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By Electronic Mail c/o
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The Honorable John D. Dingell
Chairman
Committee on Energy and Commerce
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Rick Boucher
Chairman
Subcommittee on Energy and Air Quality

Dear Chairman Dingell and Chairman Boucher:

Avista Corporation (Avista) appreciates the opportunity to respond to the important questions that you have posed regarding legislation to reduce the emission of greenhouse gases (GHG). Your willingness to consider the views of all parties on the many critical and complex issues relating to greenhouse gas (GHG) legislation is sincerely appreciated.

Avista is an electric and natural gas utility headquartered in Spokane, Washington that serves more than 333,000 electric customers in eastern Washington and northern Idaho, and provides natural gas service to just over 300,000 customers in eastern Washington, northern Idaho, and Oregon. Avista has a low-emission electric generation portfolio. Approximately 58% of its generation is renewable hydropower, 25% natural gas, 13% low-sulfur coal and 3% biomass. Avista is experiencing steady load growth and expects to serve this additional load with a mixture of efficiency improvements and hydropower upgrades coupled with new gas-fired, wind and other generation resources.

Avista recently became a member of a coalition of electric utilities and generators known as the Clean Energy Group (CEG) that are working together in support of reasonable legislation to address climate change and related issues. In addition to Avista, CEG members include Calpine, Entergy, Exelon, FPL, PG&E Corporation and PSEG. Avista supports the separately filed CEG comments but is providing individual comments as well in order to provide the specifics of our company's position on each of the questions posed.

1. *Please outline which issues should be addressed in the Committee's legislation, how you think they should be resolved, and your recommended timetable for Congressional consideration*

and enactment. For any policy recommendations, please address the impacts you believe the relevant policy would have on:

- a. emissions of greenhouse gases and the rate and consequences of climate change; and*
- b. the effects on the U.S. economy, consumer prices and jobs*

Because of the climate change issue utilities such as Avista face uncertainty as they seek to secure reliable electricity resources to serve the growing needs of their customers. Without a clear national regulatory framework, it is difficult for utilities to determine the best path forward regarding investment in new generation facilities, particularly in light of the obligation to serve customers at the lowest cost.

The lack of a federal regulatory framework is also leading to the creation of a patchwork of state and regional “cap and trade” systems, which could be duplicative and unworkable. Even if these regional and state systems are well designed and compatible with each other, they will not provide the same opportunities for cost-effective GHG reductions as single national system.

In addition, the continued absence of a federal GHG regulatory framework could also make it more difficult for the United States and the world as a whole to come up with satisfactory solutions to the climate change problem over the coming decades. Relatively modest steps taken in the near-term could yield dividends that make it easier to come up with permanent solutions in the future.

Therefore, in light of the uncertainty created by the lack of a federal GHG regulatory framework, the development of potentially conflicting regional and state systems, and the environmental and public health risks associated with continued inaction, Avista supports enactment of federal cap and trade legislation to reduce GHG emissions. We believe that a cap and trade system can be crafted that significantly reduces GHG emissions without causing undue harm to the U.S. economy, consumer prices and jobs. We respectfully request that Congress act on this critical matter in a careful and expeditious manner.

Avista’s policy recommendations are described below in response to the specific questions posed.

2. One particular policy option that has received a substantial amount of attention and analysis is “cap-and-trade.” Please answer the following questions regarding the potential enactment of a cap-and-trade policy:

- a. Which sectors should it cover? Should some sectors be phased-in over time?*

All sectors of the economy should be covered in any cap and trade system. This is the best way to assure that the most cost-effective GHG reductions are achieved. Moreover, a system that applies to all sectors is the most equitable approach. Focusing exclusively on a single sector could cause one part of the economy to bear a disproportionate share of the regulatory burden. If

possible, all sectors should be subject to the limitations of a cap and trade system at the same time.

b. To what degree should the details be set in statute by Congress or delegated to another entity?

In order for a GHG regulatory regime to be viewed as legitimate by the regulated community and the general public, key policy calls must be made by the Congress. Cap and trade issues that are best addressed by Congress include the amount of greenhouse gas reductions necessary (including an economic safety valve), sectors of the economy to be regulated, point of regulation, the allocation of allowances to emit GHG, offset mechanisms, credit for early action, preemption, and distribution of R&D funds.

The sheer financial and political weight of important questions such as these would likely overwhelm any administrative rulemaking process and make implementation extremely difficult. Moreover, Congress should make very effort to provide clear direction in any statute and avoid ambiguity to minimize the need for judicial review. Even if Congress enacts legislation that clearly answers key policy questions it is inevitable that a large number of second order issues will have to be resolved by the Executive Branch through rulemaking processes.

c. Should the program's requirements be imposed upstream, downstream, or some combination thereof?

An "upstream" point of regulation providing that fossil fuel producers have the obligation to submit allowances to emit GHG is generally preferable. The main advantage of the upstream approach is that it facilitates the regulation of all sectors of the economy through the imposition of regulatory requirements on a relatively small number of entities.

d. How should allowances be allocated? By whom? What percentage of the allowances, if any, should be auctioned? Should non-emitting sources, such as nuclear plants, be given allowances?

