Mr. David W. Danner Executive Director and Executive Secretary Washington Utilities and Transportation Commission P.O. Box 47250 Olympia, WA 98504-7250

RE: Comments of Renewable Northwest Project and NW Energy Coalition
Docket Nos. UE-120802, UE-120791 and UE-120813: Commission's June 5,
2012 Notices of Opportunity to Comment on Reports Concerning Annual
Reporting Requirements Regarding Progress in Meeting Renewable Resource
Targets During the Preceding Year Pursuant to RCW 19.285.040 and WAC 480109-040

Renewable Northwest Project ("RNP") and the NW Energy Coalition ("Coalition") appreciate the opportunity to comment on the June 1, 2012, filings of Puget Sound Energy ("PSE"), Avista Corporation, and Pacific Power pertaining to compliance with the January 1, 2012, renewable energy targets set forth in Washington's Energy Independence Act ("I-937"), RCW 19.285.040(2). These joint comments of RNP and the Coalition cover all three utilities and a copy has been filed in each of the following three dockets: UE-120802 (PSE), UE-120791 (Avista), and UE-120813 (Pacific Power).

RNP and the Coalition are pleased that all three of Washington's investor-owned utilities have acquired sufficient eligible renewable energy to meet the 2012 target. The electricity generation reflected in the filings supports the purposes declared in RCW 19.285.020: it builds on Washington's legacy of low-cost renewable hydroelectric generation both directly, by promoting efficiency investments in existing hydroelectric generators, and indirectly, by promoting new renewable energy projects that bring jobs and tax revenue to Washington counties and stable, long-term energy prices to utility ratepayers.

We also appreciate the Commission's work, and that of its staff, in implementing I-937 through its 2007 rulemaking, recent policy statements, and the renewables workgroup in which both RNP and NWEC participated. The WUTC has endeavored to clear a path to smooth implementation of I-937's renewables requirements. It remains true, however, as the Commission noted in its 2007 Order, that "implementation of the Act will be informed by time and experience." Our joint comments focus on areas where further

¹ In the Matter of the Commission's Policies Relating to Implementation of RCW 19.285, Docket No. UE-111016, Policy Statement (June 7, 2011); In the Matter of the WUTC's Inquiry on Regulatory Treatment for Renewable Resources, Docket No. UE-100849, Report and Policy Statement (Jan. 3, 2011).

² See Docket No. UE-110523.

³ In the Matter of Adopting Rules to Implement the Energy Independence Act, Docket No. UE-061895, General Order R-546 (Nov. 30, 2007), page 11.

direction from the Commission is needed to conform utility implementation to the letter and spirit of I-937.

First, the Commission should reiterate and enforce the requirement that a utility's June 1, 2012, report must detail how the utility complied with the January 1, 2012, I-937 renewables target. PSE has shown strong leadership in acquiring new renewable energy resources. However, its filing effectively reargues a view of the law previously rejected by the Commission⁴—*i.e.*, that January 1 is not the compliance date and that compliance need only be demonstrated after the conclusion of the target year, or of the following year. We encourage the Commission to reaffirm its prior decision and continue to work toward an implementation practice that balances the January 1 compliance date with the allowance of a 3-year REC life. Although PSE was alone among the three investor owned utilities (and, indeed, the seventeen I-937 qualifying utilities) in declining to provide details of its compliance with the January 1, 2012, target, several statements in Pacific Power's and Avista's compliance reports (described below) suggest that clearer direction as to the timing and content of reporting and compliance review would be of broad benefit.

Second, the Commission should avoid specifically approving any of the utilities' incremental cost / cost cap analyses at this time. Instead, in recognition of the widely varying methodologies employed by the utilities (and described below), the Commission should initiate an investigation to provide more specific methodological direction, including how to overcome the inconsistency between all three utilities' methodologies and I-937's requirement that "the resources being compared have the same contract length or facility life." 5

The following comments elaborate on these and other issues, including the need to address access to confidential information by interested parties and to examine methodologies for calculating incremental hydroelectric generation.

