Renewable Northwest Project

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July 17, 2003

Commissioner Marilyn Showalter, Chair
Commissioner Dick Hemstad
Commissioner Patrick Oshie
Washington Utilities and Transportation Commission
P.O. Box 47250
1300 S. Evergreen Park Dr. S.W.
Olympia, WA 98504-7250
ATTN: Carole J. Washburn, Secretary

RE: Comments of the Renewable Northwest Project on Docket No. UE-030594, Puget Sound Energy's Least Cost Plan

Dear Commissioners:

The Renewable Northwest Project (RNP) appreciates the opportunity to provide comments to the Washington Utilities and Transportation Commission (Commission) on Puget Sound Energy's (PSE or Company) April 30, 2003 Least Cost Plan (LCP). RNP respectfully requests the Commission accept PSE's 2003 LCP.

Established in 1994, RNP is a regional, non-profit organization promoting solar, wind and geothermal resources in Oregon, Washington, Idaho and Montana. Our members include consumer and environmental organizations, as well as companies who develop, market, and manufacture renewable resources. RNP has been a participant in PSE's public input process for its 2003 LCP.

General Comments

We commend PSE for the time it has dedicated over the past year to gaining a better understanding of wind power, as well as its plan to further explore other renewable resources – geothermal, solar and biomass – over the next two years. Further, we appreciate and support PSE's commitment to continue to study the issue of wind integration through the "hands-on" experience of its recently signed 12-month contract for wind. We look forward to PSE's RFP for supply from "large scale, commercially feasible renewable resources."

RNP supports PSE's overall conclusion that a diversified resource strategy is the most prudent path for the company. PSE's goal of serving 5% of its load with renewable resources, and the target of meeting 10% of load with renewable resources, is an excellent strategy to develop a low cost, low risk portfolio for its customers.

Renewable resources provide risk mitigation against volatile natural gas prices and future environmental regulation because they do not have any fuel costs and have few to no harmful environmental emissions. These benefits should be considered particularly valuable to PSE, which meets 60% of its load with fossil fuel resources.

The remaining 40% of PSE's load is met by hydropower which may be limited during low water or drought years. The availability of hydro in the future may also be limited by relicensing restrictions. The addition of new renewable resources will provide the company some insurance against the risks of reliance on hydro power.

<u>**Specific Comments**</u>

Overly Conservative Analysis of Wind
While we fully support PSE's plan to diversify its portfolio with renewable resources, we do not believe the LCP analysis quantifies their benefits. There is acknowledgement, for example, that "wind's primary economic benefit stems from its avoidance of the volatility characterizing the fuel market." (Ch. X, p. 2). However, the LCP does not appear to adequately quantify this benefit or the other benefits of renewable resources: fuel diversity, reduced risk of future emissions taxes, "green tag" value, and meeting potential federal or state Renewable Portfolio Standards (RPS).

The LCP assumes wind power has no capacity value and therefore must be "backed up" with single-cycle gas turbines to provide capacity. Wind power should be assigned a capacity value in order to be appropriately modeled. The right value for capacity isn't zero, given an average capacity factor of 32-36%. Assigning at least some capacity to wind prevents overbuilding of reserves and reduces the revenue requirement for wind power.

PSE recognizes that the use of SCGT's to back-up wind is a very cautious planning assumption, and they have committed in the Two Year Action Plan to "identify and evaluate lower-cost alternatives to the use of new SCGTs to back up intermittent wind generation." While there is a cost to integrating wind onto a utility's system, it is not necessary to dedicate one-to-one back up for wind power. <u>Wind should be viewed as part of the utility's system of resources, not a stand-alone resource</u>.

Other regional utilities – such as PacifiCorp and BPA – have studied integration on their own systems. (In fact, BPA is now offering an integration product, for storage and redelivery of wind, for $6/MWh or less.). The preliminary conclusion of these studies demonstrates that integration of up to 10% wind power does not represent a significant cost. We recognize that integration costs are utility-specific and, again, we support PSE's decision to more thoroughly analyze this issue.

