

**BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

In the Matter of the)	
)	Docket No. UE-100849
)	
Inquiry on Regulatory Treatment for)	Statement of Issues and
Renewable Energy Resources)	Positions of NW Energy
)	Coalition, Renewable
)	Northwest Project, Climate
)	Solutions, Cascade Chapter
)	of the Sierra Club, and
)	Washington Environmental
)	Council

The NW Energy Coalition, Renewable Northwest Project, Climate Solutions, the Cascade Chapter of the Sierra Club, and Washington Environmental Council respectfully submit the following statement of issues and positions in response to the Commission’s May 21 Notice of Opportunity to File Statements of Issues and Written Comments (“Notice”). First we provide some context related to the importance of pursuing new sources of renewable energy,¹ then we respond to the issues framed by the Commission in its Notice.

Introduction and Context

We believe that I-937 has been successful in responsibly and cost-effectively increasing the amount of renewable energy in Washington’s energy supply. Washington’s investor-owned utilities (“IOUs”) appear to have acquired sufficient resources to comply with the RPS for the 2012-2015 time period (3%), and to be on track to reach the 9% benchmark applicable from 2016 to 2019.² Increasingly, utilities have found renewable resources to be a part of their lowest reasonable cost portfolios. Current economic conditions have placed significant downward pressure on costs of renewable resources, creating near-term opportunities to make cost-competitive long-term investments in anticipation of out-year requirements.

Increasing the use of appropriately sited renewable energy facilities builds on the strong foundation of low-cost renewable hydroelectric generation in Washington State. Increasing use of new renewable resources will stimulate rural economic development, create jobs, and protect against future price shocks due to rising fuel, infrastructure and carbon costs. Diversifying our resource base with new renewable resources will help Washington’s investor-owned utilities (IOUs) meet increasing demand, retire and replace coal fired power plants, enhance our energy

¹ Throughout this document, we use the term “renewable energy” as it is generally defined in Initiative 937, RCW 19.285.030(18).

² Renewable Northwest Project’s approximations for the 9% RPS target period (2016-2019), derived from the utilities’ announced plans and growth assumptions, show PacifiCorp with a 6-7 aMW deficit; Puget Sound Energy with a 5-15 aMW deficit, and Avista with a 71-75 aMW deficit.

independence and security, protect our air and water resources, and meet the State's statutory greenhouse gas (GHG) emission limits (RCW 80.80.020).

I-937's renewable standards are directly reducing the need to build additional fossil-fueled resources, and are key to achieving the state's carbon emission reduction targets. According to the Northwest Power and Conservation Council's ("Council") Sixth Plan,

Scenario analysis showed that the electric power sector of the region could meet its share of carbon emission-reduction targets similar to those adopted by some states and proposed in national legislative initiatives through three primary actions: achieving the conservation targets in the Council's plan, meeting existing renewable energy portfolio standards, and reducing the use of the existing coal plants by about half. (p. 10-1)

The Council identified six elements in its resource strategy, and prioritized three "that should be pursued immediately and aggressively." One of those three priorities focuses on increasing and diversifying our mix of renewable resources.

In the context of the Sixth Plan and I-937's requirements for qualifying utilities to gradually increase their use of new renewable resources, we appreciate the Commission opening this timely inquiry. In its Notice, the Commission raised five specific areas it intends to review and discuss, as well as several additional items it intends to include in this Inquiry. We respond to each of those issues here.

1. The progress of investor-owned utilities in meeting the renewable portfolio standards (RPS) set by the Energy Independence Act (Initiative 937), RCW 19.285.

As stated above, estimates based on currently available information show that the IOUs have sufficient eligible renewable resources in place to comply with the RPS through 2015 and are on track to meet the standard for the 2016 to 2019 period. (See fn. 2.) We expect that, in this proceeding, the Commission will ask the IOUs for updated data regarding at least the following:

- Projected annual load for each IOU through 2020.
- An estimate of the quantity of renewable energy resources and/or renewable energy credits that each IOU will require to meet its RPS targets.
- The amount and type of already owned and/or contracted eligible renewable resources and renewable energy credits that may be used to meet the target.³
- Renewable energy contemplated to meet load beyond I-937 targets.
- The geographic diversity of resources used to meet the standards.

Some IOUs may have eligible renewable resources for delivery to Washington customers that would exceed the requirements of the RPS. It would be helpful to have data regarding types and

³ We recognize that information concerning potential future acquisitions (actual projects or even resource types) is sensitive and proprietary, and therefore are not seeking its inclusion here. We also note that a utility may decide at a future date to utilize a different mix of resources to ultimately meet its I-937 target; data presented here would be for illustrative rather than compliance purposes.

amounts of excess resources, as well as the utility's plans with regard to keeping or selling the renewable energy credits (RECs) associated with any excess resource.

