

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**In the Matter of Avista 2015 Renewable
Portfolio Standard Report**

DOCKET UE-151145

**In the Matter of Pacific Power and Light
Company 2015 Renewable Portfolio
Standard Report**

DOCKET UE-151162

**In the Matter of Puget Sound Energy
2015 Renewable Portfolio Standard
Report**

DOCKET UE-151164

**COMMISSION STAFF COMMENTS REGARDING
ELECTRIC UTILITY RENEWABLE PORTFOLIO STANDARD REPORTS UNDER
THE ENERGY INDEPENDENCE ACT,
RCW 19.285 and WAC 480-109
(2015 RENEWABLE PORTFOLIO STANDARD REPORTS)**

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Background

In 2006, Washington voters approved Initiative 937, also known as the Energy Independence Act (EIA). Now codified in RCW 19.285, the EIA created a renewable portfolio standard (RPS) that requires electric utilities with more than 25,000 customers to serve an increasing percentage of their retail load with eligible renewable resources and to file an annual compliance report (RPS report) by June 1 of each year.¹

In 2015, utilities are required to provide 3 percent of their retail load from eligible renewable resources. The target will increase to 9 percent in 2016 and 15 percent in 2020.² In calculating its target, a utility must use its average retail load for the two years prior to the target year³ (i.e., the 2015 target is 3 percent of the utility's average load in 2013 and 2014).

RCW 19.285.080(1) gives the Washington Utilities and Transportation Commission (commission) authority to develop rules to enforce the EIA among the state's investor-owned utilities (IOUs). On March 13, 2015, the commission adopted a new rule for EIA enforcement, WAC 480-109.⁴ The new rule reflects legislative changes made in the years following the EIA's adoption, incorporates the policies and practices that the commission has developed for enforcing the EIA, and addresses concerns raised by commission staff (staff) and other parties.

One of the commission practices codified in the new rule is the two-step reporting process, which the commission has used for reporting since the RPS went into effect in 2012.⁵ This process prescribes that each year, a utility will file a report to calculate its target for that year and demonstrate that it has acquired or contracted to acquire sufficient resources to meet the target. Then, no later than two years after the initial report, the utility will file a second report that lists the specific generation and renewable energy credits (RECs) that the utility used to meet its target, and requests a determination from the commission that the utility complied with its target.

Washington's three investor-owned utilities – Avista Corporation (Avista), Pacific Power & Light Company (Pacific Power), and Puget Sound Energy (PSE) – filed RPS reports by June 1, 2015. Staff has reviewed these filings to determine whether they meet the reporting requirements under RCW 19.285.070 and WAC 480-109-210.

In these comments, staff will summarize the new changes in WAC 480-109 that affect RPS reporting, review each company's RPS report, and discuss any outstanding issues specific to each company. After reviewing the comments of other parties, staff will present a recommendation at the July 30, 2015, open meeting as to whether the commission should issue an order in each company's docket finding that the utility met its reporting requirements and accepting the utility's calculation of its 2015 RPS target.

¹ RCW 19.285.070.

² RCW 19.285.040(2).

³ RCW 19.285.040(2)(c).

⁴ Docket UE-131723, General Order R-578 (March 13, 2015).

⁵ See Docket UE-120802, Order 01 ¶ 24; Docket UE-120813, Order 01 ¶ 38.

EIA Rulemaking

The new EIA rules adopted by the commission made a number of changes to the previous rule; this section will focus on the changes that affect the RPS reporting process:⁶

- Western Renewable Energy Generation Information System (WREGIS) registration, WAC 480-109-200(3);
- Incremental hydropower calculation methodologies, WAC 480-109-200(7);
- Incremental cost calculation, WAC 480-109-210(2)(a);
- Multistate allocations, WAC 480-109-210(2)(e); and
- Renewable energy credit sales, WAC 480-109-210(2)(f).

