

July 1, 2012

By email (to [records@utc.wa.gov](mailto:records@utc.wa.gov))

Steven V. King  
Acting Executive Director and Secretary  
Washington Utilities and Transportation Commission  
P.O. Box 47250  
Olympia, WA 98504-7250

**RE: Comments of Renewable Northwest Project and NW Energy Coalition on I-937 Renewables Reports filed June 1, 2013**  
Docket Nos. UE-131056 (*Avista*), UE-131063 (*Pacific Power*) and UE-131072 (*Puget Sound Energy*)

Dear Mr. King:

Renewable Northwest Project (“RNP”) and NW Energy Coalition (“Coalition”) appreciate the opportunity to comment on the June 1, 2013, reports pertaining to renewable energy targets set forth in Washington’s Energy Independence Act (“I-937”). These joint comments of RNP and the Coalition cover all three utilities and a copy has been filed in each of the above-referenced dockets.

We commend the utilities for diversifying their resource mixes and achieving 2013 I-937 compliance at what appears to be minimal incremental cost to customers. I-937 has promoted a surge of new investment in Washington’s hydroelectric legacy and significant progress toward the new clean energy resources that Washington needs to meet future load.

The first years of I-937 compliance reporting were designed to give utilities, staff and stakeholders time to work through implementation at a measured pace. In this second reporting year for the I-937 renewables targets, we observe progress since the first reports in 2012 (specifically, on timing and hydro efficiency methodologies). Issues requiring further progress remain, and we recommend that the Commission provide guidance on the characterization of compliance deadlines, the multi-state allocation of hydro efficiency upgrades, and the methodology for incremental cost analyses.

### **Progress on Timing of Renewable Energy Action and Reporting**

In our 2012 comments, RNP and the Coalition focused on the need for the Commission to reiterate and enforce compliance with I-937’s requirement that utilities take action by January 1 of the target year to put sufficient resources or contracts in place to produce the required MWhs or renewable energy credits (RECs). The Commission agreed and endorsed a two-step compliance review: the *first* step being a check in June of the target year on the utility acquisitions as of

January 1 of the same target year<sup>1</sup> (i.e., June 2013 check on compliance as of January 1, 2013) and the *second* being a backward-looking review to ensure appropriate generation and/or REC production actually occurred during the three-year generation period (i.e., for the 2013 target year, in 2012, 2013 or 2014).<sup>2</sup> The Commission did not respond to RNP and the Coalition's argument that WAC 480-109-040(1)(d) also requires a report on progress in the current year toward the next year's target (i.e., in 2013 toward the January 1, 2014 target).<sup>3</sup>

This year, RNP and the Coalition are satisfied that the utilities have submitted sufficient information to demonstrate that they took the required actions by January 1, 2013. However, the summary reports remain unclear about which years they are reporting on, and in some cases make statements that directly contradict the two-step compliance process (i.e., by stating that the June 1, 2013 report only covers the 2012 compliance year).

We recommend that the Commission take one or both of the following actions to further clarify its expectations for reporting and compliance review: (1) Take up any backward-looking review of 2012 compliance in the 2012 dockets (i.e., UE-120791 for Avista, UE-120802 for PSE, and UE-120813 for PacifiCorp), and reserve the 2013 docket for 2013 compliance. (2) Direct Staff to modify the reporting templates to eliminate lingering confusion about how the two-step compliance review should proceed.

### **Balanced Resolution of Many, But Not All, Hydro Efficiency Issues**

#### *Methodologies Used for Calculating Amount of MWh Available for Compliance*

We commend WUTC Staff's detailed analysis of various methodologies for computing the incremental hydroelectric energy gained from qualifying efficiency upgrades. Staff set high expectations for rigorous methodologies, and in the end appears to have worked with utilities to achieve a flexible and balanced approach to measuring hydro efficiency contributions to I-937 compliance.

Although our review has been less detailed than Staff's, we agree that each of the methods presented thus far for measuring the utilities' *own* hydro efficiency investments can be workable, with appropriate safeguards.

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<sup>1</sup> WAC 480-109-040(1)(b)

<sup>2</sup> See for example Docket No. UE-120802, Order 01, para 31.

<sup>3</sup> Docket Nos. UE-120791, UE-120802, UE-120813, Joint comments of Renewable Northwest Project and NW Energy Coalition, Aug. 2 2012, at pp. 5-6; reiterated in September 7 joint letter also filed in these dockets. Also see In the Matter of Adopting Rules to Implement the Energy Independence Act Docket No. UE 061895 General Order R-546 (Nov. 30, 2007), ¶38, p. 9.

We generally support PacifiCorp using the same methodology that the Oregon Department of Energy requires.