2. Whether the existing statutory and regulatory frameworks impede compliance with RPS requirements.

The IOUs' excellent progress toward compliance strongly suggests that they can achieve compliance with I-937 within the existing statutory and regulatory framework. At the same time, we expect that some regulatory changes may improve the efficiency and cost-effectiveness of RPS implementation without altering I-937 or inappropriately shifting development risk to consumers. We could envision discussions within this area including:

- Barriers that may inhibit utilities from acquiring resources in advance of need for those resources, e.g., if the utility has access to a particularly desirable, cost-competitive project that would enable it to meet a future RPS requirement.
- Lack of certainty regarding cost recovery for acquisitions to meet I-937.

The Commission also should consider whether existing regulations adequately support utilities' efforts to improve integration of renewable resources. For example, do existing regulations enable utilities to recover operational and personnel costs associated with new initiatives (such as intra-hour trading, establishment of markets, analyses of needed system improvements to facilitate trades, etc.) that reduce the costs of compliance with the RPS and of meeting customer demand?

3. Whether the statutory and regulatory frameworks should encourage acquisition of renewable resources in excess of that required by the RPS.

I-937 sets a floor, not a ceiling, for acquisition of eligible renewable resources. The authorizing statute requires qualifying utilities to meet "at least" 3%, 9% and 15% of load with eligible renewable resources and/or RECs during relevant time periods.⁴ The statute explicitly provides: "The commission ... may consider providing positive incentives for an investor-owned utility to exceed the targets established in section 4 of this act."⁵

Numerous studies have shown that the technical and achievable potential for development of new renewable resources in Washington and the Pacific Northwest is quite high.⁶ Development

⁴ RCW 19.285.040(2)(a).

⁵ RCW 19.285.060(4).

⁶ See for example Council's *Sixth Power Plan*, Appendix I; *Clean Energy, a Strong Economy and a Healthy Environment*, Report of the Clean and Diversified Energy Advisory Committee to the Western Governors, Western Governors' Association, June 2006, at p. 7-8 (available at http://www.westgov.org/index.php?option=com_content&view=article&id=129&Itemid=57) ; Lazarus, M. et al, The Tellus Institute, *Clean Electricity Options for the Pacific Northwest: An Assessment of Efficiency and Renewable Potentials through the Year 2020*, October 2002 (available at <http://www.nwenergy.org/resources-publications/archives/tellus/>). See also *Renewable Energy Atlas of the West: Washington State Edition*, Hewlitt Foundation and Energy Foundation (available at http://www.energyatlas.org/downloads/WA_booklet.pdf).

over the past decade has resulted in approximately 4,128 MW of renewable energy and another 1,482 MW under construction in the Northwest, with more than 10,000 MW in various stages of development. I-937 requires utilities to acquire only a small fraction of the achievable potential.

The Commission can use its broad discretion to encourage IOUs to exceed the renewable target in I-937 (while recognizing that a renewable resource may also be a utility's lowest reasonable cost resource). There are two ways to think about acquisition in excess of the RPS requirements: setting goals to exceed the ultimate 15% by 2020 target,⁷ or encouraging acquisition of eligible renewable resources that would cause a utility to exceed its earlier targets in anticipation of ultimately meeting (or exceeding) its 15% requirement. With regard to the latter, a utility and its customers may benefit from earlier acquisition of new renewable resources, e.g., through locking in access to prime geographical locations, taking advantage of current lower development costs and through reducing carbon emissions that will be subject to penalties in the not-distant future. In other words, waiting until the last minute to comply with RPS requirements may entail risks that the utility can prevent by early action.

If the Commission considers regulatory changes to facilitate earlier compliance (when, of course, the proposed acquisition is a lowest reasonable cost method for a utility to meet its RPS obligations), the Commission will also need to consider how early compliance may affect the cost cap established in RCW 19.285.050(1), which applies to the specific time frames and targets established in RCW 19.285.040(2).

4. Whether the Commission should consider adopting rules or new regulatory practices that would provide incentives for utilities and customers to acquire renewable resources.

Yes. As stated in response to issue #3, the statute explicitly provides, "The commission ... may consider providing positive incentives for an investor-owned utility to exceed the targets established in section 4 of this act." Those incentives could take a variety of forms, such as direct financial rewards or greater regulatory certainty regarding cost recovery. The design of incentives intended to encourage greater acquisition of renewable resources should take into consideration potential short- and long-term impacts on customers' bills, including rate stability and cost, and the utilities' existing obligation to pursue renewable resources that meet the State's "lowest reasonable cost" directive.