WREGIS Registration

In the orders approving the utilities' 2014 RPS reports, the commission expressed the concern that absent the use of a tracking entity, renewable resources used for RPS compliance in Washington could potentially be double-counted. The commission noted that the EIA required the state to adopt a tracking agency to ensure that this would not happen:

We conclude that the Commission has discretion under the EIA to take actions to further the statute's goals of tracking RPS compliance and ensuring that resources are not being double-counted. We exercise that discretion to require PSE to register in WREGIS all incremental hydropower facilities on which the Company intends to rely to demonstrate RPS compliance.⁷

In the rulemaking, the commission codified and expanded its decision at WAC 480-109-200(3), which states that "all eligible hydropower generation and all renewable energy credits used for utility compliance with the renewable resource target must be registered in WREGIS, regardless of facility ownership."⁸

In previous years, all three IOUs have used incremental hydropower generation from the Wanapum Dam facility, owned by Grant County PUD, toward their RPS targets. At present, Grant County has not registered the Wanapum facility in WREGIS, rendering the plant ineligible for RPS compliance for the IOUs. The impact of that lost generation has been minimal,⁹ but staff hopes that the IOUs will share their experience in using WREGIS with Grant County and continue to encourage the registration of Wanapum in WREGIS so that this resource will again be eligible.

⁶ Docket UE-131723, General Order R-578 (March 13, 2015). The rule is codified at WAC 480-109.

⁷ Docket UE-140800, Order 01 (July 31, 2014) ¶ 15. Similar language can be found in the orders for Avista (UE-140801) and Pacific Power (UE-140802).

⁸ For the commission's discussion the matter of WREGIS registration and addition of the "regardless of ownership" language, see Docket UE-131723, General Order R-578 (March 13, 2015) ¶ 84 – 94.

⁹ In the 2014 RPS reports, allocated shares of incremental hydropower generation from Wanapum accounted for 0.7 percent of PSE's target, 0.9 percent of Pacific Power's target, and 12.6 percent of Avista's target. Avista was able to replace Wanapum generation with company-owned incremental hydropower that would have otherwise been unused.

Incremental Hydropower Calculations

Prior to the first RPS reporting period in 2012, the commission convened a work group to develop reporting standards. The group comprised representatives from staff, the IOUs, the Department of Commerce, and other interested parties. One of the group's tasks was to address the question of how utilities should determine the portion of generation from upgraded hydropower facilities that would be considered eligible, incremental hydropower per RCW 19.285.030(12)(b).

The group identified three methods, which the commission has generally accepted for the purposes of RPS reporting. In the rulemaking, those methods were codified at WAC 480-109-200(7). PSE and Pacific Power have selected Method Two, which calculates a percentage of incremental hydropower using historic plant data and then applies that percentage to actual generation each year. Avista uses Method Three, which is a one-time calculation of incremental hydropower based on a historic period and reported as a static value in all future years, regardless of actual generation.

WAC 480-109-200(7)(e) requires any utility using Method Three to provide, beginning in 2019 and every five years thereafter, an analysis that compares the quantity of incremental hydropower that the utility claimed using Method Three over the previous five years to what it would have claimed using one of the other two methods.

Staff previously reviewed the calculation methodologies of Avista and Pacific Power, and these companies have not added any new resources in 2015. PSE indicated in its 2014 RPS report that it intended to use Method Three for its newly upgraded facilities at Lower Baker and Snoqualmie Falls; however, after the commission updated its rule, the company decided to use Method Two and its 2015 report reflects that decision. Staff has reviewed PSE's documentation for its use of Method Two and believes that the company correctly applied the method to determine its incremental hydropower production.

Incremental Cost Calculation

The EIA requires utilities to report the incremental cost of RPS compliance in their annual reports. Despite the guidelines for how that calculation should be done in RCW 19.285.050(1)(b), staff's comments on the utilities' 2013 RPS reports identified significant inconsistencies in how the IOUs were calculating their incremental costs, and argued that the variation "precludes a valid assessment of the overall added expense to Washington ratepayers of complying with the Renewable Portfolio Standard."¹⁰

In the adoption order for the new rule, the commission identified "a clear public interest in publishing incremental cost data that is accurate and comparable across utilities,"¹¹ and adopted a

¹⁰ *Staff Comments of the Washington Utilities and Transportation Commission*, Dockets UE-131056, UE-131063, and UE-131072 (July 1, 2013) at 12.