Allowances should be allocated by the U.S. Department of Energy based on electricity output, with allowances being reallocated every two to five years so that new generation facilities are able to receive allowances. This would be accomplished by calculating the ratio of the facility's electricity output to the entire sector's generation output, then multiplying this result by the annual emissions cap.

The "updating output based" method of allocating allowances rewards both past and future investments in non-emitting and high efficiency generating resources. This should be the goal of any cap and trade system. An updating output based allocation supports investment in new low or no emission generation, running the gamut from high efficiency conventional coal-fired units, to natural gas-fired combined cycle turbines, to renewables (hydropower, solar, wind, geothermal and biomass), IGCC or other coal-fired technology with sequestration, and nuclear power. It also assures that entities that have made past investments in low or no emission generating resources are not penalized for their investments.

The output based approach to allocation is superior to the “input” based allocation approach in many respects. A heat input or “emission” based allocation system rewards entities that have continued to operate old, inefficient fossil-fueled generation “grandfathered” under the Clean Air Act. By contrast, entities that have invested in low or no emission generation technology would be penalized for those investments, receiving little or no allowances under an input-based method. An input based allocation also discourages much needed investment in new low or no emission generation because those units would not receive any allowances.

Allocating allowances based on heat input rather than electricity output could also create severe inequities between various regions of the country. Under this approach low-emission regions such as the Northwest would receive few allowances to emit, while other regions would receive enough allowances to cover most of their inefficient, high-emission generating facilities. This would further exacerbate the negative impact of GHG regulation on Northwest electricity prices and do little to accelerate improvements in high-emission regions. As the cap declined in the succeeding years, the pressure to reduce emissions would be the same on both the high-emission and the low-emission regions, even though the high-emission regions are a bigger part of the problem, and have much bigger and more cost-effective opportunities to reduce their emissions.

For example, let’s take a utility with extensive, inefficient coal-fired generation grandfathered under the Clean Air Act. Having received a large amount of allowances, that utility would have ample opportunity to free-up allowances for sale by increasing the efficiency of its facilities, or by replacing those units with more efficient, lower emission generation. A low-emission Northwest utility such as Avista, on the other hand, would have few allowances and even fewer opportunities to free up those allowances for sale because it has a relatively low percentage of generation that is fossil fuel-fired, and much of that is fired by relatively low-emission natural gas, rather than coal.

Consequently, the low-emission Northwest utility might have to purchase, at considerable cost, allowances from the high-emission utility. This could lead to a perverse outcome where compliance with GHG regulation for the low-emission Northwest region would be more costly than it would be for a high-emission region. In other words, regions that emit massive amounts of GHG into the atmosphere from power production would be rewarded, while regions that contribute few emissions would be penalized.

Avista has yet to develop a definitive position regarding the auctioning of allowances.

e. How should the cap be set (e.g., tons of greenhouse gases emitted, CO2 intensity)?

Avista supports the creation of reasonable caps on emissions that are challenging yet achievable. A cap based upon CO2 intensity makes the most sense for quickly driving the best and most cost efficient improvements quickly. This approach also helps account for location-specific variables, and it establishes a framework for continuous improvement well into the future.

f. Where should the cap be set for different years?

The caps included in S. 317 authored by Senator Feinstein and the discussion draft being circulated by Senators Bingaman and Specter should be given serious consideration. By contrast, Avista believes that legislation that has been introduced that seeks to reduce emissions by more than 40 percent below 1990 levels by 2050 is not likely to be achievable without causing serious economic dislocations and perhaps lifestyle changes.

g. Which greenhouse gases should be covered?

All six greenhouse gases should be covered in any cap and trade system.

h. Should early reductions be credited? If so, what criteria should be used to determine what is an early reduction?

Early reductions should be credited. In spite of the absence of a national climate policy, utilities have engaged in many actions that have reduced greenhouse gases since the early 1990s. For this reason a suggested cutoff year for qualifying early reduction credit is 1990. Early actions should be rewarded and not effectively penalized by a failure to provide appropriate credit. Actions that have increased the efficiency of power plants, reduced energy consumption, shifted generation to cleaner fuels and renewable resources since 1990 should be credited.

i. Should the program employ a safety valve? If so, at what level?

It is essential that any GHG cap and trade system be crafted to protect the health and continued growth of the U.S. economy. An economic “safety valve” that makes allowances available for sale at a maximum price, effectively setting a cap on the price of an allowance to emit GHG, appears to be a practical means of accomplishing this goal. Avista has not taken a position regarding what allowance price should trigger a safety valve.

j. Should offsets be allowed? If so, what types of offsets? What criteria should govern the types of offsets that would be allowed?

Emission offsets are an important element of any cap and trade system. U.S. entities subject to federal GHG regulation should have the option of paying for cost-effective GHG reductions anywhere in the world as a means of meeting their obligation to reduce GHG emissions. However, care must be taken to assure that any such offsets are legitimate and verifiable.

k. If an auction or a safety valve is used, what should be done with the revenue from those features?

