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Public Utility Commission, Oregon
201 High St. SE, Suite 100
Salem, OR 97301

RE: UM 2178 - Avista Utilities Natural Gas Fact Finding Comments on the Draft Report

Filing Center:

Avista Corporation, d/b/a/ Avista Utilities (Avista or the Company), hereby submits the following comments as requested by Oregon Public Utility Commission (OPUC or Commission) Staff (Staff) in Docket UM 2178, the Natural Gas Fact Finding (NGFF) effort regarding Executive Order 20-04. Specifically, these comments are related to the Draft Report published April 15, 2022.

Avista is fully committed to decarbonization of the natural gas system and believes that there are many viable solutions, as discussed and presented throughout the NGFF, to decarbonize. Avista has taken actions already to decarbonize and has additional plans in progress. These actions include the following:

1. Filed for approval of a Voluntary Renewable Natural Gas (RNG) Program, which is now available to all Oregon and Washington customers.
2. Avista is in the process of having a Conservation Potential Assessment performed on its low-income, interruptible and transport customers. Interruptible and transport customers currently do not participate in the Company's energy efficiency programs, so this process is the first step in gaining their participation.
3. Exploring a demand response program.
4. Actively pursuing RNG opportunities.
5. Significantly increased the allotted budget with the Energy Trust of Oregon for energy efficiency in 2022.

Turning to the draft report, Avista appreciates the work done by Staff to prepare the draft report and recognizes the complex challenge the NGFF posed, given the various perspectives of the utilities and stakeholders that participated in this process. That said, Avista is quite concerned with the final draft and asks that further work be done on the draft report before it is finalized. The

following comments are arranged in order of key issues Avista has identified with the draft report, followed by minor issues and/or clarifications needed in the report.

Key Issues

1. The draft report goes well beyond the purpose of the NGFF as described in the NGFF Overview published by Commission Staff at the beginning of the NGFF. As a reminder the Purpose was stated as follows:

   > *The purpose of the Fact Finding is to analyze the potential natural gas utility bill impacts that may result from limiting GHG emissions of regulated natural gas utilities under the DEQ's Climate Protection Program and to suggest appropriate regulatory tools to mitigate potential ratepayer impacts. The ultimate goal of the Fact Finding will be to inform future policy decisions and other key analyses to be considered in 2022, once the CPP is in place.*

   Rather than sticking to the stated purpose, the nature of the report seems to take an anti-natural gas perspective such that the tools discussed are geared towards winding down the natural gas utilities' businesses and on pathways to electrification. Avista discussed these same concerns in great detail in its comments submitted on October 26, 2021 and continues to have these same concerns with the draft report. We will highlight again that many of the tools discussed in the report do not lead to the decarbonization of natural gas, rather a reduction of natural gas. For this reason, the report should undergo further review to ensure it is aligned with purpose and objectives of the NGFF, and not more broadly focused on the future of natural gas in Oregon.

2. The draft report states, "DEQ's CPP lays out a regulatory framework that prohibits supply of natural gas…". That simply is not factual. The CPP does not prohibit the supply of natural gas, rather it intends to regulate the emissions of natural gas. Additionally, within the CPP, the Department of Environmental Quality (DEQ) has made each local distribution company (LDC) responsible for emissions from its distribution system regardless of customer type. Specifically, transport customers only move their fuel through distribution system and in turn are charged with a small distribution fee as compared with other residential or commercial customers, yet make up a significant portion of the emissions that the LDCs must account for. In comparison to the overall portion of their emissions, transport customers provide little revenue to the Company. Also, the methods to comply with the CPP for transport customers' emissions are limited as their fuel is supplied by agents which deliver their gas to Avista's city gate station. In 2021, Avista's Oregon transport customers accounted for 28% of the total supply used across Avista's Oregon distribution. With limited options to offset the fuel source with a zero-carbon product, unless provided by their agent, the compliance mechanism will primarily come through demand side management (DSM) and Community Climate Investments (CCI). This could prove difficult considering the cap placed on the percent of CCI's use as compared to the overall emissions goal.

