

Joint Incremental Cost of Compliance Workshop

JUNE 16, 2020

Washington Utilities and Transportation Commission
and the Department of Commerce



Washington State
Department of
Commerce



Virtual Workshop Instructions

Do:

- ✓ Try to participate using your computer.
- ✓ Mute your mics and turn off your video camera.
- ✓ Use WebEx chatbox.
- ✓ Wait to be called on to speak.
- ✓ Respect the pause.
- ✓ Ask clarifying questions during the presentation.

Do not:

- ✗ Hesitate to “raise your hand” or ask a question!
- ✗ Speak over the presenter or a speaker who is voicing a question or thought.
- ✗ Forget this is a public workshop. The presentation and comments will be recorded and posted.

AGENDA

Welcome	9:30
Summary of Comments	9:35
Prepared Stakeholder Presentations	10:00
Break	10:45
Open Discussion	10:55
Next Steps: Rulemakings	11:55

High-level
summary of types
of comments to
Commerce



Washington State
Department of
Commerce



Application to periods before 2030

- ▶ No utility obligation 2022-2029, therefore no compliance requirement
- ▶ May be a role for applying 2% cost before 2030 as a cost protection measure
- ▶ Statute allows utilities to comply with pre-2030 targets using 2% cost method
- ▶ 2% cost method is available 2030 only if the utility met targets or spent 2% before 2030



Scope of directly attributable costs

- ▶ All costs directly attributable to 19.405.040 and 19.405.050
- ▶ Only those costs directly attributable to subsections (1) of those sections
- ▶ Want more specificity
- ▶ Include transmission and interconnections costs



Accounting for long-lived investments

(5) If a resource acquisition or an alternative resource has a useful life or contract duration of greater than one year, expenditures on that resource must be allocated over the expected useful life or contract duration using a levelized cost or fixed charge factor.

- Would levelized cost be included every year?
- May make sense
- Let the utility choose whether to levelize



High-level summary of types of comments to the UTC



Types of Costs in the Baseline

(the alternative lowest reasonable cost and reasonably available portfolio)

- ▶ 675(1)(a) Inclusion of the social cost of greenhouse gases (SCGHG) in the baseline
 - ▶ Support for inclusion as it is required by law
 - ▶ Oppose inclusion as it is not required by law (for example, statute only requires 'consideration' of the costs)
 - ▶ Concern for how the SCGHG is modeled in the baseline
- ▶ Equitable distribution of benefits and burdens
- ▶ Which costs are directly attributable to actions necessary to comply with the requirements of RCW 19.405.040 and 050.



Impact on Wholesale Market Purchases

Draft WAC 480-100-675(1)(b): A utility must include in its calculation of incremental costs the effect of RCW 19.405.040 and RCW 19.405.050 on any changes in wholesale power expenses or revenues.

- Any impact on wholesale power expense must be subject to a “true up.”
- Delete reference in rule and provide guidance after exploration in a workshop
- Delete, why focus on this cost of all the various impacts?



Other Issues

Incremental Cost Provision

- ▶ Do not require 674(4)(b) and (d) unless the utility is exercising this provision
- ▶ A utility should not be able to use the provision if it has not met its specific and interim targets prior to 2030

FERC accounts

- ▶ Specify where storage costs and revenues should go
- ▶ Utilities recommended specific accounts

Alternative Proposed Methodology

- ▶ Adopt an avoided cost methodology

Relationship to target setting

- ▶ The specific and interim targets should be informed by the utility's expected incremental cost



