

PUGET SOUND ENERGY INC.'S PROPOSED REVISIONS TO DRAFT RULES

Chapter 480-109 WAC

ELECTRIC COMPANIES--ACQUISITION OF MINIMUM QUANTITIES OF
CONSERVATION AND RENEWABLE ENERGY AS REQUIRED BY THE ENERGY
INDEPENDENCE ACT (CHAPTER 19.285 RCW)

NEW SECTION

WAC 480-109-001 Purpose and scope. The purpose of this chapter is to establish rules that electric utilities will use to comply with the requirements of the Energy Independence Act, chapter 19.285 RCW.

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NEW SECTION

WAC 480-109-002 Application of rules. (1) The rules in this chapter apply to any electric utility that is subject to the commission's jurisdiction under RCW 80.04.010 and chapter 80.28 RCW.

(2) Any affected person may ask the commission to review the interpretation of these rules by a utility by making an informal complaint under WAC 480-07-910, Informal complaints, or by filing a formal complaint under WAC 480-07-370, Pleadings--General.

(3) No exception from the provisions of any rule in this chapter is permitted without prior written authorization by the commission. Such exceptions may be granted only if consistent with the public interest, the purposes underlying regulation, and applicable law. Any deviation from the provisions of any rule in this chapter without prior commission authorization will be subject to penalties as provided by law.

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NEW SECTION

WAC 480-109-003 Exemptions from rules in chapter 480-109

WAC. The commission may grant an exemption from the provisions of any rule in this chapter in the same manner and consistent with the standards and according to the procedures set forth in WAC 480-07-110 (Exemptions from and modifications to commission rules; conflicts involving rules).

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NEW SECTION

WAC 480-109-004 Additional requirements. (1) These rules do not relieve any utility from any of its duties and obligations under the laws of the state of Washington.

(2) The commission retains its authority to impose additional or different requirements on any utility in appropriate circumstances, consistent with the requirements of law.

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NEW SECTION

WAC 480-109-006 Severability. If any provision of this chapter or its application to any person or circumstance is held invalid, the remainder of the chapter or the application of the provision to other persons or circumstances is not affected.

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NEW SECTION

WAC 480-109-007 Definitions. (1) "Annual retail revenue requirement" means the total revenue the commission authorizes a utility an opportunity to recover in Washington rates pursuant to a general rate proceeding or other general rate revision.

(2) "Commission" means the Washington utilities and transportation commission.

(3) "Conservation" means any reduction in electric power consumption resulting from increases in the efficiency of energy use, production, or distribution.

(4) "Conservation council" means the Pacific Northwest electric power and conservation council.

(5) "Cost-effective" has the same meaning as defined in RCW 80.52.030.

(6) "Customer" means a person or entity that purchases electricity for ultimate consumption and not for resale.

(7) "Department" means the department of community, trade, and economic development or its successor.

(8) "Distributed generation" means an eligible renewable resource where the generation facility or any integrated cluster of such facilities has a generating capacity of not more than five megawatts.

(9) "Eligible renewable resource" means:

(a) Electricity from a generation facility powered by a renewable resource other than fresh water that commences operation after March 31, 1999, where:

(i) The facility is located in the Pacific Northwest; or

(ii) The electricity from the facility is delivered into Washington state on a real-time basis without shaping, storage, or integration services; or

(b) Incremental electricity produced as a result of efficiency improvements completed after March 31, 1999, to hydroelectric generation projects owned by a qualifying utility and located in the Pacific Northwest or to hydroelectric generation in irrigation pipes and canals located in the Pacific Northwest, where the additional generation in either case does not result in new water diversions or impoundments.

(10) "Gross electricity savings" means electricity savings measured using actual program participation tracked by the

utility, without any retroactive adjustment for changes in assumptions regarding the measure of savings that occur after a two-year target is set.

(11) "High-efficiency cogeneration" means a cogeneration facility with a useful thermal output of no less than thirty-three percent of the total energy output, under normal operating conditions. Electrical output will be calculated as the kWh output of the facility over a period of time, converted to BTUs using the conversion factor of 3413 BTUs/kWh. Total energy output must be calculated by summing all useful energy outputs of the cogeneration facility over the same period of time expressed in BTU units.

(12) "Integrated resource plan" or "IRP" means the filing made every two years by an electric utility in accordance with WAC 480-100-238, Integrated resource planning.

(13) "Load" means the amount of kilowatt-hours of electricity delivered in the most recently completed year by a qualifying utility to its Washington retail customers. Load does not include off-system sales or electricity delivered to transmission-only customers.