3. Section 3.1, Momentum, should be stricken from the report entirely as it not related to the purpose and objectives of the NGFF, is based loosely on facts, and is not reflective of customer sentiment. Particularly, the report states that "Given the desire by most of the public to address global warming due to fossil fuel use, momentum exists for limiting gas expansion and reducing or shifting energy use away from the Oregon gas system…". This is an inaccurate statement. It is not reality to presume that most of the public agrees with limiting expansion of the gas system or shifting energy use away from the Oregon gas system. In fact, new and existing customers continue to choose natural gas rather than move away from it; Avista for one is not seeing customers reverse fuel switch away from natural gas. While some stakeholders involved in this process may vocalize the belief characterized in this section, extrapolating that sentiment to the whole of Avista's natural gas service territory is a fallacy in logic. Arguably most customers are unaware of this process and others related to decarbonization in the State, and therefore have not made their views known.

4. The CPP compliance and risks to natural gas customers has been significantly understated within the NGFF draft report. The NGFF provided LDCs with several objectives, including scenarios and sensitivities to help measure future outcomes in consideration of CPP compliance costs and risks. Although numerous, it did not capture the full scope of risks that customers could wholistically expect with compliance of the CPP. Historically, the electric and natural gas systems were developed in tandem to help supply energy throughout the year, including during peak demand. Historical growth has allowed for incremental costs to be shared and invested in these critical systems. While both systems provide energy, the technology necessary to provide peak energy on the electric system is far more expensive in comparison to what the natural gas system provides.[1] Abandoning or reducing reliance on the natural system at a pivotal time appears inconsistent with the goals of the CPP. Electric resource costs are expected to come down with technological advances, yet storage technology is still in its relative infancy and investment in these supply sources are costly in the near term. This will lead to an increase in electric rates even when assuming a drop in costs with advances in technology.

   Impacts shown in each utility's base case illustrates a pathway towards meeting the zero-carbon future laid out in the CPP. The base case results with impacts to the annual bill show an estimated percentage increase based on a variety of assumptions across the three LDCs. Avista sourced most information from its 2021 Natural Gas Integrated Resource Plan (IRP), adding updated cost estimates for both RNG and hydrogen as supply options. Further, due to the time constraints of the NGFF, Avista chose to leave potential DSM estimates in place from the 2021 IRP. This is important as with a higher marginal cost to serve the system due to the demand for zero carbon fuels, there would be an increase in DSM economic achievable potential in the Conservation Potential Assessment (CPA). Additionally, Avista did not look at a scenario with gas fired heat pump technology as this would likely have compared more closely to Northwest Natural's base case with less demand and could potentially reduce costs in the long term.

[1] "Lazard's Levelized Cost of Storage Analysis – Version 7.0", Lazard, 2021.

5. The modeling results for the base case are most useful from this process as the costs and individual pieces modeled were most heavily scrutinized within Avista and through an IRP process. The results also have a full cycle impact to better understand the entire cost implications from the selected supply side resources or fuel choice. More importantly, in these cases and across the three LDC's, each company presented a path forward to meet the CPP compliance. Not only does this indicate a viable pathway towards decarbonization, but it also utilizes the current distribution system to provide energy to customers during times of need. Moving away from a least cost-least risk planning to a predetermined pathway will have large cost impacts to our customer base.

   As a point of clarification, Avista did have a few modeling cases to adjust, primarily those under the electrification scenarios. In the Company's rates model we used a current cost per customer rather than spreading the expected rates across the number of customers. With less customers on the system the cost per customer would be higher. This should have shown a rapid increase, or the "death spiral" with fewer customers on the system to pay for the costs. This also assumes no rate proceedings to address this in the medium term as customers leave the natural gas system. A higher-powered model (Plexos) paired with final rules, customer and price forecasts, and supply side choices, should provide transparency to meeting the CPP obligations. A risk analysis, for price and weather, will also be necessary to value the potential impacts in an uncertain future. Finally, to understand a least cost/least risk set of resources, electrification costs will be necessary. This includes home conversion, distribution, clean supply resources, transmission, and any potential efficiencies in moving to electricity from natural gas.

