



Avista Corp.

1411 East Mission P.O. Box 3727
Spokane, Washington 99220-0500
Telephone 509-489-0500
Toll Free 800-727-9170

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

RE: Docket No. UM 2178 - Avista Utilities Natural Gas Fact Finding Comments on
Regulatory Tools

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 in Docket No. UM 2178, the Natural Gas Fact Finding (NGFF) effort regarding Executive Order No. 20-04. Specifically, these comments are related to regulatory tools the Commission may consider in the future as discussed during workshop 4a and 4b.

First and maybe most importantly, Avista is concerned with the framing of the regulatory tools discussion and the expanded scope for which the NGFF has taken. Looking back to the NGFF Overview provided by Commission Staff ahead of workshop #1, the stated purpose of the NGFF was the following:

...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. (emphasis added)

Further regarding the objectives of the NGFF, it was stated that:

Overall we will seek to work with all stakeholders to analyze customer impacts from proposed approaches to the gas utilities' compliance with DEQ's CPP. The tail end of this work will also include initial discussions on regulatory tools that could be utilized to reduce financial impacts to gas utility customers. (emphasis added)

The nature of the discussion during workshop #4 veered far from the intended scope of this proceeding and stated objectives. The matrix discussed and provided by the Regulatory Assistance Project, which we will touch on further later in these comments, is not geared towards the regulatory tools that may be used to mitigate potential ratepayer impacts from natural gas utilities compliance with DEQ's CPP. Rather, the framing of the discussion and targeted outcomes of the regulatory tools discussed was geared towards winding down the natural gas utilities businesses and on pathways to electrification. It was clear from the beginning of the NGFF, that this process was not meant to be focused on a transition away from natural gas, which many have now made that the focus. Staff has done a fair job at sticking to the intended scope of the NGFF, but the conversations during workshop #4 veered well off course.

Each of the natural gas utilities was asked to model a pathway for how they will comply with DEQs CPP. Avista presented its pathway towards compliance and the potential rate impacts that customers must experience. Rather than the next step being to discuss regulatory tools for how to deal with the rate impact from the proposed pathway, the conversation turned to how to reduce the use of natural gas in Oregon by way of electrification. No doubt that Commission Staff received some useful suggestions during the workshop on existing resource planning, expanded planning, and regulatory tools to consider; however, little time or attention was given to how or what tools could be utilized to reduce financial impacts to natural gas utility customers.

The topic of electrification is important and much larger in scope than what was intended for the NGFF. It is a conversation that cannot take place without including the regulated electric utilities due to the many impacts electrification of natural gas space and water heating has on the electric grid and peak loads. For purposes of the report to the Commission at the conclusion of the NGFF process, Avista suggests that Staff only include discussion of the regulatory tools that adhere to the scope and objectives outlined and avoid any tools with a targeted outcomes of harming natural gas utilities or electrification.

When approaching the regulatory tools to help reduce the financial impacts to natural gas utility customers, the starting point should be what matters most to customers. From our experience of being an LDC in Oregon and a combined electric and natural gas utility in Washington and Idaho, Avista has a unique perspective amongst regulated utilities in Oregon. Based on this experience we know that customers are most concerned about reliability of their energy services, followed by affordability. Many stakeholders in this process represent that customer sentiment around natural gas is changing. This runs counter to the actual experience we have in working with our existing customers, as well as new customers continuing to request natural gas service. Rather than assume that customer sentiment towards natural gas is changing based on a small subset of voices represented in this process, the Commission should find ways to hear from a broad range of customers about what they actually desire.

Over the course of recent history, Avista's and its customers have faced severe weather events that have led to outages and impacts on the electric system. During these severe weather events, natural gas provides a reliable service that is unmatched by the electric system due to the fact that during an outage a customer can continue to use their natural gas fireplace, hot water heater, and stove, or even operate backup generation. As electrification is considered or recommended as a strategy

for natural gas utilities to decarbonize, it is critical to consider the unmatched reliability of the natural gas system and the challenges that electrification will pose on the electric grid, particularly the distribution system.