Revenue from an auction or a safety valve should be directed into an off-budget trust fund that is used to fund research, development, demonstration and deployment of a wide range of technologies that could help solve the climate change problem, including carbon sequestration.

l. Are there special features that should be added to encourage technological development?

A trust fund financed by revenues from an auction or safety valve should support the proper mix of research and development on long-term breakthrough technologies and the more mundane demonstration and deployment activities for technologies that are not fully commercialized. To solve the GHG problem we need a combination of breakthrough technologies as well as much better utilization of existing technologies that are not fully commercialized.

m. Are there design features that would encourage high-emitting developing countries to agree to limits on their greenhouse gas emissions?

A system to reduce GHG emissions in the United States will ultimately only provide benefits if emissions from developing countries are also controlled. At a minimum, the legislation should be integrated into a larger U.S. strategy for controlling emissions from developing nations through an international treaty and other means, such as technology transfer. To these ends, it may be necessary to give the President discretion under certain conditions to modify or suspend future U.S. GHG reductions to increase U.S. leverage in negotiations with other nations.

3. How well do you believe the existing authorities permitting or compelling voluntary or mandatory actions are functioning? What lessons do you think can be learned from existing voluntary or mandatory programs?

The voluntary emission reduction programs conducted by the Department of Energy and the Environmental Protection Agency as well as non-governmental efforts have served a useful purpose. However, the climate issue is now sufficiently mature that the U.S. needs to make the transition to mandatory regulation.

Much can be learned from the experience under the Kyoto Protocol and the European Union ETS. First, the widespread failure of countries to comply with the Protocol mandated GHG reductions indicates the importance of establishing achievable GHG reduction requirements. While it may be politically expedient to adopt ambitious goals that are not likely to be achieved, in the end such an approach will lead to less, rather than more, GHG reductions because the entire regulatory system will lack legitimacy and credibility. There also have been many problems with the European Union ETS that the U.S. should take care to avoid repeating.

4. How should potential mandatory domestic requirements be integrated with future obligations the United States may assume under the 1992 United Nations Framework Convention on Climate Change? In particular, how should any U.S. domestic regime be timed relative to any international obligations? Should adoption of mandatory domestic requirements be conditioned upon assumption of specific responsibilities by developing nations?

Domestic requirements should be integrated into a larger U.S. strategy for controlling emissions world-wide, including developing nations such as China, India and Brazil. A mechanism should be included in the legislation that gives the President the ability to suspend emission reduction requirements in the event other nations are not achieving an appropriate level of emissions reductions.

5. *What, if any, steps have your organization's member or its individual members taken to reduce their greenhouse gas emissions? Which of these have been voluntary in nature? If any actions have been taken in response to mandatory requirements, please explain which authority (State, Federal, or international) compelled them?*

- Avista sold its 15% ownership share in the Centralia coal-fired power plant in 2001, reducing its CO2 emissions by over 1.1 millions metric tons per year. This action, along with other factors, has caused Avista's CO2 emissions to currently be lower than they were in 1990.
- Under Oregon State law Avista was required in 2000 to invest \$2.7 million to offset ~15% of the CO2 emissions from the Coyote Springs 2 CCCT. To date, those funds have been invested in the following offset projects in Oregon:

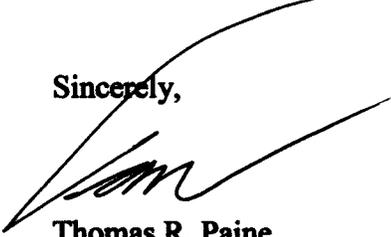
Deschutes Riparian Reforestation
Traffic Signals Optimization
Cool Climate Concrete
Truck Stop Electrification
Lumber Mill Cogeneration

- Avista's demand side management programs extending back to 1990 have resulted in reduced generation needs of 80 MW and a corresponding CO2 emission reduction.
- Avista began investing in efficiency upgrades to its hydropower projects in 1990 with the Monroe Street Hydroelectric Project Redevelopment. Upgrades in the Company's hydroelectric projects are expected to continue for several more years.
- Avista's Kettle Falls Generating Station (KFGS) generates 48 MW of "carbon neutral" electricity fueled by 100% wood waste.
- Avista promotes an employee commute trip reduction program under Washington State law. The program originated in 1992.
- Through an Oregon Business Energy Tax Credit, Avista replaced diesel buses with natural gas buses in 2004 and 2006 for the Rogue Valley Transit Districts No. 10 & 2,

In closing, Avista reiterates its appreciation for this effort by the Energy and Commerce Committee to solicit the views of the extraordinarily wide range of parties involved in the policy dialogue regarding climate change legislation. If you or your staff have any questions about

these responses or there is anything Avista can do to be of assistance to the Committee, please do not hesitate to contact me at (509) 495-4579.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tom', with a long, sweeping underline that extends to the right.

Thomas R. Paine
Director of Government Relations
Avista Corporation