The Commission can also provide indirect incentives for utilities to acquire renewable resources by encouraging the utilities to participate in regional efforts to improve integration of renewable resources. Growth in renewable energy development has prompted utilities to review and revise long-standing operating practices in ways that reduce the costs associated with both integrating renewable resources and serving customer demand. BPA's successful intra-hour trading pilot program is an example of how policies to encourage renewable resource development can lead to changes in operating practices that more efficiently accommodate wind and also reduce the cost of serving customers. Active participation by the utilities in these efforts, with support from the

⁷ Other states (e.g., California, Colorado, Texas) have recently increased their renewable energy standards in recognition of the vast potential for new renewable resources and to take advantage of the benefits of these resources.

Commission, can further advance technological improvements and improve the efficiency of the power system while paving the way for smoother and less costly integration of variable resources such as wind and solar. To promote growth of renewable resources, regulations and regulatory practices should be structured to encourage utilities to:

- Participate in intra-hour markets and balancing-area to balancing-area trades; and
- Invest in new infrastructure and personnel to improve efficient integration of renewable energy.

The Commission also could consider regulatory practices that incent customers to invest directly in renewable resources. State law already provides for net metering⁸ and requires certain utilities to offer a voluntary green power program.⁹ The Commission could examine whether any barriers currently exist to participation in these programs by customers of IOUs.

In addition, the Commission should consider how to ensure that the benefits of voluntary renewable energy products accrue to the participating customers. The mandate in RCW 19.29A.090(5) states:

All costs *and benefits* associated with any option offered by an electric utility under this section must be allocated to the customers who voluntarily choose that option and may not be shifted to any customers who have not chosen such option. (emph. added)

The Commission has focused on the cost side of the equation, but to the best of our knowledge, has not considered options for ensuring the benefits of these voluntary renewable energy purchases accrue to the participating customers. Lack of price volatility is a significant benefit of investing in renewable energy resources, and could be allocated to green power program participants in accordance with the level of their participation.

5. Whether the Commission should propose any legislative changes relative to incentives for acquisition of renewable resources by utilities and customers.

We welcome discussion of new legislation that provides financial or other incentives for utilities and/or their customers to acquire new renewable energy resources.

This is not the appropriate forum, however, to discuss changes to I-937 itself. We strongly caution the Commission against allowing this docket to become a politicized discussion of legislative amendments that will quickly become mired in debates over equitable treatment to individual stakeholders. This Docket should focus instead on opportunities to protect consumers while providing regulatory certainty for investments in renewable resources, and to encourage utilities and customers to more aggressively pursue renewable energy resources.

Additional issues. The Commission intends to include in the Inquiry consideration of externalities associated with non-renewable resources that may impact utility and Commission decision-making, the impact of encouraging acquisition of renewable

⁸ RCW 80.60

⁹ RCW 19.29A.090

resources on other ratemaking practices including evaluation of a utility's rate of return, and the impact of further development of renewable resources on consumer rates.

We offer two responses to these additional issues that the Commission intends to consider.

First, with respect to externalities, we recommend that the Commission consider adopting a climate change and carbon planning requirement. The Commission should consider requiring utilities to include in their integrated resource plans two planning exercises: (1) a plan for meeting adopted state and federal carbon reduction targets;¹⁰ and (2) scenarios for complying with the likely future regulation of greenhouse gas emissions, as the Oregon PUC has mandated.¹¹ These planning exercises can help utilities and ratepayers better understand the likely costs of eliminating the climate change-related externalities associated with non-renewable resources and the cost risks potentially associated with failing to plan for future carbon regulation.

Second, with respect to consumer rates, our experience in other states has thus far been that acquiring renewable resources to comply with an RPS has not resulted in costs above the alternative least cost resource. In fact, some states with similar renewable energy standards predict cost savings from the standard, and the majority of other states anticipate rate increases of no more than 1%.¹² Certainly, when carbon regulation occurs, a strong clean energy portfolio will keep customers rates more stable. We believe that the Washington RPS has struck a good balance and that the 4% cost cap in I-937 is sufficient to limit any adverse effects on consumers, while providing a large measure of protection against cost risks associated with future carbon emission limits.

Of course, adding any new energy resource will raise rates. But, ultimately, customers care most about their bills, not their rates. It is important to remember that I-937 includes an energy efficiency standard as well as the RPS, and these two standards are complementary. Together, they can ensure bills lower and less volatile than they otherwise would have been.

We look forward to participating in upcoming workshop discussions.

¹⁰ See, e.g., Washington Executive Orders 09-05 (Washington's Leadership on Climate Change); 07-02 (Washington Climate Challenge).

¹¹ In June 2008, the Oregon PUC adopted a carbon planning requirement as its IRP Guideline 8. See OPUC Order No. 08-339 (UM 1302), Exhibit C (available at <http://apps.puc.state.or.us/orders/2008ords/08-339.pdf>).

¹² Chen, C. et al. *Is It Worth It? A Comparative Analysis of Cost-Benefit Projections for State Renewable Portfolio Standards*. Lawrence Berkeley National Laboratory. August 2006.