With respect to Avista, we expressed concerns in our 2012 comments with Avista's use of "Method 3," a method that fixes incremental electricity based on historical average water volumes. Our concerns can be satisfied with a clear requirement that Avista update its baseline and compare it to results achieved using Method 1 or 2 *at least* every five years.

However, issues may remain with calculations of incremental electricity purchased from Mid-Columbia hydro facilities not owned by the IOUs. We understand that the calculation of incremental electricity from Grant and Chelan County hydro projects has been substantially less rigorous and accurate than the IOUs' methodologies, and that the utilities have been working with the State Auditor's office to modify their calculations. We do not support the Commission allowing incremental electricity from Mid-C purchases to count toward I-937 compliance unless the selling utility's calculation methodology is at least as accurate as those used by the IOUs.

#### *Multi-State Utility Allocation of Hydro Efficiency Upgrades*

An issue has come to our attention regarding Avista's allocation of hydro efficiency upgrades toward I-937 renewable standard compliance. Since January 1, 1999, Avista has upgraded its Long Lake, Little Falls, Cabinet Gorge, and Noxon projects, resulting in incremental energy output. In addition, Avista has purchased incremental hydropower from Grant County PUD's Wanapum Dam. According to Avista's compliance report spreadsheet (Appendix A of its filing in Docket No. 131056), the utility proposes to allocate 100% of the incremental MWhs from those hydro efficiency upgrades to Washington to meet I-937. That proposal raises several concerns.<sup>4</sup>

First, in our understanding, Avista generally recovers its costs for its generation units and power contracts by dedicating approximately 70% of those costs to its Washington customers and 30% to its Idaho customers, and similarly allocates its system power according to that 70/30 breakdown. That means that Avista's Idaho customers would have helped pay for and should receive the output from 30% of Avista's own hydro efficiency upgrades and from its contract with Grant County PUD. Claiming the entirety of those upgrades for compliance with Washington's renewable standard may violate I-937 either (1) because it would result in double-counting of an eligible renewable resource, or (2) because it would result in creation and transfer of RECs from freshwater generation facilities, contrary to I-937.

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<sup>4</sup> Unfortunately, we did not realize until this year that Avista proposed counting 100% of its eligible renewable resources to its Washington customers in its 2012 filing (UE-120791, Appendix A), or we would have raised these concerns then.

As to the first issue, I-937 prevents double-counting of renewable resources by stating that a utility may not count “eligible renewable resources or distributed generation where the associated renewable energy credits are owned by a separate entity.”<sup>5</sup> In this case, Avista’s Idaho customers pay for 30% of the hydro efficiency upgrades, and presumably expect to receive, 30% of the incremental generation from the Long Lake, Little Falls, Cabinet Gorge, and Noxon projects. Although Idaho does not currently have a renewable portfolio standard or mandatory fuel mix disclosure, this incremental electricity may nonetheless hold particular value for Avista’s Idaho customers. Individual customers interested in a cleaner portfolio may “claim” their share of incremental electricity (e.g., to meet corporate goals), or the environmental attributes of incremental electricity may have monetary value in the voluntary REC markets or another state’s compliance market. Allocating all of the incremental electricity to Washington’s renewable standard creates the potential for double-counting or failing to credit the Idaho customers with the benefits of their hydro efficiency investment.

Explicit transactions and fuel mix changes between Avista’s Idaho and Washington customers could resolve double-claiming issues, but must be structured so as not to transfer only a hydropower REC, which I-937 does not permit. In meeting the renewable standard, a qualifying utility may use eligible renewable resources or RECs.<sup>6</sup> Certain hydro efficiency upgrades owned by qualifying utilities count as eligible renewable resources and may be used to meet the renewable standard.<sup>7</sup> The law is clear, however, that renewable energy credits cannot come from generation facilities powered by freshwater.<sup>8</sup> In the rulemaking conducted by the Department of Commerce regarding implementation of I-937, the agency allowed a utility to buy incremental electricity from hydro efficiency upgrades as long as the nonpower attributes remain bundled with the underlying power. In order for Avista to count 100% of its hydro efficiency improvements toward Washington’s renewable standard, Washington customers would need to purchase *bundled* hydropower from its Idaho customers. Avista would use that power to serve its Washington customers and use an equivalent amount of power from a different resource to serve its Idaho customers. Documentation showing the terms of such a purchase is necessary to ensure no double-counting and no use of RECs from freshwater generation.

We note that Avista’s compliance report also shows it planning to use 100% of the RECs from its Palouse wind project to count toward I-937 compliance. To prevent double-claiming of those RECs, Avista should likewise provide documentation showing that its Washington customers have acquired the 30% of

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<sup>5</sup> RCW 19.285.040(2)(f)(i)

<sup>6</sup> RCW 19.285.040(2)

<sup>7</sup> RCW 19.285.030(11)

<sup>8</sup> RCW 19.285.030(19)

the Palouse RECs from its Idaho customers and that Idaho customers cannot claim to be served by the project's output.