(14) "Nonpower attributes" means all environmentally related characteristics, exclusive of energy, capacity reliability, and other electrical power service attributes, that are associated with the generation of electricity from a renewable resource, including but not limited to the facility's fuel type, geographic location, vintage, qualification as an eligible renewable resource, and avoided emissions of pollutants

to the air, soil, or water, and avoided emissions of carbon dioxide and other greenhouse gases.

(15) "Pro rata" means the calculation used to establish a minimum level for a conservation target based on a utility's projected ten year conservation potential.

(16) "Pacific Northwest" has the same meaning as defined for the Bonneville power administration in section 3 of the Pacific Northwest Electric Power Planning and Conservation Act (94 Stat. 2698; 16 U.S.C. Sec. 839a).

(17) "Real-time basis without shaping, storage, or integration services" means any timeframe shorter than the day-ahead market.

(18) "Request for proposal" or "RFP" means the documents describing an electric utility's solicitation of bids for delivering electric capacity, energy, or capacity and energy, or conservation.

(17) "Renewable energy credit" means a tradable certificate of proof of at least one megawatt-hour of an eligible renewable resource where the generation facility is not powered by fresh water, the certificate includes all of the nonpower attributes associated with that one megawatt-hour of electricity, and the certificate is verified by a renewable energy credit tracking system selected by the department.

(18) "Renewable resource" means:

(a) Water;

(b) Wind;

(c) Solar energy;

(d) Geothermal energy;

(e) Landfill gas;

(f) Wave, ocean, or tidal power;

(g) Gas from sewage treatment facilities;

(h) Biodiesel fuel as defined in RCW 82.29A.135 that is not derived from crops raised on land cleared from old growth or first-growth forests where the clearing occurred after December 7, 2006; and

(i) Biomass energy based on animal waste or solid organic fuels from wood, forest, or field residues, or dedicated energy crops that do not include:

(i) Wood pieces that have been treated with chemical preservatives such as creosote, pentachlorophenol, or copper-chrome-arsenic;

(ii) Black liquor by-product from paper production;

(iii) Wood from old growth forests; or

(iv) Municipal solid waste.

(19) "Utility" means an electrical company that is subject to the commission's jurisdiction under RCW 80.04.010 and chapter 80.28 RCW.

(20) "Year" means the twelve-month period commencing January 1st and ending December 31st.

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NEW SECTION

WAC 480-109-010 Conservation resources. (1) By January 1, 2010, and every two years thereafter, each utility must project its cumulative ten-year conservation potential.

(a) This projection need only consider conservation resources that are cost-effective, reliable and feasible.

(b) This projection must be derived from and reasonably consistent with one of two sources:

(i) The utility's most recent IRP, including any information learned in its subsequent resource acquisition process, or the utility must document the reasons for any differences. When developing this projection, utilities must use methodologies that are consistent with those used by the conservation council in its most recent regional power plan. A utility may, with full documentation on the rationale for any modification, alter the conservation council's methodologies to better fit the attributes and characteristics of its service territory.

(ii) The utility's proportionate share, developed as a percentage of its retail sales, of the conservation council's current power plan targets for the state of Washington.

(2) Beginning January 2010, and every two years thereafter, each utility must establish a biennial conservation target.

(a) The biennial conservation target must identify all achievable conservation opportunities.

(b) The biennial conservation target must be no lower than a pro rata share of the utility's ten-year cumulative achievable conservation potential. Each utility must fully document how it prorated its ten-year cumulative conservation potential to determine the minimum level for its biennial conservation target.

(c) The biennial conservation target may be a range rather than a point target.

(3) On or before January 31, 2010, and every two years thereafter, each utility must file with the commission a report identifying its ten-year achievable conservation potential and its biennial conservation target.

(a) Participation by the commission staff and the public in the development of the ten-year conservation potential and the two-year conservation target is essential. The report must outline the extent of public and commission staff participation in the development of these conservation metrics.

(b) This report must identify whether the conservation council's plan or the utility's IRP and acquisition process were the source of its ten-year conservation potential. The report must also clearly state how the utility prorated this ten-year projection to create its two-year conservation target.

(c) If the utility uses its integrated resource plan and related information to determine its ten-year conservation potential, the report must describe the technologies, data

collection, processes, procedures and assumptions the utility used to develop these figures. This report must describe and support any changes in assumptions or methodologies used in the utility's most recent IRP or the conservation council's power plan.

(4) Commission staff and other interested parties may file written comments regarding a utility's ten-year achievable conservation potential or its biennial conservation target within thirty days of the utility's filing.

(a) After reviewing any written comments, the commission will decide whether to hear oral comments regarding the utility's filing at a subsequent open public meeting.

