

## **Attachment B – Staff Memo Regarding I-937 RPS Reports: Issues for Further Consideration**

During the review of the Renewable Portfolio Standard (RPS) reports and comments from interested parties, Staff identified the following issues related to utility RPS filings that will need to be addressed but may not need to be resolved at the August 9, 2012 Open Meeting.

### *Two-step Compliance Process*

There is broad agreement that an initial compliance determination is needed and that final reporting requirements should be clarified. Staff believes that a two-step compliance process will help to clarify the requirements for the companies and will provide necessary structure to the reporting and approval process. Staff envisions an initial order approving (or rejecting) that a company had acquired sufficient eligible resources by Jan 1 of the target year (2012 in the present case) and a final compliance order coming as late as June 1, 2014 approving (or rejecting) a company's application of specific 2012 resources or 2011-2013 RECs toward its 2012 RPS requirement. Staff believes that this two-step process can be established through a policy statement, continuously reconfirmed via orders, or codified through rulemaking.

### *Reporting Year*

There is broad agreement that the statute and rules are unclear on this point. The terms "preceding" and "current" as they pertain to RCW 19.285 need to be more clearly defined. Staff attempted to clarify these terms in its comments and in the memo associated with this attachment and believes that a clearly defined two-step process will help to resolve this issue. Staff seeks affirmation from the commission that the interpretation is consistent with the intent of the statute. Staff believes that affirmation (or rejection) of this interpretation could be done in the present order(s) or concurrent with a formal establishment of the aforementioned two-step process (described above), if the Commission finds merit in such a process.

### *January 1 Compliance*

There is agreement between Staff, the Northwest Energy Coalition (NVEC) and Renewable Northwest Project (RNP), but not complete agreement across all interested parties that the companies need to own or have contracted for resources sufficient by January 1 to meet the current year target. Staff interprets January 1 compliance as having resources or contracts for eligible resources by January 1 that are sufficient to fulfill the RPS requirements for that same year. Staff notes that the specific 2011-2013 RECs a company chooses to apply toward final 2012 compliance may differ from those identified in the initial June 1 compliance filing. Staff seeks affirmation from the commission that this interpretation is consistent with the intent of the statute. Staff believes that affirmation (or rejection) of this interpretation could be done in the

present order(s) or concurrent with a formal establishment of the aforementioned two-step process (described above), if the Commission finds merit in such a process.

#### *Determining Resource Eligibility and WREGIS Administration*

There is broad agreement that a determination of resource eligibility is necessary. Staff believes that the commission is ultimately responsible for determining resource eligibility and does so in its evaluations of the current (2012) RPS reports. However, it is noteworthy that Commerce will go into rulemaking on or after April 2013, codifying their responsibility as the Washington WREGIS administrator. Although Commerce's responsibility does not relieve the Commission of its own responsibility of determining resource eligibility, having a Washington WREGIS administrator in place will simplify the Commission's ability to confirm that resources are being properly identified and their generation properly applied to state requirements. As Commerce's responsibilities become codified, the responsibilities of the Commission may also evolve.

#### *Incremental Hydro – Method Review*

There is broad agreement that the Commission accept the modeled incremental hydro values that the companies are reporting for 2012. There is some disagreement about the need for additional method scrutiny, but Staff maintains that further evaluation is necessary. As discussed in the July 16, 2012 staff comments, the RPS Working Group identified three methods for modeling incremental hydroelectric generation. While the method used by PacifiCorp was thoroughly evaluated by the Army Corps of Engineers (in coordination with the Oregon Department of Energy), neither of the other two models were similarly vetted. Staff would like the same level of scrutiny applied to all methods being used by the companies. The Army Corps of Engineers has offered to review Avista's application of Method 3. Staff does not believe that such a review can or should inform initial or final 2012 compliance determinations, but does believe that such a review can help to inform the models and methods that should be used for subsequent years.

#### *Incremental Hydro – Formal Commission Approval*

There is some disagreement on whether the commission should formally weigh in on the models and methods being employed by the companies. There is a general consensus that an approval of the methods used is necessary, but there is disagreement as to whether commission endorsement of specific methods is appropriate or necessary. Staff believes that at a minimum, the three methods currently being proposed should be properly vetted, as described above. After thorough review of the incremental hydro methods, it may become clear that one or several of the methods are inappropriate. The commission may find it necessary to endorse specific incremental hydro calculation methods to promote consistency, to avoid the employment of novel or untested methods, or to reject methods that it deems unfit. Staff expects its analysis of the methods will be complete by January 1, 2013, in time to make a recommendation for compliance for the 2013 target.

*Incremental Hydro – Double Counting of Non-power Attributes*

As described in the staff comments, incremental hydroelectric power does not generate Washington-eligible RECs, but there is the potential for utilities to generate RECs from these resources that are eligible in other states. If RECs are generated from incremental hydro and then sold, it is Staff's position that those same non-power attributes should not be used to fulfill a portion of the Washington RPS. Staff believes that if such RECs are generated, they should be retired, rather than sold, as a condition for final compliance. Staff recommends that in issuing its final compliance order, the commission require the company (or companies) to retire the RECs that correspond to the incremental hydro being claimed for WA compliance.

*Incremental Hydro – Calculation of Generation purchased from Non-regulated Utilities*

Incremental hydroelectric resources contracted from non-regulated entities and used by the regulated utilities should be verified in the same manner as resources owned by the regulated utilities. For example, both Avista and PacifiCorp contracted for incremental hydroelectric power from Wanapum Dam, yet appear to have used different analytical approaches for reporting generation. Staff believes that individual utilities should use the same modeling approach for contracted incremental hydroelectric resources as utility-owned resources. Staff believes further attention is needed to outline specific procedures for this issue and believes that as a condition to a future order the commission may find it appropriate to require the companies to use a consistent approach to calculating and reporting generation contracted from non-regulated entities.

*Confidentiality*

NWEC and RNP believe that stakeholder review of renewable reports is likely impeded by the lack of a consistent approach to confidentiality of information. Several parties request the Commission provide a mechanism to establish a protective order in a non-adjudicated docket. Staff believes a rulemaking is probably needed to address this concern.

*Incremental Cost Calculations*

There is considerable disagreement on whether the methods used by the companies are appropriate. However, there is broad agreement that this issue can be handled at a later date as the cost has no bearing on whether the companies have met their targets. There is need to report the costs appropriately, but the definition of "appropriate" is in question. The Commission could issue a policy statement clarifying what constitutes an appropriate cost calculation.

*Biomass Eligibility*

There is agreement that rulemaking to incorporate biomass eligibility prior to 2016 is needed, but not at this time.