Washington State Gas Utilities Challenge New Air Rule

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SPOKANE, WA -- (Marketwired) -- 09/27/16 -- Avista Corporation (NYSE: AVA), Cascade Natural Gas Corp., NW Natural and Puget Sound Energy jointly filed an action in the U.S. District Court for the Eastern District of Washington challenging Washington Department of Ecology's recently promulgated Clean Air Rule ("CAR"). The four companies will also file litigation in Thurston County Superior Court.

Washington's natural gas utilities believe that reducing greenhouse gas emissions is a matter that needs addressing, but CAR is not the solution. Each utility represented in this case provided feedback and public comment to improve the rule, but ideas put forward were not incorporated. We are asking the courts to find that CAR is invalid.

A better approach, supported by the utilities, is a comprehensive nationwide solution to reduce greenhouse gases. Policy changes, combined with ongoing and effective conservation programs, customer education, and technology advancements are the key to reducing carbon emissions.

The CAR rulemaking process will have the unintended consequence of increasing carbon emissions while penalizing customers for using clean efficient natural gas. CAR suffers several critical flaws with respect to electric and natural gas utilities that will result in adverse environmental impacts:

CAR will increase net carbon emissions regionally from the electric power sector by discouraging the use of existing modern and clean natural gas facilities in Washington state in favor of out-of-state coal plants and less efficient out-of-state natural gas plants.

- To meet CAR emissions requirements, the utilities' only option is to purchase ERUs because they have a duty to serve customers and meet the natural gas demand of customers.
- The need for Emission Reduction Units (ERUs) will force a significantly increased reliance on electricity generated out of state, elsewhere on the Western Interconnection grid, which is not regulated by CAR.
- This could result in a net increase of carbon emissions and other pollutants in the region as electricity generated by coal-fired plants will likely replace that previously provided by clean efficient natural gas.
- Washington state currently has one of the strictest emission performance standards in the country for natural gas plants. This rule will restrict operation of these highly regulated plants and increase reliance on less efficient out-of-state plants.

CAR will discourage people from adopting clean natural gas for home heating and push them toward more polluting fuels, resulting in increased emissions.

- The cost of natural gas provided in the state will increase as the CAR cap on emissions lowers and compliance costs go up. These costs will be shouldered by customers using natural gas.
- Customers will incrementally be incentivized away from clean natural gas, toward other fuels such as wood or less efficient electricity to heat their homes.
- The movement away from the direct use of clean natural gas will result in more greenhouse gas emissions and increased particulate pollution from less efficient more polluting sources of energy.

CAR could require the development of new energy projects in Washington at a pace and scale that may not be cost effective or achievable.

- It is likely that there will not be enough offsets in a market for covered parties to comply with CAR. This will cause utilities to fall out of compliance with the rule.
- The lack of available offsets will cause covered parties to scramble to create projects that generate emission reduction units. Such projects, not needed for energy purposes, will artificially drive energy costs higher.

About The Clean Air Rule (CAR)

CAR attempts to reduce greenhouse gas emissions from "covered entities" in the state of Washington. The rule applies to stationary sources located in the state, such as large manufacturers, as well as to petroleum producers and natural gas utilities. CAR sets a cap on emissions associated with covered entities, which decreases over time. Entities have to reduce their carbon emissions, develop projects that would cut others' emissions, or purchase emission reductions from others.

Notably, CAR covers natural gas distributors and subjects them to an emissions reduction pathway based on the indirect emissions of their customers. CAR regulates the emissions of natural gas utilities' 1.2 million customers across the state, adding to the cost of natural gas for homes and businesses. Natural gas distributors have inconsequential carbon emissions. Their role is primarily to deliver natural gas to customers and ensure its safe delivery.

Avista Media Contact
Mary Tyrie
(509) 495-4174
mary.tyrie@avistacorp.com

Cascade Natural Gas Media Contact
Cory Fong
(701) 530-1700
cory.fong@mduresources.com

NW Natural Media Contact
Melissa Moore
(503) 220-2436
Melissa.moore@nwnatural.com

Puget Sound Energy Media Contact
Christina Donegan
1-888-831-7250
psenewsroom@pse.com

Source: Avista Corp.