(b) The commission, considering any written or oral comments, may determine that additional scrutiny is warranted of a utility's ten-year achievable conservation potential or biennial conservation target. If the commission determines that additional review is needed, the commission will establish an adjudicative proceeding or other process to fully consider appropriate revisions.

(c) Upon conclusion of the commission review, the commission will determine whether to approve, approve with conditions, or reject the utility's ten-year achievable conservation potential and biennial conservation target.

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NEW SECTION

WAC 480-109-020 Renewable resources. (1) Each utility must meet the following annual targets.

(a) Beginning in the year 2012 and continuing through 2015, each utility must acquire sufficient eligible renewable resources, equivalent renewable energy credits, or a combination of both, to supply at least three percent of its load.

(b) Beginning in the year 2016 and continuing through 2019, each utility must acquire sufficient eligible renewable resources, equivalent renewable energy credits, or a combination of both, to supply at least nine percent of its load.

(c) Beginning in 2020 and continuing each year thereafter, each utility must acquire sufficient eligible renewable resources, equivalent renewable energy credits, or a combination of both, to supply at least fifteen percent of its load.

(2) Renewable energy credits produced during the target year, the preceding year or the subsequent year may be used to comply with this annual renewable resource requirement.

(3) In meeting the annual targets of this subsection, a utility must calculate its annual load based on the average of the utility's load for the previous two years.

(4) A renewable resource within the Pacific Northwest may receive integration, shaping, storage or other services from

sources outside of the Pacific Northwest and remain eligible to count towards a utility's renewable resource target.

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NEW SECTION

WAC 480-109-030 Alternatives to the renewable resource requirement. Instead of meeting its annual renewable resource target in WAC 480-109-020, a utility may make one of three demonstrations.

(1) A utility may invest at least four percent of its total annual retail revenue requirement on the incremental costs of eligible renewable resources, renewable energy credits, or a combination of both. The incremental cost of an eligible renewable resource is the difference between the levelized delivered portfolio cost of the eligible renewable resource and the levelized delivered cost of an equivalent amount of reasonably available nonrenewable resource. The portfolio analysis used will be reasonably consistent with principles used in the utility's resource planning and acquisition analyses. For purposes of meeting the incremental cost, a utility may also include:

- (a) the cost of acquired renewable energy credits; (
- (b) penalty payments as described in WAC 480-109-050(4)(a)

when the utility demonstrates the cost of the penalty is less than the prevailing cost of renewable energy credits or eligible renewable resources; and

(c) all other prudently incurred costs.

(2) A utility may demonstrate that events beyond its reasonable control that could not have been reasonably anticipated or ameliorated prevented it from meeting the renewable energy target. Such events may include weather-related damage, mechanical failure, strikes, lockouts, or actions of a governmental authority that adversely affect the generation, transmission, or distribution of an eligible renewable resource owned by or under contract to a qualifying utility.

(3) A utility may demonstrate all of the following:

(a) Its weather-adjusted load for the previous three years on average did not increase.

(b) All new or renewed ownership or purchases of electricity from nonrenewable resources other than daily spot purchases were offset by equivalent renewable energy credits.

(c) It invested at least one percent of its total annual retail revenue requirement that year on eligible renewable resources, renewable energy credits, or a combination of both.

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NEW SECTION

WAC 480-109-040 Annual reporting requirements. (1) On or before June 1, 2012, and annually thereafter, each utility must file a report with the commission and the department regarding its progress in meeting its conservation and renewable resource targets during the preceding year.

(a) The report must include the expected electricity savings from the conservation target for that year, the actual gross electricity savings from conservation, and all expenditures made to acquire conservation.

The report may count electricity savings from new high-efficiency cogeneration facilities operating within the utility's service area towards the utility's conservation target during the biennium when the cogeneration facility commences operation. The electricity savings reported for each high-efficiency cogeneration facility is the amount of energy consumption avoided by the sequential production of electricity and useful thermal energy from a common fuel source. To avoid administrative penalties set forth in WAC 480-109-050, a utility must demonstrate compliance with the biennial conservation target established in WAC 480-109-010 beginning with the annual progress report to be filed on or before June 1, 2012.

(b) The report must include the utility's annual load for

the prior two years, the total number of megawatt-hours from eligible renewable resources and/or renewable resource credits the utility needed to meet its annual renewable energy target, the amount (in megawatt-hours) and cost of each type of eligible renewable resource used, the amount (in megawatt-hours) and cost of renewable energy credits acquired, the type and cost (per megawatt-hour) of the least-cost substitute resources available to the utility that do not qualify as eligible renewable resources, the incremental cost of eligible renewable resources and renewable energy credits, and the ratio of this investment relative to the utility's total annual retail revenue requirement. To avoid administrative penalties set forth in WAC 480-109-050, a utility must demonstrate compliance with the renewable energy target established in WAC 480-109-020 or one of the three alternatives to meeting the renewable target provided in WAC 480-109-030 beginning with the annual progress report to be filed on or before June 1, 2014.