For many electric utilities such as Avista, the heat dome that occurred in the Northwest in June 2021 highlighted the challenges facing the distribution system. Due to increased growth from new housing stock and additional uses of electricity, Avista had to implement proactive outages primarily in Washington due to constraints on our electric distribution system. If a similarly significant cold snap occurred during the winter months, and there was significant electrification of space and water heating in homes and businesses, there would be significant constraints on the distribution system and a need for additional peaking generation, which could actually lead to an increase in carbon emissions. The point of this discussion is that before any regulatory tools that enable electrification are prioritized, much work remains in Oregon on understanding the impacts on the entire energy system, both natural gas and electric. Because of this, a joint planning effort of the energy system should be a top priority for Commission Staff. Without this work, it will be difficult, or impossible, for the Commission to adequately consider many of the regulatory tools raised during the NGFF workshop #4 and in the request for these comments.

Turning our attention back to the regulatory tools matrix, it's concerning that many of the proposed tools listed have a targeted outcome of achieving electrification or increased electrification. As mentioned above, that is not the intent of the regulatory tools to be discussed during the NGFF. Further, many of the regulatory tools discussed does not lead to the decarbonization of natural gas, but a reduction of natural gas. Natural gas will continue to play a critical role in providing reliable energy service to all Oregonians. Focus should remain on regulatory tools that help natural gas utilities decarbonize and reduce the financial impacts on natural gas customers from the decarbonization efforts.

The following are the Company's responses to the specific questions posed for the workshop and follow-up comments. In addition, the Company has included as an attachment to these comments the completed regulatory tools matrix as requested.

- **Overall:**
 - **What customer impacts related to Oregon's natural gas decarbonization efforts do you think are most important for the Commission to address?**

Response: Avista believes the most important impacts related to Oregon's natural gas decarbonization efforts for the Commission to address are reliability and affordability. As mentioned above, natural gas services provides unmatched reliability for our customers during times of significant weather events and electric outages. With the growing regional constraints on the electric generation, transmission, and distribution systems, reliability of energy services in general will be an ongoing concern. Hence the reason natural gas will continue to play a critical role in serving Oregonians. Pushing for electrification of natural gas end uses will further impact reliability. For this reason, the Commission must keep reliability of the energy system a top priority when considering the pathways natural gas utilities will utilize to comply with the DEQ CPP.

Second to reliability, Avista and its customers care greatly about affordability. Natural gas has played a central role in helping to limit customers' energy burden (the percent of household income spent on energy costs) as it is a for affordable fuel source for space and water heat than electricity. We know that decarbonizing the natural gas supply may result in increased rates that customers pay for natural gas service. It will remain important to consider tools to help keep natural gas service affordable, especially for low-income or vulnerable customers.

- **What are the most important regulatory tools or policies the PUC can use to address these impacts?**

Response: The most important tool for the Commission to consider or employ is a joint analysis of the electric and natural gas systems due to the impacts of the DEQ CPP and House Bill 2021 passed in the Oregon legislature in 2021, which requires electric utilities to provide 100% clean electricity by 2040. Understanding the combined effects of these policies will help unmask the collective impacts on customers.

- **Why are your suggested tools or policies important? What specific problem do your suggested tools or policies address?**

Response: Performing such an analysis may lead to a joint resource planning effort and it will provide a clear picture to fully understand what customers will face in the future and what regulatory tools the Commission should consider.

- **What additional information does the Commission need to inform ongoing work as it considers available options? How can it obtain that information?**

Response: The Commission will likely need to engage with a third-party to perform such an analysis, as well as a joint resource planning effort.

- **What are the combinations of tools you think would best address potential customer impacts? Over what timeline?**

Response: Expanded resource planning paired with expanded energy efficiency efforts and low-income discount rates would best address potential customer impacts. These regulatory tools can immediately be considered but will take some time to implement.

- **Planning:**

- **How can existing planning processes be utilized or expanded to incorporate changing circumstances?**

Response: The existing planning processes should continue to be utilized for resource planning efforts. It should look to integrate system resources at a lowest cost and lowest risk level. Including new items such as estimated costs to electrify should be utilized as a resource option. All supply

options should be included in the criteria for resource planning to find the least cost and least risk option.

