

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**In the Matter of Puget Sound Energy  
2016 Renewable Portfolio Standard  
Report**

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**DOCKET UE-160757**

**In the Matter of Pacific Power and Light  
Company 2016 Renewable Portfolio  
Standard Report**

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**DOCKET UE-160777**

**In the Matter of Avista 2016 Renewable  
Portfolio Standard Report**

**DOCKET UE-160779**

**COMMISSION STAFF COMMENTS REGARDING  
ELECTRIC UTILITY RENEWABLE PORTFOLIO STANDARD REPORTS UNDER  
THE ENERGY INDEPENDENCE ACT,  
RCW 19.285 and WAC 480-109  
(2016 RENEWABLE PORTFOLIO STANDARD REPORTS)**

**JULY 14, 2016**

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## Executive Summary

### *Background*

In 2006, Washington voters approved Initiative 937, also known as the Energy Independence Act (EIA). Now codified in RCW 19.285 and Chapter 480-109 WAC, the EIA created a renewable portfolio standard (RPS) that requires electric utilities with more than 25,000 customers to serve 9 percent of their 2016 retail load with eligible renewable resources and to file an annual compliance report (RPS Report) by June 1 of each year.<sup>1</sup> Washington's three investor-owned utilities (IOU's) – Avista Corporation (AVA or Avista), Pacific Power & Light Company (PAC or Pacific Power), and Puget Sound Energy (PSE) – filed RPS Reports by June 1, 2016.

In 2015, the Washington Utilities and Transportation Commission (commission) adopted rules for EIA enforcement found in Chapter 480-109 WAC. WAC 480-109-200 and WAC 480-109-210 outline a two-step reporting process, which the commission has used for reporting since the RPS went into effect in 2012.<sup>2</sup> 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.
- 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.

After reviewing the comments of other parties, commission staff will present a recommendation at either the August 4 or August 12 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 2016 RPS target.

### *Compliance with Rule*

All three utilities have demonstrated to staff that they have sufficient resources to meet their 9 percent target outlined in WAC 480-109-200. Table 1 summarizes the 2016 targets and how each company has complied with the 9 percent target.

Staff continues to review whether the companies have met the reporting requirements set forth in WAC 480-109-210. Due to unresolved concerns of confidentiality, much of the reporting data available to the public in Table 1 has been redacted by Pacific Power. A discussion about these ongoing concerns of confidentiality can be found in that section of this document.

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<sup>1</sup> RCW 19.285.040; RCW 19.285.070. In calculating the target, a utility must use its average retail load for the two years prior to the target year (e.g., the 2016 target is 9 percent of the utility's average load in 2014 and 2015).

<sup>2</sup> See Docket UE-120802, Order 01 ¶ 24; Docket UE-120813, Order 01 ¶ 38.

**Table 1: Summary of 2016 Renewable Resource Target and Compliance Plan**

	2016 Target (MWh)	Incremental Hydro (MWh)	2015 RECs	2016 RECs	Purchased RECs in 2016	Total Resources (MWh)
PSE	1,848,542	121,712	1,814,305	0 <sup>3</sup>	N/A	1,936,017
PAC <sup>4</sup>	370,166	1,903	215,961	*	*	*
AVA	513,809	171,482	49,617	320,023	N/A	541,122

### Focus Issues

This section provides a brief overview of areas of focus and general issues identified during staff's review of compliance with RPS reporting rule, including but not limited to: resource eligibility and incremental cost calculations.

#### *Resource Eligibility*

Each report must document the companies' renewable resources, which allows staff to review the eligibility of the resources for meeting the EIA requirement. Because the statute explicitly disallows any resources used for Green Power programs in RCW 19.29A.090, the commission requires the companies to include some information about the usage of the certificates. The commission also eliminated the use of resources that are not registered in the Western Renewable Energy Generation Information System (WREGIS).<sup>5</sup>

In order for the commission to determine whether or not a renewable resource is an eligible resource that can be included in the annual renewable portfolio standard report for the first time, the following two steps should occur:

- **Utility Must Provide Information on New Resources.** WAC 480-109-210(2)(d) states that the utility must provide "A list of each eligible renewable resource that serves Washington customers, for which a utility owns the certificates, with an installed capacity greater than twenty-five kilowatts. Resources with an installed capacity of less than twenty-five kilowatts may be reported in terms of aggregate capacity. The list must include: (i) Each resource's WREGIS registration status and use;<sup>6</sup> and, (ii) Eligible resources being included in the report for the first time and documentation of their eligibility.
- **Commission Determination.** WAC 480-109-210(3)(b) states that "upon conclusion of the commission review of the utility's annual renewable portfolio standard report, the

<sup>3</sup> PSE has sufficient 2015 RECs banked to meet its 2016 Compliance Plan.