Stakeholder Presentations

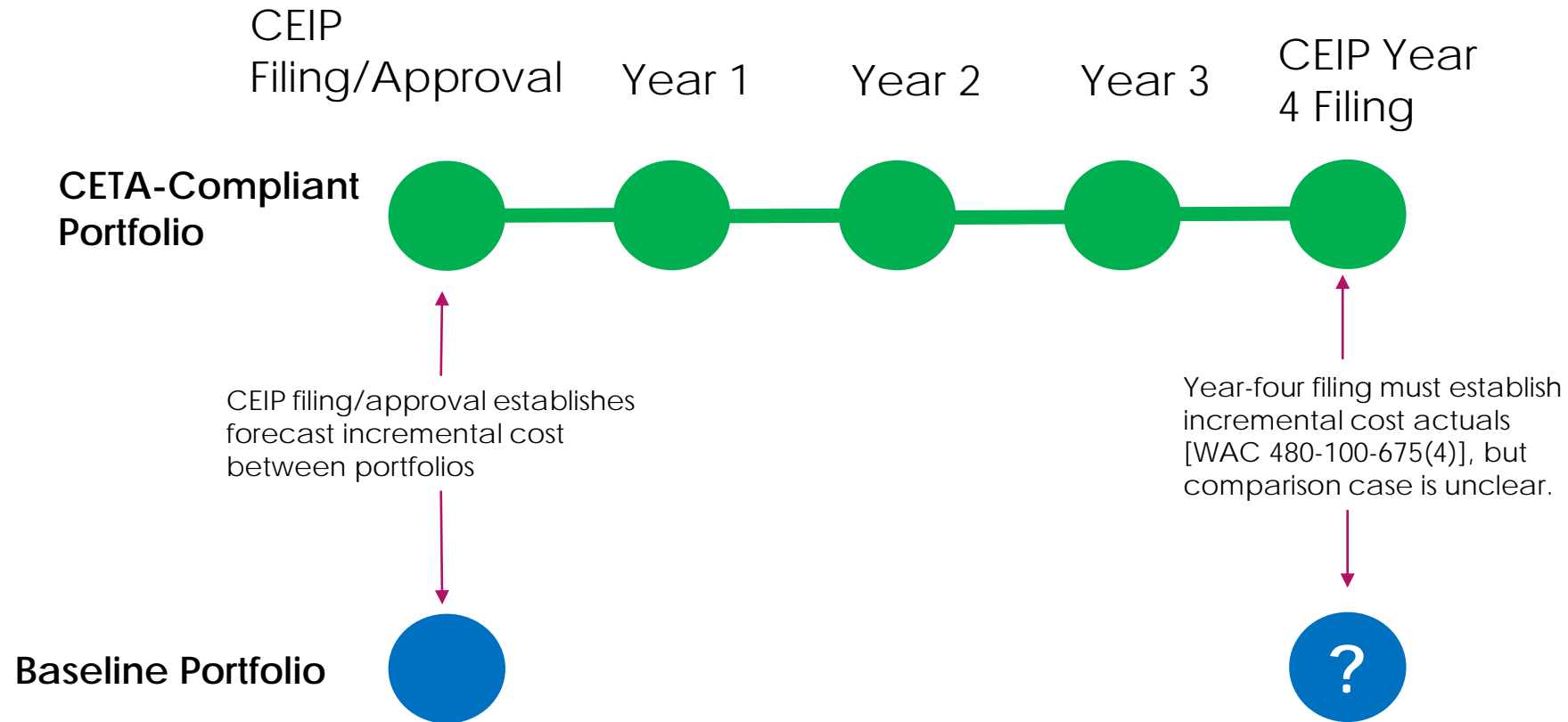
ASSOCIATION OF WASHINGTON ENERGY
CONSUMERS, CLARK PUBLIC UTILITIES,
THE NORTHWEST ENERGY COALITION,
PACIFIC POWER AND LIGHT,
PUBLIC COUNSEL, PUBLIC GENERATING POOL,
AND PUGET SOUND ENERGY



Clean Energy Transformation Act: Incremental Cost Considerations

June 16, 2020

Hypothetical Incremental Cost Portfolio Timeline



- Baseline Portfolio: not CETA compliant and not pursued throughout four-year period, used as comparison case only at time of CEIP filing.
- CETA-compliant Portfolio: potential for costs incremental to baseline portfolio, tracked over four-year period.

Potential Calculation of Actual Incremental Costs

Additional clarification on calculation of “actual incremental costs” requested

- As the forecast baseline portfolio at CEIP filing is used as a comparison case only, it is not pursued;
- As part of the year-four CEIP report, utilities will need to show the actual incremental costs incurred, but the baseline comparison at year four is unclear.

PacifiCorp Recommendation

- Specific Actions (projects/activities/efforts) approved as part of the CEIP could be tracked, and the actual costs incurred could become actuals when compared to year 1 revenue requirement. No portfolio-based comparison case needed at year 4.
- Wholesale power sales/expenditures should be subject to true-up. As the system moves to more variable resources, changes in wholesale power cost could be difficult to forecast.