1. June 1 Reports Must Detail Compliance with January 1 Target.

PSE's initial filing diverged from the relative consensus and clarity that the Commission and other stakeholders appeared to have achieved with regard to the timing and content of June 1 reports, relative to the January 1 I-937 targets. PSE's updated filing, which RNP and the Coalition received shortly before these comments were due, takes a step closer to consistency with the governing law, but does not fully resolve our concerns. (We appreciate the scrutiny by Commission staff that prompted PSE's updated filing.) Effectively, PSE's filing reargues a legal position with regard to the I-937 compliance date that is inconsistent with the law, rules, and prior Commission order.

It is tempting to overlook PSE's approach to reporting in recognition of the leadership that PSE has shown in acquiring new renewable energy resources. But, in this case, making an exception for a star pupil lowers the bar for everyone else. We cannot, and

 $^{^4}$ In the Matter of Adopting Rules to Implement the Energy Independence Act, Docket No. UE-061895, General Order R-546 (Nov. 30, 2007), \P 32, p. 8.

⁵ RCW 19.285.050(1)(b).

the Commission should not, accept an implementation practice that undermines the significance of the January 1 target deadline. Yet, while it apparently will be difficult to find consensus about the principle of the law's compliance date, it should not be difficult to find a practical solution that permits the Commission both to reaffirm the significance of the statute's January 1 compliance date and to accommodate PSE's underlying concerns.

Although we will not repeat here the extensive prior discussion of the January 1 compliance date and associated reporting,⁶ we do wish to remind the Commission that it directly addressed this issue in 2007. Despite a strong utility preference for demonstrating compliance only after the conclusion of the target year or after the end of the three-year period during which renewable energy credits ("RECs") can be produced (*i.e.*, for the 2012 target, compliance would be demonstrated on June 1, 2014), the Commission confirmed in Docket No. UE-061895 that it cannot alter, and must assess compliance with, the law's January 1, 2012, compliance date on the basis of the June 1, 2012, reports. In several statements in the Order, the Commission explained how it viewed the adopted rules:

We find the language in RCW 19.285.040(2) does not allow us to alter the compliance date or the date by which utilities must acquire the rights to future RECs. We disagree with an interpretation of the Act that allows compliance by the conclusion of a target year rather than by January 1 of a calendar year.⁷

The rule is sufficiently clear that in the first report submitted on June 1, 2012, a utility must demonstrate that it complied with the requirements of WAC 480-109-020 and describe its progress towards meeting the January 1, 2013, renewable target.⁸

The report due in June of each year will state how the utility met the requirements of WAC 480-109-020 for the prior calendar year and its progress in meeting those requirements in the current year.⁹

I-937 calls for annual reporting that provides details about how a utility complied with that year's January 1 requirement. RCW 19.285.070 states that, beginning June 1, 2012, annual reports must describe a utility's "progress in the preceding year in meeting the targets established in RCW 19.285.040" (*i.e.*, the requirement to meet the target percentage by January 1) and, in so doing, must specify "the amount of megawatt-hours of

⁶ Our views on this issue were expressed in RNP and NW Energy Coalition in Docket No. UE-061895, particularly comments dated July 9, 2007 (pages 2-13) and September 26, 2007 (pages 2-3).

⁷ In the Matter of Adopting Rules to Implement the Energy Independence Act, Docket No. UE-061895, General Order R-546 (Nov. 30, 2007), ¶ 32, p. 8.

⁸ *Id.* at ¶ 38, p. 9.

⁹ *Id.* at ¶ 41, pp. 9-10.

each type of eligible renewable resource acquired [and] the type and amount of renewable energy credits acquired."¹⁰ The Commission should send another message—and apparently a clearer one—that a June 1 report must detail how the utility complied with the January 1 target that immediately preceded the report.

Throughout these discussions, RNP and the Coalition have been quick to point out areas of flexibility and to agree with sensible implementation practices that integrate the January 1 target requirement with the three-year REC generation period. For example, RNP and the Coalition's comments in the 2007 rulemaking originally suggested a true-up opportunity at the end of the three-year generation period. More recently, participants in the renewables workgroup (including RNP and the Coalition) agreed to recommend that the Commission could decide to reserve assessment of penalties for non-compliance with the January 1, 2012, target until the June 1, 2014 report (following the conclusion of the three-year REC generating period). Also, workgroup participants agreed to recommend that utilities could hold RECs in a WREGIS sub-account for the designated compliance year until directed by the Commission to retire them. If PSE's concern here is with retaining flexibility to market RECs designated for compliance, then RNP/NWEC could also be comfortable with allowing a utility to substitute RECs previously designated for compliance with other qualifying RECs prior to the end of the generation period.