<sup>4</sup> Staff is continuing to work with Pacific to release these numbers.

<sup>5</sup> WAC 480-109-200(3) For the commission's discussion on 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. This eliminated Wanapum Dam as a resource that may be used for EIA compliance.

<sup>6</sup> The companies will comply with the requirement to report on the "use of certificates, whether it be for annual target compliance, a voluntary renewable energy program as provided for in RCW 19.29A.090, or owned by the customer" when they file the final compliance report in 2018, as per WAC 480-109-210(2)(d)(i). This is because they don't yet know if resources will be used for the EIA or RCW 19.29A.090 (Green Power).

commission will determine the eligibility of new renewable resources pursuant to subsection (2)(d) of this section.”

Table 2 summarizes the renewable resources that companies plan to use for the first time in 2016.

**Table 2: New Renewable Resources in 2016 RPS Reports**

	Facility Name	WREGIS Registration Number	Renewable Resource Type
<b>Avista</b>	(1) Nine Mile # 1 (Spokane River)	W216	Incremental Hydro-Water
	(2) Nine Mile #2 (Spokane River)	W283	Incremental Hydro-Water
	(3) Kettle Falls	W130	Biomass
<b>Pacific Power</b>	(1) Campbell Hill-Three Buttes	W1383	Wind
	(2) Dunlap I	W1687	Wind
	(3) Glenrock I	W964	Wind
	(4) Rolling Hills	W928	Wind

The additional renewable resources for Avista are either existing or upgrades to existing facilities. Avista is requesting a finding of eligibility, discussed later. Pacific’s four wind facilities are in Wyoming. These facilities were previously found by the commission to be eligible renewable resources;<sup>7</sup> however, they were not used for compliance in RPS reporting until now.

*Incremental Cost Calculations*

Incremental cost is the additional cost to ratepayers for the companies to meet the requirements of the Renewable Portfolio Standard. WAC 480-109-210(2)(a) divides the calculation into capacity and energy components and directs utilities to report the incremental cost in two terms:

- Cost of all eligible resources acquired.
- Prorated cost of only the resources needed to meet that year’s target.

The rule also explicitly states that incremental costs may be negative. The rule ensures 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. The rule also ensures that the three companies provide the incremental cost of all of their renewable resources, regardless if a specific unit was used for compliance.

Table 3 shows a side-by-side comparison of the utilities’ reported incremental cost percentages in 2015 and 2016, expressed in two terms: the cost of only the resources required for compliance and the cost of all resources acquired. Incremental costs are higher at the 9 percent requirement in 2016 for Pacific Power and PSE. Staff is continuing to review Avista’s incremental cost

<sup>7</sup> RCW 19.285.030(12)(e) and UE-151162, Order 01 ¶ 17.

reporting data and multistate Production and Transportation Ratio; therefore, it is not included in Table 3 at this time. Pacific Power only reported one incremental cost.

**Table 3: Investor-Owned Utilities' Reported Incremental Cost Percentages, 2015 and 2016**

	2015		2016	
	<i>Required Resources</i>	<i>All Resources</i>	<i>Required Resources</i>	<i>All Resources</i>
<b>Avista<sup>8</sup></b>	(1.0 %)	(0.7 %)	*	*
<b>Pacific Power</b>	0.3 %	*	0.8 %	*
<b>PSE</b>	0.4 %	1.4 %	1.0 %	1.4 %

### 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. Companies may use eligible resources from the previous year, the current year or the future year, except for incremental hydropower, which can only be used in the year it is generated.<sup>9</sup>

All three utilities have demonstrated that they have sufficient resources to meet the 9 percent target. 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 the utility for 2016 RPS compliance. After using incremental hydropower and 2015 RECs (both of which would be ineligible in future years), any 2016 RECs that are not needed to meet the utility's target may be held for 2017 compliance or sold.

#### *Puget Sound Energy (Docket UE-160757)*

PSE reported an average load in 2014 and 2015 of 20,539,357 MWh, yielding a 2016 target of 1,848,542 MWh. Table 4 summarizes PSE's 2016 compliance report, which appears to meet the requirements of the reporting rule WAC 480-109-210:

**Table 4: PSE's 2016 Renewable Resource Target and Compliance Plan**

2016 Target (MWh)	Incremental Hydro (MWh)	2015 RECs	2016 RECs	Purchased RECs	Total Compliance Resources (MWh)
1,848,542	121,712	1,814,305	0 <sup>10</sup>	N/A	1,936,017

As Table 4 indicates, PSE will exceed the rule's 9 percent requirement and expects to generate over 9.4 percent of its load from renewable resources. Consistent with last year's analysis, it appears that PSE will not need to acquire additional resources for RPS compliance until 2023 or 2024.

