



PUGET SOUND ENERGY

The Energy To Do Great Things

Puget Sound Energy, Inc.

P.O. Box 97034

Bellevue, WA 98009-9734

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June 11, 2010

Mr. David W. Danner
Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 South Evergreen Park Drive S.W.
P.O. Box 47250
Olympia, WA 98504-7250

Subject: Docket No. UE-100849

***Examination of Whether the Commission Should Consider Adopting
New Regulations Relating to the Acquisition of Renewable Resources by
Washington's Investor Owned Electric Utilities.***

Comments of Puget Sound Energy, Inc.

Dear Mr. Danner:

Puget Sound Energy, Inc. ("PSE") appreciates the opportunity to participate in the Commission's examination of whether it should adopt new regulations relating the acquisition of renewable resources by Washington's investor owned electric utilities. In response to the Commission's Notice of Opportunity to File Statements of Issues dated May 21, 2010, in Docket No. UE-100849, PSE offers the following Statement of Issues:

Expiring external renewable incentives

Description of Problem: The short-term nature of external renewable incentives, like the Production Tax Credit, the Investment Tax Credit or Treasury Grants, creates external financial incentives for utilities (for both customers and shareholders) to build renewable resources earlier than, and in excess of, the

requirements of RCW 19.285. These credits and grants are currently set to expire at the end of the year 2012.

Description of Solution: Acknowledge that external financial incentives exist and that the benefits to customers and shareholders of such financial incentives should be acknowledged in the rules and taken into consideration when looking at the acquisition of new resources earlier than, and in excess of, the requirements of RCW 19.285.

Impedance of long-term systematic acquisition strategy

Description of Problem: The "stair step" way the RCW 19.285 requirements are established would seem to suggest a "just in time" strategy; however, given the full amount of renewables needed to meet the 15% requirement by 2020, it makes sense to acquire renewables in a systematic way similar to PSE's systematic approach to hedge power and natural gas purchase cost. This approach enables a utility to adjust its strategy as market prices vary - adding more renewables when prices weaken and slowing down when prices peak. This systematic approach also has the potential to provide benefits for customers without the need to second guess the cost of future renewable resources. It should also be noted that developers are keenly aware of the law's renewable requirements, and the individual utilities' progress in meeting them, this suggests that prices will increase as the time for compliance grows shorter since developers have access to this type of commercially sensitive data. External markets can have a large impact as well; the market in California can have a significant impact on renewables in the Northwest. There has been upward pressure resulting from the California market over the past five years, and in the current timeframe there has been downward pressure because of uncertainty regarding the tradable renewable energy credit (TREC) market in California.

Description of Solution: Acknowledge that the "stair step" requirements of the way RCW 19.285 is structured may impede a utility's systematic long-term acquisition strategy for meeting its 2020 requirement; and therefore the rules should contain language that will acknowledge that utilities need to acquire resources in a systematic way other than the stair-step requirements of RCW 19.285 and before the final 15% requirement by the year 2020. This systematic approach also has the potential to provide benefits for customers. The rules should also acknowledge the influence of outside factors such as developers having access to commercially sensitive data and the impact of external markets, such as California.

Project timing

Description of Problem: The project timing for most renewable generation, like conventional sources of generation, is often driven by the timing of interconnection. The time period between an interconnection request and an executed Large Generator Interconnection Agreement (LGIA) can take up to three years. Once the LGIA is signed, it can take another two years for transmission providers to construct the interconnection facilities and network upgrades. This is a further reason why "just in time" additions aren't a feasible approach.

Description of Solution: Acknowledge that the time period between an interconnection request and the construction or upgrade to network facilities can be as long as five years, and therefore the rules should contain language to encourage utilities to plan for and acquire resources earlier than the requirements of RCW 19.285.

Benefits other than RECs

Description of Problem: It is important to acknowledge the benefits that renewables bring beyond simply complying with the RPS. In particular, they bring energy to the portfolio at a more stable cost than natural gas plants, they may reduce portfolio volatility, and provide some protection against greenhouse gas emissions costs.

Description of Solution: Acknowledge that the benefits of renewables resources may include greater cost stability to energy portfolios, portfolio diversity, and potential protection against future greenhouse gas cost risks.