Given all these areas of flexibility, the Commission can achieve a practical balance between the January 1 statutory deadline, prompt public reporting of compliance with that deadline, the reality that actual REC positions may evolve during the target year and subsequent year, and the need for a final audit when the three-year generation period closes. We believe that if the Commission is clear that compliance particulars will evolve, and that designated resources may be substituted with other eligible resources before the final audit, then PSE's concerns may be addressed.

In this case, all that is required to achieve that balance is for PSE to report an educated estimate of how many MWhs, RECs, and/or multiplier credits from particular resources (or even groups of resources) or contracts that it expects to eventually retire to meet 2012 compliance. Market positions would be protected with this reporting approach, so long as designated RECs can be substituted with others before the ultimate post-audit and production is based on actual generation data from prior years. This information would allow the Commission to easily conclude, with a high level of confidence, that sufficient eligible resources were in place as of January 1. Importantly, it would also serve the statutory purpose of prompt public reporting as to what types of resources are supplying customers with eligible renewable energy during the target year;

¹⁰ RCW 19.285.070(1).

¹¹ Past RNP/Coalition comments suggesting this flexibility are those dated Feb. 26, 2007 (p. 7), May 18, 2007 (p. 4), and July 9, 2007 (p. 9).

¹² Docket No. UE-110523, June 21, 2011 Workshop #3 Consensus – "Timeline for Renewable Portfolio Standard (RPS) Compliance."

¹³ Docket No. UE-110523, "Compliance Reporting Tool Summary" (April 24, 2012), p. 3.

¹⁴ This would not be a false statement if a utility was not certain that those particular RECs would be retired. It would be one reasonably likely compliance scenario that is subject to adjustment.

the absence of a designation by PSE leaves a large gap in public analysis of I-937's 2012 performance for the state as a whole.

Before leaving this topic, RNP and NWEC offer several closely related issues on which the Commission may wish to signal its expectations:

- Plan for Underperformance of Assets. Workgroup documents and previous rulemaking materials reflected an expectation that the June 1 report would detail the resources and RECs available to meet the standard, and *also* a plan for compliance in the event of any shortfall in the production from those resources or REC contracts. Avista reports a surplus that would be available to make up for production shortfall or partially roll over to 2013 compliance. Pacific Power, however, reports only enough qualifying electricity to round up to meet the three percent target. This assumes that some kind of true-up mechanism will be in place to account for lower than expected performance—a mechanism which RNP/NWEC have consistently supported but the Commission has not confirmed.
- "Current Year" Means Progress to January 1, 2013. WAC 480-109-040(1)(b) and (c) describe the requirements for the June 1 report relative to that year's January 1 target, and then WAC 480-109-040(1)(d) goes on to direct utilities to "describe the steps the utility is taking to meet the renewable resource requirements for the current year." RNP and the Coalition previously argued subsection (1)(d)'s reference to "current year" could be mistakenly interpreted as referring to the preceding January 1 target (i.e., 1/1/2012) rather than the next one (i.e., 1/1/2013). The Commission agreed that "current year" meant the next target (i.e., 1/1/2013), but declined to clarify the language, stating: "The rule is sufficiently clear that in the first report submitted on June 1, 2012, a utility must demonstrate that it complied with the requirements of WAC 480-109-020 and describe its progress towards meeting the January 1, 2013, renewable target." Yet, as RNP and the Coalition predicted, all three utility reports interpret "current year" to mean

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¹⁵ Docket No. UE-110523, RPS Issue Consensus 6/21/2011, "Energy Reporting Renewable Portfolio Standard – Consensus Notes" (May 10, 2011); *In the Matter of Adopting Rules to Implement the Energy Independence Act*, Docket No. UE-061895, Staff Adoption Hearing Memo (Matrix) (October 22, 2007), Pages 5-6 (-020(3)). *See also In the Matter of Adopting Rules to Implement the Energy Independence Act*, Docket No. UE-061895, General Order R-546 (Nov. 30, 2007), ¶5 (p. 2) (noting that its Order is "supplemented where not inconsistent by the staff memoranda preceding the filing of the CR-102 proposal and the adoption hearing").