Policy Statement on Renewable Resources
RNP is pleased to see PSE's commitment to renewable resources detailed in the policy statement in Appendix M. Of particular note is the Company's proposal to increase the net metering tariff to 50 kw from 25 kw. In addition, PSE's own-use goals of acquiring 50% renewable energy beginning in 2004 and growing to 100% beginning in 2006 for its own requirements is

admirable. We hope these own-use goals will serve as an example for others to follow. Finally, PSE is to be commended for encouraging its employees and customers to use green power.

However, RNP believes that the definition of renewable energy found in the policy statement is overbroad and includes resources that would have potentially harmful emissions (such as municipal solid waste). RNP can not support this definition as written. In addition, RNP does not support the inclusion of "qualified hydropower" in the definition of renewables. Hydro is a renewable resource, but the region is over-reliant on this well-developed resource. The goal is to diversify the system with new renewables.

We suggest excluding hydro and municipal solid waste from meeting the 5-10% renewable resource goal. As an alternative, we could support allowing certified new low-impact hydro or efficiency upgrades at existing facilities that result in more MWs produced to count towards the renewable goal.

Production Tax Credits (PTC)
PSE rightfully acknowledges the continuation of the PTC for wind power as uncertain. What is uncertain, however, is the timing of the extension of the PTC, not whether it will be extended or not. There is strong bipartisan support in Congress for the PTC, but energy politics dictate timing. The House energy bill contains an extension of the PTC until 12/31/06, and the Senate Finance Committee has passed a three year extension. The Senate is expected to renew discussion of its energy bill before the August recess, and the energy tax package should be added to the energy bill at that time. The House and Senate versions differ slightly in the type of resources covered as well as the inclusion of an inflation adder.

Gas Price Forecast Too Low
As noted in Chapter X, "the price of natural gas drives power costs, making a forecast of market prices for natural gas an essential analysis element." RNP believes that PSE's current natural gas market price forecast is too low and does not reflect the reality of how volatile gas prices are in the NW today. On February 24th, the *Oregonian* reported that natural gas prices soared 38% (the largest one day increase in 13 years). Natural gas prices at Henry's Hub have been <u>five</u> times higher this year than they were last year. And, Federal Reserve Chairman Alan Greenspan has recently testified about his concern about dwindling natural gas reserves and the expectation for continued high prices. Given this data, it is our opinion that future prices of natural gas out as far as 2009 are still over $4/mmbtu.

We understand that the August 30 LCP update may contain a revised gas price forecast. We are hopeful the revised forecast will reflect some of the current reality of the gas markets.

Proper Evaluation of Fossil Resources
PSE acknowledges that "each resource technology, including gas, wind power and coal, has its own set of critical drawbacks and uncertainties." (Ch XII, p. 17). The LCP concludes that a diverse resource mix is the best strategy to minimize risk. We agree with this conclusion but, given that PSE will consider new coal after 2006, we believe that any future investment in fossil resources requires greater consideration of the risk of future regulation of CO2 emissions. While the timing and details of carbon regulation are uncertain, most knowledgeable observers believe that action by the U.S. to mitigate greenhouse gas emissions is inevitable.

We refer the Commissioners to the May 6 comments of the Natural Resources Defense Counsel in Docket No. UE-030311 & UE-030423 and we echo their concerns: Who is responsible – the utility, the developer or the customer – if a utility invests in a coal-fired plant or contracts with an exiting plant, and future legislation or regulation imposes a cost on the plant's carbon dioxide emissions? This question must be answered in any resource plan.

PSE has considered the impact of CO2 regulations in Chapter XI, but has not assigned specific costs to carbon dioxide emissions. PSE should consider the expected value of future carbon regulation in the cost of resources, not just as a risk scenario. At a minimum, PSE should follow the path of PacifiCorp in its recent IRP by assigning a value of $8/ton of CO2 over a plant's lifetime in any evaluation of fossil resources.

Conclusion

RNP supports PSE's plans for acquiring up to 10% new renewable resources. We look forward to continuing to work with the Company as it implements its LCP.

Sincerely,

Rachel Shimshak
Director

Ann English Gravatt
Senior Policy Associate