(c) The report must state if the utility is relying upon one of the alternative compliance mechanisms provided in WAC 480-109-030 instead of meeting its renewable resource target. A utility using an alternative compliance mechanism must include sufficient data, documentation and other information in its report to demonstrate that it qualifies to use that alternative mechanism.

(d) The report must describe the steps the utility is taking to meet the renewable resource requirements for the current year. This description should indicate whether the

utility plans to use or acquire its own renewable resources, plans to or has acquired contracted renewable resources, or plans to use an alternative compliance mechanism.

(2) Commission staff and other interested parties may file written comments regarding a utility's report within thirty days of the utility's filing.

(a) After reviewing any written comments, the commission will decide whether to hear oral comments regarding the utility's filing at a subsequent open meeting.

(b) The commission, considering any written or oral comments, may determine that additional scrutiny of the report is warranted. If the commission determines that additional review is needed, the commission will establish an adjudicative proceeding or other process to fully consider appropriate revisions.

(c) Upon conclusion of the commission review of the utility's report, the commission will issue a decision determining whether the utility complied with its conservation and renewable resource targets. If the utility is not in compliance, the commission will determine the amount in megawatt-hours by which the utility was deficient in meeting those targets.

(3) If a utility revises its report as a result of the commission review, the utility must submit the revised final report to the department.

(4) All current and historical reports required in subsection (1) of this section must be posted on the utility's

web site.

(5) Each utility must notify its retail electric customers in published form within three months of incurring a penalty regarding the size of the penalty and the reason it was incurred.

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NEW SECTION

WAC 480-109-050 Administrative penalties. (1) A utility that fails to achieve either its conservation target or its renewable resource target must pay an administrative penalty for each megawatt-hour of shortfall in the amount of fifty dollars adjusted annually, beginning in 2007, to reflect changes in the gross domestic product-implicit price deflator, as published by the Bureau of Economic Analysis of the United States Department of Commerce or its successor.

(2) Administrative penalties are due within fifteen days of a commission determination, pursuant to WAC 480-109-040(2), that a utility failed to achieve its conservation or renewable resource target.

(3) A utility that pays an administrative penalty under subsection (2) of this section, must notify its retail electric customers within three months of incurring a penalty stating the

size of the penalty, the reason it was incurred and whether the utility expects to seek recovery of the penalty amounts in rates. The utility must provide this notification in a bill insert, a written publication mailed to all retail electricity customers, or another approach approved by the commission.

(4) A utility may request an accounting order from the commission authorizing the deferral of the cost of any administrative penalty assessed under this section. The approval of an accounting order to defer penalties does not constitute approval of recovery of penalties in rates. A utility may seek to recover deferred administrative penalties in a general rate case or power cost only type rate proceeding. A utility may recover penalty payments when the utility demonstrates the cost of the penalty is less than the prevailing cost of renewable energy credits or eligible renewable resources. If a utility seeks to recover deferred administrative penalties in rates, the utility must demonstrate the prudence of its decisions and actions when it failed to meet the renewable resource targets or one of the compliance alternatives provided in WAC 480-109-030, or the energy conservation targets. When assessing a request for recovery of deferred administrative penalties, the commission will consider the intent of the Energy Independence Act, other laws governing commission actions, policies and precedents of the commission, and the commission's responsibility to act in the public interest.

(5) A utility may seek mitigation before the commission of the penalty for failure to meet its biennial conservation savings target, if the utility can demonstrate that a significant event occurred, beyond the utility's control, including but not limited to local economic recession or major natural or manmade disaster or other events that significantly impacted customer participation in its conservation programs.

NEW SECTION

WAC 480-109-060 Cost Recovery. (1) A utility shall be permitted to recover all prudently incurred costs associated with compliance with the renewable portfolio standard, including the costs of purchasing energy from eligible renewable resources, owning eligible renewable resources, including but not limited to costs related to development, purchase of rights, land or equipment and capital construction, purchasing renewable energy credits, interconnection costs, costs associated with using physical or financial assets to integrate, firm or shape eligible renewable energy sources to meet retail electricity needs, and other costs associated with transmission and delivery of eligible renewable resources to retail electricity consumers.

(2) The commission shall permit all prudently incurred costs, e.g., capital costs, power purchase costs, fixed costs, variable costs, and offsets to costs, e.g., production tax

credits, to be passed through to customers at the same time.

(3) Utilities may defer all costs associated with compliance with RCW 19.285. Creation of a deferral account does not by itself determine whether these costs are prudent.

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