¹⁶ In the Matter of Avista's Renewable Target, Docket No. UE-120791, Compliance Report of Avista Corporation (June 1, 2012), at p. 6.

¹⁷ PacifiCorp's 2012 Renewable Energy Target Report, Docket No. UE-120813 (June 1, 2012), at p. 3. ¹⁸ In the Matter of Adopting Rules to Implement the Energy Independence Act, Docket No. UE-061895, General Order R-546 (Nov. 30, 2007), ¶41, pp. 9-10.

 $^{^{19}}$ In the Matter of Adopting Rules to Implement the Energy Independence Act, Docket No. UE-061895, General Order R-546 (Nov. 30, 2007), \P 38, p. 9.

the preceding January 1, 2012, target, not the forthcoming January 1, 2013, target.²⁰ The Commission should reiterate and clarify that subsection (1)(d) calls for reporting on plans toward the *forthcoming* target.

Scope of Force Majeure Availability. PSE suggests that it may avail itself of the "events beyond its reasonable control" provision²¹ as an alternative compliance mechanism, presumably in relation to wind energy curtailments by Bonneville Power Administration ("BPA"). In theory, RNP and the Coalition believe that this provision can accommodate curtailments that "prevented" a utility from meeting its target. However, the entire premise of PSE's filing is that the utility has ample eligible qualifying electricity to meet the target. If a utility had identified resources or REC contracts to meet the target, and those resources were curtailed to a degree that a utility was "prevented" from meeting the target even after having planned for a reasonable compliance cushion (see discussion above), then the resulting degree of noncompliance could be excused pursuant to the "events beyond its reasonable control" provision. But the interpretation that PSE suggests it might make—that BPA curtailments can be treated as an off-the-top reduction in its' I-937 target—does not square with the statute's treatment of "events beyond [a utility's] reasonable control" as a safety valve and not merely one of the elective alternative compliance mechanisms described in separate provisions. (The 4% cost cap is in a separate section (.050) but the 1% cost cap is in .040 (2)(d) – and force majeure in .040(2)(i).)

If the Commission can take up some of these issues in its review of compliance filings, and develop a clear direction in a policy statement on reporting, implementation of I-937 will be improved for all. This approach could also pave the way, ultimately, for clarified rule language.

2. Incremental Cost Analyses: Wide Variety of Methodologies and Conflict with I-937 Warrant Further Commission Examination.

The incremental cost analysis is the cornerstone of I-937's cost limitation mechanism, and as such is a critically important element of implementation. With all three investor-owned utilities reporting incremental costs of less than 1 percent of their annual retail revenue requirements, however, there is no immediately pressing need to determine which, if any, of the utilities' various incremental cost methodologies are consistent with the law. For the reasons that follow, we strongly recommend that the Commission reserve judgment on the analyses included in these initial filings and initiate a separate investigation to define appropriate analytical parameters.

²⁰ PacifiCorp's 2012 Renewable Energy Target Report, Docket No. UE-120813 (June 1, 2012), at p. 14; Compliance Report of Avista Corporation, Docket No. UE-120791 (June 1, 2012), at p. 6; Puget Sound Energy's 2012 Renewable Energy Target Report pursuant to WAC 480-109-040, Docket No. UE-120802 (June 1, 2012), at p. 8.

²¹ RCW 19.285.040(i); WAC 408-109-030(2).

Current Commission rules do not provide significant direction beyond the requirements of the statute. I-937 requires utilities to compare "the levelized delivered cost of the eligible renewable resource" with "the levelized delivered cost of an equivalent amount of reasonably available substitute resources . . . where the resources being compared have the same contract length or facility life." RCW 19.285.050(b). The rule adds only the following: "The system analysis used will be reasonably consistent with principles used in the utility's resource planning and acquisition analyses." WAC 480-109-030(1). 23

The utilities have taken a variety of analytical approaches, with potentially significant consequences for their conclusions. The variety does not appear to derive from differences in utility resource planning and acquisition. Several examples of methodological differences follow:

- All renewables vs. 3% target: Avista and Pacific Power appear to have evaluated the incremental cost only of those resources and RECs identified for compliance with the 2012 target. Not having designated specific resource output to meet its 2012 compliance obligation, PSE appears to have compared the cost of all its wind projects to substitute resources and reported the total incremental cost for a quantity of qualifying electricity that far exceeds the three percent target.
- <u>Capacity premium</u>: PSE's analysis identifies the capacity contribution of its
 eligible renewable resources, and assigns a capacity component to the cost of
 a comparator providing equivalent capacity. Avista and Pacific Power appear
 only to have compared energy values, rather than adjusting the cost of the
 comparator upward to reflect the capacity premium of an equivalent
 resource.
- Negative incremental cost: All three utilities acknowledge that investing in an eligible renewable resource can be cheaper than securing alternative resources. Only PSE and Avista, however, appear to allow a "negative incremental cost" to offset positive incremental costs from other resources. Pacific Power, by contrast, assigns a zero incremental cost to I-937-qualifying resources that cost less than the comparators.
- <u>Imputed debt</u>: Although none of the utilities explains how a market forecast represents a comparator with "the same contract length or facility life," PSE

²² The Commission's 2007 order declined to provide greater definition in WAC 480-109-030(1), stating: "The Commission has the authority to conduct fact-based adjudications to test compliance if a utility follows this alternative approach." *In the Matter of Adopting Rules to Implement the Energy Independence Act*, Docket No. UE-061895, General Order R-546 (Nov. 30, 2007), ¶35, pp. 8-9.

²³ The 2007 order did explain the intent of this sentence: "This change makes clear that the utility must measure the difference in total system costs considering the eligible renewable resource and the non-eligible resource[.]"*In the Matter of Adopting Rules to Implement the Energy Independence Act*, Docket No. UE-061895, General Order R-546 (Nov. 30, 2007), ¶¶ 14 (p. 4), 49 (p. 11).

does make an effort to level the playing field between its hypothetical market contract and its renewable resource acquisitions. PSE includes a value for imputed debt to recognize the different financial impacts on the company of a contract versus an owned resource.

• <u>Levelization methodology</u>: Avista's incremental cost spreadsheet appears, in at least one instance, to compare the full up-front capital cost of a hydro efficiency upgrade with part of one year's energy production. This methodology does not levelize the cost over the life of the facility, as required by I-937. PSE's and Pacific Power's methodologies, by contrast, do appear to levelize capital investments over the facility life.

These are important examples of why Commission direction is needed, but the most significant issue that the Commission will need to tackle is that *none* of the utility methods satisfies the statutory requirement that "resources being compared have the same contract length or facility life." All three utilities base the comparator for energy values primarily on a market index (*i.e.*, Mid-C forecast), without explaining how a market forecast constitutes a resource with "the same contract length or facility life."

RNP and the Coalition recommend that the Commission take up an investigation of these issues before a utility seeks to rely on the cost cap as an alternative compliance mechanism. Establishing some parameters for the analysis will aid with responsible utility planning and will promote public understanding of the costs associated with I-937. There is no guarantee that advance investigation and policy direction will resolve all issues or obviate a future adjudication, but the utilities, stakeholders, and the public will all benefit from the Commission establishing some specific foundational principles for consistent analysis.²⁴

These are not simple issues. So, while concluding an investigation before the next reports on June 1, 2013, would be helpful, it does not appear that any of the investor-owned utilities will seek to rely on the cost cap to reduce its compliance obligation in that time frame. Getting the analysis right before the June 1, 2014, reports would give utilities adequate time to plan for the 2016 target increase. Delaying the investigation would also give the Commission time to adjust its practices to facilitate a policy discussion that requires stakeholder access to confidential information.

3. The Commission Should Develop a Practice for Policy Investigations That Involve Confidential Information.

The I-937 reports are a good example of how Commission practice would benefit from enabling limited access to confidential information outside the context of a contested case. Confidential information may be important to meaningful stakeholder review of both energy efficiency and renewables filings, particularly the cost cap conclusions. As stated

 $^{^{24}}$ See, e.g., Oregon Administrative Code 860-083-0100 ("Incremental Cost"); WAC 109-37-250 et seq.

above, incremental cost analysis is a critical element of I-937 implementation. Cost cap conclusions determine continued compliance with the targets and influence public perception of the law. Thus, the analyses filed by utilities should be open to scrutiny beyond Commission staff. Yet, utilities are legitimately sensitive to revealing the detailed cost data that is key to those analyses, and there is no established method for enabling stakeholders to review confidential information under the restrictions of a Commission protective order outside the context of a contested case. When no utility is exercising the cost cap to reduce its compliance obligation, a contested case involves too much administrative process to provide the answer to this conundrum.