Public Counsel Unit of the Washington Attorney General's Office

- The use of the social cost of greenhouse gas in the development of the alternative lowest reasonable cost and reasonably available (“baseline”) portfolio is required by statute.
- Draft rule should be more specific about how SCGHG adder is used.
- Recommended edits:
 - (a) The resource mix included in the alternative lowest reasonable cost and reasonably available portfolio must include the SCGHG in the recourse acquisition decision be developed using the SCGHG adder in accordance with RCW 19.28.030(a). The SCGHG adder should not be added to the cost of resources when comparing the cost of actual or forecast portfolios against the alternative lowest reasonable cost and reasonably available portfolio. The SCGHG adder cannot be used to determine the cost of resources for cost recovery purposes.

Incremental Cost



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Goal of Incremental Cost Calculation

- Identify costs of CETA
- Provide basis for alternative compliance mechanism, should it be necessary, which is higher than that already in place in I-937

CETA timeline

- **2025:** Elimination of coal-fire resources from electric power supply
- **2030:** Carbon neutral energy supply
 - 80% non-emitting and renewable resources
 - 20% can be met with alternative compliance
- **2045:** 100 percent non-emitting electricity supply

Outline of Avoided Cost

+ Conservation Adder
+ Avoided Renewable Requirement
+ Avoided T&D Losses
+ T&D Deferral Value
+ Generation Capacity Value
Mid-C market price forecast (by generation or measure shape)
- Balancing and Integration Costs

Energy Efficiency avoided cost. A portfolio below this cost is cost effective as compared to alternatives.

Schedule 91/92 avoided cost. This forms the basis for offers under PURPA.

Example calculation of a hypothetical wind PPA

2026

Example Incremental Cost Calculation

A	Market Value of Wind Output (2019 IRP Base)	\$/MWh	\$	21.60	
B	Capacity Value	\$/MWh	\$	0.70	
C	T&D Value (for distributed resources)	\$/MWh	--		
D	Integration Cost	\$/MWh	--		
E	Hypothetical Wind PPA	\$/MWh	\$	60.90	
F = E - (A + B + C - D)		Incremental Cost	\$/MWh	\$	38.60

Example of Incremental Cost relative to 2% Alternative Compliance Mechanism

H	Incremental Annual Amount Under 2% Alternative Compliance Mechanism	\$	\$	250,693,638
I = H/F	Annual Renewable MWh that could be purchased with Incremental Annual Amount	MWh		6,494,904
J = G-I	Annual CETA Need to 80% (from 2019 IRP Progress Report)	MWh		5,578,659
K = I - J	(Short)/Excess to CETA 80% Target in Year	MWh		916,245

If non-emitting and renewable prices are lower, incremental costs will be lower and more progress can be made towards CETA targets faster.

Treatment of non-resources in incremental cost calculation

The avoided cost method applies to resources and can incorporate many resource values, but CETA also requires other incremental costs. These could be transparently and easily included in the incremental cost calculation.

Non-resource spending	Incremental cost treatment
Supporting infrastructure to enable distributed resources	Costs that are needed to support resource portfolio
Energy Transformation Projects	Because these must be not otherwise required under law, their entire cost is due to CETA
Pilots or programs that aren't cost-effective, but may enable carbon reduction	All costs included as they were not cost-effective, but may be important to long-term portfolio carbon reduction
Administrative costs	Included because they are only because of CETA