¹¹ Docket UE-131723, General Order R-578 (March 13, 2015) ¶ 113.

uniform methodology for utilities to calculate incremental costs, which can be found in WAC 480-109-210(2)(a). Generally, the commission’s adopted methodology divides the calculation into capacity and energy components and directs utilities to report the incremental cost in two terms: the cost of all eligible resources acquired and the prorated cost of only the resources needed to meet that year’s statutory target. The rule also explicitly states that incremental costs may be negative.

These changes assure that the utilities are making their comparisons in similar terms and allows for accurate comparison of incremental costs across utilities with different renewable penetration rates. Table 1 shows the impact of the new methodology with a side-by-side comparison of the utilities’ reported incremental cost percentages in 2014 and 2015, expressed in two terms – the cost of only the resources required for compliance and the cost of all resources acquired:

Table 1: Investor-Owned Utilities’ Reported Incremental Cost Percentages, 2014 and 2015

	2014		2015	
	<i>Required Resources</i>	<i>All Resources</i>	<i>Required Resources</i>	<i>All Resources</i>
Avista	N/A	1.2 %	(1.0 %)	(0.7 %)
Pacific Power	N/A	0.6 %	0.3 %	0.3 %
Puget Sound	N/A	1.3 %	0.4 %	1.4 %

The most immediate impact of the new rule is the expression of incremental cost in terms of only the resources needed for compliance. By staff’s calculation, the weighted incremental cost for the IOUs to meet the 3 percent target was 0.1 percent.

The new methodology appears to have had the largest impact on Avista, which experienced a swing of nearly two percentage points and is now reporting a negative incremental cost. This appears to be driven by the new rule’s inclusion of a capacity component in the calculation. Previously, Avista included all of the costs of its eligible renewable resources, but compared them to a baseline that only included the cost of an equivalent amount of energy. Including an incremental capacity value lowered Avista’s incremental cost of RPS compliance by \$9.2 million.

The new methodology had the least impact on PSE, which had already included a capacity component in its calculation. The prorated incremental cost shows that PSE, which generates approximately 10 percent of its energy from renewable resources, had an incremental cost of 0.4 percent for the resources that it needed to meet the 3 percent target.

Pacific Power does not have excess eligible generation in Washington, so the company only reported one incremental cost. Staff is still working to understand the company’s calculation – Pacific Power reported a lower cost of compliance in 2015 than in 2014, but the source of that reduction is not readily evident in the company’s filing. Additionally, Pacific Power’s filing stated that the company continues to assign an incremental cost of zero to its incremental hydropower resources. Staff believes the rule is clear that the company should calculate an incremental cost for each of its resources, and will work with the company to that end.

Multistate Allocations

When the utilities filed their 2013 RPS reports, stakeholders expressed a concern that Avista's approach to allocating its renewable energy generation between its Washington and Idaho customers could give rise to double-counting.¹² Pacific Power's process of allocating renewable generation to Washington has also raised questions.

WAC 480-109-210(e) requires any utility operating in more than one state to include in its RPS report an explanation of how it calculated the resources that were allocated to Washington. This requirement affects Avista and Pacific Power.

Avista partially responded to this requirement by showing the adjustments made to its incremental cost calculation to reflect the cost of the re-allocation of Idaho renewable generation to Washington, but does not provide a narrative of how the company made its initial allocation and subsequent adjustments. Staff will work with Avista to see that this explanation is added prior to recommending approval of the report.

Pacific Power did not address this requirement in its filing. Through informal discussions with the company, staff has come to understand the company's complicated process of allocating renewable generation. However, staff believes that the public would benefit from a narrative explaining the company's allocation process, and will work with Pacific Power to see that this requirement is met prior to recommending approval of the report.