- **What can be done within the existing framework to integrate with electric utility planning (e.g., timing of planning efforts, information exchange, requirements to cross-reference information, requirement for input from gas/electric utilities)?**

Response: Developing all Integrated Resource Plans (IRPs) for the investor owned utilities at the same time would be beneficial for information exchange. In this exercise, the electric utilities should provide estimated costs to serve load with carbon free energy resources for natural gas IRPs. Additionally, cost estimates for homeowners to convert from natural gas should be provided by the Commission, likely through an independent third-party analysis. This should include any costs for drywall, electric conversion, electric panel upgrades, permitting or other costs associated with this effort. In the event an energy shortage or emissions reduction is needed, a specific cost switch from natural gas to electricity should be provided by specific region. These costs should include any transmission, distribution, or generation resources to deliver carbon free electricity. Reliability of the electric grid should be considered as a part of the planning process to measure the risk to the customers of a single fuel in times of weather events. Finally, these costs should be provided by the natural gas utilities to electric utilities for inclusion of least cost and risk planning as a means to incorporate carbon free fuel on the natural gas system in their IRP.

- **What needs to be changed or added to develop a more integrated planning approach?**

Response: Please see the responses above. Additionally, a statewide planning effort may be considered to understand implications of fuel switching, least cost and risk, and total emissions reductions.

○ **Programs:**

- **What programmatic tools would you recommend that Commission implement immediately, near-term, and long-term to facilitate meeting climate goals with least risk to customers?**

Response: The Commission should focus on programmatic tools that preserve reliability and assist with affordability. Tools to implement immediately or in the near-term that are achievable should include the following:

1. A review of cost-effectiveness tests for energy efficiency with the inclusion of additional Non-Energy Impacts. This will hopefully lead to increased energy efficiency program offerings and/or higher incentives for customer to invest in energy efficiency.
2. Targeted or increased energy efficiency programs for low-income and disadvantaged communities. Avista currently offers low-income weatherization to eligible customer

through Community Action Agencies (Agencies). The need for weatherization is greater than what the Agencies can provide. Expanded weatherization through new and additional channels should be implemented.

3. Energy efficiency for interruptible and transport customers. Currently these groups of customers do not pay into the Company's Public Purpose Charge, thus do not get access to energy efficiency programs offered by the Energy Trust of Oregon. As utilities will be responsible for accounting for the emissions of these customers, providing energy efficiency programs to these customers is necessary.

Programmatic tools to consider in the long-term include studies to gather information for new potential energy efficiency programs, exploring hydrogen pilots, reviewing Commission rules, and policies for barriers to meeting goals.

- **Why would you prioritize these tools over others?**

Response: Avista suggested prioritizing the programmatic tools listed above as they are achievable to implement and will result in decarbonization and affordability.

- **Ratemaking:**

- **What ratemaking tools would you recommend that Commission implement immediately, near-term, and long-term to facilitate meeting climate goals with least risk to customers?**

Response: The Commission should focus on ratemaking tools that lead to an actual reduction of carbon or reduce the financial impacts to customers from decarbonization. These ratemaking tools may include a review of rate designs to improve efficiency, implementing low-income rates, and exploring how performance-based ratemaking may prove as an incentive to reduce barriers for natural gas utilities to decarbonize.

- **Why would you prioritize these tools over others?**

Response: These tools should be prioritized as they may lead to an actual reduction of carbon or a reduction of the financial impacts to customers from decarbonization. Other tools discussed or included in the matrix focused on electrification and minimizing the natural gas utilities' businesses, which is contrary to the goal of the NGFF.

- **What should be the trigger for adopting a particular ratemaking tool?**

Response: Once the final DEQ CPP rules are finalized, natural gas utilities will need time to review and plan for how to comply. In Avista's next natural gas IRP it will model how it will comply with the DEQ CPP. Once this work has been completed then more work can be done to determine which ratemaking tools are needed to assist the utilities and their customers. Until then,

the Commission can focus on the planning and programmatic tools discussed above and development of low-income rates.

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

Sincerely,

/s/ Shawn Bonfield

Shawn Bonfield
Sr. Manager of Regulatory Strategy & Policy

