June 30, 2014

Mr. Steven V. King
Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 South Evergreen Park Drive S.W.
P.O. Box 47250
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RE: Comments of Renewable Northwest and NW Energy Coalition in Docket Nos. UE-140800, UE-140801, and UE-140802: *Commission's June 9, 2014 Notices of Opportunity to File Written Comments on 2014 Renewable Resource Target Pursuant to RCW 19.285.040 and WAC 480-109-040*

Renewable Northwest and the NW Energy Coalition ("Coalition") appreciate the opportunity to comment on the June 1, 2014, filings of Puget Sound Energy ("PSE"), Avista Corporation ("Avista"), and Pacific Power pertaining to compliance with the January 1, 2014, renewable energy targets set forth in Washington's Energy Independence Act ("I-937"), RCW 19.285.040(2). These joint comments of Renewable Northwest and the Coalition cover all three utilities and a copy has been filed in each of the following three dockets: UE-140800 (PSE), UE-140801 (Avista), and UE-140802 (Pacific Power).

Renewable Northwest and the Coalition are pleased that all three of Washington's investor-owned utilities ("IOUs") have acquired sufficient eligible renewable energy to meet the 2014 target, and that they intend to meet the target in this manner rather than through an alternative compliance mechanism. The electricity generation reflected in the filings supports the purposes declared in RCW 19.285.020, building on Washington's legacy of low-cost renewable hydropower by promoting efficiency investments in existing hydroelectric generators and new renewable energy projects that bring jobs and tax revenue to local counties, as well as stable, long-term energy prices to ratepayers.

We also appreciate the work of the Commission and its staff in implementing I-937. As the Commission observed in 2007, "implementation of the Act will be informed by time and experience."[1] Time and experience have indeed shed light on best practices, as well as on areas where further Commission guidance is needed in order to harmonize utility implementation with the letter and spirit of I-937. To this end, both the Commission's current rulemaking on I-937[2] and the utility filings related to 2014 compliance with I-937's renewable resource targets highlight certain areas where utility implementation could benefit from further improvement.

[1] *In the matter of Adopting Rules to Implement the Energy Independence Act*, Docket No. UE-061895, General Order R-546 at 11 (Nov. 30, 2007).
[2] *In the matter of Adopting Rules to Implement the Energy Independence Act*, Docket No. UE-131723.

As discussed in these comments, the utilities' compliance filings on the 2014 renewable resource targets underscore the need for future improvement in three main areas: (1) renewable energy reporting; (2) incremental cost methodologies; and (3) incremental hydropower methodologies. We understand the Commission's current I-937 rulemaking to be the appropriate place to address these issues on a going-forward basis. Here, we recommend that the Commission approve the 2014 compliance filings without specifically approving the filings' structure or the incremental cost and incremental hydropower methodologies. Further, we recommend that the Commission's orders explicitly state that it has not approved the filings' structure or supporting methodologies.

1. Reporting and Review

Our comments on the structure of the utility filings are similar to those that we made last year.[3] The filings probably contain enough information to demonstrate that utilities took the required actions by January 1, 2014, to meet the renewable energy standard, but the reports remain unclear about what years are being reported. In some cases, the templates contradict the two-step compliance reporting process—particularly the requirement that the June 1, 2014, filings focus on the January 1, 2014 deadline. In addition, most of the narratives treat 2013 as the target year in question. PSE's spreadsheet does not even extend to 2014, and Pacific Power's 2014 information is largely confidential.

Staff has proposed amended administrative rules that, if we understand them correctly, will largely resolve our concern over these issues going forward. The new draft proposed WAC 480-109-040(1) and (2) require reporting every June 1 on the actions taken to meet the renewable energy target by January 1 of the target year—which we assume to mean the calendar year in which the report is filed. Proposed WAC 480-109-040(6) requires a final compliance report, which is the backward-looking report that details final compliance, submitted up to two years following each initial compliance report. As we commented in the rulemaking docket, we continue to support the effort to improve and simplify I-937 renewables reporting by pulling apart the two separate compliance reporting elements—target year reports and final compliance reports.

Given the progress being made in the rulemaking docket, we are comfortable with the Commission's approval of the 2014 compliance filings in these dockets. However, we recommend that the Commission reserve approval of the form and structure of the filings for purposes of any future compliance filings until the rulemaking is completed.