<sup>8</sup> Staff is continuing to review Avista's incremental cost reporting data for 2016 compliance.

<sup>9</sup> WAC 480-109-200(2).

<sup>10</sup> PSE has sufficient 2015 RECs banked to meet its 2016 target.

The 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.

For final compliance of both the 2015 and 2016 reports, PSE will need to request a waiver of the WREGIS registration requirement in WAC 480-109-200(3) for its incremental hydro production from Lower Baker and Snoqualmie Falls facilities. Although these two facilities are not new in 2016, PSE obtained official registration for those facilities with WREGIS on June 6, 2016, so any generation from these facilities prior to the second quarter of 2016 was not registered in WREGIS and will require a waiver to be used for RPS compliance.

The commission previously granted a waiver for these two facilities to be used in meeting PSE’s 2014 RPS target in docket UE-140800. Absent the waiver, PSE would have had to replace over 120,000 MWh of eligible 2016 generation with certificates from its wind resources, which would otherwise be saved for future-year compliance or sold to other parties to generate offsetting revenue. Staff anticipates additional waiver requests from PSE so that the facilities can be used toward the company’s 2015 and 2016 targets.

*Pacific Power & Light Company (Docket UE-160777)*

Pacific Power will meet its Washington 2016 renewable compliance target with a combination of eligible renewable resources, incremental hydro and unbundled REC purchases. Pacific Power reported an average load in 2014 and 2015 of 4,112,958 MWh, yielding a 2016 RPS target of 370,166 MWh.

Table 5 summarizes Pacific Power’s redacted 2016 compliance report. Due to unresolved confidentiality issues, much of the compliance data in Table 5 has been redacted and marked as confidential by Pacific Power.

**Table 5: Pacific Power’s 2016 Renewable Resource Target and Compliance Plan**

2016 Target (MWh)	Incremental Hydro (MWh)	2015 RECs	2016 RECs	Purchased RECs	Total Compliance Resources (MWh)
370,166	1,903	215,961	* <sup>11</sup>	*	*

Pacific Power’s use of Method Two for calculating its incremental hydro means that the final reported total will be based on actual generation; therefore, the 1,903 MWh in the table is a projection. Pacific Power’s portfolio for rule compliance includes four company-owned incremental hydro facilities, four company-owned wind facilities in the company’s west balancing area, and five wind facilities in the company’s east balancing area. All five east-side

<sup>11</sup> Staff is continuing to work with Pacific Power to finalize these numbers.

facilities are in Wyoming and were approved in 2015 as eligible resources for Pacific Power's Washington compliance needs under RCW 19.285.030(12)(e).<sup>12</sup>

Pacific Power may not have met the reporting requirements set forth in RCW 19.285.070, which requires that the company provide specific information to its customers for review.<sup>13</sup> No other utility has made claims of confidentiality for the data found in Table 1 in the 2016 RPS Report.

After filing its initial report on June 1, 2016, Pacific Power notified commission staff that they had included confidential pages of the Energy Independence Act (I-937) Commerce Renewable Report in the redacted portion of the RPS Report filed with the commission. The company submitted revised confidential and redacted versions of the report on June 16, 2016. After the revised filings were received, staff and stakeholders raised concerns about the quantity of information redacted, as compared with the other companies, and have been working with the company to resolve these concerns.

Staff and the company agreed that a portion of the report was redacted in error. The company agreed to file an updated version. Staff believes that the data currently redacted may limit the general public's ability to adequately review the report and less redaction may be warranted. Staff continues to work with the company, and recommends extending the comment period for at least 14 days for docket UE-160777, once the corrected filing is received.

During its review of the company's report, staff identified a change from last year in the multi-state allocation calculation. The total West Control Area (WCA) Projected Eligible Generation number included only WCA wind resources, whereas in 2015 both wind and incremental hydro generation were used. Discussions with the company about this concern have assured staff that incremental hydro generation has been appropriately allocated. The company must update the report to explain how this allocation occurred.

#### *Avista (Docket UE-160779)*

Avista owns eleven eligible hydropower facilities, a biomass facility, and has a long-term power purchase agreement for all of the output of the Palouse Wind Farm in Whitman County. Avista reported an average load in 2014 and 2015 of 5,708,992 MWh, yielding a 2016 RPS target of 513,809 MWh. Table 6 summarizes Avista's 2016 compliance report:

**Table 6: Avista's 2016 Renewable Resource Target and Compliance Plan**

2016 Target (MWh)	Incremental Hydro (MWh)	2015 RECs	2016 RECs	Purchased RECs	Total Compliance Resources (MWh)
513,809	171,482	49,617	320,023	N/A	541,122

As Table 6 shows, Avista will exceed the rule's 9 percent requirement and expects to generate over 9.5 percent of its load from renewable resources. This reflects Avista's 2016 addition of the output of its Kettle Falls biomass facility toward its target. Avista is not expected to need any additional resources for RPS compliance until after 2030.