Renewable Energy Credit Sales

One of the components of the commission's incremental cost methodology requires utilities to deduct the revenue received from REC sales. To verify that this deduction is being properly made, WAC 480-109-210(f) requires utilities to report the amount and value of RECs that they sold. This requirement applies only to Avista and PSE, since they are the only two companies with excess RECs that could be sold. Both companies complied with this reporting requirement, though PSE's approach merits some discussion.

PSE calculates the incremental cost of each renewable resource based on the resource's modeled present value at the time of acquisition. That modeling includes an assumption regarding the number and value of RECs that the company will be able to sell each year from the facility; the company does not update its calculation based on actual sale proceeds.

Staff believes that using actual REC sales in the incremental cost calculation would result in a more accurate figure than using a modeled assumption. However, given the amount of time it would take to re-model each of the company's resources, staff does not intend to ask the company to alter its incremental cost calculation at this time. Staff will continue to work with

¹² *In the Matter of Avista Corporation's Renewable Energy Target Progress Report under RCW 19.285.070 and WAC 480-109-040*, Docket UE-131056, Order 01 (Sept. 9, 2013) ¶ 17.

PSE to better understand its approach and evaluate whether the company should be asked to approach the matter differently in future reports.

Company Reports

In this section, staff summarizes each company's RPS report, including its target and the resources that it plans to use in meeting its target. Generally, a company has four categories of resources that can be used to meet the EIA: incremental hydro, previous-year RECs, target-year RECs, and purchased RECs. The EIA also allows for the application of future-year RECs in meeting a target, but none of the utilities are doing so at this time.

All three utilities have demonstrated that they have sufficient resources to meet their targets; staff's comments will summarize the total number of resources that each utility has acquired. This analysis is meant to give a complete picture of each utility's RPS compliance position by identifying all resources available to utility for 2015 RPS compliance. After using incremental hydropower and 2014 RECs (both of which would be ineligible in future years), any 2015 RECs that are not needed to meet the utility's target may be held for 2016 compliance or sold.

Avista Corporation (Docket UE-151145)

Avista reported an average load in 2013 and 2014 of 5,682,413 MWh, yielding a 2015 RPS target of 170,472 MWh. Table 2 summarizes Avista's 2015 compliance report:

Table 2: Avista's 2015 Renewable Resource Target and Compliance Plan

Company	2015 Target (MWh)	Incremental Hydro (MWh)	2014 RECs	2015 RECs	Purchased RECs	Total Resources (MWh)
Avista	170,472	170,089	25,934	469,671	N/A	665,694

As Table 2 indicates, Avista has ample eligible resources – enough to meet more than 11 percent of its load annually. Staff further notes that beginning in 2016, an amendment to the EIA will allow Avista to apply the output of its Kettle Falls biomass facility toward its RPS target. With that addition, Avista is not expected to need any additional resources for RPS compliance until sometime after 2030.

Avista owns nine eligible hydro facilities and has a long-term power purchase agreement for all of the output of the Palouse Wind Farm in Whitman County. The company is not reporting any new resources in its 2015 report.

Avista's report raised questions of format and presentation. The company dedicated the majority of its filing to updating the commission on its 2014 RPS compliance plan. This approach appears to have arisen from a misinterpretation of the requirement in RCW 19.285.070(1) that a utility report "on its progress in the preceding year in meeting the targets established in RCW 19.285.040."

The commission has interpreted this requirement to mean that since the RPS target is effective on January 1 each year, a utility must have made all arrangements to meet that target in the previous year. The two-step compliance process means that a utility's initial report each year demonstrates that the utility has acquired sufficient resources for that year, and that at some point within the following two years, the utility will file a final report showing the resources that it actually used to meet the target.¹³ The commission has already approved Avista's 2014 RPS target and compliance plan in Order 01 of Docket UE-140801 and will determine whether the company met its 2014 target when Avista submits a final report in that docket. The company's discussion of its 2014 RPS compliance in its 2015 RPS report created confusion and made the company's filing unnecessarily difficult to review.