Appendix Slides



June 15, 2020

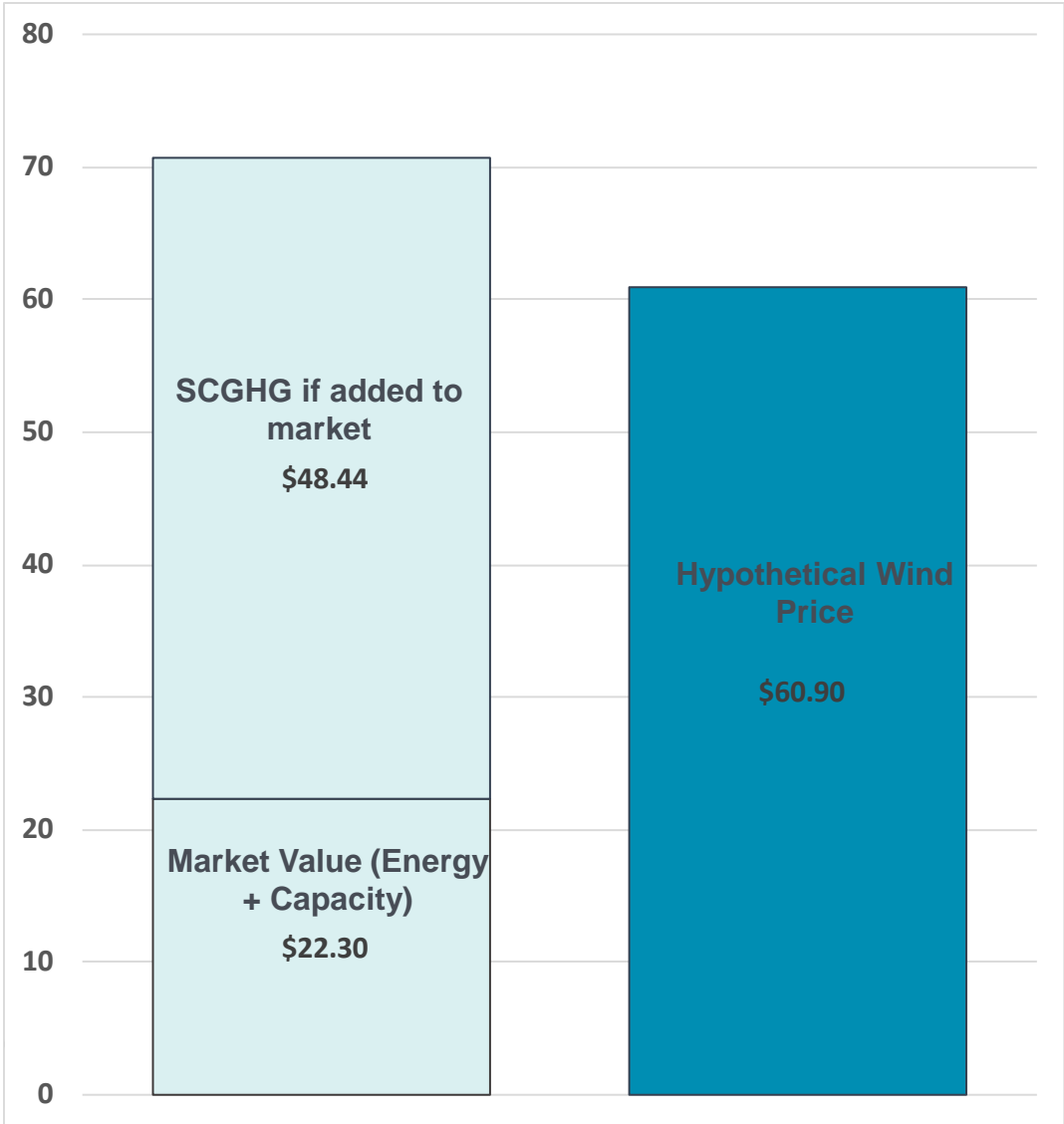
Application of the SCGHG is complicated and mis-application could have unintended rate consequences

			2026
Market Value	\$/MWh	Hypothetical wind project	\$ 21.60
Capacity Value	\$/MWh	Hypothetical wind project	\$ 0.70
Unspecified Market GHG Emissions Rate	metric tons/MWh	CETA Section 7	0.437
SCGHG	\$/metric ton	U-190730	\$ 110.84
Assumed Emissions Cost	\$/MWh	Calculated	\$ 48.44

Application of a SCGHG emissions based on an assumption of unspecified market power would add a “shadow price” that is multiples of actual power prices.

Including SCGHG emissions in the baseline for the incremental cost calculation baseline in this case could significantly under-report actual incremental costs to customers as any power that is less expensive than the flat power price + the assumed emissions cost would not have an incremental cost, but could increase rates significantly.

Example of mis-application of SCGHG emissions



Incremental cost calculation w/ SCGHG emission in baseline = (\$9.84)/MWh

What customers actually pay = \$60.90/MWh

“Hidden” rate increase if SCGHG included in baseline = \$38.60/MWh

10 Minute Break



General Questions and Comments

Current Clean Energy Rulemaking Overview

Upcoming Rulemaking Dates

- ▶ June 24 – Reporting and Compliance workshop (Commerce)
- ▶ June 29 - Comments due on PoE rules and Demonstration of Compliance for RCW 19.405.040. (UTC)
- ▶ July 2 – TBD workshop (Commerce)
- ▶ July 6 - Comments due on EIA rules (UTC)
- ▶ July 14 – TBD workshop (Commerce)
- ▶ July 28 - EIA Adoption Hearing (UTC)
- ▶ End of July – Expected 2nd drafts of IRP and CEIP rules (UTC)

Thank You!