For these 2012 reports, Commission staff has encouraged utilities to work with individual interested parties to provide appropriate access to confidential elements of their filings. That has worked only to a limited degree. We particularly appreciate Pacific Power's willingness to negotiate bilateral non-disclosure agreements with RNP and the Coalition, and also acknowledge Avista's cooperation with the Coalition, but this approach is inefficient even where utilities are willing to cooperate.

We recognize the need to protect market positions. Thus, we recommend that the Commission investigate the possibilities for creating a "middle ground" type of proceeding that does not have all the formalities of a contested case but does allow for specific parties to intervene and review confidential information under the protections of a standard confidentiality agreement. Finding a solution here could benefit Commission practice in other contexts as well, providing a way to critically engage policy issues without a full-blown contested case.²⁵ The Commission's broad enabling statute²⁶ should give it wide discretion to determine the most efficient way to structure its cases.²⁷

4. Incremental Hydro Calculation Methodologies Should Be Balanced.

It is exciting to see strong new investments in making our existing renewable energy infrastructure a more efficient and effective power generation resource. Developing a balanced methodology and reporting structure for measuring the output of these investments is important, and we appreciate Commission staff's attention to the highly technical methods for calculation of incremental electricity from hydro efficiency upgrades.

We recognize that many different methods of calculating incremental electricity production can produce reasonably accurate measurements. In general, we do not intend to advocate for methods where the complexity of measuring and reporting is out of proportion to the achievement of greater accuracy. However, in reflecting on the three

²⁵ For example, the Commission signaled a recognition of this tension in its order in PSE's most recent general rate case. *WUTC v. Puget Sound Energy*, Docket Nos. UE-111048 and UG-111049, Order 08 (May 7, 2012), at ¶426 (p. 156).

²⁶ RCW 80.01.040.

 $^{^{27}}$ We intend to engage in further analysis of the possibilities and will be prepared to discuss them at the bench-bar conference in September.

measurement methods set out in the "Hydropower consensus document," 28 RNP and the Coalition do have one specific issue for consideration.

Whereas Methods 1 and 2 calculate efficiency gains from the basis of the volume of hydropower generated in the target year (by actual measurement of efficiency gains in Method 1 and by applying an average percentage to the total volume in Method 2), Method 3 fixes incremental electricity based on historic water volumes. Review of some limited historical data over the past 20 years seemed to indicate that this approach would even out fluctuations in flow over time and reduce the need for potentially costly analyses. This is fine for the present time. However, in the future, climate shifts are very likely to alter Northwest hydro production in significant but as yet unknown ways (possibly up, possibly down). The risk is that, if the baseline is not updated to reflect such trends, over time the relative accuracy of Method 3 may decline considerably. We recommend that, where Method 3 is used, the Commission establish clear expectations for baseline updates to maintain the method's relative accuracy over time.

5. Conclusion

RNP and the Coalition are confident that these implementation issues—while still complex today—can be resolved in the relatively near term. With some concentrated effort, I-937 implementation may soon enough be on "auto-pilot." We appreciate the Commission's attention to implementation details during the first few years of the standard, which we believe will pay dividends over time.

More than anything, RNP and the Coalition are delighted to see I-937 meeting its promise of supporting electricity generation to fulfill the energy independence goals of the voters of the State of Washington. New renewable energy projects are bringing jobs and tax revenue to Washington counties; stable, long-term energy prices to utility ratepayers; and environmental benefits to our region and the planet. At the same time, renewed investments are strengthening Washington's base of low-cost, emission-free hydroelectric generation. We appreciate the efforts of all utilities, Commissioners, Commission staff, and other stakeholders to cooperate toward successful implementation of this important citizen-driven policy.

Sincerely,

Megan Decker & Rachel Shimshak Renewable Northwest Project

Danielle Dixon & Nancy Hirsh NW Energy Coalition

²⁸ See Docket No. UE-110523.