6. Electrification poses its own set of challenges and to understand the statewide impacts to the CPP, including potentially moving as much energy demand as possible to electric, a study should be completed to fully understand costs and risks of fuel switching across all energy end uses. Transportation electrification will put additional strain on the electric grid from a transition away from gasoline. Depending on the vehicle battery capacities and charge times, the grid is more likely to see volatility with demand. This sector alone will likely add large capital costs to be invested in the electric system. Excluded from many discussions of electrification, include full cost implications of new transmission, distribution, and homeowner costs in addition to the new supply costs which need to be understood for a full comparison to natural gas resource options. These new assets will be necessary in addition to replacing current infrastructure that is older and already struggling with impacts of severe weather caused by climate change.[2] The build time for some of these resources can be nearly a decade and face some of the same environmental concerns as new gas pipelines. The cost shifts, regardless of potential efficiency gains, could make the system more unreliable in peak times, especially considering new demand from these new customers moving on to the grid.[3] Permitting, resources to complete the work and environmental impact statements, when necessary, and community pushback on new

[2] McLaughlin, Tim, "Creaky U.S. power grid threatens progress on renewables, EVs", Reuters, 2022.
[3] "U.S. Customers Experienced eight hours of Power Interruptions in 2020", EIA, 2021.

supply projects,[4] could all pose timing concerns to meeting quotas and timeframes to meet the CPP goals. The current capital investment found in the local distribution systems will help mitigate cost impacts to customers and continue to provide the energy necessary to deliver on peak days across the state.

7. Continued investments in the natural gas system are needed for mandatory and compliance obligations, as well as safety needs, and the use of RNG and hydrogen necessitate investments in the distribution system. The idea of aligning investments levels or depreciation schedules with annual progress in CPP compliance, or reducing investments in general, is misaligned with what is required by the natural gas utilities to maintain the health and integrity of the natural gas system, as well allow for the use of alternative fuels.

8. Within Section 5.2.1 there is a recommended tool to "Require the gas utilities to develop in their next IRPs, publicly available maps of their system overlaying depreciation data and including lists of infrastructure and associated depreciation schedules." This concept is beyond problematic for multiple reason, as follows:

    - Maps of the distribution system are not publicly available because they include sensitive/customer/confidential information. By suggesting this information be required to be made publicly available poses serious safety and security concerns.
    - Overlaying depreciation data on maps does not provide additional information due to the use by utilities of mass (group) asset accounting.[5] Distribution assets are accounted for at the jurisdictional level, thus depreciation rates and composite remaining life are identical for Company assets across Oregon.
    - Lists of infrastructure and associated depreciation schedules can be provided by general categorization but would be consistent with publicly available data from the Company's depreciation study, provided to the Commission and parties every five years.

9. The Company believes the adoption of Appendix B is inappropriate at this time. There was a lack of due process that has occurred pertaining to this Appendix and additional time is required to review and discuss potential implications and outcomes of following such guidance. Additionally, Appendix B appears to be merely a list of ideas, not guidance for

[4] Vander Graff Laramie, Abby, "Residents continue legal battle against Rail Tie Wind Project", The Cheyenne Post, 2022.