Integration of renewables

Description of Problem: Generating resources with attributes such as fast start, fast ramps and low minimum run times will be necessary to integrate future renewable resources.

Description of Solution: Acknowledge that the acquisition of future resources dedicated to support integration of renewables may require a new prudence "litmus" test as opposed to (or in addition to) the traditional least cost approach. Comparing the acquisition of future resources on the basis of levelized cost absent a valuation of these other attributes will exacerbate a utility's ability to cost-effectively integrate renewable resources into a power portfolio. Therefore the rules should contain language that allows utilities to acquire non-renewable resources that support the integration of renewable resources and provide guidance on how to account for renewable integration costs.

Rules clarifying incentives regarding early compliance and excess compliance are needed

Description of Problem: There is a lack of rule language clarifying the possible “incentives” that are available to utilities under RCW 19.285. Leaving that policy completely open-ended essentially provides no certainty for planning purposes and effectively eliminates the implementation those provisions of the statute which can be an impediment to encouraging more renewable resources, and an impediment for the potential to provide additional benefits for customers.

Description of Solution: The Commission should adopt rules clarifying “incentives” available to utilities under RCW 19.285.

Rules pertaining to such incentives could include provisions that would provide utilities with certainty about incentive structures, provide benefits to customers, and protect against unnecessary costs. The structure of incentives could take several forms. However incentives are ultimately structured, they should be based on a prudent resource acquisition standard, be relatively simple to implement, and provide certainty with regard to the structure of the incentive.

In addition to providing incentives the, Commission could also focus on implementing processes or mechanisms that remove current disincentives. One such mechanism that would remove disincentives is an *ex ante* prudence review

An *ex ante* prudence review would be pre-approval of the decision to acquire a renewable resource ahead of the renewable targets or one that exceeds the renewable requirements, but the Commission would still retain the responsibility of determining the prudence review in a future proceeding. This would be a process through which a utility could obtain a determination from the Commission that it is prudent to move forward with acquisition of a renewable resource prior to finally committing the utility to that course of action. The utility's implementation of any such acquisition or development would continue to be subject to a prudence review in an appropriate future proceeding; however, the prudence of the initial decision to proceed would not be revisited in such future proceedings. For a multi-year or multi-phase project, a utility might return to the Commission at subsequent stages of project development to obtain a determination that moving forward with the next phase of the project is prudent.

Consideration of externalities is unnecessary

Description of Problem: There is a question as to whether or not there should be a consideration of externalities associated with non-renewable resources.

Description of Solution: The consideration of externalities is unnecessary for at least two reasons: 1) the law already includes a list of externalities but does not address carbon emissions; and 2) the determination of the scope of externalities would be unduly burdensome for this proceeding where there would first need to be a finding of what externalities would be examined, because externalities are not just limited to environmental.

1) The law already contains a list of externalities that should be considered; therefore, there exists no foundation to consider additional externalities, such as carbon emissions. RCW 19.285 specifically provides for the consideration of the following externalities:

- stable electricity prices
- providing economic benefits for Washington counties and farmers
- creating high-quality jobs in Washington
- provide opportunities for training apprentice workers in the renewable energy field
- protecting clean air and water
- positioning Washington state as a national leader in clean energy technologies

2) Consideration of this issue would create an unduly burdensome scope. The Commission should avoid considering externalities associated with non-renewable resources in this proceeding. PSE is concerned this would become an open-ended dialogue that would not be resolved in this type of forum.

To adequately explore externalities in this context, the first fundamental question a party would have to confront is, “What aspect of externalities is appropriate?” Such discussion would not focus exclusively on “environmental” externalities. Externalities are benefits and costs that are not reflected, or internalized, by an economic actor when making a decision. They are conceptually real benefits and costs that are imposed on others, but not internalized in the actor’s own benefit cost analysis. A broader inquiry, such as in an IRP rulemaking, would be a better place to have such a dialogue.

PSE appreciates the opportunity to present its viewpoint on these issues and looks forward to further discussions on the review of new regulations. Please direct any questions regarding these comments to Eric Englert at (425) 456-2312 or the undersigned at (425) 462-3495.

Sincerely,

/s/ Tom DeBoer

Tom DeBoer
Director – Federal & State Regulatory Affairs