<sup>12</sup> See Docket UE-151162, Order 01, ¶17.

<sup>13</sup> RCW 19.285.070(3) states that a qualifying utility has reporting and public disclosure obligations to its customers.



Staff examined Avista's methodology and calculations related to expected qualifying generation. Avista registered the new resources in WREGIS and based on the information presented in the RPS Report, staff is reasonably satisfied with the assessment that the (1) biomass and (2) two new incremental hydropower renewable resources are eligible renewable resources. This determination will include the approval of the calculation for each incremental hydropower resource.<sup>14</sup>

### (1) Biomass

**Kettle Falls.** Staff agreed with Avista's determination that the wood waste fuel qualifies as "biomass energy" because:

- WAC 480-109(2)(iv) allows qualifying forest or field residues.
- WAC 480-109-060(25)(j) defines biomass as a "renewable resource" if the following condition is satisfied, "the eligible renewable energy produced by biomass facilities is based on the portion of the fuel supply that is made up of eligible biomass fuels."

Avista contracted with a consultant, KPMG, to calculate the amount of qualifying biomass energy generated and the portion of wood waste fuel harvested in Canada. The data provided by Avista demonstrated that Kettle Falls is an eligible renewable resource for the portion of the fuel supply that is made up of eligible biomass fuels. All US-sourced wood waste fuel satisfies the requirements to be "biomass energy"<sup>15</sup> because wood from old growth timber is not harvested in any applicable areas in the U.S.

Staff and Avista are aware of the condition set forth in WAC 480-109-060(2)(b), where the rule explicitly states that biomass energy does not include: (i) Wood pieces that have been treated with chemical preservatives such as creosote, pentachlorophenol, or copper-chrome arsenic; (ii) Wood from old growth forests; or (iii) Municipal solid waste. After discussion with Avista and reviewing the report authored by KPMG (Appendix F in the RPS Report), staff is satisfied that old growth timber is not a statistically significant portion of the biomass energy generated. In addition, Avista properly adjusted the eligible portion of the biomass energy to exclude any old growth timber.

### (2) Incremental Hydropower

**Nine Mile #1 and Nine Mile #2.** Avista Corporation's incremental hydroelectric upgrades for Nine Mile #1 and Nine Mile #2 qualify as renewable energy output in their 2016 annual RPS Report. For incremental hydropower calculations, Avista uses Method Three,<sup>16</sup> 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. The calculation of incremental hydropower is for Nine Mile #1 and 8,804 MWh for Nine Mile 13,146 MWh. In its Final 2016 Compliance Report, Avista must provide the actual in-service date for these resources, and adjust

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<sup>14</sup> WAC 480-109-210(2)(d).

<sup>15</sup> WAC 480-109-060(2).

<sup>16</sup> WAC 480-109-200(7)(d).

the hydropower claimed from those resources for 2016 accordingly. These resources, beginning in 2019 and every five years thereafter, will also be part of the required 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.

Avista must calculate the incremental cost for each eligible resource and calculate its revenue requirement annually.<sup>17</sup> Staff is continuing to review Avista's incremental cost data. In 2015, Avista reported a negative incremental cost because of the inclusion of a capacity component. In 2016, Avista noted that final costs for the upgrades to Nine Mile Units #1 and #2 would not be available until the project is completed in July 2016 and that the legacy biomass projects are considered to have zero incremental cost.

Avista's 2016 RPS Report raised questions about formatting and location of required elements in the report and appendices, as per WAC 480-109-210. Staff believes these issues arise from the company's continued reference to RCW 19.285 throughout its 2016 report. Staff also found inconsistent labelling of WREGIS ID numbers in Appendix A, B and E for Nine Mile #1 and #2. For its 2017 RPS Report, staff recommends that Avista only reference or cite applicable sections and subsections of WAC 480-109 (passed in 2015, as the comprehensive rules for EIA enforcement). Staff also suggests that Avista submit a regulatory cross-walk using WAC citations, instead of statutory citations, and clearly identify the page(s) of the report and/or appendices where the required elements and calculations of the renewable portfolio standard reporting section are located.

## Summary

After reviewing the comments of other parties, commission staff will present a recommendation at either the August 4 or August 12 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 2016 RPS target.

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<sup>17</sup> WAC-480-109-210(2)(a)(i)-(iii).