Additionally, Avista used an outdated report template that still cites to the previous version of WAC 480-109. While the company's 2015 report ultimately contained the necessary information to determine whether Avista correctly calculated its 2015 RPS target and acquired enough resources to meet that target, staff believes that the public would benefit from a more accessible report that contains only the necessary information and cites to the correct rule. Staff will work with the company to have an amended report filed in the docket before making a recommendation to the commission.

Pacific Power & Light Company (Docket UE-151162)

Pacific Power reported an average load in 2013 and 2014 of 4,105,167 MWh, yielding a 2015 RPS target of 123,155 MWh. Table 3 summarizes Pacific Power's 2015 compliance report:

Table 3: Pacific Power's 2015 Renewable Resource Target and Compliance Plan

Company	2015 Target (MWh)	Incremental Hydro (MWh)	2014 RECs	2015 RECs	Purchased RECs	Total Resources (MWh)
Pacific Power	123,155	1,634	121,521	82,885	N/A	206,040

Pacific Power's use of Method Two for calculating its incremental hydro means that the final reported total will be based on actual generation, so the 1,634 MWh in the table is a projection. Pacific Power's portfolio for EIA compliance includes four company-owned incremental hydro facilities, four company-owned wind facilities in the company's west balancing area, and one wind facility in the company's east balancing area.

The east-side resource is the Top of the World wind facility in Wyoming, which is a merchant plant that contracts with the company for all of its output. This is the first time that Pacific Power has used this facility for Washington RPS compliance, meaning that the commission will need to determine whether it is an eligible resource. Staff has reviewed the Top of the World facility and

¹³ *In the Matter of Avista Corporation's Renewable Energy Target Progress Report Under RCW 19.285.070 and WAC 480-109-040, Docket UE-131056, Order 01 (Sept. 9, 2013) ¶ 1-2.*

believes that it is an eligible resource for Pacific Power's Washington compliance needs under RCW 19.285.030(12)(e).

As the report indicates, the amount of eligible energy and RECs directly allocated to Washington under the company's methodology is sufficient to meet the RPS target for 2015, but will not be sufficient to meet future targets when the RPS increases in 2016 and 2020. PacifiCorp's recently filed 2015 Integrated Resource Plan indicates that the company intends to rely on REC purchases for future compliance.¹⁴

Puget Sound Energy (Docket UE-151164)

PSE reported an average load in 2013 and 2014 of 20,888,779 MWh, yielding a 2015 target of 626,663 MWh. Table 4 summarizes PSE's 2015 compliance report:

Table 4: PSE's 2015 Renewable Resource Target and Compliance Plan

Company	2015 Target (MWh)	Incremental Hydro (MWh)	2014 RECs	2015 RECs	Purchased RECs	Total Resources (MWh)
PSE	626,663	122,269	878,888	2,090,291 ¹⁵	N/A	3,091,448

As Table 4 indicates, PSE has exceeded the EIA's 3 percent requirement by a wide margin, and is generating about 10 percent of its load from renewable resources. By staff's analysis, the company will not need to acquire additional resources for RPS compliance until 2023 or 2024.

The vast majority of PSE's renewable generation comes from the company's wind resources. PSE owns six wind facilities and contracts for a portion of the output at a seventh facility. The company's incremental hydro generation comes from its facilities at Lower Baker and Snoqualmie Falls, which were upgraded in 2013. PSE is not claiming any new resources in its report.

Conclusion

Staff will review comments filed by other parties in these dockets prior to the July 30, 2015, open meeting. At that time, staff will recommend whether the commission should issue an order in each company's docket finding that the company correctly calculated its 2015 renewable resource target and complied with its reporting requirements.

¹⁴ PacifiCorp 2015 Integrated Resource Plan, Docket UE-140546, page 215.

¹⁵ Average of all eligible generation from company resources in 2014 and 2015.