serve Washington's load from its share of this generation while requiring the Company to purchase allowances for Idaho's share. Because of this misalignment, Staff believes that the Boulder Park facility, Washington's only situs-based thermal plant exceeding

25,000 tons, can be dispatched benefiting Washington ratepayers, or the Company's system, or both, at the expense of Idaho ratepayers. However, 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. To ensure the incentives to optimize the dispatch of Boulder Park are aligned for both states and Idaho ratepayers are not unfairly disadvantaged, Staff recommends 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 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.

The Boulder Park facility serves both Idaho and Washington load. The Washington Department of Ecology has indicated that it will only provide no-cost allowances to cover the Company's emissions associated with its Washington retail electric load. *Id.* But the Company believes Boulder Park's emission expense associated with the generation for Washington will be covered by no-cost allowances. Response to Staff Production Request No. 5. If the Company's assumption is correct, the Company will need to purchase allowances for the generation allocated to Idaho based on PT Ratio. *Id.*

The unfairness stems from the dispatch price the Company will use to minimize NPC. Assuming Washington will receive no-cost allowances for Boulder Park generation, the optimal dispatch price from a Washington perspective will only include the facility's variable cost of generation. However, Idaho's optimal dispatch price will include, not only the variable cost of generation, but will also include the cost of allowances. If the Company uses Washington's optimal dispatch price, the Company will dispatch the facility more than it would if optimizing NPC for Idaho, forcing Idaho to uneconomically pay for Boulder Park generation and the associated cost of allowances for this additional generation.

To illustrate the impact using an example, the following generation amounts and dispatch prices for Boulder Park are assumed:

Boulder Park	Washington (w/ no-cost allowance)	Idaho (w/ allowance cost)	System
Generation	65.64 MWh	34.36 MWh	100 MWh
Optimal Dispatch Price	$20/MWh	$47.05/MWh	$29.29/MWh
Total Cost	$1313	$1617	$2929

Because dispatch decisions are made by comparing a generation resource's optimal dispatch price primarily to market prices, who benefits can be determined based on the difference between the optimal dispatch price for each state and market prices. Using the above assumptions and an example of market prices, who benefits can be determined as illustrated in the table below. Included is a determination of whether there is a system benefit; however, because of unequal jurisdictional allocations, dispatch decisions that benefit the system may not be beneficial to Idaho.

Who Benefits when Dispatching Boulder Park vs. Purchasing from Market (X = net benefit)				
Scenario	**Market**	**Washington**	**Idaho**	**System**
1	Mkt < $20/MWh	-	-	-
2	$20/MWh < Mkt < $29.29/MWh	X	-	-
3	$29.29/MWh < Mkt < $47.05/MWh	X	-	X
4	$47.05/MWh < Mkt	X	X	X

Scenario 1: Boulder Park would not be dispatched because the market price is less expensive than optimal dispatch prices for Washington, Idaho, and the Company's system. Therefore, everyone benefits when Boulder Park is not dispatched.

Scenario 2: Washington would benefit from dispatching Boulder Park, because the market price is greater than Washington's optimal dispatch price of $20/MWh; however, this would be at the expense of Idaho and the Company's system, neither of which would benefit.

Scenario 3: Washington and the Company's system would benefit from dispatching Boulder Park at the expense of Idaho.

Scenario 4: Washington, Idaho, and the Company's system would all benefit; however, the amount of benefit would be unequal, with Idaho receiving less benefit than Washington or the system.

As shown above, Washington ratepayers, the Company's system, and Idaho ratepayers are not always aligned with regard to the benefits of dispatching Boulder Park. Because of the dilemma, Staff recommends 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 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.

Accounting Treatment of CCA Expenses

The Company is requesting that the expenses resulting from the CCA, which will be recorded in FERC Account 509, be included in the PCA. The Company references a "Notice of Public Rulemaking" (Docket No. RM21-11-000) issued by FERC. In this notice, FERC provides accounting guidance for emission allowances and recommends these expenses be accounted for in FERC Account 509. Staff agrees that CCA credits are emissions allowances and FERC Account 509 is the proper account to record the associated expenses. However, Staff recommends that only CCA expenses which are prudently incurred to Idaho ratepayers and known and measurable, be accounted for using FERC Account 509. Staff also recommends that this account be included in the PCA.

The Company is currently tracking overall CCA expenses by totaling the sum of four components as the "Total Liability Accrued". The first component is the value of allowances purchased, which is the product of the number of allowances purchased by Avista and allocated to Idaho and the weighted average price of allowances in the inventory. Response to Staff Production Request Nos. 1 and 3. The second component is the value of allowances to be purchased. This is calculated as the product of the number of allowances to be purchased to meet the allowance needs and the end-of-month market price of allowances. *Id.* The third component is the value of allowances retired, which will offset the first two components. This is calculated as the product of the number of allowances retired already to meet the allowance needs and the weighted average price of allowances in the inventory. Response to Staff Production Request No. 3. Under the CCA, a minimum of 30% of allowances to cover 2023 emissions is not required until November 1, 2024. Therefore, Avista has not retired any allowance for compliance. Revised Response to Staff Production Request No. 10. The fourth component is an adjustment that is not captured by the first three components. Response to Staff Production Request No. 3.

Staff believes only the third component (the value of allowances retired) should be allowed in the PCA, because it represents known and measurable allowance expenses used to comply with the CCA and not for other purposes, such as arbitrage. In addition, the third component should only include Idaho's portion of emission expenses associated with surplus thermal generation imported into Washington and subsequently sold to the market as off-system sales, not Idaho's portion of emission expenses associated with Boulder Park's generation, 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.

STAFF RECOMMENDATION

Staff recommends FERC Account 509 be included in the PCA with an ongoing annual review. The PCA review will be utilized to determine the actual prudent recovery of each separate sub-account for FERC Account 509. For FERC Account 509, Staff recommends:

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.

Respectfully submitted this 1st day of August 2023.

Claire Sharp

Claire Sharp
Deputy Attorney General

Technical Staff: Yao Yin
James Chandler

i:umisc/comments/avue23.4csyyjcmsct comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 1ST DAY OF AUGUST 2023, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-E-23-04, BY E-MAILING A COPY THEREOF TO THE FOLLOWING:

PATRICK EHRBAR
DIR OF REGULATORY AFFAIRS
AVISTA CORPORATION
PO BOX 3727
SPOKANE WA 99220-3727
E-mail: patrick.ehrbar@avistacorp.com
avistadockets@avistacorp.com

DAVID J MEYER
VP & CHIEF COUNSEL
AVISTA CORPORATION
PO BOX 3727
SPOKANE WA 99220-3727
E-mail: david.meyer@avistacorp.com

Uda Edmision

SECRETARY