2. Incremental Cost Methodologies

As we commented in 2012 and 2013, the utilities' incremental cost analyses contain significant inconsistencies and some practices that may be at odds with the law and policy of I-937. Because incremental costs remain low relative to the cost cap and because the methodology has been presented for consideration in the rulemaking docket,

[3] Docket Nos. UE-131056, UE-131063, and UE-131072, Comments of Renewable Northwest Project and NW Energy Coalition at 1-2 (July 1, 2013).

we will reiterate only two issues here, recognizing that others have been raised in the rulemaking:

> Market forecast/"same contract length or facility life": It is not clear how a market forecast comparator complies with the law's requirement regarding "same contract length or facility life." There may be remedies that allow continued use of market (for example, PSE's imputed debt element is a start, but an additional risk premium should also be considered). Regardless, the disjunct with the law should be taken up in an appropriate forum.
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> Negative incremental cost: If I-937 eligible generation is cheaper than any substitute non-eligible resource (i.e., pursued because it was least cost), the incremental cost for that resource should be negative (as in PSE's analysis) rather than zero (as in PacifiCorp's and possibly Avista's).

As we commented in the rulemaking docket, we believe Staff's proposed amended WAC 480-109-040(2)(a) is a good start to gaining greater consistency on these issues. Until the rulemaking docket advances, we continue to recommend that the Commission reserve its approval of particular incremental cost methodologies, and that any orders approving the filings in these dockets explicitly state that the methodologies have not been approved.

3. Incremental Hydropower Methodologies

All three IOUs' compliance filings include generation from hydroelectric efficiency upgrades as part of their 2012 and 2013 compliance with the renewable resource targets, as well as part of their planned 2014 compliance. We understand the Commission's rulemaking docket to be the appropriate place to discuss the methodologies that the IOUs are using to calculate the MWh generated from incremental hydropower; as such, we do not discuss them here. Here, we reiterate our concern regarding the IOUs' reliance on calculations performed by other utilities not subject to the Commission's jurisdiction.

As shown in the compliance filings at issue here, the IOUs have contracts with certain public power entities to purchase the output from certain hydropower facilities. There is the potential for more such purchases to be made in the future. Upgrades to those facilities may qualify as eligible renewable resources for purposes of I-937. In the 2014 compliance filings, all three IOUs have reported qualifying generation resulting from efficiency improvements at the Wanapum Dam, which is owned by Grant County Public Utility District. It appears that at least one IOU—if not all—relies on Grant's analysis instead of performing its own analysis of the amount of qualifying generation. We cannot verify whether this is indeed the case, as both Avista and Pacific Power provide confidential workpapers related to the amount of incremental hydropower reported from Wanapum, and PSE lists the MWh it purchased from Wanapum, but does not provide details on the incremental hydropower methodology in its filing.

It has been—and continues to be—our understanding that the calculation of incremental hydro electricity from Grant and Chelan County hydro projects has been less rigorous

and accurate than the IOUs' methodologies.[4] As such, we would expect the IOUs to perform an independent analysis of the total MWh generated from these resources that the IOUs seek to use for I-937 compliance. In the absence of such independent analysis, we are concerned that the methods being used by Grant and Chelan employ a baseline that is reflective of something other than actual historical production.[5]

Because the Commission does not have jurisdiction over publicly owned utilities, the Commission does not have the same ability to scrutinize the methodologies being employed by these utilities that are then being relied on by the IOUs for their own I-937 compliance. To ensure transparency and accountability, the Commission should require the IOUs to perform their own analysis of the amount of qualifying incremental hydropower they are using to comply with I-937, regardless of whether the IOUs own the resource or have a contract to purchase the output from the owner. We recommend that the Commission address this issue on a going-forward basis, either in the Commission's rulemaking docket or in the Commission's orders on these compliance filings (for purposes of future compliance filings).

4. Conclusion

We are pleased to see that all three IOUs continue to meet the renewable energy targets set forth in I-937 at very low incremental costs, and that the list of open implementation issues continues to shrink as we gain more experience with I-937. Though certain aspects of the IOUs' compliance filings could be improved, we commend the utilities for their investments in new renewable projects that bring jobs and tax revenue to Washington counties; stable, long-term energy prices to utility ratepayers; and environmental benefits to the region and beyond. We also appreciate the utilities' investments in enhancing Washington's base of low-cost, emission-free hydropower.

With the Commission's I-937 rulemaking progressing in a positive direction toward addressing our concerns discussed here, we are generally comfortable with the Commission approving the compliance filings in these dockets—with the caveats discussed above. We look forward to continuing to work with the utilities, Commissioners, Commission staff, and other stakeholders on ironing out the remaining wrinkles associated with I-937 implementation. We remain confident that the time spent focusing on implementation details in the first few years of the standard will ensure that we adhere to the letter and spirit of this important voter-approved policy.

Sincerely,

/s/ Megan Decker and Dina Dubson
Renewable Northwest

/s/ Nancy Hirsh and Danielle Dixon
NW Energy Coalition

[4] *See, e.g., id.* at 3-4.
[5] Department of Commerce Rulemaking to Consider Further Amendments to WAC 194-37, Energy Independence Act, Comments of Renewable Northwest and NW Energy Coalition at 9-10 (Apr. 30, 2014).