[5] "Utilities often apply the mass-asset convention of accounting (also known as the "group" method) to certain fixed assets such as utility poles and other components of their transmission and distribution systems which are too numerous to practically track on an individual basis given the small relative value of each individual asset. Similarly, many utility companies utilize the composite convention of accounting for component parts of larger assets such as electric generating stations which also contain numerous components and parts which are impractical to separately track. As opposed to the unitary convention of accounting for fixed assets, generally neither the group or composite convention of accounting result in the recognition of a gain or loss upon the retirement of an asset. Rather, any difference between the net book value of the assets and the value realized at retirement (salvage proceeds less removal and disposal costs) are embedded in accumulated depreciation and considered in the determination of prospective depreciation rates." (footnote omitted) www.pwc.com/gx/en/energy-utilities-mining/pdf/ppe.pdf

the utilities to incorporate. The following are specific concerns with Appendix B, Table B1:

- IRP-Related Feedback: capturing additional customer information through baseline statistics should not be included in the IRP and requires resources outside of an IRP to identify, including consultants. This is more appropriate within energy efficiency and energy assistance discussions and reporting.
- The Company is unsure how it would determine the information for the assumed usage for space heaters and water heaters across its service territory by county or zip code with an electric utility overlap; likely this effort would require the use of a consultant.
- Avista is unaware of how it would learn which customers are adopting new technology or who pursues fuel splits between electric and gas over time.

Minor Issues/Clarifications

The following are minor issues and clarifications the Company believes are necessary to address within the draft report:

- Section 3.3.5, Table 5 - alternative Supply Projections the RNG Supply Penetration by 2035 - the Avista column incorrectly states 40 percent of overall deliveries when in actuality this number should state 19.5 percent, much closer to the other LDCs in the table. The renewable natural gas supply was broken out based on a population weighted share of total national biofuel resource from the 2019 AGA/ICF study. Avista chose a single price approach for the RNG resource instead of two separate curves based on lowest cost supply uptake occurring first. This was primarily done for the ease of a single curve understanding of the resource for the participants. Avista broke up the curves by RNG type in past IRP's and may do so in the upcoming 2023 IRP.

- Section 4.3, fourth bullet – Avista's general rate revision proposal does not include a differential rate proposal. Avista is proposing to implement a bill discount program pursuant to HB 2475, but it is outside of its general rate case.

- Section 4.3, fifth bullet – it is unclear what is meant by "business model motivation" and aligning utility behavior with transition targets. Additional detail should be provided to articulate what this bullet is attempting to portray.

- Section 5.1 – it is not necessarily true that compliance with the CPP will likely increase costs to all customers in the near-term. In fact, as a result of the bill discount proposals pursuant to HB 2475, those customers that are currently experiencing a high energy burden will be shielded from additional cost pressures of compliance with the CPP.

- Section 5.1.1 – pertaining to protecting customers with limited options, it must be recognized that the Energy Trust of Oregon (ETO) does not perform low-income weatherization for the natural gas utilities. Community Action Agencies do perform this

work but have been limited in their ability to meet the demand for weatherization. Outreach alone will not solve this problem rather new solutions are needed to serve more low-income customers with much needed weatherization. To reach more customers who need help to reduce their monthly bills, the Company is performing an low-income needs assessment that will inform the Avista Oregon Low Income Energy Efficiency program design and future program offerings.

- Section 5.5 – regarding the planning recommendation, the SB 844 rules need to be reevaluated and likely revised to make it easier for natural gas utilities to utilize this tool. This is evident as no projects to date have been completed under SB 844 and this is likely to continue given the requirements laid out in the rules implementing the statute.

- Section 5.5 – regarding the program recommendation of adopting a compliance cost of carbon in order to actively incentivize GHG emission reduction pathways, this has been done at Avista for numerous years, going back a decade of IRPs. This compliance cost has been added to the price per dekatherm of natural gas available as supply into the Company's system. Further, in the upcoming 2023 Natural Gas IRP, Avista will be considering demand response, transportation, and low-income customers in Oregon in addition to the regular DSM CPA done by the ETO. This may hold additional potential savings in energy demand across the distribution system. Areas of potential for Avista to further research to include as supply side options consist of responsibly sourced geologic gas, synthetic methane, and future energy efficiency measures. These additional areas will be included in Avista's 2023 Natural Gas IRP.

If you have any questions regarding this filing, please contact me at 509-495-2782 or shawn.bonfield@avistacorp.com.

Sincerely,

/s/ Shawn Bonfield

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