In contrast to Avista's proposal, PacifiCorp's May 31, 2013, Renewable Report (at page 6), states "the generation and RECs are allocated to Washington based on the system generation inter-jurisdictional allocation factor except for any RECs that are situs assigned to Washington." This appears to us to be in keeping with the law, avoids double-counting, and avoids the use of RECs from freshwater generation.

### **Additional Work Needed on Incremental Cost Analyses**

All three reporting utilities supply 3% of retail sales with eligible renewables for less than 1% of annual revenue requirements. While all three utilities report a low cost of compliance with I-937, the methods used to calculate the incremental costs are different.

PSE's incremental cost methodology compares levelized cost of the renewable resource to the cost of equivalent market energy, equivalent proxy capacity, and the associated imputed debt. Both PacifiCorp and Avista simply compare the cost of the renewable resource to an equivalent amount of market energy. All market-based comparisons treat market prices as knowable over twenty or more years, and no methodology considers the important risk mitigating value of the renewable resource.

For future filings, the Commission should set an expectation that reporting utilities use the consistent incremental cost methodologies, in order to foster transparent and consistent policy. This methodology should be developed with input from all stakeholders. RNP and NWECA recommend that the Commission approve these filings without specifically approving the embedded incremental cost methodologies. In fact, we recommend that the Commission's orders explicitly state that the supporting methodologies have *not* been approved to allow flexibility for future harmonization and improvement of the supporting methodologies.

Presently, there is not enough evidence to enable the Commission to determine the appropriate incremental cost methodology for consistent application by the reporting utilities. Before the next reporting deadline, we request that the Commission open an investigation to determine an incremental cost methodology consistent with Washington state policy and the existing rules of RCW 19.285 and WAC 480-109. Chief among issues for consideration is the value of capacity and risk reduction provided by renewable resources. RNP and NWECA feel strongly that the methodology should recognize the value of reduced risk and capacity deliveries associated with renewable resources, and we applaud PSE's inclusion of renewable resources' capacity value. Further investigation is also required into whether the filings satisfy WAC 480-109 requirements that renewable resources be compared to the 'least-cost substitute resource.' Robust review of these questions will require

disclosure of confidential materials to stakeholders, and extending an investigation to a later date affords the Commission more time to determine how confidentiality can be extended to stakeholders in important policy dockets.

### **Additional Miscellaneous Comments**

- The 2013 load figure listed on Avista's renewable standard compliance spreadsheet (Appendix A, at p.1) appears to represent a load forecast for the current calendar year. The 3% renewable standard, however, was calculated correctly based on the average of the load from 2011 and 2012. Further, the load figure for 2012 is now based on actual data, but the 3% requirement for that year is correctly based on the average load from 2010 and 2011. For those not intimately familiar with the law, this reporting template creates some confusion. We recommend adding a row to the first page of the spreadsheet so that there is a distinction between actual load, forecast load, and the average load upon which the percentage requirement is based.
- We also recommend modifying the model spreadsheet (see for example Docket No. UE-131056, Appendix A, p. 1; UE-131072, Attachment 1) where it says “\*Any surplus shown in 2013 or 2014 may be sold or used for compliance in subsequent years...” The law provides RECs with a three-year life,<sup>9</sup> but as discussed above, does not allow a utility to count freshwater generation as a REC. To avoid confusion in the case of a surplus, either the “compliance surplus/deficit” cell should specify only the amount of energy from eligible renewable resources other than hydro efficiency upgrades, or a cell should be added to the spreadsheet showing the amount of energy that could be turned into RECs and be usable in the subsequent year.
- We note that Avista is awaiting certification of the Palouse wind project as qualifying for the apprenticeship extra credit in I-937. Until that paperwork is finalized, Avista cannot close the books on its 2012 renewables compliance filing.

### **Conclusion**

Implementation of I-937's renewable standard is progressing in a positive direction. With attention to several issues this year, the Commission can expect the list of implementation tasks to continue to diminish. This year, we encourage the Commission to require the IOUs to separately file their 2012 compliance data from

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<sup>9</sup> RCW 19.285.040(2)(e)

their 2013 reports; address the concerns raised regarding multi-state allocation of eligible renewable energy from hydro efficiency improvements; and commence an open stakeholder process to develop a consistent approach to calculating the incremental cost of eligible renewable resources.

We appreciate your consideration of these joint comments, and look forward to answering any questions at the July 26 Open Meeting.

Sincerely,



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