

Initial Informal Comments from Puget Sound Energy on I-937 Rulemaking at the WUTC

Suggestions for topics of technical workshops during the Rulemaking:

- Calculating and tracking “incremental cost” of renewable resources;
- Defining “revenue requirement” for the revenue cap purposes;
- Clarify timing of load targets and how compliance will be assessed;
- Conservation Potential Assessment process consistent with NPCC regional power plan, past rate orders, and the CRAG process, and Integrated Resource Planning.

Potential topics that need clarification:

Section 3. DEFINITIONS

(4) Conservation – Clarify that this includes all increases in efficiency of energy use, energy production, and energy distribution. Clarify that this includes all demand-response programs. Clarify that this includes voltage reduction programs.

(7) Customer – Clarify that this does not include customers taking retail wheeling service.

(10) (b) Clarify that the hydroelectric generation projects may be existing projects.

(12) Load – Clarify that this does not include electricity delivered to retail wheeling customers.

(18) (h) landfill gas, gas from sewage treatment, and/or biodiesel – Clarify that any of these fuels can be put onto a natural gas distribution system at one point and taken out of a natural gas distribution system at another point by an investor owned utility for the purposes of burning an equivalent therm/btu amount of that fuel at a generation facility.

Section 4. ENERGY CONSERVATION AND RENEWABLE TARGETS

(1)(a) – Clarification of methodologies consistent with regional power plan. Consistency criteria need to be established. Clarify whether consistency needs to be in terms of overall analytical approach or specific assumptions, calculation formulas or models. Clarify whether utilities should be allowed to use existing stakeholder advisory groups to review consistency. Clarify whether achievability should include realistic total market penetration and timing. Clarify whether this should be done in context of the utility’s IRP process. Clarify that in order to set targets, company needs to have a complete assessment in the prior year.

(1)(b) – Clarification of allowance for some flexibility to account for real world factors such as: IRP potential may include savings that would best be acquired outside of utility programs, through market transformation efforts or may include free riders; customer acceptance, market barriers, or other real world implementation issues may preclude

acquisition of some efficiency potential in any given period. Clarification that pro rata share should be interpreted to allow for timing issue reflected in a utility's potential assessment. Clarification that potential assessments contain uncertainty. Allow for some real world flexibility in setting targets because potential assessment cannot foresee all market and infrastructure factors. Clarify that as a fallback, targets can be based on the utility's share of regional power plan potential if its own assessment is not accepted.

(1)(c) – Clarification of whether definition of “high efficiency” cogen is realistic. Clarification that high efficiency fuel conversion should be allowed to count toward target if converted appliances are more efficient than current standards.

(1)(d) – Clarification that utilities should be allowed to use existing stakeholder advisory group and regulatory mechanisms to determine compliance and appropriate targets.

(1) – Clarification that utilities should be allowed to seek mitigation due to *force majeure* similar to (2)(i). Clarification to allow mid-course adjustments based on established indicators for avoided costs or economic conditions similar to current stipulation.

(2) – Clarification that utilities should be allowed to count conservation savings beyond the established target to be used toward the renewable requirement.

(2)(e) – Clarification that renewable energy credits produced during the subsequent year can be used to fulfill the annual target of the previous year. This will mean that the evaluation, accountability and enforcement process will have to wait an additional year in order to allow the utility to utilize a produced renewable energy credit that is generated in the year subsequent to the target year.

(2)(i) – Clarification that governmental authority include entities such as the Bonneville Power Authority (BPA) and EFSEC. Clarification that actions of a governmental authority that adversely effect the generation, transmission, and distribution, include such action as the lack of BPA transmission and integration tariffs. Clarification that actions of a governmental authority that adversely effect the generation, transmission, and distribution, include such actions as EFSEC denying permits to obtain a renewable resource that had been planned for meeting the renewable target. This should be considered a safe harbor provision for that amount of renewable energy for a reasonable duration such that it should not force a utility to unexpectedly participate in an unexpected market for purchasing RECs. Clarification that under-performance of any intermittent, non-dispatchable resources should not count against non-compliance with reaching the target.

Section 5. RESOURCE COSTS

(1)(a) – Clarification of the term total annual revenue requirement for an individual year. Clarification that the total annual revenue requirement is adjusted in any way from actuals (i.e. weather normalized, restating adjustments). Clarification that the Annual

Commission Basis Report should be used for determination of the total annual revenue requirement. Clarification that the total annual revenue requirement includes all pass-through items (i.e. Production Tax Credits, Residential Exchange credits).

(1)(b) – Clarification of whether the levelized delivered costs should be calculated using a discount rate excluding inflation, and then add actual inflation to the incremental costs. Clarification of whether the incremental cost is a one-time calculation, or is it subject to true-up for such volatile inputs as gas prices or REC prices. Clarification of the term equivalent amount of reasonably available substitute resources. Clarification of how to calculate end-effects for assets that do not have the same economic life.

(2) – Clarification of whether compliance strategies, specifically the build-versus-buy RECs decision should be judged for prudence at the time decisions are made, rather than later. Clarification that integration costs should be included as part of initial prudence review. Clarification that utilities should be permitted to request prudence review of a potential resource prior to its acquisition, to minimize the risk of making undesirable resource acquisitions (this may require a new rule or section in the WAC). Clarification of whether a deferral mechanism or tracker should be developed to permit utilities to reflect the cost of resources at the time such resource begins providing benefits to customers. Clarification that the cost of in-house resources to identify, assess and transact on potential renewable resources (especially for resources may get constructed in a later time period) should be recovered in rates. Similarly, payments to third party consultants to identify, assess, and transact on potential renewable resources should be recovered in rates. Payments to developers, land owners, permit holders, generator manufacturers, etc., for options to acquire various components of the renewable resource supply chain, for resources that do not get constructed in a later time period should be recovered in rates. Clarification that utilities should be able to recover the cost of renewable research and development projects in rates, even when such projects do not result in “lowest reasonable cost” and such costs should count toward the revenue cap.

Section 6. ACCOUNTABILITY AND ENFORCEMENT

(4) – Clarification that a utility should be able to recover the cost of the state-imposed penalty in electric rates. Paying the penalty may be a lower cost option than building a resource, or buying a REC and therefore should be included in rate recovery. The market for RECs may be thin or nonexistent in any given future year, therefore paying the penalty may not only be the lower cost option, it may be the only option, therefore the cost of the state-imposed penalty should be included in rate recovery.

(4) – Clarification that positive incentives for a utility to exceed the targets are at least \$50/MWh, but could also be greater than \$50/MWh. Clarification that positive incentives may also include such mechanisms as: equity kickers on all renewable resources, specifically with respect to renewable PPA contracts; putting renewable resource PPAs in ratebase such that it enables utilities an opportunity to earn on those contracts.