Initiative 937
Cost Cap Description
September 14, 2006

This document provides the text of Initiative 937 pertaining to the cost cap on the renewable energy standard, as well as a brief explanation of that cost cap. This document has been agreed to as the common interpretation of the mutually negotiated cost cap language in I-937 by the Northwest Energy Coalition, the Renewable Northwest Project and the Washington Public Utility Districts Association.

Initiative 937 provides the Washington Utilities and Transportation Commission the option to issue rules for investor owned utilities, and requires the Department of Community, Trade and Economic Development to issue rules for all other qualifying utilities concerning process, timelines, and documentation, specifically including rules associated with the cost cap. Ultimately, proper implementation of the cost cap will be based on statute as well as associated adopted rules.

What the Initiative Says

Section 5. RESOURCE COSTS. (1) (a) A qualifying utility shall be considered in compliance with an annual target created in section 4(2) of this act for a given year if the utility invested **four percent** of its **total annual retail revenue requirement** on the **incremental costs** of eligible renewable resources, the cost of renewable energy credits, or a combination of both, but a utility may elect to invest more than this amount.

(b) The incremental cost of an eligible renewable resource is calculated as the difference between the levelized delivered cost of the eligible renewable resource, regardless of ownership, compared to the levelized delivered cost of an equivalent amount of reasonably available substitute resources that do not qualify as eligible renewable resources, where the resources being compared have the same contract length or facility life.

Brief Explanation

The cost cap calculation compares the cost of eligible renewable resources or renewable energy credits (RECs) purchased to meet the renewable standard with the cost of other new resources. The difference in cost -- the incremental cost -- between an eligible renewable resource and other available new resource is the amount used to determine if the cost cap threshold is reached.

If this incremental cost exceeds 4% of a utility's total annual retail revenue requirement, a utility may acquire fewer eligible renewable resources than would otherwise be required (i.e., less than the targets of 3% of retail load by 2012, 9% by 2016, and 15% by 2020). **The 4% cap does not compound.** A utility's revenue requirement will be calculated each year and may change from year to year, and consequently the revenue requirement associated with the 4% cap also will change, but expenditures to meet the renewable standard are capped at 4% of the utility's retail revenue requirement in any given year (note that a utility may elect to spend more than this amount but is not required to do so). The calculation of incremental cost is done at the time the utility acquires an eligible renewable resource or REC.

The cost comparison is meant to be an "apples to apples" comparison. This means that the eligible renewable resource and the alternative resource must have the same contract length or facility life. The costs of both resources focus on energy delivered to a utility, which includes the cost of transmission and integration. And the costs are levelized, using present value converted into equal annual payments.

A utility's revenue requirement and expenditures for eligible renewable resources will be affected by inflation over time. The effects of inflation (in accordance with the consumer price index or similar measure) on both the revenue requirement and the incremental cost of the acquired eligible renewable resource should be accounted for each year in determining whether the cost cap has been reached. Inflation forecasts embedded in levelized costs of resources also should be taken into account to prevent bias, such as double counting, in either direction when calculating inflation adjustments.

Note that Section 4(2)(d) includes a separate cost cap set at 1% of annual retail revenue requirements for utilities that meet specific criteria related to flat or declining load and new resource contracts.